

**Hindustan Aeronautics Limited**  
**IPO Note**  
**(SUBSCRIBE)**

**Analyst:**  
Rohit Rai

**15 March 2018**

# IPO details

## Key Data

Issue Opens	16-Mar-18
Issue Closes	20-Mar-18
Equity Shares Offered (in mn.)	34.11
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (Rs.)	10
Price Band (Rs.)	1215-1240
Max. Issue Size (Rs. mn)	42,293
Lot Size (Eq. Shares)	12 and multiple thereof

Valuation	@ Rs. 1215 per share	@ Rs.1240 per share
Market Cap (₹ mn)	406,281	414,641
Net Debt (₹ mn)	0	0
Enterprise Value (₹ mn)	406,281	414,641
EV/ Sales	2.2	2.2
EV/ EBIDTA	15.3	15.7
P/B	3.2	3.3
P/E	17.0	17.0

Source: Red Herring Prospectus, Dealmoney Research

	Pre Issue		Post Issue <sup>^</sup>	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	334.4	100.0%	300.3	89.8%
Public	0.0	0.0%	0.0	0.0%
Offer for sale			34.1	10.2%
Total	334.4	100.00%	334.4	100.0%

## Object of the issue

- To carry out the disinvestment of 36,150,000 Equity Shares by the Selling Shareholder (President of India) constituting 10% of the Company's pre-Offer paid up Equity Share capital the Company.
- To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

## Recommendation

HAL is a Niche player in Aerospace center which manufactures and indigenously develops Aircraft, Helicopters, Aircraft engines it is the largest player in Indian Defense sector. It is also planning to foray into civil aviation and ramp up its export business. With government's MAKE IN INDIA initiative and ramp up in defense budget along with robust order book of ₹684,610 million.

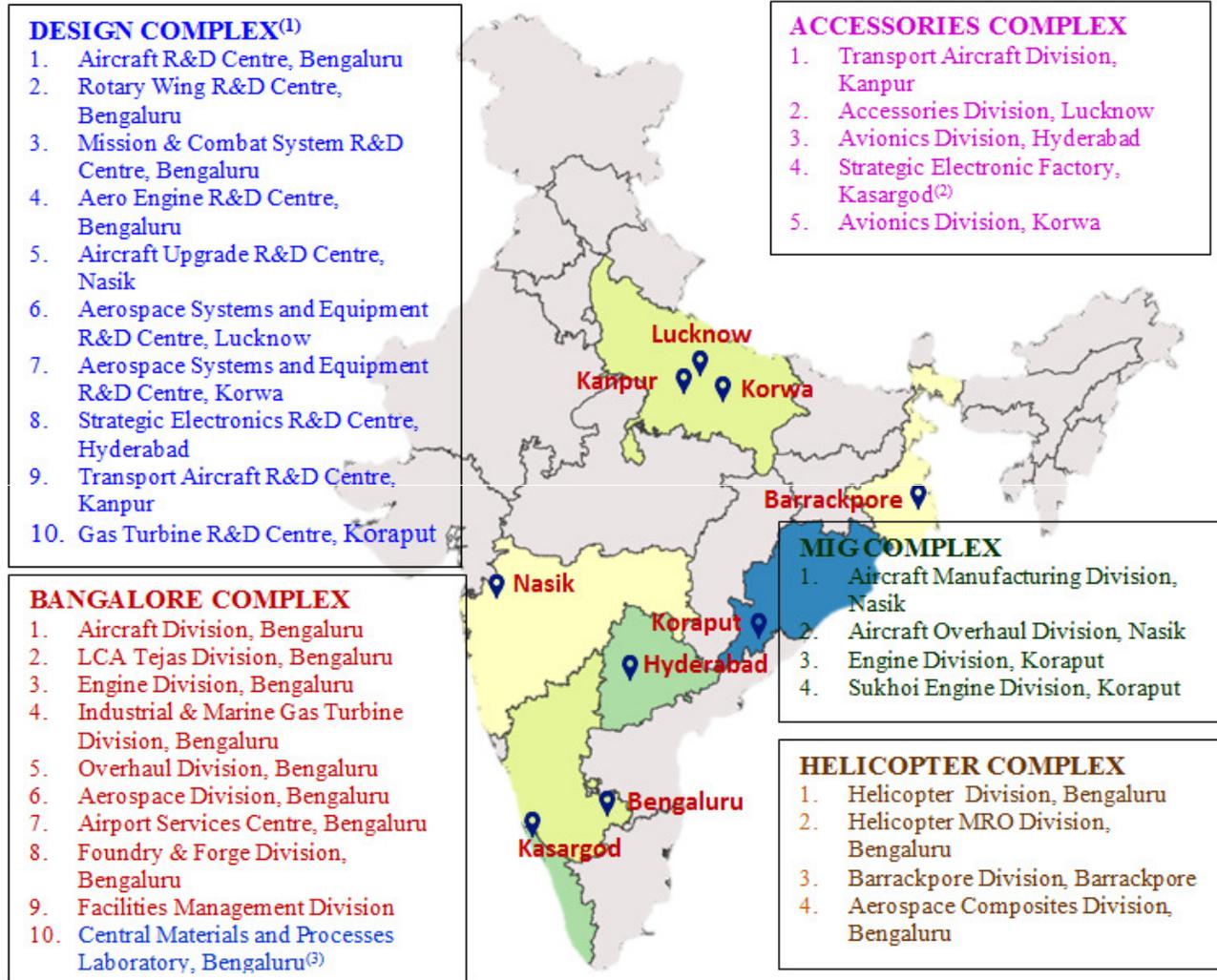
On valuation front, at upper issue price P/E works out to be 17x of FY17 earnings. We expect the company to continue its growth trajectory given its robust order book growth for the future, growth in the defense sector and a healthy dividend payout for the last 40 years and is mandated to pay 30% yearly dividend. Therefore we recommend **SUBSCRIBE** over the issue for Medium to Long term.

## Most Valued Defense company in India

- ❑ Hindustan Aeronautics Limited (HAL) was incorporated on August 16, 1963 as Aeronautics India Limited, Subsequently, Hindustan Aircraft Limited, a company incorporated on December 23, 1940 was merged with HAL. The name was changed to Hindustan Aeronautics Limited on December 5, 1964 with effect from October 1, 1964.
- ❑ HAL is conferred with the "Navratna" status by the Gol in June 2007 and is the largest DPSU in terms of value of production according to the MoD Annual Report 2016-2017. It is the 39th largest aerospace company in the world in terms of revenue (in USD million) in 2016 according to Flight International.
- ❑ HAL is engaged in the design, development, manufacture, repair, overhaul, upgrade and servicing of a wide range of products including, aircraft, helicopters, aero-engines, avionics, accessories and aerospace structures.
- ❑ HAL's operations are organised into five complexes, namely the Bangalore Complex, MiG Complex, Helicopter Complex, Accessories Complex, and Design Complex, which together include 20 production divisions and 11 research and design centres ("R&D Centres") located across India.
- ❑ HAL has sustained track record of profitability and have paid dividends to stakeholders every year for over four decades. As of July 31, 2017, its order book was ₹ 684,610 million, which generally includes products and services to be manufactured and delivered and excludes anticipated revenues from its joint ventures and subsidiaries.
- ❑ In addition to sales to the Indian Defence Services, which accounted for 93.3%, 94.2% and 92.6% of its total sales from sales to the Indian Defence Services in the Financial Years 2017, 2016 and 2015, respectively, it also sells products and provide services to state governments, para-military forces and corporates.
- ❑ In addition, during the Financial Year 2017, it exported its products and services, primarily spares, to more than 13 countries. During the Financial Years 2017 and 2016, exports of products and services accounted for 2.6% and 2.7%, of its revenue from operations (net of excise duty) respectively.
- ❑ As of December 31, 2017, HAL owned 2 Trademarks, 7 Patents, 11 Design Registrations and 77 Copyrights.

Source: Red Herring Prospectus, Dealmoney research

# Manufacturing locations and R&D Centers across India



# Strengths

- ❑ **Long credible history of research, design and development, manufacturing and maintenance, repair and overhaul ("MRO") services:** Over the years, HAL has showcased its research, design and development capabilities with the successful development of military aircraft and helicopters such as the Ajeet, Marut, HPT-32, Kiran and Advanced Light Helicopter. Indigenous aircraft and helicopters along with aircraft such as the MiG 21FL/M/BIS, MiG-27, Avro, Jaguar, Dornier 228, Su-30 MkI, Hawk Mk 132 aircraft and helicopters such as the Cheetah and Chetak helicopters were manufactured by HAL. It has also upgraded several aircrafts including the MiG-21 BIS, MiG-27 Upgrade and Jaguar in order to enhance their combat capabilities and performance.
- ❑ **Established track record in offering product life cycle support extending to periods beyond four decades:** In order to provide support for the duration beyond four decades, it has worked towards mitigating obsolescence issues by indigenising equipment or by stockpiling inventories or by finding alternate vendors for equipment for which OEMs have ceased production. Over time, many of the aircraft and helicopters have been upgraded and/or modified to meet the enhanced combat capability and operational performance requirements of its customers and to extend their usable life mitigating to make them a contemporary and effective platform.
- ❑ **Strong design and development capabilities:** HAL has 11 dedicated R&D Centers. Its R&D Centres are capable of developing a wide range of products, upgrading products with combat operational capability and operational performance and maintaining a pipeline of products to meet its future needs. Its design capabilities provides it with a significant competitive advantage in the Indian aeronautical industry. In the Financial Years 2017, 2016 and 2015, its research, design and development expenses were ₹12,837 million, ₹11,912 million and ₹10,424 million, respectively, which accounted for 6.9 %, 6.9% and 6.7%, respectively, of its revenue from operations during such periods.
- ❑ **Leadership position in the Indian aeronautical industry and strong Gol support:** HAL is largest DPSU in terms of value of production in the Indian defence sector according to the MoD Annual Report 2016-2017. It has a leadership position in the Indian aeronautical industry as a result of its long-standing relationships, particularly with the Indian Defence Services and the DRDO as well as with various academic institutions and regulatory agencies.

Source: Red Herring Prospectus, Dealmoney research

# Strengths

- ❑ **Diversified product portfolio:** Developed a range of product offerings in order to address the varied requirements of its customers. Its products portfolio includes fighter aircraft, trainer aircraft, transport aircraft, military helicopter and civil helicopters and their engines, avionics and accessories. Which are both indigenously designed or manufactured under licence.
- ❑ It has also indigenously designed and developed a mini UAV of the eight kilogram class to meet the emerging requirements of its customers, and intend to subsequently enter into the market of larger UAVs with the Rustom-II medium-altitude, long-endurance UAV which it is jointly developing with the Aeronautical Development Establishment. It has begun the development of other new products including the Indian Multi Role Helicopter ("IMRH") and commenced new business initiatives including its entry into the civil transport aircraft segment with the civil variant of the Dornier 228 aircraft. Furthermore, it began manufacturing industrial marine gas turbines in order to further diversify the range of its product offerings.
- ❑ **Strong financial track record:** HAL has a strong financial track record. Its revenue from operations grew from ₹156,480 million in the Financial Year 2015 to ₹185,549 million in the Financial Year 2017, representing a CAGR of 8.9%. As of March 31, 2017, it has cash and cash equivalents of ₹ 111,533 million, compared to ₹ 133,034 million and ₹ 176,714 million as of March 31, 2016 and 2015, respectively. It does not have any long-term indebtedness. Its net worth was ₹ 148,439 million, ₹ 110,324 million and ₹125,591 million as of March 31, 2015, 2016 and 2017, respectively.
- ❑ As of July 31, 2017, its **order book was ₹633,330 million**, which generally includes products and services to be manufactured and delivered and excludes anticipated revenues from incomplete portions of existing contracts undertaken by its joint ventures.

Source: Red Herring Prospectus, Dealmoney research

## Future road ahead

- ❑ **Expand its operations through partnerships or collaboration:** Its strategy to provide a broad range of products requires a wide array of technologies and capabilities. Therefore, in addition to organic growth through its research, design and development efforts, on alliances to gain access to new technologies. It also co-develop products with its partners in order to improve the sharing of know-how and reduce the risks and time involved in developing new products, such as the Fifth Generation Fighter Aircraft (FGFA).
- ❑ **Diversify through expansion in new growth areas:** It has conducted an analysis of its product portfolio and identified opportunities in its product portfolio which are expected to grow in the future to become a potential revenue lines for its Company. These include opportunities in the indigenous aircraft and helicopter aero-engine, helicopter for military and civil roles, UAVs and civil transport aircraft sectors.
- ❑ **Diversify further into the civil aircraft segment for both manufacturing and servicing opportunities:** In order to reduce its dependence on defence products, it aimsto increase the contribution of other business segments in future years, such as from the civil aircraft and helicopter segments. As a result it has commenced the manufacturing of the civil variant of the Dornier 228 aircraft and have obtained the production organisation approval from the DGCA.
- ❑ **Develop in-house capabilities to design and develop specialised products including aero-engines:** It continuously seek to design, develop and deliver new products to meet its customers' evolving needs while also upgrading its existing product line. It is currently pursuing (i) the design, development and production of the Light Combat Helicopter ("LCH"), Light Utility Helicopter ("LUH"), the Intermediate Jet Trainer ("IJT"), the HTT-40 basic trainer aircraft and a mini UAV, (ii) additional opportunities in the military business through co-development programme such as the Fifth Generation Fighter Aircraft and (iii) research, design and development of the HTFE-25 and HTSE-1200 engines.
- ❑ **Leverage Existing Cost Advantage:** All of its manufacturing and research facilities are located in India which provides it with a cost advantage. Further, it will continue to focus on reducing its operating costs to ensure that it continues to improve its operating margins. It plans to explore and use the most efficient sources of production, whether through its own manufacturing facilities or through third-party manufacturers who are identified and trained by it in order to maintain product quality.
- ❑ **Developing Human Capital:** It intends to continue to focus on the development of knowledge, skills and capabilities of its manpower in order to enhance its human capital.

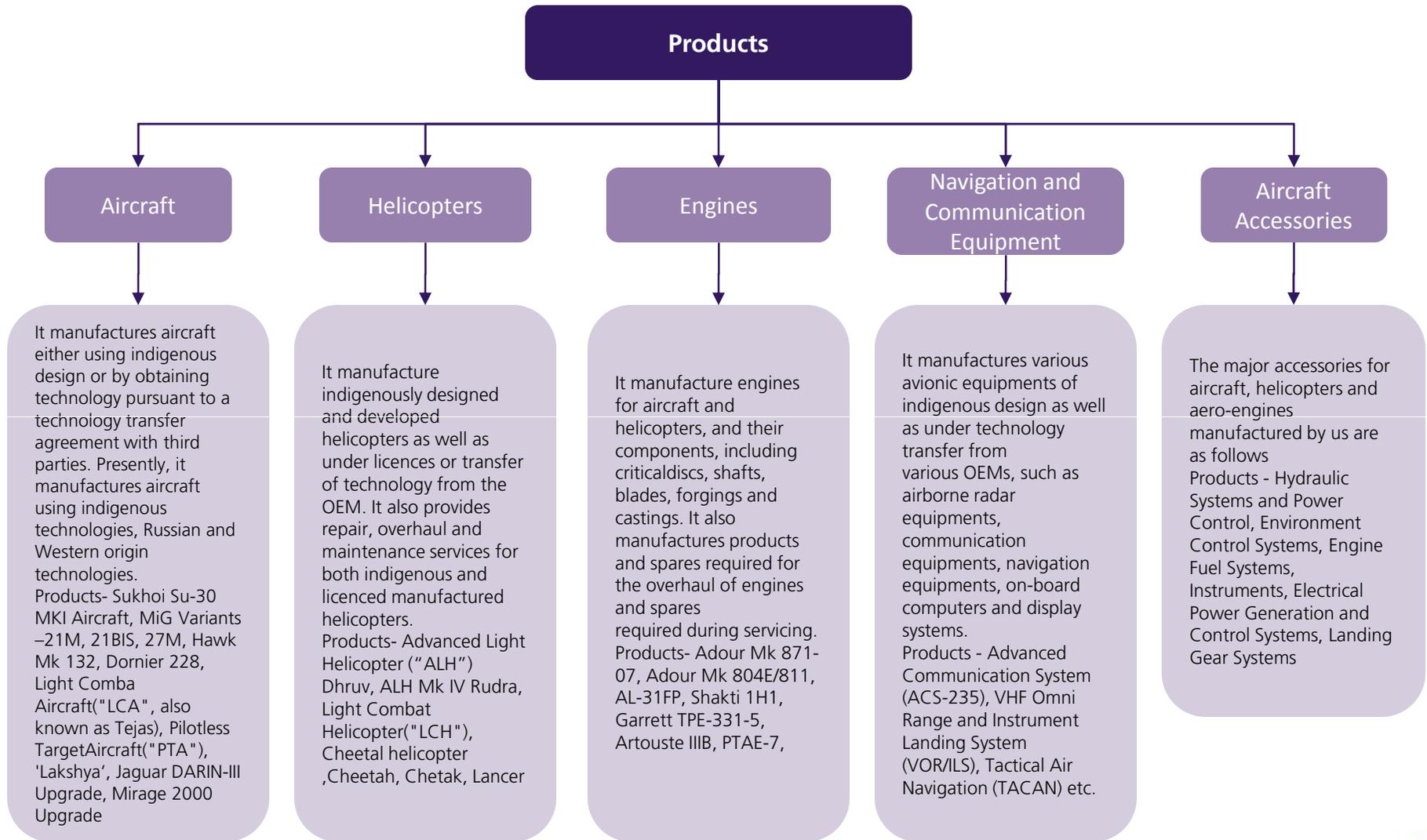
Source: Red Herring Prospectus, Dealmoney research

## Future road ahead

- ❑ **Enhancing customer satisfaction:** In order to realise its strategy to enhance customer satisfaction, it intends to continue to focus on improving its customers' fleet serviceability. It also intend to assist its customers to realise "Zero AOG" (or aircraft operationally grounded) by providing solutions that would help their logistical and other operations. For instance, it has proposed to supply spares on an off-the-shelf basis for one of its products..
- ❑ **Optimising operations towards becoming a lead integrator of aircraft platforms:** It has revised its existing outsourcing procedures and had also framed a new outsourcing policy with a view to becoming a lead integrator of aircraft platforms. Its primary objective is to create a strong and vibrant manufacturing ecosystem within the defence and aerospace sector in India by way of vendor development and through building long term partnership and strategic alliance with potential vendors.
- ❑ In order to achieve this goal, it has devised a tiered outsourcing structure to achieve higher levels of outsourcing, with the aim of developing Tier-II suppliers and, gradually, Tier-I suppliers over a period of time while retaining its core competency as a lead integrator.

Source: Red Herring Prospectus, Dealmoney research

# Products offered



Source: Red Herring Prospectus

# Products offered

*Sukhoi Su-30 MKI*



*MiG*



*Hawk Mk 132*



*Mirage 2000*



Light Combat Aircraft (Tejas)



*Jaguar DARIN-III*



*ALH Dhruv*



*Light Combat Helicopter*

*ALH Mk IV Rudra*



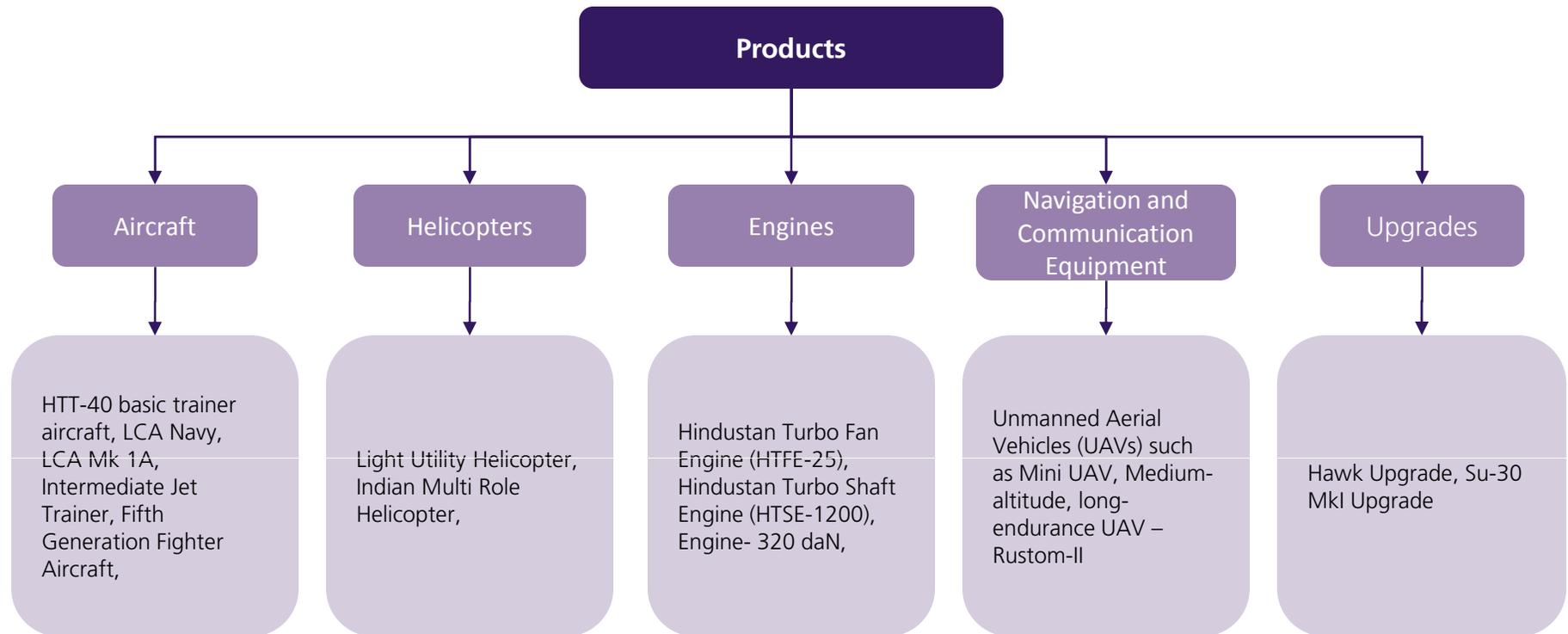
*Cheetal*



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# Products Under Development



Source: Red Herring Prospectus

# Products Under Development

*HTT-40 basic trainer aircraft*



*LCA Navy*



*LCA Mk 1A*



*Intermediate Jet Trainer*



*Fifth Generation Fighter Aircraft*



Source: Red Herring Prospectus

# Products Under Development

*Light Utility Helicopter*



*Indian Multi Role Helicopter*



*Hindustan Turbo Fan Engine (HTFE-25)*



*Hindustan Turbo Shaft Engine (HTSE-1200)*



Source: Red Herring Prospectus

# Products Under Development

*Mini UAV*



*Medium-altitude, long-endurance UAV – Rustom-II*



*Hawk Upgrade*



*Su-30 Mki Upgrade*



Source: Red Herring Prospectus

# Consolidated Summary Financials

## Income Statement

₹ mn	Sept'FY18	FY17	FY16	FY15
Total Income	52,770	185,549	171,586	156,480
Operating Expense	49,979	159,068	150,266	152,746
<b>EBIDTA</b>	<b>2,791</b>	<b>26,481</b>	<b>21,320</b>	<b>3,734</b>
Depreciation	2,575	7,129	8,628	8,832
Other Income	3,889	10,420	15,962	17,140
Finance Costs	12	102	-	83
<b>PBT</b>	<b>4,093</b>	<b>29,670</b>	<b>28,654</b>	<b>11,959</b>
Add / Deduct: Expenses relating to Capital and Other Accounts	(1,990)	(6,080)	(3,360)	(4,775)
<b>Profit before exceptional items and tax</b>	<b>6,083</b>	<b>35,750</b>	<b>32,014</b>	<b>16,734</b>
Share of Profit / (Loss) of Joint Ventures accounted using Equity Method	13	167	119	(7)
<b>Profit before tax</b>	<b>6,096</b>	<b>35,917</b>	<b>32,133</b>	<b>16,727</b>
Total Tax expense	2,186	9,670	12,090	6,786
<b>Profit for the year</b>	<b>3,910</b>	<b>26,247</b>	<b>20,043</b>	<b>9,941</b>

₹ mn	Sept'FY18	FY17	FY16	FY15
EBIDTA Margin	4.9%	13.5%	11.4%	2.2%
Net Margin	6.9%	13.4%	10.7%	5.7%
ROE	3.0%	20.9%	18.2%	6.7%
ROCE	1.5%	11.5%	12.0%	4.5%

## Balance Sheet

₹ mn	Sept'FY18	FY17	FY16	FY15
<b>Liabilities</b>				
Share capital	3,615	3,615	3,615	4,820
Reserves and surplus	125,821	121,976	106,709	143,619
Borrowings	-	-	-	-
Trade payables	1,926	1,926	-	34
Other financial liabilities	3,692	3,716	3,973	3,732
Provisions	19,208	20,298	24,825	25,728
Deferred tax liabilities (Net)	9,601	9,599	8,148	6,608
Other non-current liabilities	108,356	98,472	91,546	87,513
<b>Current Liabilities</b>				
Short term Borrowings	-	9,500	-	-
Trade payables	18,980	16,047	21,512	22,676
Other financial liabilities	9,279	10,976	9,769	11,170
Other current liabilities	207,341	190,614	267,874	293,585
Provisions	30,612	28,784	26,376	24,718
Current Tax Liabilities (Net)	-	-	972	-
<b>Total Liabilities</b>	<b>538,431</b>	<b>515,523</b>	<b>565,319</b>	<b>624,203</b>
<b>Assets</b>				
Net Block	60,022	58,398	54,444	50,359
Intangible assets	13,927	14,136	14,808	16,370
Capital work in progress	5,358	6,211	3,754	2,270
Intangible Assets under Development	9,474	8,663	6,500	4,411
Investments -Joint Ventures/ Subsidiaries	2,044	2,046	1,901	1,949
Investments-Others	8,144	7,894	7,257	5,699
Trade receivables	102	102	-	155
Loans	569	589	520	523
Others	3,632	3,675	4,014	3,733
Other Non-Current Assets	15,080	12,107	14,862	13,566
Inventories	221,844	213,213	239,817	249,528
Trade receivables	42,549	42,103	48,369	60,354
Cash and cash equivalents	116,992	111,533	133,034	176,714
(v) Loans	1,065	987	981	1,760
(vi) Others	24,741	25,816	22,088	19,868
(c) Current Tax Assets (Net)	2,843	1,149	-	1,004
(d) Other current assets	10,045	6,901	12,970	15,940
<b>Total Assets</b>	<b>538,431</b>	<b>515,523</b>	<b>565,319</b>	<b>624,203</b>

Source: Red Herring Prospectus, Dealmoney research

## Key Risks

- ❑ It depends heavily on MoD contracts. A decline or reprioritisation of funding in the Indian defence budget, that of customers including the Indian Army, Indian Air Force and Indian Navy (the "Indian Defence Services"), Indian Coast Guard, Border Security Force, Central Reserve Police Force and Paramilitary forces or delays in the budget process could adversely affect its ability to grow or maintain its sales, earnings, and cash flow.
- ❑ As a result of national securities concerns, certain information in relation to its business and operations is classified as 'secret and confidential' pursuant to which it has not disclosed such information in this RHP nor provided such information to the BRLMs and other intermediaries and advisors involved in the Offer.
- ❑ The MoD contracts are not always fully funded at inception and are subject to termination. Its inability to fund such contracts at the time of inception or any termination could have a material adverse effect on its financial condition and results of operations.
- ❑ Company is not in compliance with certain provisions of the Companies Act and/or SEBI Listing Regulations in relation to terms of reference of the Audit Committee and the Nomination and Remuneration Committee.
- ❑ Ongoing disclosure of information in relation to its Company after the listing of the Equity Shares on the Stock Exchanges may be limited and may not be in compliance with the SEBI Listing Regulations and other applicable laws.
- ❑ The MoD contracts contain provisions giving the Indian Defence Services a variety of rights that are unfavourable to it.

Source: Red Herring Prospectus, Dealmoney research

# Dealmoney Securities Private Limited

Plot No. A356/357, Road No.26,Wagle Industrial Estate, Thane (West), Maharashtra - 400 604.

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