



## Hindustan Aeronautics Ltd

TP: 5200 | Upside: 25% | BUY

### Aerospace & Defense

21<sup>st</sup> Feb, 2026

Market Cap - ₹ 2,78,879 Cr.	Current Price - ₹ 4,170	High / Low - ₹ 5,166 / 3,046	Dividend Yield - 0.88 %
EPS - ₹ 133	Promoter holding – 71.6 %	ROE - 26.1 %	ROCE - 33.9 %

### Key Sensitivities & External Factors



#### ➤ Contract Wins & Defence Orders

- The Ministry of Defence has signed a ₹2,312 crore contract with HAL for 8 Dornier 228 aircraft to be supplied to the Indian Coast Guard, supporting maritime security and Make in India goals.

#### ➤ Production & Diversification Plans

- HAL is actively working to expand its civil aviation segment, with a goal of raising it to 25 % of total revenues over the next decade a major pivot from historic defence focus.
- HAL has denied reports that it was selected to manufacture Rafale fighter jets under an Indian production agreement, clarifying no official communication has been received on that front.



#### ➤ Leadership & Organizational Moves

- The Public Enterprises Selection Board (PESB) recommended Kota Ravi as the next Chairman & Managing Director of HAL, an important leadership transition as the company navigates new strategic challenges.

#### ➤ Government & Defence Engagement

- General Anil Chauhan, Chief of Defence Staff, recently visited HAL, reaffirming close collaboration between the armed forces and HAL on indigenous defence manufacturing and stressing Aatmanirbhar Bharat (self-reliant India) priorities.



#### ➤ Strategic Setbacks – AMCA Fighter Programme

- HAL was not shortlisted for India's Advanced Medium Combat Aircraft (AMCA) programme, a key fifth-generation stealth fighter project. Private firms including L&T, Bharat Forge, and others are now leading this Phase, triggering share price declines and significant industry discussion.

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## Industry Overview

### ➤ Global Aerospace & Defence Industry

#### Market Size & Growth

- The global aerospace and defence market was valued at roughly USD 888.9 billion in 2025 and is projected to be about USD 941.2 billion in 2026. This reflects steady growth driven by defence modernization, geopolitical tensions, and commercial aerospace demand. Global spending growth is expected to continue through the next decade at a compound annual growth rate (CAGR) of about 5.8 % between 2026 and 2035.
- Defense systems constitute a large portion of total spending, with continued procurement of advanced aircraft, naval systems, missiles, and other military platforms. Commercial aerospace growth is also supported by rising air travel and fleet replacement demand.

#### Defence Spending Trends

- Major global contractors are experiencing a surge in orders and revenue due to elevated defence budgets worldwide. For instance, the UK's largest defence firm reported a double-digit anniversary growth in profit and a record order backlog of £83.6 billion, driven by heightened global security demand and NATO spending increases.
- European aerospace and defence sectors also saw strong growth in 2024, with total turnover increasing by over 10 %, reflecting increased military procurement and civil aviation activity.

#### Segment Dynamics

- Defence modernization and geopolitical tensions remain key growth drivers for military aviation and ground systems procurement.
- Commercial aviation shows long-term resilience, with OEMs forecasting strong aircraft delivery demand over the next two decades despite short-term trade and supply challenges.

### ➤ Domestic (India) Highlights

#### National Policy & Budget Support

- India's Union Budget 2026-27 gave a strong thrust to the aerospace and defence sector, with a record defence outlay of ₹7.85 lakh crore, a 15 % increase over the previous year, reinforcing the government's focus on expanding domestic manufacturing and self-reliance.

#### Domestic Production Value

- India's defence production reached a record ₹1.5 lakh crore recently, underlining sustained momentum in indigenous defence manufacturing. Private companies are contributing increasingly to this production ecosystem, reflecting a growing domestic industrial capacity.

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## Industry Growth Targets

- Government policy outlines ambitious medium-term targets, including achieving ₹3 lakh crore in defence manufacturing and elevated defence exports by 2029, highlighting structural expansion of the domestic ecosystem.

## Local Manufacturing & Partnerships

- There are high-profile aerospace industrial developments such as the Airbus-Tata helicopter assembly line in Karnataka, planned to produce hundreds of aircraft over the next decades, which strengthens India's role in regional aerospace manufacturing.
- Partnerships to build aerospace supply chain capabilities are expanding, such as collaborations between global OEMs (e.g., Embraer) and Indian firms to develop aerospace-grade aluminium and MRO capabilities locally.

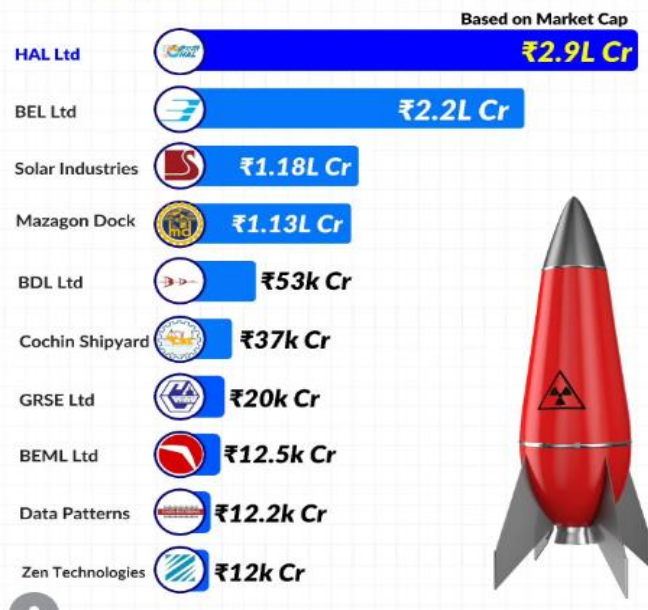
## Sector Composition & Trends

- India's aerospace & defence sector is moving beyond public sector dominance, with notable private-sector investment and participation in defence manufacturing and exports. Domestic production and licensed manufacturing partnerships (e.g., with Russia for SJ-100 civil aircraft) support growth in both military and civil aviation segments.
- Defence exports have grown and are projected to continue rising, contributing to India's strategic industrial growth.

➤ India's aerospace & defence sector in 2026 is characterized by policy-driven growth, strong government spending, increasing private sector involvement, strategic international partnerships, and expanding domestic manufacturing capacity. The industry aims to balance defence self-reliance with export expansion and commercial aerospace opportunities.



## Top Aerospace & Defence Companies in Indian Market



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## Business Overview

Hindustan Aeronautics Limited (HAL) was founded on 23 December 1940 by Walchand Hirachand and is headquartered in Bengaluru, India. It is majority-owned by the Government of India and functions under the administrative control of the Ministry of Defence. HAL is one of the oldest and largest aerospace and defence manufacturers in the world and plays a central role in strengthening India's indigenous defence capabilities. The company operates 11 dedicated research and development centres and 21 manufacturing divisions distributed across four major production complexes in India. HAL designs, develops, manufactures, repairs, and upgrades combat aircraft, helicopters, unmanned aerial vehicles (UAVs), jet and turbine engines, avionics systems, aerospace structures, and other defence hardware.

HAL operates as a state-owned defence aerospace integrator with capabilities spanning the entire product lifecycle. The company undertakes the design and development of indigenous fighter aircraft such as the Tejas, advanced helicopters like Dhruv and Light Combat Helicopter variants, and trainer aircraft. It also develops aero engines and advanced avionics systems. In addition to design and development, HAL carries out large-scale manufacturing and assembly operations that include aircraft production lines, engine manufacturing, and structural component fabrication using advanced composites. The company also undertakes licensed production of foreign aircraft in collaboration with global aerospace firms. HAL provides comprehensive maintenance, repair, and overhaul (MRO) services, including long-term maintenance contracts, mid-life upgrades, engine overhauls, and fleet life extension programs. It also executes modernization projects involving avionics upgrades, weapons integration, radar systems, electronic warfare capabilities, and retrofit programs for existing fleets.

## Expanded Business Model

- HAL primarily follows a Business-to-Government (B2G) model.
- The Government of India is its largest customer.
- It receives long-term, high-value defence contracts.
- It combines indigenous development with licensed production.
- It earns recurring revenue from maintenance and upgrades.
- The industry has high entry barriers and limited domestic competition.

## Revenue Streams

- Major revenue comes from aircraft and helicopter sales.
- It earns from engine and avionics manufacturing.
- Maintenance and overhaul services provide steady income.
- Upgrade and modernization programs add additional revenue.
- Export of helicopters and components is a growing segment.

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## Company Financials

### Financials & Valuations (INR b)

Y/E March	2026E	2027E	2028E
Sales	363.5	438.1	567.5
EBITDA	105.9	122.7	152.1
Adj. PAT	91.3	101.9	126.0
Adj. EPS (INR)	136.5	152.4	188.4
EPS Gr. (%)	9.2	11.6	23.6
BV/Sh. (INR)	619.6	727.0	870.3
<b>Ratios</b>			
RoE (%)	22.0	21.0	21.6
RoCE (%)	22.8	21.5	22.1
Payout (%)	29.3	29.5	23.9
<b>Valuations</b>			
P/E (x)	30.5	27.3	22.1
P/BV (x)	6.7	5.7	4.8
EV/EBITDA (x)	22.0	18.4	14.0
Div. Yield (%)	1.0	1.1	1.1

### Consolidated – Quarterly Snapshot

(INR b)

Income Statement	FY25				FY26E				FY25	FY26E	FY26E	Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
<b>Y/E March</b>												
<b>Net Sales</b>	43.5	59.8	69.6	137.0	48.2	66.3	77.0	172.0	309.8	363.5	78.7	(2)
Change (%)	11.0	6.0	14.8	(7.2)	10.8	10.9	10.7	25.6	3.9	17.3	13.2	
Expenses	33.6	43.4	52.7	84.0	35.4	50.7	58.3	113.3	213.7	257.6	59.1	(1)
<b>EBITDA</b>	9.9	16.4	16.8	52.9	12.8	15.6	18.7	58.8	96.1	105.9	19.7	(5)
Change (%)	13.0	7.4	17.2	(10.3)	29.4	(5.0)	11.2	11.0	17.8	10.2	17.0	
As of % Sales	22.8	27.4	24.2	38.6	26.6	23.5	24.3	34.2	31.0	29.1	25.0	
Depreciation	1.5	1.8	2.8	7.4	1.9	2.3	3.1	8.2	13.4	15.4	3.1	1
Interest	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.1	0.1	0.1	0.0	NM
Other Income	7.4	5.4	6.3	6.5	7.5	8.9	9.1	5.7	25.6	31.2	8.1	13
<b>PBT pre EO items</b>	15.8	20.0	20.4	52.0	18.4	22.2	24.7	56.2	108.2	121.6	24.7	0
Extra-ordinary Items	-	0.1	-	-	-	-	-	-	0.1	-	-	
<b>PBT</b>	15.8	20.1	20.4	52.0	18.4	22.2	24.7	56.2	108.3	121.6	24.7	0
Tax	1.5	5.1	6.0	12.4	4.7	5.6	6.2	14.3	25.0	30.8	6.3	(1)
Effective Tax Rate (%)	9.3	25.5	29.6	23.9	25.5	25.1	25.1	25.4	23.1	25.3	25.4	
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	
<b>Reported PAT</b>	14.4	15.1	14.4	39.8	13.8	16.7	18.7	42.1	83.6	91.3	18.6	0
<b>Adj PAT</b>	14.4	15.0	14.4	39.8	13.8	16.7	18.7	42.1	83.6	91.3	18.6	0
Margin (%)	33.1	25.2	20.7	29.0	28.7	25.2	24.2	24.5	27.0	25.1	23.6	
Change (%)	76.5	21.7	14.1	(7.7)	(3.7)	10.9	29.6	5.9	38.4	9.2	29.1	

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## Consolidated Balance Sheet

(INR b)

Y/E March	2020	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	411	483	579
<b>Net Worth</b>	<b>132</b>	<b>154</b>	<b>193</b>	<b>236</b>	<b>291</b>	<b>350</b>	<b>414</b>	<b>486</b>	<b>582</b>
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
<b>Capital Employed</b>	<b>187</b>	<b>154</b>	<b>188</b>	<b>225</b>	<b>277</b>	<b>334</b>	<b>399</b>	<b>471</b>	<b>566</b>
Gross Fixed Assets	122	132	140	159	172	184	224	274	334
Less: Depreciation	48	60	72	90	104	118	133	152	175
<b>Net Fixed Assets</b>	<b>74</b>	<b>72</b>	<b>68</b>	<b>68</b>	<b>67</b>	<b>67</b>	<b>91</b>	<b>123</b>	<b>160</b>
Capital WIP	20	19	25	19	25	31	31	31	31
Investments	10	11	14	15	16	18	18	18	18
<b>Curr. Assets</b>	<b>424</b>	<b>415</b>	<b>472</b>	<b>559</b>	<b>658</b>	<b>932</b>	<b>1,095</b>	<b>1,307</b>	<b>1,664</b>
Inventory	194	167	143	121	132	217	254	307	397
Debtors	191	141	125	141	165	205	241	290	376
Cash & Bank Balance	3	72	143	203	264	382	450	530	657
Loans & Advances	1	0	0	0	0	0	0	0	0
Other Current Assets	35	35	61	93	96	128	150	181	234
<b>Current Liab. &amp; Prov.</b>	<b>341</b>	<b>363</b>	<b>391</b>	<b>436</b>	<b>490</b>	<b>713</b>	<b>836</b>	<b>1,008</b>	<b>1,306</b>
Creditors	41	23	26	31	34	51	60	72	94
Other Liabilities	237	328	302	324	364	559	656	790	1,024
Provisions	63	13	63	81	92	103	121	145	188
<b>Net Current Assets</b>	<b>83</b>	<b>51</b>	<b>81</b>	<b>123</b>	<b>169</b>	<b>219</b>	<b>259</b>	<b>299</b>	<b>358</b>
<b>Application of Funds</b>	<b>187</b>	<b>154</b>	<b>188</b>	<b>225</b>	<b>277</b>	<b>334</b>	<b>399</b>	<b>471</b>	<b>566</b>

## 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	136.5	152.4	188.4
<b>Adjusted EPS</b>	<b>41.3</b>	<b>48.5</b>	<b>76.0</b>	<b>87.1</b>	<b>90.3</b>	<b>125.0</b>	<b>136.5</b>	<b>152.4</b>	<b>188.4</b>
Growth (%)	18.7	17.4	56.6	14.7	3.6	38.4	9.2	11.6	23.6
Cash EPS	56.3	65.8	92.6	113.8	111.3	145.0	159.5	180.4	222.6
Book Value	198.1	230.6	288.8	352.5	435.7	523.1	619.6	727.0	870.3
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	29.3	29.5	23.9
<b>Valuation (x)</b>									
P/E (standalone)	100.6	85.7	54.7	47.7	46.1	33.3	30.5	27.3	22.1
Cash P/E	73.9	63.2	44.9	36.5	37.4	28.7	26.1	23.0	18.7
EV/EBITDA	57.9	50.8	48.8	38.6	30.9	25.0	22.0	18.4	14.0
EV/Sales	13.2	11.8	10.7	9.6	8.4	7.7	6.4	5.1	3.7
Price/Book Value	21.0	18.0	14.4	11.8	9.5	8.0	6.7	5.7	4.8
Dividend Yield (%)	0.5	0.4	0.5	0.6	0.7	0.9	1.0	1.1	1.1
<b>Profitability Ratios (%)</b>									
RoE	20.9	21.0	26.3	24.7	20.7	23.9	22.0	21.0	21.6
RoCE	16.1	22.3	27.4	26.2	21.8	24.9	22.8	21.5	22.1
RoIC	16.1	44.7	137.4	648.5	NA	NA	NA	NA	NA
<b>Turnover Ratios</b>									
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
<b>Leverage Ratio</b>									
Net Debt/Equity (x)	0.4	-0.5	-0.7	-0.9	-0.9	-1.1	-1.1	-1.1	-1.1

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## ➤ Financial Interpretation

- Revenue growth reflects strong execution of a large order book, not one-off gains, indicating structural demand from defence modernization.
- Profit growth is faster than revenue growth, suggesting operating leverage and improving cost absorption as scale increases.
- RoCE consistently above 20% is strong for a capital-intensive aerospace manufacturer and indicates efficient capital deployment.
- Net worth expansion and a net cash position reduce financial risk and provide capacity for future capex or dividends.
- Working capital remains high, which is typical in defence contracts due to milestone billing and long production cycles.
- Valuation multiples are gradually compressing as earnings rise, improving medium-term comfort.

## ➤ Risks

- Revenue timing can be volatile due to milestone-based defence contracts.
- Heavy dependence on Government of India spending.
- Execution delays in large programs can affect near-term numbers.

## Peer Comparison

S.No.	Name	CMP Rs.	P/E	Mar Cap Rs.Cr.	Div Yld %	NP Qtr Rs.Cr.	Qtr Profit Var %	Sales Qtr Rs.Cr.	Qtr Sales Var %	ROCE %
1.	<a href="#">Bharat Electron</a>	441.15	54.07	322470.89	0.54	1579.70	20.45	7153.85	23.97	38.88
2.	<a href="#">Hind.Aeronautics</a>	4170.00	31.35	278879.18	0.96	1866.66	29.65	7698.80	10.66	33.88
3.	<a href="#">Bharat Dynamics</a>	1310.40	82.83	48034.35	0.35	72.92	-50.44	566.63	-31.91	19.66
4.	<a href="#">Garden Reach Sh.</a>	2477.30	41.19	28377.97	0.56	170.77	73.92	1895.69	49.15	36.64
5.	<a href="#">Data Pattern</a>	2984.60	67.00	16708.98	0.26	58.30	35.76	173.13	47.92	21.00
6.	<a href="#">Zen Technologies</a>	1322.20	45.51	11938.19	0.15	55.71	37.89	177.82	16.83	37.22
7.	<a href="#">MTAR Technologie</a>	3657.60	165.74	11250.63	0.00	35.17	131.84	277.90	59.30	10.51

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## Key Strengths

### Strong Production & Manufacturing Capabilities

- HAL has integrated production facilities spread across multiple divisions for aircraft, helicopters, engines, and avionics, enabling end-to-end manufacturing.
- The company has proven capacity to deliver complex platforms such as fighter jets (Tejas), advanced helicopters (Dhruv, Rudra, LCH), and trainer aircraft.
- In-house engine and avionics production reduces reliance on external suppliers and increases control over quality and timelines.
- Ongoing investments in modernizing facilities support higher production rates and improved execution timelines.

### Favourable Market Conditions

- India is one of the fastest-growing defence markets globally, with rising geopolitical tensions driving higher systems procurement.
- Demand for indigenous platforms is accelerating under the government's self-reliance (Atmanirbhar Bharat) initiative.
- HAL benefits from limited domestic competition in critical aerospace segments, ensuring a dominant market share in defence aircraft and related products.

### Strong Order Book & Backlog Visibility

- The company holds a multi-year order backlog from the Indian Air Force, Army, and Navy, securing revenue visibility ahead.
- Long-term defence programs and recurring maintenance contracts provide steadier revenue streams compared with one-off sales.

### Government Policy & Budget Support

- HAL is majority-owned by the Government of India and operates under the Ministry of Defence, aligning its business directly with national defence priorities.
- Recent Indian defence budgets have been consistently rising, with sustained capital allocation for procurement of aircraft, helicopters, and support equipment.
- Defence Modernisation & Indigenisation Policies strongly favour local manufacturing — giving HAL preferential access to large programmes.
- Budget focus on Make in India and import substitution amplifies HAL's role as a core supplier.

### Lifecycle Business Model

- Beyond new aircraft production, HAL earns from maintenance, repair, overhaul (MRO) and upgrades — creating recurring revenue over decades.
- As India's in-service fleet ages and expands, demand for MRO and upgrade services strengthens.

### Strategic National Importance

- Being a critical defence supplier, HAL enjoys strategic priority, often insulated from competitive pressures that affect commercial aerospace players.
- Government policy tends to support long-horizon investments and capital allocation for national defence objectives.

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## Key Risks

### Execution Risk

- HAL handles large, technically complex defence programs with long development cycles. Any delay in testing, certification, production ramp-up, or delivery schedules can affect revenue recognition, margins, and investor confidence.

### Dependence on Government Spending

- A significant portion of HAL's revenue comes from the Government of India. Changes in defence budget allocation, procurement priorities, or delays in approvals can directly impact order inflows and growth visibility.

### Valuation Sensitivity

- If the stock trades at elevated earnings multiples, it leaves little room for negative surprises. Even minor earnings misses or order delays could trigger disproportionate stock price corrections.

### Entry of Private Players

- Increasing participation from private defence manufacturers may intensify competition in aircraft subsystems, drones, MRO services, and future large platform programs. Competitive bidding may reduce pricing power over time.

### Working Capital Intensity

- Defence contracts are milestone-based and capital-intensive. High receivables, inventory buildup, and uneven cash flows can create short-term liquidity pressure despite strong reported profits.

### Technology & Development Risk

- Aerospace manufacturing requires continuous technological advancement. Delays in developing indigenous engines, next-generation fighters, or advanced systems could affect long-term competitiveness.

### Supply Chain Dependence

- HAL relies on specialised suppliers, including some imported components. Disruptions in global supply chains or vendor constraints could slow production timelines.

### Limited Export Diversification

- Although exports are growing, HAL remains heavily dependent on domestic defence orders. Limited international diversification increases reliance on a single primary customer base.

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## Valuation and Outlook

Hindustan Aeronautics Limited has transitioned into a strong earnings growth phase, supported by robust order execution, improving profitability, and consistently high RoCE (20%+). While current valuations appear elevated, strong earnings visibility and structural defence tailwinds could help moderate multiples over the next few years. Cash flows may remain uneven due to working capital intensity, positioning HAL more as a growth story than a yield play.

Overall, HAL remains fundamentally strong, with risks primarily linked to execution, policy dependence, valuation sensitivity, and rising competitive intensity within a highly strategic and capital-intensive industry.

The stock appears suitable for medium- to long-term investors comfortable with execution and valuation volatility.

We maintain a **Buy / Accumulate** stance at current levels.

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