India I Equities

Defence

Company Update

Change in Estimates ☐ Target ☐ Reco ☐

22 July 2026

Hindustan Aeronautics

Tejas Mk-1A programme moves closer to delivery; maintain BUY

Rating: **BUY**

Target Price (12-mth): Rs.5,431

Share Price: Rs.4,579

After more than two years of delay, HAL's Tejas Mk-1A programme is moving closer to deliveries, as the key weapon-integration, software and engine-supply bottlenecks subside. Trials involving Astra, ASRAAM and laser-guided bombs are largely complete, pending certification, while the recent twin-ASRAAM firing indicates meaningful progress in resolving software, systems-integration issues. It has received seven GE F404-IN20 engines and expects a larger batch by Nov-26. With ~20 aircraft manufactured and flight-tested, the principal constraint has shifted from airframe production to engine availability. HAL targets delivery of first 16-18 aircraft by Mar-27. An OB of Rs2.54trn, likely order inflow of ~Rs900bn over FY27/28, HTT-40 ramp-up, Su-30 upgrade opportunity and ROH annuity support long-term growth. Thus, we maintain BUY rating on HAL with a DCF-based TP of Rs5,431.

Tejas Mk-1A Programme Moves Closer to Delivery: After more than two years of delays, its Tejas Mk-1A programme seems to be moving closer to delivery. Original Mar-24 timeline slipped not because of a single "air-to-ground missile software bug", rather due to GE F404 engine shortages, radar-electronic-warfare integration challenges, weapon qualification and software validation.

Pending Software Patches Await Certification: As per our check, air-to-air and air-to-ground weapon trials (including Astra, ASRAAM missiles and laser-guided bombs) have been completed, while pending software patches are awaiting certification. The software patches now enable seamless integration, and communication between LCA Mk-1A's Israeli-origin radar, electronic-warfare suite, multiple weapon systems. Recent successful test firing of twin ASRAAM missiles on Tejas Mk-1A, validate our above thesis of software glitch being addressed up to certain extent.

Marked Improvement in Engine Supplies: HAL's Tejas Mk1A programme is seeing a marked improvement in engine. While it has received seven GE F404-IN20 engines so far, it should get a batch of 10 engines from GE, USA before Nov-26. Further, HAL has manufactured first 20 Tejas Mk-1A (another 8-9 are at different stages of fabrication) and flight-tested, parked pending engine fitment, indicating that the constraint has shifted from airframe production to powerplant supply. It aims to deliver first squadron of 16-18 aircrafts by Mar-27.

Order Book: HAL's order book remains strong at Rs2.54trn, led by large wins in FY26 including 97 LCA Tejas, 6 ALH and 8 Dornier Do-228 orders.

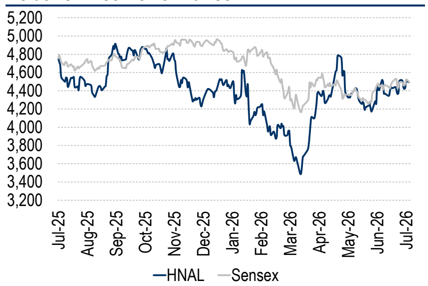
Guidance: The management expects ~Rs900bn order inflow over FY27/28e (including ROH), which offers multi-year visibility.

Outlook and Valuation: The management has guided for 10-12% revenue growth in FY27 and sees EBITDA margin at 30-31%. We continue to remain bullish on HAL based on its Rs2.54trn long-cycle OB. We expect near-term re-rating to be driven by Mk-1A deliveries, GE engine supply discipline. We retain BUY rating on HAL with a DCF-based TP of Rs5,431. **Key Risks:** (a) Undue delay in engine supply; (b) execution slippages in Mk-1A; (c) WC intensity, and (d) deferral of large defence contracts.

Key Data	HNAL IN / HIAE.BO
52-week high / low	Rs4,978 /3,479
Sensex / Nifty	76,755 / 23,996
Market cap	Rs.3,062bn
Shares outstanding	669m

Shareholding Pattern (%)	Jun'26	Mar'26	Dec'25
Promoters	71.6	71.6	71.6
- of which, Pledged	-	-	-
Free Float	28.4	28.4	28.4
- Foreign institutions	9.4	10.2	10.9
- Domestic institutions	12.0	10.5	9.7
- Public	7.0	7.7	7.8

Relative Price Performance



Source: Bloomberg

Yellapu Santosh
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income Statement (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Net sales	**303,808**	**309,809**	**3,30,898**	**3,75,200**	**4,35,500**
Growth (%)	*12.8*	*2.0*	*6.8*	*13.4*	*16.1*
Raw material cost	110,760	123,125	1,44,485	1,53,832	1,75,507
Staff expenses	52,762	57,177	60,969	75,944	89,614
Operating expenses	42,748	33,290	27,638	36,514	40,106
EBITDA	**97,539**	**96,217**	**97,806**	**1,08,910**	**1,30,273**
EBITDA margins (%)	*32.1*	*31.1*	*29.6*	*29.0*	*29.9*
Depreciation	14,214	13,644	13,666	17,264	18,893
Other income	18,985	25,655	37,038	32,000	29,435
EBIT	**102,310**	**108,228**	**1,21,178**	**1,23,647**	**1,40,814**
Interest	321	86	57	120	150
Exceptional items	-	-59	-	-	-
Profit before tax	**101,990**	**108,201**	**1,21,121**	**1,23,527**	**1,40,664**
Effective tax rates (%)	*25.5*	*23.1*	*25.1*	*25.1*	*25.1*
Net Profit	**75,950**	**83,168**	**90,757**	**92,497**	**1,05,329**
Adj. EPS Rs	**114**	**124**	**136**	**138**	**157**

Fig 2 – Balance Sheet (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
Share capital	3,344	3,344	3,344	3,344	3,344
Net worth	290,464	348,429	408,625	465,677	528,873
DTL / (Assets)	-14,543	-15,680	-11,348	-11,348	-11,348
Capital employed	**275,921**	**332,749**	**397,277**	**454,329**	**517,526**
Net tangible assets	28,901	30,077	31,688	32,463	32,727
Net intangible assets	53,965	56,625	63,831	72,327	80,536
CWIP (tang. & intang.)	9,358	10,910	11,200	12,500	13,800
Investments (strategic)	1,204	1,282	1,300	1,400	1,400
Investments (financial)	13,767	14,991	15,500	16,200	18,500
Long-term liabilities	-126,141	-271,743	-470,545	-461,031	-446,325
Long-term assets	27,942	30,743	29,053	36,989	39,039
Current assets (ex. cash)	365,939	519,116	696,397	701,044	743,120
Cash	264,218	381,708	461,923	629,025	631,832
Current liabilities	363,232	440,960	443,068	586,587	597,102
Net working capital	2,707	78,155	253,329	114,457	146,018
Capital deployed	**275,921**	**332,749**	**397,277**	**454,329**	**517,526**

Fig 3 – Cash-flow Statement (Rs m)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
PBT	**101,990**	**108,200**	**121,121**	**123,527**	**140,664**
+ Non-cash items	14,214	13,620	13,666	17,264	18,893
Oper. prof. before WC	116,204	121,820	134,787	140,790	159,558
- Incr. / (decr.) in WC	-31,220	47,665	22,097	39,986	-22,989
Others incl. taxes	-2,726	-33,034	-47,688	-36,750	-35,149
Operating cash-flow	82,257	136,451	109,195	144,026	101,419
- Capex (tang.+ intang.)	-17,469	-17,532	-24,683	-28,501	-28,366
Free cash-flow	64,788	118,919	84,513	115,525	73,053
Acquisitions	-	-	-	0	0
- Div. (incl. buyback & taxes)	-19,729	-25,414	-33,439	-35,445	-42,133
+ Equity raised	-	-	-	0	0
+ Debt raised	-3	-	-13	0	0
- Fin investments	-64,125	-115,790	-89,267	-12,052	97,700
- Misc. (CFI + CFF)	17,221	25,213	30,406	31,925	29,362
Net cash-flow	**-1,848**	**2,928**	**-7,800**	**99,952**	**157,982**

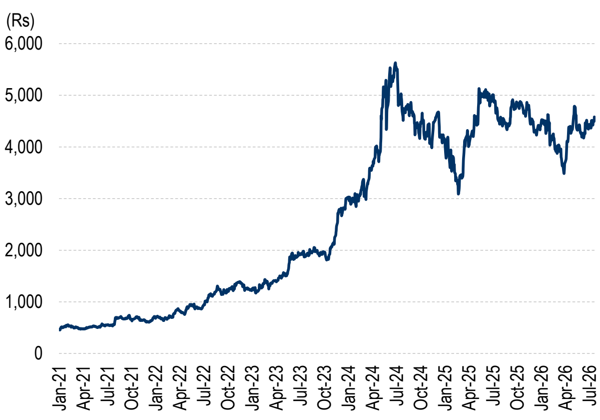
Source: Company, Anand Rathi Research

Fig 4 – Ratio Analysis (%)

Y/E Mar	FY24	FY25	FY26	FY27e	FY28e
P/E (x)	43.8	40.0	32.3	33.2	29.1
EV / EBITDA (x)	31.3	30.5	25.1	21.4	17.7
EV / Sales (x)	10.0	9.5	7.4	6.3	5.5
P/B (x)	11.5	9.5	7.2	6.6	5.8
RoE (%)	28.9	26.0	24.0	21.2	21.2
RoCE (%) - after tax	38.9	33.9	32.0	28.3	28.3
Gross margins	63.5	60.3	56.3	59.0	59.7
DPS (Rs)	59.0	38.0	50.0	53.0	63.0
Dividend yield (%)	1.2	0.8	1.1	1.2	1.4
Dividend payout (%) - incl. DDT	26.0	30.6	36.8	38.3	40.0
Net debt / equity (x)	-1.0	-1.1	-1.2	-1.4	-1.2
Receivables (days)	159	255	340	280	210
Inventory (days)	55	55	45	70	70
Payables (days)	41	60	49	60	60
CFO : PAT (%)	108	164	120	215	44

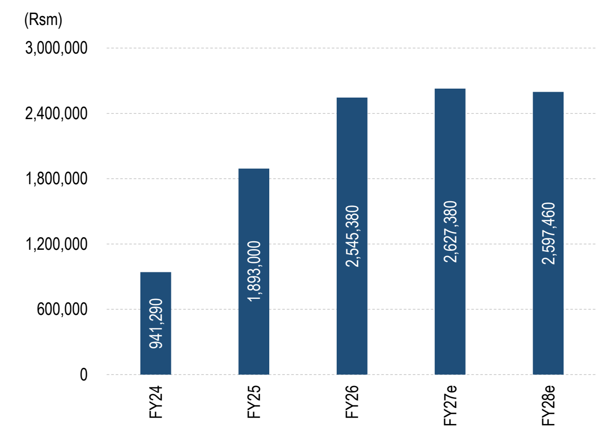
Source: Company, Anand Rathi Research

Fig 5 – Price Movement



Source: Bloomberg

Fig 6 – Order Book



Source: Company

Appendix

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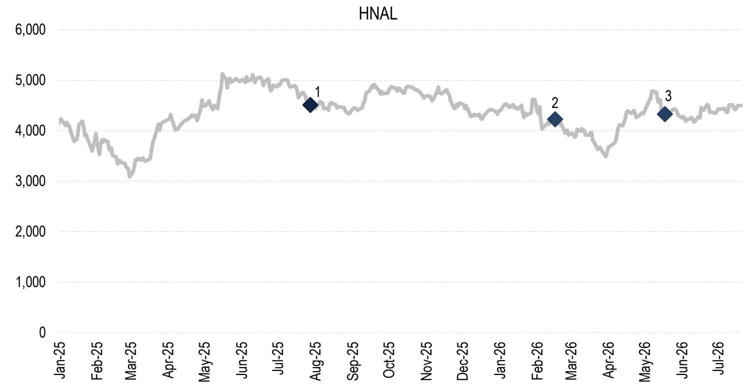

	Date	Rating	TP (Rs)	Share Price (Rs)
1	28-Jul-25	Buy	5,950	4,508
2	15-Feb-26	Buy	5,768	4,213
3	18-May-26	Buy	5,431	4,387

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