

Recommendation

Hindustan Aeronautics Ltd.		BUY
Current Market Price (CMP) Rs. 3885.25	Target Price Rs. 4662	

Our price target of Rs. 4662 offers upside of approximately 20% from current levels over the medium to long term.

Rationale

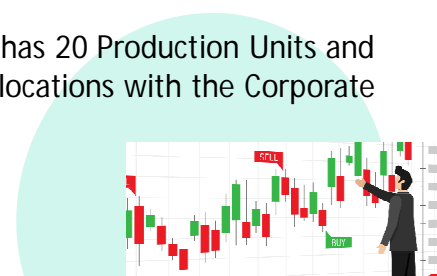
- HAL is a major partner for the space programs of ISRO. It has also diversified into the industrial & Marine Gas Tribune business.
- The company has strong valuation ratios and is a zero debt company with high promoters' (72% approx), FII (12% approx) and DII (11%) holdings. FII shareholding in Hindustan Aeronautics increased by 2.8% in the June quarter of 2023. FII shareholding increased to 11.90% in Q1 FY24 from 9.07% in Q4 FY23.
- HAL and Argentina's Ministry of Defence signed a Letter of Intent (LoI) on productive cooperation and acquisition of Light and Medium Utility Helicopters for its armed forces. This is the second time a South American country to express interest in HAL-manufactured helicopters.
- The bottomline has been growing at a CAGR of 19.2%. Company's annual revenue growth of 11.69% outperformed its 3 year CAGR of 9.48%..
- HAL's net income growth over the last five years have been influenced by factors such as low payout ratio and efficient management that has improved productivity. ROA, ROE and ROCE have all been improving over the last 5 years.
- The three-year median payout ratio for Hindustan Aeronautics is 32%, which is moderately low. The company is retaining the remaining 68%. This suggests that its dividend is well covered, and given the high growth we discussed above, it looks like Hindustan Aeronautics is reinvesting its earnings efficiently.
- Highest-ever revenue from operations of around ₹ 26,500 cr was recorded in FY23, reflecting a 8% growth. The order book remained at ₹ 82,000 cr. There was substantial improvement in cash flows with the receipt of payments from various defence clients aggregating ₹25,000cr.

Company Profile

- Defense and manufacturing PSU Hindustan Aeronautics Ltd. (HAL) has 20 Production Units and 10 R&D centers spread across the country in seven states at nine locations with the Corporate Office located at Bangalore, Karnataka.

Negatives

- Mutual Funds have reduced holdings.



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