

**ISSUE DETAIL :**

Type	100% Book Building
Issue Size	Rs. 4,482.60 Crore
Offer Price	*Rs (1215 - 1240 ) / Share
Min App Size	12 Shares
Issue Open	16-Mar-18
Issue Close	20-Mar-18
Shares Offer	Cr.
Face Value	Rs 10
Lead Mgrs	Axis Capital Limited , SBI Capital Markets Limited
Listing	BSE, NSE
Registrar	Karvy Computershare Pvt Ltd
Market Cap (Post Issue)	41464.1

**No of shares ( Post & Pre Issue)**

Noof Shares(Pre Issue)	3343,87,500
Offer for Sale	361,50,000
Employee Reservation	6,68,775
Fresh Issue made	
No of Shares(Post Issue)	3343,87,500

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**COMPANY OVERVIEW:**

Hindustan Aeronautics Limited (HAL) is Bengaluru based Defence Public Sector Undertakings (DPSU) company 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 is 'Navratna' company since June 2007 and the largest DPSU. HAL is the 39th largest aerospace company in the world in terms of revenue. Company has 20 production divisions and 11 R&D centres located across India. Indian Defense Services is the main customer of HAL and account for over 93% of sales. HAL also sell its products and provide services to state governments, para-military forces and corporate. The 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 across India. Company rely on indigenous research as well as enter into technology transfer and licence agreements to manufacture products. Company entered into 13 commercial joint ventures to grow operations.

**HAL Manufacturing Units and R&D Centres**

**DESIGN COMPLEX<sup>(1)</sup>**

1. Aircraft R&D Centre, Bengaluru
2. Rotary Wing R&D Centre, Bengaluru
3. Mission & Combat System R&D Centre, Bengaluru
4. Aero Engine R&D Centre, Bengaluru
5. Aircraft Upgrade R&D Centre, Nasik
6. Aerospace Systems and Equipment R&D Centre, Lucknow
7. Aerospace Systems and Equipment R&D Centre, Korwa
8. Strategic Electronics R&D Centre, Hyderabad
9. Transport Aircraft R&D Centre, Kanpur
10. Gas Turbine R&D Centre, Koraput

**ACCESSORIES COMPLEX**

1. Transport Aircraft Division, Kanpur
2. Accessories Division, Lucknow
3. Avionics Division, Hyderabad
4. Strategic Electronic Factory, Kasargod<sup>(2)</sup>
5. Avionics Division, Korwa

**BANGALORE COMPLEX**

1. Aircraft Division, Bengaluru
2. LCA Tejas Division, Bengaluru
3. Engine Division, Bengaluru
4. Industrial & Marine Gas Turbine Division, Bengaluru
5. Overhaul Division, Bengaluru
6. Aerospace Division, Bengaluru
7. Airport Services Centre, Bengaluru
8. Foundry & Forge Division, Bengaluru
9. Facilities Management Division
10. Central Materials and Processes Laboratory, Bengaluru<sup>(3)</sup>

**MIG COMPLEX**

1. Aircraft Manufacturing Division, Nasik
2. Aircraft Overhaul Division, Nasik
3. Engine Division, Koraput
4. Sukhoi Engine Division, Koraput

**HELICOPTER COMPLEX**

1. Helicopter Division, Bengaluru
2. Helicopter MRO Division, Bengaluru
3. Barrackpore Division, Barrackpore
4. Aerospace Composites Division, Bengaluru

**RECOMMENDATION :**

92% of the company's revenues are derived from defense sector. The Order book stands at ~68500Cr as on Dec 2017 which provides 3.5 years revenue visibility. Margins are respectably above 11%. The company is debt-free, asset light and the working capital requirements are also well managed. The company is being offered at 2.8times FY18E P/B on RoE of 21%. HAL is offering a discount of Rs. 25 per share to retail investors and eligible employees. We recommend SUBSCRIBE

**Industry Outlook :**

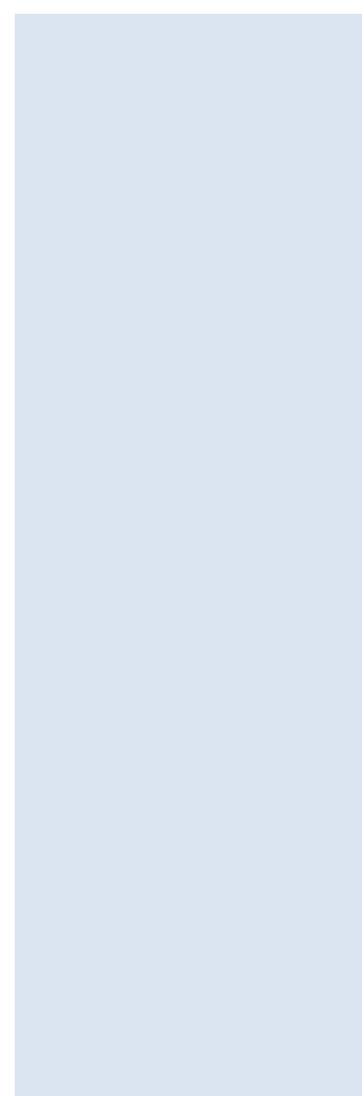
The Indian Aerospace Industry is witnessing an unprecedented growth . Civil aviation sector in India has recorded annual growth of over 41% in passenger traffic during in the last two years. India is also one of the largest importers of conventional defence equipment and spends approximately 30% of its total defence budget on capital acquisitions. 60% of Indian’s defence-related requirements are currently met through imports . In fact, it has contributed significantly to the growth of international civil aviation sector. The rapid growth of civil aviation has put extreme pressure on the existing civil aviation infrastructure . The thrust is now on modernization of airports, communications, navigation and surveillance systems for air traffic management, radars and facilities for Maintenance Repair and Overhaul of aircraft and sub systems.

**India Requirement for Aircraft & Helicopters**

Sl. No.	Platform
<b>A</b>	<b>Aircraft</b>
1	Light Transport Aircraft (AVRO replacement)
2	Transport Aircraft (An-32 replacement)
3	LCA Tejas
4	AMCA
5	FGFA*
6	Single Engine Fighter Aircraft*
7	Basic trainer aircraft*
<b>B</b>	<b>Helicopters</b>
7	VVIP Helicopter
8	Heavy Lift Helicopter
9	Attack Helicopter
10	Naval Utility Helicopter (NUH)
11	Multi Role Helicopter (MRH)
12	Light Combat Helicopter (LCH)
13	ALH Dhruv
14	Cheetal
15	LUH/Ka-226t
16	MALE UAV*
17	Mini UAV*
<b>C</b>	<b>Upgrade*</b>
18	Hawk Upgrade*
19	Su-30 MkI Upgrade*

**Company Strength**

- Long credible history of research, design and development, manufacturing and maintenance, repair services** : Company have showcased 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. Company provide maintenance, repair and overhaul services for engines of the MiG-29 aircrafts that the Indian Air Force procured from third parties.
- Strong design and development capabilities** : Company has directed development efforts towards innovative technologies designed to expand product portfolio, particularly for the defence sector. 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 future needs
- Leadership position in the Indian aeronautical industry and strong Gol support** : Company has a leadership position in the Indian aeronautical industry as a result of long-standing relationships, particularly with the Indian Defence Services and the DRDO as well as with various academic institutions and regulatory agencies. Company has cultivated a relationship of trust and reliability with customers, including the Gol and the Indian Defence Services.
- Diversified product portfolio** : Company has wide range of 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 . Company also provide comprehensive product servicing, overhaul and upgrade services to customers including life extensions, failure analysis, defect investigations and product improvements, which Company believe provides with a significant advantage over competitors
- Healthy Order Book Position** : HAL has an order book of Rs 68,461 crore as on 31st December 2017. This includes products and services to be manufactured and delivered . Major products forming part of HAL’s current order book include aircraft, helicopters, trainer aircraft, engines and aircraft upgrades. Additionally, HAL has received requests for proposal (RFP) in December 2017 for 83 LCA Mk1A aircraft (I 60,000 crore) and 15 LCH (I 4500 crore). Large opportunities coupled with strong capabilities are likely to augur well for the company, going forward.



**OBJECTS OF ISSUE:**

To carry out the disinvestment of 36,150,000 Equity Shares by the Selling Shareholder  
 To achieve the benefits of listing the Equity Shares on the Stock Exchanges.

**Products**

*Sukhoi Su-30 MKI Aircraft*



*MiG Variants*



MiG-21M



MiG-21BIS



*Dornier 228 Aircraft*



MiG-27M

*Hawk Mk 132 Aircraft*



*ALH Mk IV Rudra*

**COMPETITIVE RISKS**

- ☑ HAL depends heavily on MoD contracts. Company derived 91.4%, 93.3%, 94.2% and 92.6% of our total sales from sales to the Indian Defence Services in the six months period ended September 30, 2017 and in the Financial Years 2017, 2016 and 2015, respectively. Company expects to continue to derive most of our sales from work performed under the 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 ability to grow or maintain sales, earnings, and cash flow.
- ☑ HAL entered into a contract with the Ecuadorean Ministry of National Defence in August 2008 for the supply of seven ALH Dhruv Helicopters to the Ecuadorean Air Force. These seven helicopters were delivered in 2009 and 2011. Subsequent to the delivery of the helicopters, four were involved in accidents and the remaining three helicopters were grounded. Reports of the Ecuadorean Ministry of National Defence relating to these accidents were not shared with Company due to confidentiality issues. The revenue and exports may be adversely affected as a result.
- ☑ The defence industry is competitive . The current competitors in the aircraft and helicopter segments include Lockheed Martin, Saab, Airbus Helicopters, Bell Helicopters, Leonardo, Boeing, BAE Systems and UGMK . These competitors may be able to provide HAL customers, including the Indian Defence Services, with different or greater capability products having better technology, technical qualifications, or services like better post contract performance, price or the availability of key professional personnel. HAL's failure to compete effectively with respect to any of these could have an adverse effect on its business, prospects, financial condition or operating results.
- ☑ The major components of HAL's expenditure include raw materials such as metals and other materials, equipment and other components. In FY15, FY16 and FY17, HAL's material consumption costs constituted 53.1%, 51.9% and 52.3% of its total costs, respectively. In the event of a price rise or raw materials increase, HAL may be unable to pass this increase in existing fixed-price contracts, leading to adverse impact on its profitability.

## Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY15	FY16	FY17	H1FY18
Revenue from Operation	15,648	17,159	18,555	5,277
Change (%)		10%	8%	
Total Operating Expense	14,797	14,691	15,299	4,799
<b>EBITDA</b>	<b>851</b>	<b>2,468</b>	<b>3,256</b>	<b>478</b>
Change (%)		190%	32%	
<b>Margin (%)</b>	<b>5%</b>	<b>14%</b>	<b>18%</b>	<b>9%</b>
Dep & Amortization	883	863	713	258
<b>EBIT</b>	<b>(32)</b>	<b>1,605</b>	<b>2,543</b>	<b>221</b>
Interest & other finance cos	8	-	10	1
Other Income	1,714	1,596	1,042	389
Share of Profit JV	(1)	12	17	1
<b>EBT</b>	<b>1,673</b>	<b>3,213</b>	<b>3,592</b>	<b>610</b>
Tax	679	1,209	967	219
<b>Reported PAT</b>	<b>994</b>	<b>2,004</b>	<b>2,625</b>	<b>391</b>
Change (%)		102%	31%	
Margin(%)	6.4%	11.7%	14.1%	7.4%

Balance Sheet				
Rs in Crores				
Y/E March	FY15	FY16	FY17	H1FY18
Share Capital	482	362	362	362
Reserves	14,362	10,671	12,198	12,582
<b>Networth</b>	<b>14844</b>	<b>11032</b>	<b>12559</b>	<b>12944</b>
<b>Non Current Liabilities</b>				
Short term borrowing			950	
<b>Total Borrowing</b>	<b>-</b>	<b>-</b>	<b>950</b>	<b>-</b>
Trade payables	3	-	193	193
Deferred Tax Liabilities	661	815	960	960
Other non-current liabilities	9,125	9,552	10,219	11,205
Long-term provisions	2,573	2,483	2,030	1,921
<b>Current Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Trade Payables	2,268	2,151	1,605	1,898
Other current liabilities	30,476	27,764	20,159	21,662
Short-term provisions	2,472	2,638	2,878	3,061
<b>Total Liabilities</b>	<b>62,420</b>	<b>56,435</b>	<b>51,552</b>	<b>53,843</b>
Fixed Asset	441	650	866	947
Investments	765	916	994	1,019
Long-term loans and advan	441	453	437	430
Other non-current assets	1,357	1,486	1,211	1,508
<b>Non Current Assets</b>				
Inventories	24,953	23,982	21,321	22,184
Trade receivables	6035.4	4836.9	4210.3	4254.9
Cash and bank balances	17671	13303	11153	11699
Short-term loans and adva	2162.8	2306.9	2680.3	2580.6
Current Tax Assets	100.4	0.0	114.9	284.3
Other current assets	1594.0	1297.0	690.1	1004.5
<b>Total Asset</b>	<b>55,520</b>	<b>49,231</b>	<b>43,678</b>	<b>45,912</b>

Key Ratios			
Y/E March	FY15	FY16	FY17
EPS	29.74	59.96	78.51
Book Value Per share	444.03	330.01	375.68
<b>Valuation(x)</b>			
P/E ( Upper Band )	40.86	20.27	15.48
P/E ( Lower Band )	41.70	20.68	15.79
Price / Book Value	2.79	3.76	3.30
EV	23793	28161	31261
EV/Sales	1.52	1.64	1.68
EV/EBITDA	27.96	11.41	9.60
<b>Profitability Ratios</b>			
RoE	6.7%	18.2%	20.9%
RoCE	-0.22%	14.55%	20.25%
<b>Liquidity Ratios</b>			
Net Debt/Equity	0.00	0.00	0.08
Interest Coverage Ratio	-3.89		249.33
Current Ratio	1.24	1.29	1.36

Cash Flow Statement				
Rs in Crores				
Y/E March	FY15	FY16	FY17	H1FY18
Net Profit before tax	1,574	3,224	3,601	600
<b>Adjustments for:</b>				
Depreciation and Amortisation exp	883	863	713	258
Interest Income	8	-	10	1
Net (Gain)/Loss on Fair Value	-	-	8	1
Provision for Diminution value	-	15	1	-
<b>Operating Profit before Working</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Changes in working capital</b>				
Trade Receivables	741	1,272	616	(45)
Loans, Financial Assets and Othe	2,858	(5)	525	(506)
Inventories	(2,766)	971	2,660	(863)
Trade Payables	172	(120)	(354)	293
Financial Liabilities, Provisions	509	(2,208)	(7,148)	2,561
<b>Cash generated from operation:</b>	<b>3,980</b>	<b>4,011</b>	<b>634</b>	<b>2,301</b>
Tax Paid	1,065	861	1,037	384
<b>Net Cash in Operating Activities</b>	<b>2,915</b>	<b>3,150</b>	<b>(403)</b>	<b>1,917</b>
<b>Net Cash in Investing Activities</b>	<b>(11,100)</b>	<b>1,347</b>	<b>3,014</b>	<b>(536)</b>
<b>Net Cash in Financing Activities</b>	<b>(1,264)</b>	<b>(5,880)</b>	<b>(164)</b>	<b>(951)</b>
<b>Net Cash</b>	<b>(9,449)</b>	<b>(1,382)</b>	<b>2,447</b>	<b>430</b>
<b>Cash Beginning of Year</b>	<b>11,175</b>	<b>1,729</b>	<b>344</b>	<b>2,790</b>
<b>Cash End of Year</b>	<b>1,726</b>	<b>346</b>	<b>2,791</b>	<b>3,219</b>

# Narnolia

Advance Strategy · Simple Solutions

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