

BEL - Financials & Valuations (INR b)

Y/E MARCH	FY26E	FY27E	FY28E
Sales	276.7	328.5	391.1
EBITDA	78.9	93.7	109.5
Adj PAT	60.1	71.3	83.5
EPS (INR)	8.2	9.8	11.4
EPS Gr. (%)	13.7	18.6	17.2
BV/Sh (INR)	34.2	42.8	52.8
Ratios			
RoE (%)	24.0	22.8	21.7
RoCE (%)	26.9	25.4	23.9
Payout (%)	12.4	12.4	12.4
Valuations			
P/E (x)	55.6	46.9	40.0
P/BV (x)	13.4	10.7	8.7
EV/EBITDA (x)	40.6	33.7	28.3
Div Yield (%)	0.2	0.3	0.3

HAL - Financials & Valuations (INR b)

Y/E MARCH	FY26E	FY27E	FY28E
Sales	363.5	438.1	567.5
EBITDA	105.9	122.7	152.1
Adj PAT	91.3	101.9	126.0
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
Ratios			
RoE (%)	22.0	21.0	21.6
RoCE (%)	22.8	21.5	22.1
Payout (%)	29.3	29.5	23.9
Valuations			
P/E (x)	29.2	26.2	21.2
P/BV (x)	6.4	5.5	4.6
EV/EBITDA (x)	21.0	17.4	13.2
Div Yield (%)	1.0	1.1	1.1

BDL - Financials & Valuations (INR b)

Y/E MARCH	FY26E	FY27E	FY28E
Sales	44.0	61.4	81.7
EBITDA	8.0	12.1	17.6
Adj PAT	8.2	11.5	16.4
EPS (INR)	22.3	31.4	44.9
EPS Gr. (%)	48.5	41.1	42.8
BV/Sh (INR)	125.6	150.1	186.9
Ratios			
RoE (%)	17.7	20.9	24.0
RoCE (%)	18.3	21.5	24.5
Payout (%)	27.1	22.1	17.8
Valuations			
P/E (x)	60.0	42.5	29.8
P/BV (x)	10.6	8.9	7.1
EV/EBITDA (x)	54.1	34.4	22.5
Div Yield (%)	0.5	0.5	0.6

Defense spending to remain in focus

The current conflict in the Middle East is likely to drive higher global defense spending as nations prioritize security and military preparedness. In this environment, India's defense sector is well positioned to benefit from both rising domestic procurement and increasing export opportunities, supported by the government's push for indigenization and a growing reputation in global arms markets. However, in the near term, we will also look out for supply chain constraints, particularly related to specialized components and imported subsystems, which could affect the execution timelines of certain defense platforms. We maintain our positive stance on BHE (CMP: INR458 | TP: INR520), HAL (CMP: INR3,989 | TP: INR5,500), BDL (CMP: INR1,336 | TP: INR1,800), and ASTM (CMP: INR1,008 | TP: INR1,150). We remain Neutral on Zen Technologies (CMP: INR1,443 | TP: INR1,400).

Escalating geopolitical tensions prompt higher defense spending

Escalating geopolitical tensions in the Middle East could drive a surge in global defense spending and demand for military equipment such as missiles, air-defense systems, surveillance technologies, and electronic warfare solutions. In FY25, the Middle East accounted for 26% of total global arms imports (Source: SIPRI) and this can increase further, thereby opening up opportunities for domestic defense companies to capture this market. Along with this, the earlier NATO directive to member nations to increase defense capex allocation and higher budgetary allocation for defense by Indian government bode well for increasing the TAM for domestic defense companies. We expect companies like Bharat Electronics, Bharat Dynamics, Solar Industries, Astra Microwave and Zen to benefit from a higher TAM.

Supply chain disruption can play out too

India is heavily reliant on Israel for critical defense components, with Israel accounting for nearly half of India's air defense and sensor imports. India's purchases from Israel are concentrated in advanced components and platforms for missiles, loitering ammunition and precision strike weapons; also air defense systems and sensors for radars and optical systems. A prolonged Middle East conflict could impact the supply chain for critical components.

Increased defense capex support AoN approvals

The Union Budget has increased the capital outlay on defense by 18% YoY to INR2.2t in FY27BE. This increase is important as it provides the necessary funding visibility to support the large pipeline of AoN approvals cleared YTD in FY26. So far, AoNs worth over INR7t have been approved across multiple platforms and systems, creating a strong procurement pipeline for the domestic defense industry. These approvals typically translate into tenders, contract awards, and execution over the next 2-2.5 years, implying a steady flow of order inflows for defense manufacturers.

Strong prospect pipeline across platforms

Management commentary across key defense companies points to strong visibility for order finalization over the next 15-18 months, backed by large, named programs at advanced stages.

- **BHE** has highlighted near-term opportunities, including LCA Mk-1A systems (~INR24b), Shatrughat EW (~INR30b), next-gen corvettes (INR20-30b in FY26 and INR100-120b by 1HFY27), additional programs of ~INR20b, and expected QRSAM inflows (~INR300b).

ASTM- Financials & Valuations (INR b)

Y/E MARCH	FY26E	FY27E	FY28E
Sales	11.1	13.7	17.2
EBITDA	2.8	3.6	4.5
Adj PAT	1.5	2.2	2.8
EPS (INR)	16.4	23.7	30.2
EPS Gr. (%)	0.5	44.5	27.6
BV/Sh (INR)	133.0	156.7	186.9
Ratios			
RoE (%)	13.1	16.3	17.6
RoCE (%)	12.0	14.2	15.3
Valuations			
P/E (x)	61.5	42.6	33.4
P/BV (x)	7.6	6.4	5.4
EV/EBITDA (x)	34.0	27.3	21.9

ZEN - Financials & Valuations (INR b)

Y/E MARCH	FY26E	FY27E	FY28E
Sales	5.2	9.9	13.7
EBITDA	1.9	3.7	5.1
Adj PAT	1.9	3.3	4.4
EPS (INR)	20.6	36.9	48.2
EPS Gr. (%)	-29.1	78.7	30.9
BV/Sh (INR)	207.7	244.6	292.8
Ratios			
RoE (%)	10.5	16.3	18.0
RoCE (%)	10.4	16.3	18.0
Valuations			
P/E (x)	69.9	39.1	29.9
P/BV (x)	6.9	5.9	4.9
EV/EBITDA (x)	61.4	32.4	23.0

- **HNAL** is expected to begin deliveries of Tejas Mk-1A and has secured orders such as Dornier-228 (~INR23b), Dhruv-NG (~INR18b), and ALH Mk-III (~INR29b).
- **BDL** is targeting ~INR200b of orders over the next 18 months from an ~INR500b pipeline, supported by advanced trials of Akash-NG and other missile systems.
- **ASTM** remains well positioned for QRSAM and EW-linked electronics opportunities (~INR250b long-term). ZEN expects an INR600m simulator order to lift its book from ~INR14.3b to ~INR20b, largely executable over 18 months.
- **GRSE** has emerged as L1 for next-generation corvettes (~INR330b) and sees progress on P-17 Bravo (~INR700b), landing platform dock (~INR350b), and mine counter-measure vessels (~INR320b).
- **SOIL** reported a strong defense order book of ~INR180b, supported by Pinaka and ammunition supplies from 4QFY26.

Inflows have been strong so far

Defense PSUs (DPSUs) have entered the final stretch of FY26 with strong YTD inflows, with BEL/HAL/BDL having secured capital contracts worth INR206b/INR694b/INR54b. Ordering for the private defense players has also improved in FY26. ASTM inflows for the defense segment have been steady over the years, with orders worth INR2.9b received in 3QFY26. ZEN tech inflows revived in 3QFY26, with orders worth INR6b received during the quarter, additional INR3.5b received in Jan'26, and a simulator order worth INR6b expected in FY26.

Updated DAP 2026 to support Indian defense players

The government introduced an updated DAP to promote indigenization by shifting from 'Made in India' to 'Owned by India'. The key reforms included **1) simplifying procurement categories** (reducing them from five to four) to streamline decision-making and accelerate acquisition timelines; **2) strengthening indigenization**, increasing the minimum indigenous content requirement in the 'Buy (Indian-IDDM)' category from 50% to 60%; **3) an ab-initio single vendor provision** has been allowed in the Buy (IDDM) category for equipment with certain technology readiness levels (TRL); **4) promoting technology ownership** by allowing India to retain critical design data, source code, and upgrade rights for defense platforms; **5) improving support for startups**, MSMEs, and innovation programs like 'Make' and 'iDEX', including assured orders for successful prototypes and compensation for vendors clearing trials, which lowers development risk; **6) redefining the Fast Track Procedure** with greater delegated powers to enable quicker procurement of emerging technologies.

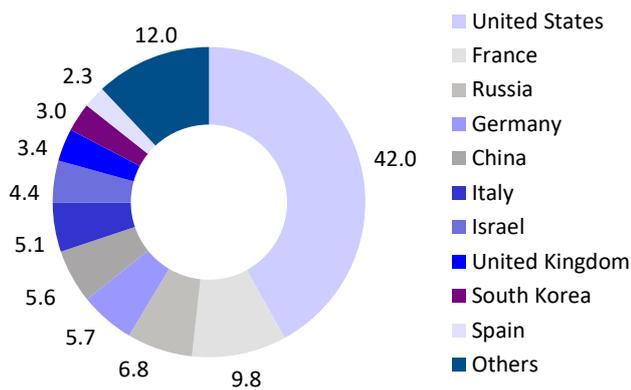
Valuations and recommendations

- **BHE** is currently trading at 46.9x/40.0x FY27E/FY28E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR520, based on the 45x two-year forward earnings.
- **HAL** is currently trading at 26.2x/21.2x FY27E/FY28E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR5,500, based on the average of DCF and 30x two-year forward earnings.
- **BDL** is currently trading at 42.5x/29.8x FY27E/FY28E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR1,800, based on the 42x two-year forward earnings.
- **AMPL** is currently trading at 42.6x/33.4x FY27E/FY28E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR1,150, based on the 38x two-year forward earnings.
- **ZEN** is currently trading at 39.1x/29.9x FY27E/FY28E EPS. **We maintain our estimates and reiterate our Neutral rating on the stock** with an unchanged TP of INR1,400, based on the 30x two-year forward earnings.

SIPRI database indicates India’s arms imports have come down

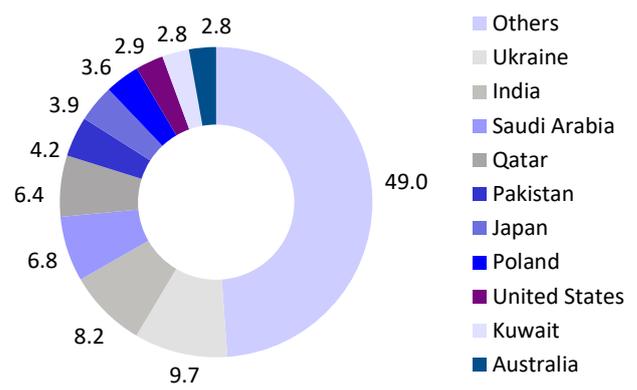
- **India:** Indian arms imports fell by 4% between 2016-20 and 2021-25. The decrease can be partly attributed to India’s growing ability to design and produce its own weapons.
- **Middle East:** Among the Middle East regions, Israel’s arms imports increased by 12% between 2016-20 and 2021-25, making it the 14th largest recipient of major arms globally. The USA was the largest supplier to Israel in 2021-25 (accounting for 68% of Israeli arms imports), followed by Germany (31%). Israel’s arms imports from the USA included armoured vehicles, combat aircraft, guided bombs and missiles. As of the end of 2025, Israel had at least 55 combat aircraft on order from the USA. Iran’s imports of major arms accounted for 0.2% of total arms imports by countries in the Middle East in 2021-25; this was lower than its share in 2016-20 (0.9%). Iran’s only supplier of major arms in 2021-25 was Russia.

Exhibit 1: Global share of exports of major arms by the 10 largest suppliers, 2021-25 (%)



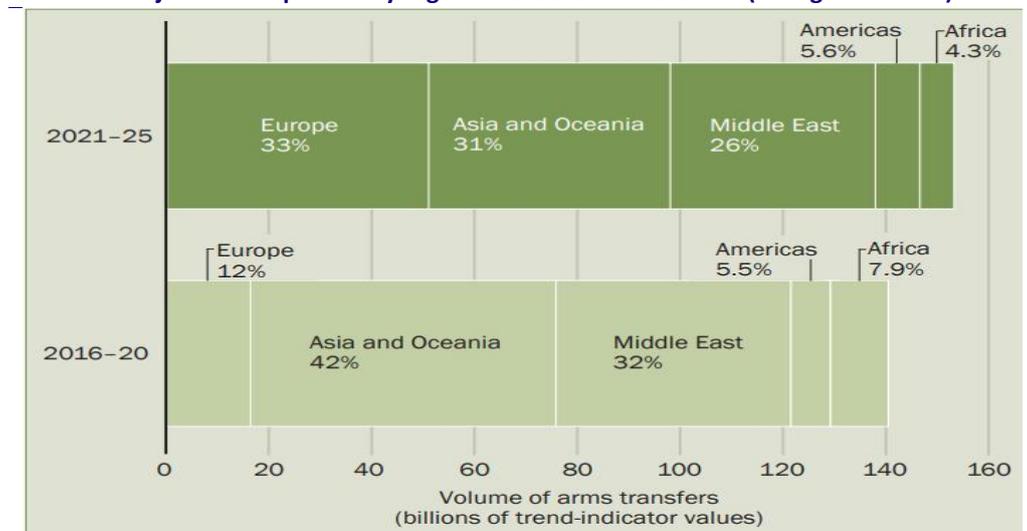
Source: SIPRI, MOFSL

Exhibit 2: Global share of imports of major arms by the 10 largest recipients, 2021-25 (%)



Source: SIPRI, MOFSL

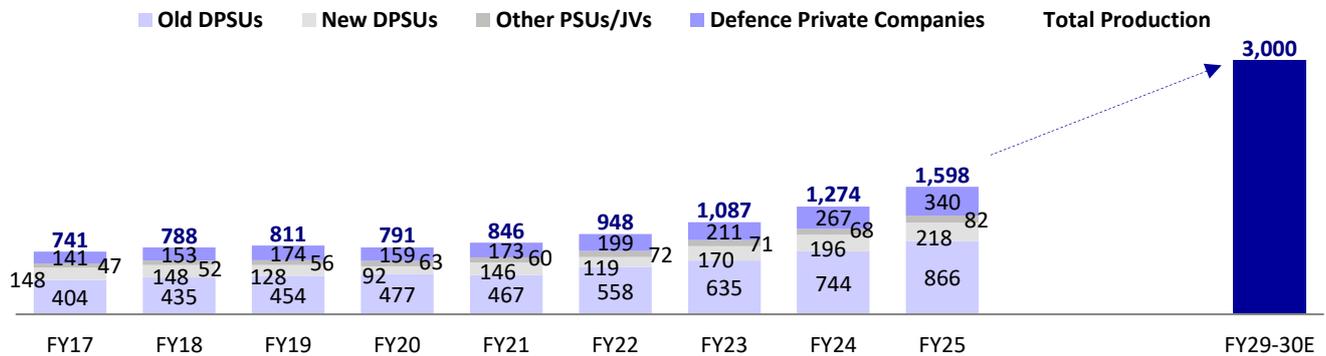
Exhibit 3: Major arms importers by region in 2021-25 and 2016-20 (% of global share)



Source: SIPRI, MOFSL

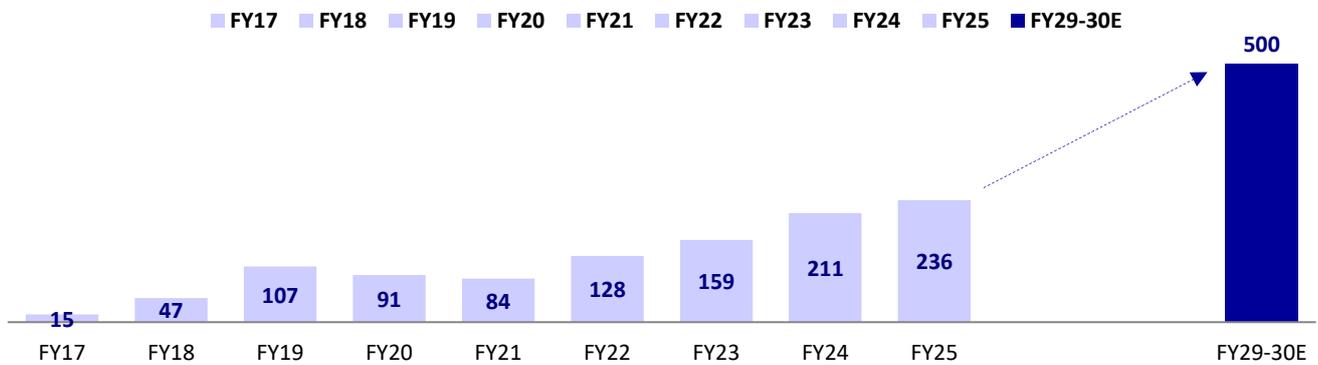
Defense production and exports to double by FY29

Exhibit 4: Total defense production projected to reach INR3t by FY29-30



Source: DDP, MoD, MOFSL

Exhibit 5: Total defense exports estimated to double from FY25 levels to INR500b by FY29-30



Source: DDP, MOFSL

Exhibit 6: Government's defense capex budget utilization over the years: If defense capex grows at a higher rate, the share of procurement from domestic players will increase too

(INR b)	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E
Budget	ACT	ACT	ACT	ACT	ACT	ACT	ACT	ACT	RE	EST	EST
Defense capital outlay budget	864	904	952	1,111	1,343	1,380	1,429	1,543	1,595	1,834	2,109
YoY %		5	5	17	21	3	4	8	3	15	15
Domestic Defense production	741	788	811	791	846	949	1,087	1,274	1,506	1,717	1,970
YoY %		6	3	(3)	7	12	15	17	18	14	15
Defense PSUs											
HAL	179	185	200	214	229	246	269	298	310	363	438
BEL	83	100	118	126	138	150	173	202	237	277	328
BDL	49	46	31	31	19	28	25	24	33	44	61
MDL	35	45	46	49	40	57	78	95	133	163	183
Cochin Shipyard	21	24	30	34	28	32	23	36	46	54	62
Garden Reach	9	13	14	14	11	18	26	36	50	67	73
BEML	25	32	35	30	36	43	39	41	41	49	59
Other PSUs and JVs	47	52	56	63	60	72	71	68	82	86	90
Ordnance Factories	148	148	128	92	146	119	170	196	218	240	264
Private companies	141	154	174	159	173	199	211	267	340	374	411
Foreign procurement	305	334	430	446	507	483	391	445	452	414	494
Share of foreign procurement in overall capex budget %	35	37	45	40	38	35	27	29	28	23	23
Exports	15	47	107	91	84	128	159	211	236	295	354
YoY%		208	129	(15)	(7)	52	24	32	12	25	20

Source: Industry, MOFSL

AoNs accorded YTD in FY26 provide inflow visibility for 2-3 years

Exhibit 7: YTFY26 DAC approvals worth ~INR7t give order visibility for next 2-3 years

Date	Approval by DAC	INR b	Potential beneficiaries
12-Feb-26	Indian Navy Anti-Tank Mines (Vibhav), Overhaul of ARVs, T-72 Tanks and Infantry Combat Vehicles	3,600	Bharat Forge, AVNL, BEML
	Indian Navy 04 MW Marine Gas Turbine based Electric Power Generator		Triveni Eng & Rolls Royce
	P8I Long Range Maritime Reconnaissance Aircraft		
	Indian Air Force Multi Role Fighter Aircraft (MRFA) {Rafale}		Dassault Aviation
	Combat Missiles		BDL, BrahMos
	Air-Ship Based High Altitude Pseudo Satellite (AS-HAPS)		HAL, New Space Research and Technologies, VEDA Aeronautics
	Indian Coast Guard Electro-Optical/Infra-Red system for Dornier aircraft.		BEL, Paras Def, Data Pattern, TASL
	Indian Army Loiter Munition System for Artillery Regiments		Solar Industries, TASL
29-Dec-25	Low Level Light Weight Radars		BEL, AMPL, Data Patterns
	Long Range Guided Rocket Ammunition for Pinaka Multiple Launch Rocket System (MRLS)		Solar Industries, BDL, Munitions India
	Integrated Drone Detection & Interdiction System Mk-II		BEL, AMPL, Data Patterns, Adani, TASL
	Indian Navy Bollard Pull (BP) Tugs	790	CSL, MDL, GRSE, L&T, Titagarh Rail
	High Frequency Software Defined Radios (HF SDR) Manpack		BEL
	High Altitude Long Range (HALE) Remotely Piloted Aircraft System (RPAS)		HAL, TASL, Adani, BEL
	Indian Air Force Automatic Take-off Landing Recording System		BEL, HAL
	Astra Mk-II Missiles		BDL
	Full Mission Simulator		Zen Tech, BEL, HAL
	SPICE-1000 Long Range Guidance Kits		BDL, Bharat Forge, Rafael
23-Oct-25	Indian Army Nag Missile System (Tracked) Mk-II (NAMIS)	790	BDL, BEL, AMPL
	Ground Based Mobile ELINT System (GBMES)		BEL, AMPL, TASL
	High Mobility Vehicles (HMsVs) with Material Handling Crane		Ashok Leyland, Tata Motors, BEML
	Indian Navy Landing Platform Docks (LPD)		MDL, GRSE, CSL, L&T
	30mm Naval Surface Gun (NSG)		Bharat Forge, TASL, L&T
	Advanced Light Weight Torpedoes (ALWT)		BDL, L&T
	Electro Optical Infra-Red Search and Track System		BEL, AMPL, L&T, TASL
	Smart Ammunition for 76mm Super Rapid Gun Mount		BDL, TASL, Solar Industries
Indian Air Force Collaborative Long Range Target Saturation/Destruction System (CLRTS/DS)		HAL, BEL, AMPL, TASL	
05-Aug-25	Indian Army Thermal Imager-based Driver Night Sight for BMP	670	BEL, AMPL, L&T
	Indian Navy Compact Autonomous Surface Craft		TASL, L&T Defence, BEML
	BrahMos Fire Control System & Launchers		BrahMos Aerospace, BEL, BDL, L&T
	Upgradation of BARAK-1 Point Defence Missile System		BEL, BDL
	Indian Air Force Mountain Radars		BEL, AMPL, L&T
	Upgradation of SAKSHAM/SPYDER Weapon System		BEL, AMPL, BDL
	Others Medium Altitude Long Endurance (MALE) Remotely Piloted Aircraft (RPAs)		HAL, BEL, AMPL, Solar, TASL
	C-17 and C-130J fleets		HAL, TASL, TASL, Mahindra
	Annual maintenance contract of S-400 Long Range Air Defence Missile System		BEL, BDL
	03-Jul-25		Tri-services Armoured Recovery Vehicles, Electronic Warfare System, Integrated Common Inventory Management System for the Tri-Services and Surface-to-Air Missiles.
Moored Mines, Mine Counter Measure Vessels, Super Rapid Gun Mount and Submersible Autonomous Vessels.		BDL, Apollo Microsystems, GSL, BEL, BHEL, L&T, Sagar Defence, Krishna Defence	

Source: PIB, Industry, MOFSL

Near-to-long term pipeline strong for defense players

Exhibit 8: Strong prospect pipeline for Indian defense players across platforms

Companies	Management Comments
BEL	❖ BHE’s prospect pipeline remains strong across both near-term base orders and large strategic programs. Key near-term opportunities include LCA Mk-1A orders (INR24b), Shatrughat EW (INR30b), NGC (INR20-30b in FY26, balance INR100b-120b by 1HFY27), and a few additional large programs of ~INR20b, providing strong support to FY26 order inflows.
Hindustan Aeronautics	❖ Order pipeline remains strong, supported by an order book of ~INR2.3t and recent DAC approvals worth INR3.6t, including Air-Ship Based High-Altitude Pseudo Satellite (AS-HAPS). Execution on Tejas Mk1A is progressing, with five aircraft ready following receipt of F404 engines and GE committing 24 engines in FY27. Recent orders such as the INR23b Dornier-228 contract and INR18b Dhruv-NG deal further add to manufacturing visibility.
BDL	❖ BDL has a strong order pipeline of ~INR500b for the next five years. The company is targeting ~INR200b worth of orders to come in within the next 18 months, of which ~INR40b-50b is expected in 4QFY26. User evaluation trials for several systems where BDL can be a key participant have either been completed or are in the final stages.
Astra Microwave	❖ Order pipeline remains strong across defense, space and weather segments, supported by a sizeable addressable opportunity of ~INR250b over the next 4-5 years. In defense, the company is well positioned to secure orders for platforms such as QRSAM and other EW programs from DPSUs and DRDO. In space, it expects repeat orders for satellite payload electronics, while in meteorology, opportunities under Mission Mausam and IMD tenders provide multi-year visibility.
Zen Technologies	❖ Ordering improved in 3Q, with the order book at INR14.3b as of Jan’26. Of this, INR11b is equipment, largely executable over the next ~18 months, while the balance is AMC. The expected simulator order could take the book to ~INR20b in the near term, and it may need to scale to INR25-30b by end-FY27 to support the INR40B execution plan.
Garden Reach	❖ GRSE has a strong prospect pipeline of ~INR2.5t over the next 12-18 months, of which ~INR1.6t is from its defense business. It was already declared as L1 for Next-gen corvette order for 5 ships amounting to INR330b. Additionally, the company anticipates several major government announcements, including 1) Project-17 Bravo for 7 ships worth ~INR700b to be split between two bidders, 2) landing platform dock worth INR350b, and 3) mine counter-measure vessel worth INR320b to be split between 2 vendors (L1 to get 8 vessels, and L2 to get 4 vessels).
Solar Industries	❖ Demand remained steady in mining, though domestic growth was impacted by earlier monsoon disruptions, while international explosives demand stayed strong across key markets. Defense momentum improved significantly during the quarter, with an order book of ~INR180b and Pinaka supplies expected to contribute from 4QFY26 onward.

Source: Company, MOFSL

Potential exports from India and strategies to increase exports share

In 2025, India ranked among the top 25 largest arms-exporting nations in the world. The growth in defense exports is primarily driven by the private sector, which contributes 60%, while DPSUs account for the remaining 40%. Major defense export destinations for India are the US and France, mainly for sub-systems and electronics, and Armenia for full platforms like Akash missiles, Pinaka rockets, and 155mm artillery guns. Indian defense players are deepening their engagement with friendly nations and widening overseas touchpoints to position indigenous platforms for future export bids. India’s defense exports reached INR236b in FY25 and the defense minister expects them to reach INR290b in FY26 and nearly double to INR500b by FY30.

Exhibit 9: Export target of individual companies over the long term and strategies to achieve them

Category	Sub-category	Platforms
Aeronautical System	Aircraft	❖ Light Combat Aircraft (Tejas)
		❖ Advanced Light Helicopter (Dhruv)
		❖ Light Combat Helicopter (Prachand)
		❖ Multi-Purpose Light Transport Aircraft
		❖ Multi-Mission Single-Engine Light Utility Helicopter
Land Systems	Missile Systems	❖ Short Range Surface to Air Missile System (Akash Weapon System)
		❖ Supersonic Cruise Missile System (BrahMos Weapon System)
		❖ Air-to-Air Missiles
		❖ Anti-Tank Guided Missiles
	Tanks and Armored Vehicles	❖ Main Battle Tank (MBT)
		❖ Wheeled Armored Platform 8x8 (WhAP)
		❖ Armored Engineer Reconnaissance Vehicle (AERV)
		❖ Bridge Layer Tank (BLT)
		❖ Remotely Operated Vehicle (ROV)
		❖ 155M/52 Cal Tracked Self-Propelled Gun K9 Vajra-T
	Artillery, Munitions	❖ Multi-Barrel Rockets and Launcher System (Pinaka)
		❖ Advanced Towed Artillery Gun System
		❖ Under Barrel Grenade Launcher
Naval Systems	Ships and Boats	❖ Offshore Patrol Vessel (OPV)
		❖ High Speed Patrol Boat
		❖ Fast Interceptor Boats
		❖ Inshore Patrol Vessel (IPV)
		❖ Missile Boat
		❖ Corvettes
		❖ Lightweight Torpedo
		❖ Heavy Weight Torpedo
	Torpedo	❖ Torpedo Launchers
		❖ Air-Search Radar
	Sensors	❖ Artillery Locating Radar
		❖ Maritime Patrol Aircraft Radar
		❖ Weapon Locating Radar
Miscellaneous	❖ Coastal Radar System	
	❖ Personal Protective Equipment- Bullet Proof Jacket (BPJ), helmets, and other protective gear	
	❖ Brass Cartridge Cases, Tubes, Cups, and Strips	
	❖ Fuses and Empty Shells	
	❖ Brake Parachutes for Aircraft	
	❖ High-performance titanium, super alloys, and armor materials	
	❖ High-strength steel and tool steels	
	❖ Encryption solution	
❖ AI-enabled voice analysis software (AIVAS)		

Source: SIDM, MOFSL

Exhibit 10: As per management commentaries, margins to sustain or improve year-on-year

Companies	Management Comments
BEL	❖ Exports remain a focus area, with the company aiming to increase contribution from the current 3-4% to ~5% in the near term and ~10% over the long term. Near-term opportunities include satellite communication systems, TR modules (including repeat orders from France), data link projects and coastal surveillance systems, with some expected to convert in 4Q.
BDL	❖ BDL's export share has historically stayed below 10% of total revenue. The company has now outlined a strategy to raise this share to 25% by FY29-30 by deepening ties with friendly nations and countries facing geopolitical challenges. Akash-NG user trials were also completed in Jan'26 which has seen a lot of interest in export markets too.
Astra Microwave	❖ Export contribution has moderated sequentially due to the company's strategic shift away from low-margin BTP contracts toward higher-margin, design-led BTS opportunities. Management highlighted renewed traction in export discussions, particularly with European players following recent trade developments, though conversions may take time given long qualification cycles. The company is targeting ~INR1-1.25b of export order inflows in FY27.
Zen Technologies	❖ Export ordering is gaining traction across the Middle East, Africa, Southeast Asia and South America. Opportunities under pursuit range between INR1-8b, and exports could contribute 20-30% of revenues by FY28. While US orders may take longer due to regulatory processes, the EU is emerging as a promising near-term market.
Garden Reach	❖ GRSE's overall order book stands at ~INR185b, of which exports account for ~8%, largely driven by private overseas clients such as a German customer. Management stated that export contracts involve lengthy negotiations and relationship-building, with initial deals taking around six months due to extensive commercial discussions and alignment on terms. However, once the first contract is secured, subsequent orders tend to follow more quickly. They emphasized that these projects do not involve government approvals and are purely between the shipyard and the client, and that while export momentum has improved, near-term scaling is constrained by capacity limitations rather than demand.
Solar Industries	❖ The company continues to see healthy traction in its international business across Africa, Southeast Asia and Turkey, supported by strong demand for commodities such as gold and copper. Management noted that after several years of overseas capacity building and earlier turbulent phases, international operations are now shaping up well, with most geographies performing strongly. In defense, global ammunition shortages and a large international order book provide visibility for continued overseas orders.

Source: Company

Margins to improve as share of indigenous content increases

Exhibit 11: As per management commentaries, margins to sustain or improve year-on-year

Companies	Management Comments
BEL	❖ The company has maintained EBITDA margin guidance of 27% for FY26, with no material impact expected from commodity price increases given limited metal exposure, while semiconductor cost risks are largely mitigated through exchange rate variation clauses.
Hindustan Aeronautics	❖ The company expects to continue maintaining margins similar to last year levels
BDL	❖ Pressure on margins is expected to persist due to higher COGS for the medium term.
Astra Microwave	❖ Management expects margins to remain healthy, supported by an improved product mix and higher value-added programs as scale increases.
Zen Technologies	❖ Management expects consolidated PAT margins to sustain ~25% at a consolidated level over the long term.
Garden Reach	❖ GRSE expects LPD and MCMV orders to be slightly lower than current overall margin levels as these projects will be done in collaboration with other players, whereas P-17B is expected to have healthy margins, similar to P-17A. A majority of orders in the current order book are expected to be delivered by FY28; however, revenue accrual will continue beyond the delivery date, providing some cushion to margins beyond FY28 as well. If any large ship repair order comes in, the company expects margins to improve.
Solar Industries	❖ The company expects EBITDA margins to remain ~27-28%, in line with its earlier guidance.

Source: Company

Valuation and view

- **BHE** is currently trading at 46.9x/40.0x FY27E/FY28E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR520, based on the 45x two-year forward earnings.
- **HAL** is currently trading at 26.2x/21.2x FY27E/FY28E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR5,500, based on the average of DCF and 30x two-year forward earnings.
- **BDL** is currently trading at 42.5x/29.8x FY27E/FY28E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR1,800, based on the 42x two-year forward earnings.
- **AMPL** is currently trading at 42.6x/33.4x FY27E/FY28E EPS. **We maintain our estimates and reiterate our BUY rating on the stock** with an unchanged TP of INR1,150, based on the 38x two-year forward earnings.
- **ZEN** is currently trading at 39.1x/29.9x FY27E/FY28E EPS. **We maintain our estimates and reiterate our Neutral rating on the stock** with an unchanged TP of INR1,400, based on the 30x two-year forward earnings.

Exhibit 12: Relative valuations of domestic defense players

Companies	CMP	Mcap	EPS			P/E (X)			Growth CAGR (%)			ROE (%)		
	(INR)	(INR b)	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	Rev	EBITDA	PAT	FY26E	FY27E	FY28E
Bharat Electronics	458	3,343	8.2	9.8	11.4	55.6	46.9	40.0	18.2	17.4	16.5	24.0	22.8	21.7
Hindustan Aeronautics	3,989	2,668	136.5	152.4	188.4	29.2	26.2	21.2	22.4	16.6	14.7	22.0	21.0	21.6
Bharat Dynamics	1,336	490	22.3	31.4	44.9	60.0	42.5	29.8	34.7	55.0	44.1	17.7	20.9	24.0
Zen Technologies	1,443	130	20.6	36.9	48.2	69.9	39.1	29.9	13.7	17.3	18.3	10.5	16.3	18.0
Astra Microwave	1,008	96	16.4	23.7	30.2	61.5	42.6	33.4	17.9	18.6	22.8	13.1	16.3	17.6
Data Patterns	3,535	196	49.8	67.6	85.4	71.0	52.3	41.4	28.8	29.1	29.2	16.9	19.2	20.0
MTAR	3,633	111	33.8	62.9	97.0	107.5	57.8	37.4	40.0	55.1	78.0	13.3	20.9	25.4
Solar Industries	13,042	1,180	187.1	240.4	288.1	69.7	54.3	45.3	27.0	28.5	29.6	32.5	30.9	28.5
PTC Industries	17,948	269	64.7	166.9	447.2	277.4	107.5	40.1	98.0	132.2	123.6	6.8	18.2	33.4
Azad Engineering	1,541	99	19.6	26.8	36.8	78.6	57.4	41.8	33.8	33.5	38.5	NA	NA	NA
Mazagon Dock Shipbuilding	2,521	1,017	68.6	83.6	89.9	36.8	30.2	28.1	12.7	17.2	14.8	30.4	29.7	26.1
Garden Reach	2,480	284	63.8	85.4	91.2	38.9	29.0	27.2	21.2	33.9	25.5	29.6	30.5	26.7
Cochin Shipyard	1,563	411	27.5	36.2	43.8	56.8	43.2	35.7	13.4	15.5	11.7	12.1	14.4	15.5

Source: Company, Bloomberg, MOFSL

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Nainesh Rajani
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Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com
Mr. Neeraj Agarwal	022 40548085	na@motilaloswal.com
Mr. Siddhartha Khemka	022 50362452	po.research@motilaloswal.com

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