

Hindustan Aeronautics

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR4,747 TP: INR5,800 (+22%) Buy

In-line performance

Hindustan Aeronautics' (HAL) 2QFY26 revenue/PAT came in line with our estimates. Lower-than-expected margins were offset by higher other income. During the quarter, the company received a follow-on order of 97 Tejas Mk1A worth INR624b and signed a contract with GE for engine supplies for this project. We await the deliveries of Tejas Mk1A fighter jets as the test flight was already conducted in Oct'25. HAL has a strong order book, which provides good visibility on future execution. We broadly maintain our estimates and TP of INR5,800, based on the average of DCF and 32x Sep'27E earnings. We maintain BUY on HAL. Tejas aircraft deliveries and execution of manufacturing order book will be key drivers for the stock going forward.

In-line revenue and PAT

HAL reported a decent set of numbers in 2QFY26 with in-line revenue and PAT. Revenue increased 11% YoY to INR66.3b vs. our estimate of INR67.5b. Gross margin contracted 300bp YoY to 56.1% vs. our estimate of 59.0%. Lower-than-expected gross margins and higher provisions created during the quarter led to EBITDA margin contraction of 390bp YoY to 23.5%. Absolute EBITDA declined 5% YoY to INR15.6b. The impact of softer EBITDA performance was, to some extent, offset by lower-than-expected depreciation and higher other income. Thus, PAT increased 11% YoY to INR16.7b. For 1HFY26, revenue/EBIDAT/PAT increased 11%/8%/4% YoY, while EBITDA margin contracted 70bp YoY to 24.8%. For 1HFY26, OCF/FCF increased 159%/180% YoY to INR74b/INR66b. HAL has a cash balance of INR416b as of 1HFY26-end. The company incurred a capex of INR7.3b during 1HFY26 compared to INR4.7b in 1HFY25.

Update on the Tejas Mk1A project

The MoD has signed an INR624b contract with HAL for the procurement of 97 additional LCA Mk1A aircraft for the Indian Air Force, comprising 68 single-seat and 29 twin-seat fighters. Deliveries are scheduled to commence in FY28 and conclude within six years. The order carries at least 64% indigenous content, with 67 additional locally sourced components compared to the previous contract, including the UTTAM AESA radar, Swayam Raksha Kavach electronic warfare suite, and indigenous control surface actuators. HAL has also entered into a USD1b deal with GE Aerospace, USA for the supply of 113 units of F404-GE engines and support package for timely execution of the said order. The company successfully completed the expansion of its Nashik production line in Oct'25, increasing its annual LCA manufacturing capacity from 16 to 24 aircraft. The first Tejas Mk1A aircraft produced in HAL's Nashik complex completed its maiden flight on 17th Oct'25. We have factored in 8 Tejas deliveries for FY26 in our estimates and 16 each in subsequent years.

Bloomberg	HNAL IN
Equity Shares (m)	669
M.Cap.(INRb)/(USDb)	3174.7 / 35.8
52-Week Range (INR)	5166 / 3046
1, 6, 12 Rel. Per (%)	-4/3/4
12M Avg Val (INR M)	7977

Financials Snapshot (INR b)

Y/E March	2026E	2027E	2028E
Sales	375.0	453.4	584.6
EBITDA	111.2	129.4	159.2
Adj. PAT	95.6	107.6	132.3
Adj. EPS (INR)	142.9	161.0	197.8
EPS Gr. (%)	14.3	12.7	22.9
BV/Sh.(INR)	625.9	741.9	894.7

Ratios

RoE (%)	22.8	21.7	22.1
RoCE (%)	23.6	22.3	22.6
Payout (%)	28.0	28.0	22.8

Valuations

P/E (x)	33.2	29.5	24.0
P/BV (x)	7.6	6.4	5.3
EV/EBITDA (x)	24.4	20.3	15.7
Div. Yield (%)	0.8	0.9	0.9

Shareholding pattern (%)

As of	Sep-25	Jun-25	Sep-24
Promoter	71.6	71.6	71.6
DII	8.7	8.7	8.4
FII	12.0	11.9	11.9
Others	7.7	7.7	8.1

FII includes depository receipts

HAL-UAC partnership to boost India's regional aviation capability

HAL has signed an MoU with Russia's United Aircraft Corporation (UAC) in Moscow for the production of the SJ-100 civil commuter aircraft in India. The twin-engine, narrow-body SJ-100, already in operation with over 200 units across 16 global airlines, is expected to significantly boost short-haul connectivity under India's UDAN scheme. This collaboration is strategically beneficial for HAL as it positions the company to enter the civil aviation manufacturing space, diversifying its portfolio beyond defense and tapping into India's growing demand for regional connectivity. Leveraging HAL's established infrastructure, engineering expertise, and supply chain capabilities, the tie-up can accelerate the creation of an indigenous ecosystem for commercial aircraft production.

HAL in race for the AMCA project

In early FY26, the ADA issued a formal Expression of Interest (EoI) to invite bids from Indian companies, including private players, to co-own the Advanced Medium Combat Aircraft (AMCA) program and participate in the development, flight testing and certification of the aircraft. The ADA has received EoIs from 1) HAL along with two smaller firms, 2) L&T with BEL, 3) Tata Advanced Systems, 4) Adani Defence and Aerospace, 5) Goodluck India with BrahMos Aerospace Thiruvananthapuram and AxiScades Technologies, and 6) Bharat Forge-BEML-Data Patterns partnership. The ADA's criteria stipulate that the winning consortium must be capable of building prototypes, supporting flight tests, and setting up facilities for series production, all within a strict timeline. It is a long-timeline project spanning out across 10 years.

Timeline of AMCA project:

- Shortlisting of EoIs expected in 3QFY26
- RFP expected in 4QFY26
- Announcement of the winner to build the prototype by 4QFY27
- First prototype expected to roll out and take maiden flight in FY29-30
- Full scale production and induction targeted around mid-2030s

In this particular project, HAL may face competition from private players. However, AMCA provides an opportunity worth INR1.2t-1.5t for the series production, with an initial budget of INR150b for prototype development.

Financial outlook

We expect the overall revenue to grow at a CAGR of 24% over FY25-28, primarily driven by a scale-up in manufacturing revenue. We expect EBITDA margin to remain strong at 29.6%/28.5%/27.2% for FY26/FY27/FY28, fueled by indigenization efforts taken by the company as well as lower provisions. With an annual capex of INR40b/INR50b/INR60b over FY26/FY27/FY28 and comfortable working capital, we expect PAT to register a 17% CAGR over FY25-28. With improving revenue and stable margins, we expect RoE/RoCE to remain comfortable, reaching 22.1%/22.6% by FY28.

Valuation and view

HAL is currently trading at 33.2x/29.5x/24.0x P/E on FY26E/FY27E/FY28E EPS. We broadly maintain our estimates and **reiterate our BUY rating on the stock** with an unchanged TP of INR5,800, based on the average of DCF and 32x two-year forward earnings.

Key risks and concerns

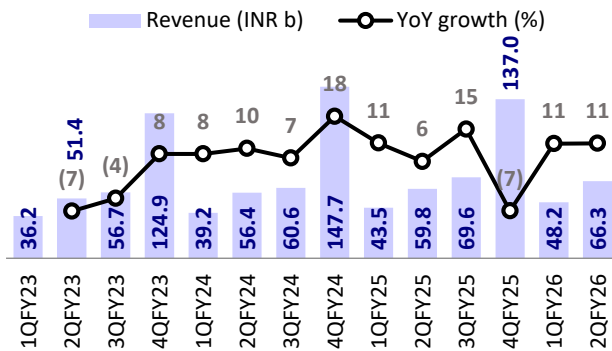
Key risks would include 1) slower-than-expected finalization of large platform orders, 2) further delays in deliveries of key components such as engines for Tejas Mk1A, 3) delays in payments from MoD, and 4) increased involvement of the private sector.

Consolidated - Quarterly Snapshot
(INR b)

Income Statement Y/E March	FY25				FY26E				FY25	FY26E	FY26E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Var %
Net Sales	43.5	59.8	69.6	137.0	48.2	66.3	78.7	181.8	309.8	375.0	67.5	(2)
Change (%)	11.0	6.0	14.8	(7.2)	10.8	10.9	13.2	32.7	3.9	21.0	12.9	
Expenses	33.6	43.4	52.7	84.0	35.4	50.7	59.1	118.7	213.7	263.8	48.9	4
EBITDA	9.9	16.4	16.8	52.9	12.8	15.6	19.7	63.1	96.1	111.2	18.6	(16)
Change (%)	13.0	7.4	17.2	(10.3)	29.4	(5.0)	17.0	19.1	17.8	15.7		
As of % Sales	22.8	27.4	24.2	38.6	26.6	23.5	25.0	34.7	31.0	29.6	27.5	
Depreciation	1.5	1.8	2.8	7.4	1.9	2.3	3.1	8.2	13.4	15.4	2.8	(19)
Interest	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	260
Other Income	7.4	5.4	6.3	6.5	7.5	8.9	8.1	7.1	25.6	31.6	7.6	17
PBT pre EO items	15.8	20.0	20.4	52.0	18.4	22.2	24.7	61.9	108.2	127.3	23.3	(5)
Extra-ordinary Items	-	0.1	-	-	-	-	-	-	0.1	-	-	
PBT	15.8	20.1	20.4	52.0	18.4	22.2	24.7	61.9	108.3	127.3	23.3	(5)
Tax	1.5	5.1	6.0	12.4	4.7	5.6	6.3	15.6	25.0	32.2	5.9	(6)
Effective Tax Rate (%)	9.3	25.5	29.6	23.9	25.5	25.1	25.4	25.3	23.1	25.3	25.3	
MI & P/L Share of JV	0.1	0.1	0.1	0.2	0.1	0.1	0.1	0.2	0.4	0.5	0.1	
Reported PAT	14.4	15.1	14.4	39.8	13.8	16.7	18.6	46.4	83.6	95.6	17.5	(5)
Adj PAT	14.4	15.0	14.4	39.8	13.8	16.7	18.6	46.4	83.6	95.6	17.5	(5)
Margin (%)	33.1	25.2	20.7	29.0	28.7	25.2	23.6	25.5	27.0	25.5	26.0	
Change (%)	76.5	21.7	14.1	(7.7)	(3.7)	10.9	29.1	16.8	38.4	14.3	16.6	

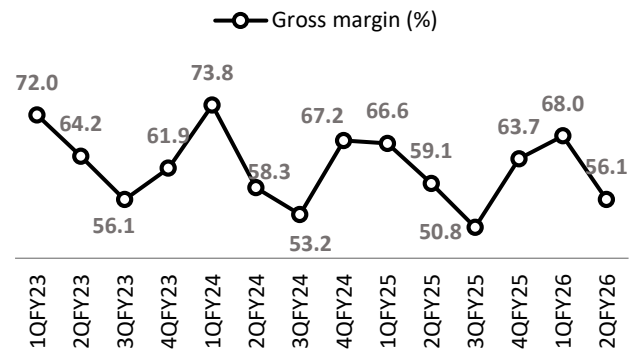
Key Exhibits

Exhibit 1: Revenue increased 11% YoY



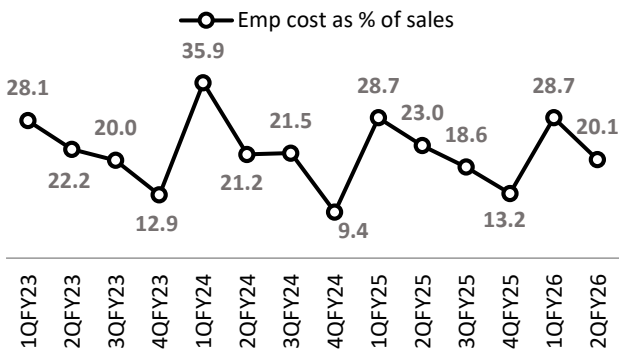
Source: MOFSL, Company

Exhibit 2: Gross margin contracted 300bp YoY



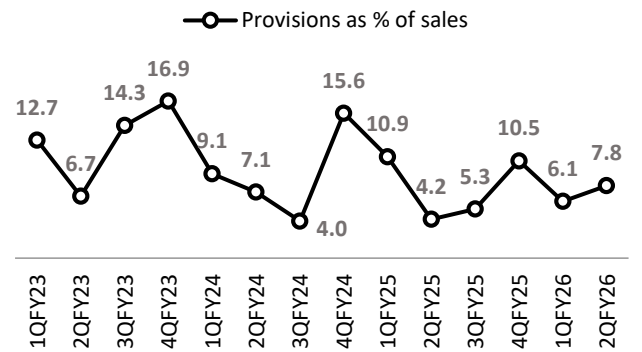
Source: MOFSL, Company

Exhibit 3: Employee costs as % of sales declined YoY



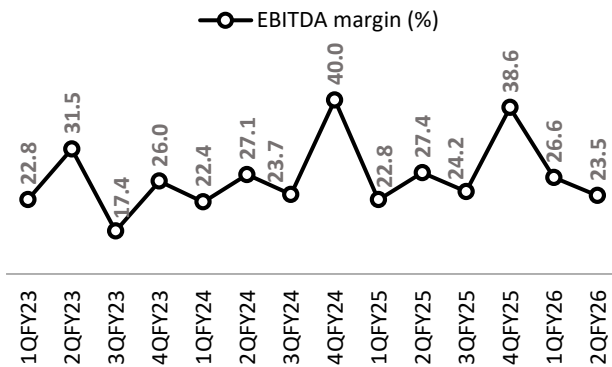
Source: MOFSL, Company

Exhibit 4: Provisions as % of sales increased YoY



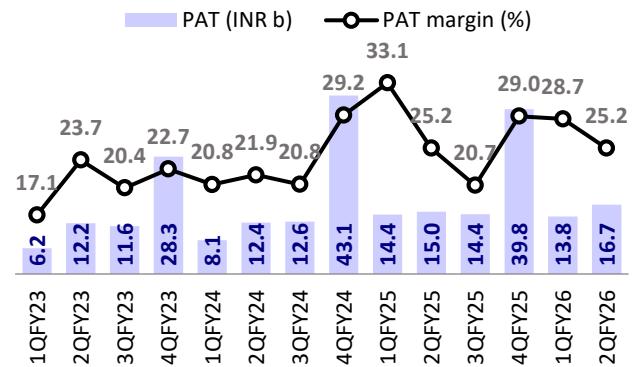
Source: MOFSL, Company

Exhibit 5: EBITDA margin contracted 390bp YoY



Source: MOFSL, Company

Exhibit 6: PAT increased 11% YoY



Source: MOFSL, Company

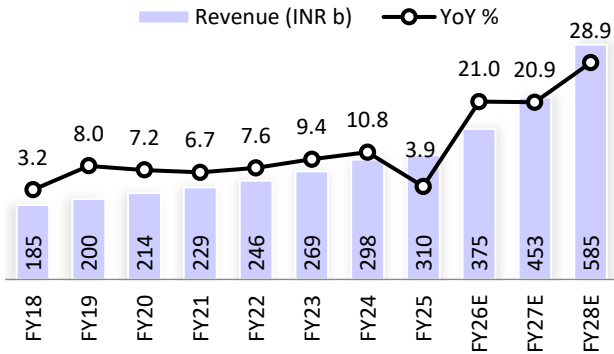
Exhibit 7: HAL's addressable market over the medium to long term until FY30

Aircraft	Amount (INRb)	Quantity	Comments
Already awarded			
Tejas Mk1a	480	83	❖ IAF has already placed an order for 83 Tejas Mk1A aircraft, including 73 fighters and 10 trainers. Delivery yet to commence for Tejas Mk1a.
Su30 upgrade	260	240	❖ Already awarded to HAL
ALH	81	34	❖ Already awarded to HAL
Dornier	29	25	❖ Already awarded to HAL
RD-33	52	100	❖ Already awarded to HAL
12 Su-30 Mk1 aircraft	135	12	❖ Already awarded to HAL
LCH - Prachand	630	156	❖ LCH Prachand order was awarded to HAL recently
Tejas Mk1a	624	97	❖ Awarded in Sep'25
Upcoming projects over 2-3 years			
Tejas Mk2	680	108	❖ Tejas Mk2 is designed to replace aging aircraft like the Mirage 2000, MiG-29, and Jaguar in IAF
LUH	95	187	❖ LUH will replace the army and the Indian Air Force's (IAF) ageing fleets of Cheetah and Chetak helicopters.
LUH	97	197	
Su 30 Mk1	630	84	❖ IAF also plans to prioritise the indigenous upgrade of Russian-origin Sukhoi 30 fighter jets during FY26
NUH	217	111	❖ Naval Utility Helicopter prototype in development, RFI issued in Aug'25.
Total	1,720		
Upcoming projects over 5-6 years			
AMCA	1,200	120	❖ Prototype rollout by FY29-30, Full scale production & induction around mid-2030s.
IMRH (multi utility)	1,000	400	❖ Indian armed forces are expected to procure 400 units of Indian Multi-Role Helicopter (IMRH) to replace ageing Mi-17 helicopters
TEDBF	1,450	145	❖ The Indian Navy has projected requirements for nearly 145 TEDBF aircraft. Each prototype will cost INR10 crore (USD110m). The prototype roll out is planned by late 2026 or early 2027, followed by first flight in 2028, certification by 2032 and induction in 2034.
Total	3,650		
Overall TAM	5,370		

Source: Company, MOFSL

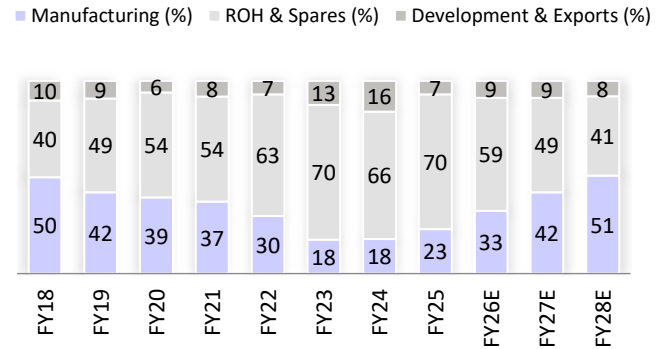
Financial outlook

Exhibit 8: We expect HAL's revenue to grow at a CAGR of 24% over FY25-28



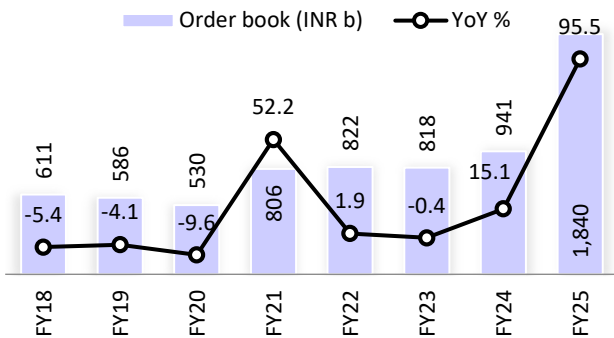
Source: Company, MOFSL

Exhibit 9: Share of manufacturing revenue likely to grow beyond FY25



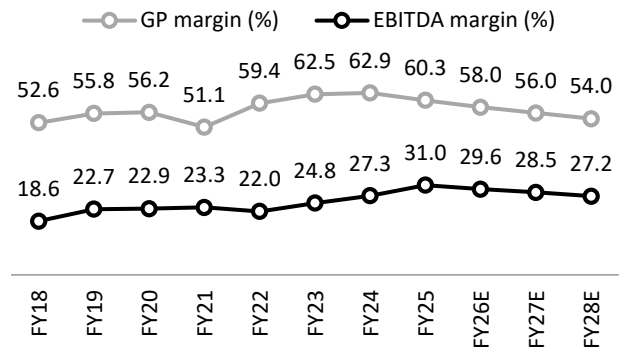
Source: Company, MOFSL

Exhibit 10: Order book stood at ~INR1.8t as of 31st Mar'25 on strong inflows



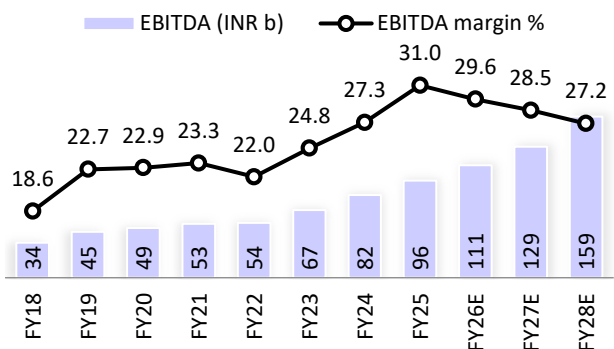
Source: Company, MOFSL

Exhibit 11: We expect the gross margin to come down as the share of manufacturing revenue starts increasing



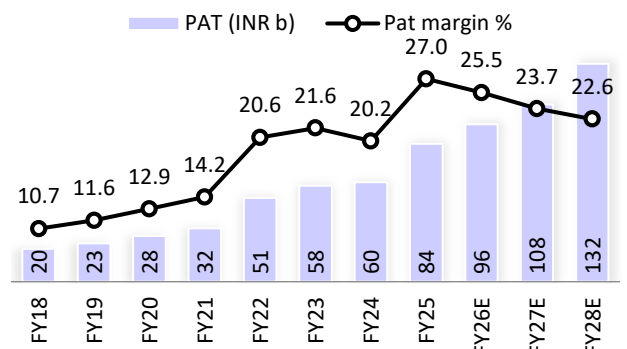
Source: Company, MOFSL

Exhibit 12: EBITDA to clock a CAGR of 18% over FY25-28



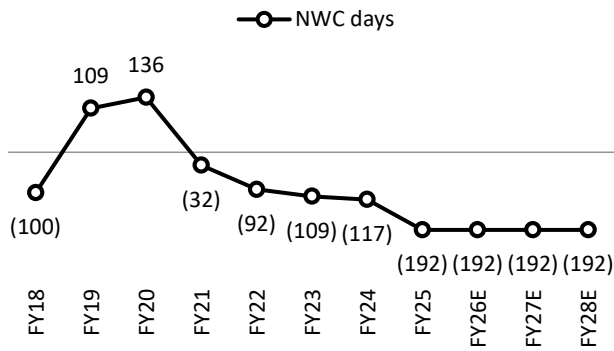
Source: MOFSL, Company

Exhibit 13: We expect a PAT CAGR of 17% over FY25-28



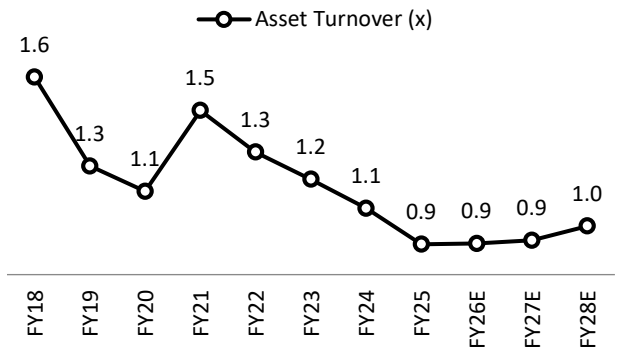
Source: MOFSL, Company

Exhibit 14: NWC days to remain at comfortable levels



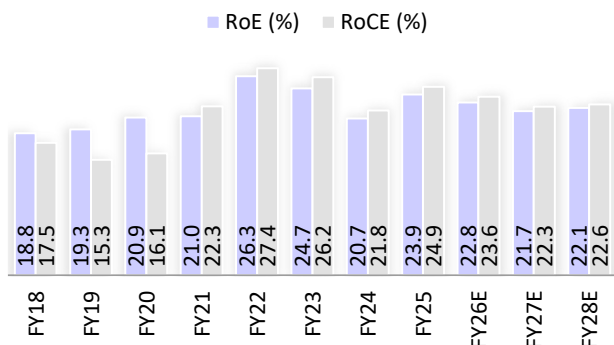
Source: MOFSL, Company

Exhibit 15: Asset turnover to remain comfortable



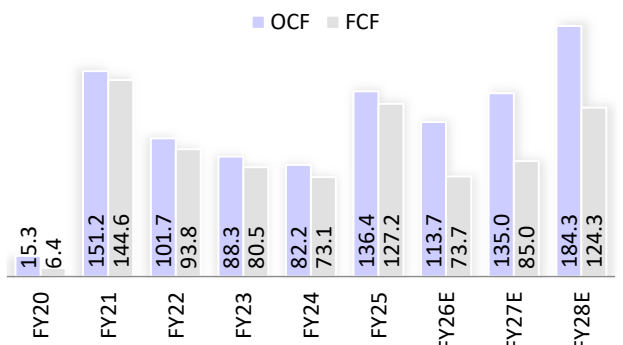
Source: MOFSL, Company

Exhibit 16: We expect RoE/RoCE to remain at ~22-24%



Source: MOFSL, Company

Exhibit 17: OCF/FCF to normalize beyond FY25 (INR b)



Source: MOFSL, Company

Financials and valuation

Consolidated Income Statement

(INR b)

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Net Sales	214	229	246	269	298	310	375	453	585
Change (%)	7.2	6.7	7.6	9.4	10.8	3.9	21.0	20.9	28.9
Raw Materials	94	112	100	101	111	123	157	200	269
Gross Profit	121	117	146	168	188	187	217	254	316
Employee Cost	48	43	46	49	53	57	61	71	81
Other Expenses	24	20	46	52	53	34	45	54	75
Total Expenditure	165	175	192	202	217	214	264	324	425
% of Net Sales	77.1	76.7	78.0	75.2	72.7	69.0	70.4	71.5	72.8
EBITDA	49	53	54	67	82	96	111	129	159
Margin (%)	22.9	23.3	22.0	24.8	27.3	31.0	29.6	28.5	27.2
Depreciation	10	12	11	18	14	13	15	19	23
EBIT	39	42	43	49	68	83	96	111	136
Interest	3	3	1	1	0	0	0	0	0
Other Income	3	4	10	17	19	26	32	33	40
PBT Before EO Exp	39	43	52	65	86	108	127	143	176
EO Items	1	0	0	0	16	0	0	0	0
PBT After EO Exp	40	43	52	65	102	108	127	143	176
Tax	11	10	1	7	26	25	32	36	45
Rate (%)	28.4	24.3	2.8	10.5	30.2	23.1	25.3	25.3	25.3
MI & P/L of Asso. Cos	0	0	-0	0	0	0	0	1	1
Reported PAT	29	32	51	58	76	84	96	108	132
Change (%)	23.8	12.6	56.5	14.7	30.8	9.8	14.2	12.7	22.9
Adjusted PAT	28	32	51	58	60	84	96	108	132
Change (%)	18.7	17.4	56.6	14.7	3.6	38.4	14.3	12.7	22.9

Consolidated Balance Sheet

(INR b)

Y/E March	2,020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Share Capital	3	3	3	3	3	3	3	3	3
Reserves	129	151	190	232	288	346	415	493	595
Net Worth	132	154	193	236	291	350	419	496	598
Minority Interest	0	0	0	0	0	0	0	0	0
Loans	59	0	0	0	0	0	0	0	0
Deferred Tax Liability	-5	-1	-6	-11	-15	-16	-16	-16	-16
Capital Employed	187	154	188	225	277	334	403	481	583
Gross Fixed Assets	122	132	140	159	172	184	224	274	334
Less: Depreciation	48	60	72	90	104	118	133	152	175
Net Fixed Assets	74	72	68	68	67	67	91	123	160
Capital WIP	20	19	25	19	25	31	31	31	31
Investments	10	11	14	15	16	18	18	18	18
Curr. Assets	424	415	472	559	658	932	1,126	1,353	1,720
Inventory	194	167	143	121	132	217	262	317	409
Debtors	191	141	125	141	165	205	249	301	388
Cash & Bank Balance	3	72	143	203	264	382	460	548	682
Loans & Advances	1	0	0	0	0	0	0	0	0
Other Current Assets	35	35	61	93	96	128	155	187	241
Current Liab. & Prov.	341	363	391	436	490	713	863	1,043	1,345
Creditors	41	23	26	31	34	51	62	75	96
Other Liabilities	237	328	302	324	364	559	676	818	1,055
Provisions	63	13	63	81	92	103	124	151	194
Net Current Assets	83	51	81	123	169	219	263	309	375
Application of Funds	187	154	188	225	277	334	403	481	583

Financials and valuation

Ratios

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
Basic (INR)	43.1	48.5	76.0	87.1	114.0	125.1	142.9	161.0	197.8
Adjusted EPS	41.3	48.5	76.0	87.1	90.3	125.0	142.9	161.0	197.8
Growth (%)	18.7	17.4	56.6	14.7	3.6	38.4	14.3	12.7	22.9
Cash EPS	56.3	65.8	92.6	113.8	111.3	145.0	165.9	189.0	232.1
Book Value	198.1	230.6	288.8	352.5	435.7	523.1	625.9	741.9	894.7
DPS	20.0	15.0	20.0	25.0	29.5	38.0	40.0	45.0	45.0
Payout (incl. Div. Tax.)	48.5	30.9	26.3	28.7	32.7	30.4	28.0	28.0	22.8
Valuation (x)									
P/E (standalone)	114.9	97.9	62.5	54.5	52.6	38.0	33.2	29.5	24.0
Cash P/E	84.4	72.1	51.3	41.7	42.6	32.7	28.6	25.1	20.5
EV/EBITDA	65.9	58.2	56.0	44.5	35.7	29.1	24.4	20.3	15.7
EV/Sales	15.1	13.6	12.3	11.0	9.8	9.0	7.2	5.8	4.3
Price/Book Value	24.0	20.6	16.4	13.5	10.9	9.1	7.6	6.4	5.3
Dividend Yield (%)	0.4	0.3	0.4	0.5	0.6	0.8	0.8	0.9	0.9
Profitability Ratios (%)									
RoE	20.9	21.0	26.3	24.7	20.7	23.9	22.8	21.7	22.1
RoCE	16.1	22.3	27.4	26.2	21.8	24.9	23.6	22.3	22.6
RoIC	16.1	44.7	137.4	648.5	NA	NA	NA	NA	NA
Turnover Ratios									
Debtors (Days)	325	225	185	191	202	242	242	242	242
Inventory (Days)	331	266	213	165	162	255	255	255	255
Creditors. (Days)	70	36	38	42	42	60	60	60	60
Asset Turnover (x)	1.1	1.5	1.3	1.2	1.1	0.9	0.9	0.9	1.0
Leverage Ratio									
Net Debt/Equity (x)	0.4	-0.5	-0.7	-0.9	-0.9	-1.1	-1.1	-1.1	-1.1

Consolidated Cash Flow Statement

(INR b)

Y/E March	2020	2021	2022	2023	2024	2025	2026E	2027E	2028E
PBT before EO Items	40	43	52	65	102	109	128	144	177
Add : Depreciation	10	12	13	24	14	14	15	19	23
Interest	3	2	1	0	0	0	0	0	0
Less : Direct Taxes Paid	18	9	10	28	20	35	32	36	45
(Inc)/Dec in WC	32	-92	-16	-5	31	-48	-34	-41	-69
Others	12	10	30	22	16	2	-32	-33	-40
CF from Operations	15	151	102	88	82	136	114	135	184
(Inc)/Dec in FA	-9	-7	-8	-8	-9	-9	-40	-50	-60
Free Cash Flow	6	145	94	81	73	127	74	85	124
(Pur)/Sale of Investments	-1	-1	-115	-47	-64	-116	0	0	0
Others	-4	-5	-5	-3	9	17	32	33	40
CF from Investments	-13	-12	-128	-57	-64	-108	-8	-17	-20
(Inc)/Dec in Net Worth	0	0	0	0	0	0	0	0	0
(Inc)/Dec in Debt	18	-59	-0	0	0	0	0	0	0
Less : Interest Paid	3	2	1	1	0	0	0	0	0
Dividend Paid	13	10	13	17	20	25	27	30	30
Others	-0	-0	-0	-0	-0	-0	0	0	0
CF from Fin. Activity	1	-71	-15	-17	-20	-26	-27	-30	-30
Inc/Dec of Cash	3	69	-41	14	-2	3	78	88	134
Add: Beginning Balance	0	3	71	31	44	43	382	460	548
Other Bank Balances	0	0	113	159	222	336	0	0	0
Closing Balance	3	72	143	203	264	382	460	548	682

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NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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