

### Company Overview

Incorporated in 1963, Hindustan Aeronautics Limited (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. It is a "NAVRATNA" company and largest Defense Public Sector Undertaking (DPSU) in terms of value of production and 39<sup>th</sup> largest aerospace company in the world in terms of revenue. Its operations are operated in five complexes, which includes 20 production divisions and 11 research and design centers (R&D centers) located across India. It relies on strong indigenous research, technology transfers and license agreements to deliver products and services that fulfill customer requirements. To achieve self reliance and become a significant global player in the aerospace industry, HAL has entered into 13 commercial joint ventures with several global companies. The order book of company stands at Rs. 633.3 billion, which includes products and services to be manufactured and delivered and excludes anticipated revenues from joint ventures and subsidiaries.

### Objects of the Issue:

The company is doing an OFS of 34.10 million equity shares under government of India's disinvestment program and being listed to get the benefits of listing.

### Investment Rationale

#### Leadership position in the Indian aeronautical industry

HAL is largest DPSU in terms of value of production in the defense sector and achieved leadership position in the Indian aeronautical industry as it has developed its capability to operate under entire value chain of the production right from design, development, manufacturing, maintenance, repair and overhaul of aviation products. Company's primary customers are the Indian Defense Forces, namely, the Indian Air Force, Indian Army, Indian Navy and Indian Coast Guard. Further, it delivers products and services to central and state governments, para-military forces and corporate. It plays a strategic role in India's defense program being the only Indian company having specialization in aircraft manufacturing and providing its Maintenance, Repair and Overhauling services (MRO). Company's competitive position is strong being government of India's (GoI) prime defense contractor and supported by defense outlays by GoI.

#### Diversified product portfolio

Presently, HAL manufactures a wide range of products for military and civil use, including fighter aircraft, trainer aircraft, transport aircraft, military helicopter and civil helicopters and their engines, avionics and accessories (such as special test equipment and ground handling equipment and ground support equipment), which are both indigenously designed or manufactured under license. Aircrafts presently manufactured includes Sukhoi Su-30 MKI, Dornier 228 and LCA Tejas, while helicopters includes Cheetal, LCH helicopters and different variants of the Dhruv helicopter. Under UAV segment, company has indigenously designed and developed a mini UAV of the eight kilogram class and intends to subsequently enter into the market of larger UAVs with the Rustom II medium-altitude, long-endurance UAV which are jointly developing with the Aeronautical Development Establishment. In order to augment and diversify the portfolio of products and services, company has began the development of other new products including the Indian Multi Role Helicopter ("IMRH") and commenced new business initiatives into the civil transport aircraft segment with the civil variant of the Dornier 228 aircraft. Furthermore, it also began manufacturing industrial marine gas turbines in order to further diversify the range of product offerings.

#### Strong financial track record

HAL has proven strong financial track record. The revenue from operations increased from Rs. 1,56,480 million in FY2015 to Rs. 1,85,549 million in FY2017, while PAT increased from Rs. 9,941 million in FY2015 to Rs. 26,247 million in FY2017, a growth of 7.10% CAGR and 62.50% CAGR respectively. The EBITDA margin increased from 5.4% in FY2015 to 18.1% in FY2017, while PAT margin increased from 6.4% in FY2015 to 14.6% in FY2017. It has continuously paid dividend to its shareholders with average dividend payout ratio of 25%. It also has strong balance sheet with zero long term debt and cash and cash equivalent of Rs. 111.5 billion for FY2017 which will help to make investments required to execute future growth plan.

#### Valuation and Outlook

HAL operates in a very niche market and offers one point solution from design, development, manufacture, repair, overhaul, upgrade and servicing of a wide range of products including, aircraft, helicopters, aero-engines, avionics, accessories and aerospace structures. It is a market leader with strong order book of Rs. 633.3 billion. It also has export potential for its diversified product portfolio to capture the rising demand. Owing to above factors, we believe company is fairly valued at the upper price band of Rs.1,240 at 15.80x to FY2017 EPS and hence, we recommend clients to **SUBSCRIBE** for long term.

### Issue details

Offer period	16th—20th March 2018
Price band	Rs. 1,215—Rs. 1,240
Bid lot	12
Listing	NSE & BSE
Issue size (Rs in mn)	42,293.3
Issue size (no. of share in mn)	34.10
Face value	10

### Issue Structure

QIB	50%
Retail	35%
HNI	15%
	Axis Capital Ltd.
BRLM	SBI Capital Markets Ltd.
Registrar	Karvy Computer-share Ltd

### Shareholding Pattern (%)

Particulars	Pre-Issue %	Post-Issue %
Promoter	100.0%	89.8%
Public	0.0%	10.2%
<b>Total</b>	<b>100.0%</b>	<b>100.0%</b>

(\*Assuming issue subscribed at higher band)

Research Team  
022-61596407



## Hindustan Aeronautics Limited

## Income Statement (Millions)

Particulars	FY15	FY16	FY17
<b>Revenue</b>			
Revenue from operations	156,475.0	167,585.0	179,515.0
<b>Total revenue</b>	<b>156,475.0</b>	<b>167,585.0</b>	<b>179,515.0</b>
<b>Expenses</b>			
Purchase of stock-in-trade			
Material consumed	88,836.0	91,756.0	86,949.0
Changes in inventory	(6,346.0)	(5,624.0)	5,111.0
Employee benefit expenses	32,805.0	32,743.0	35,704.0
Other expenses	32,671.0	24,030.0	19,190.0
Total Operating expenses	147,966.0	142,905.0	146,954.0
<b>EBITDA</b>	<b>8,509.0</b>	<b>24,680.0</b>	<b>32,561.0</b>
Depreciation and amortisation expense	8,832.0	8,628.0	7,129.0
Other income	17,140.0	15,962.0	10,420.0
<b>EBIT</b>	<b>16,817.0</b>	<b>32,014.0</b>	<b>35,852.0</b>
Finance costs	83.0	-	102.0
Exceptional Item	(7.0)	119.0	167.0
<b>PBT</b>	<b>16,727.0</b>	<b>32,133.0</b>	<b>35,917.0</b>
Current tax	8,545.0	8,459.0	8,218.0
Deferred Tax charge	(3,012.0)	1,540.0	1,452.0
MAT Credit Entitlement	1,253.0	2,091.0	
Total tax	6,786.0	12,090.0	9,670.0
<b>Profit for the Period/ Year</b>	<b>9,941.0</b>	<b>20,043.0</b>	<b>26,247.0</b>
<b>Diluted EPS</b>	<b>29.7</b>	<b>59.9</b>	<b>78.5</b>

Source: Company, BP Equities Research

## Cash Flow Statement (Millions)

Particulars	FY15	FY16	FY17
Cash Flow from operating activities	29,169	31,480	(4,046)
Cash flow from investing activities	(111,000)	13,471	30,144
Cash flow from financing activities	(12,637)	(58,797)	(1,643)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(94,468)</b>	<b>(13,846)</b>	<b>24,455</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>111,754</b>	<b>17,286</b>	<b>3,440</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>17,286</b>	<b>3,440</b>	<b>27,895</b>

Source: Company, BP Equities Research

## Hindustan Aeronautics Limited

### Balance Sheet (Millions)

Particulars	FY15	FY16	FY17
<b>Liabilities</b>			
Share Capital	4,820	3,615	3,615
Reserves and surplus	143,619	106,709	121,976
Minority Interest	-	-	-
<b>Net worth</b>	<b>148,439</b>	<b>110,324</b>	<b>125,591</b>
Long-Term Borrowings			
Deferred tax liabilities (Net)	6,608	8,148	9,599
Other long term liabilities	91,279	95,519	104,114
Long-Term Provisions	25,728	24,825	20,298
<b>Total liabilities</b>	<b>272,054</b>	<b>238,816</b>	<b>259,602</b>
<b>Assets</b>			
Tangible Assets	50,359	54,444	58,398
Capital work in Progress	2,270	3,754	6,211
Intangible Assets	20,781	21,308	22,799
Deferred tax Assets (Net)			
Long-Term Loans and Advances	4,411	4,534	4,366
Other non-current assets	21,214	24,020	22,047
<b>Total fixed assets</b>	<b>99,035</b>	<b>108,060</b>	<b>113,821</b>
Current investments			
Inventories	249,528	239,817	213,213
Trade Receivables	60,354	48,369	42,103
Cash and Bank Balances	176,714	133,034	111,533
Short-Term Loans and Advances	1,760	981	987
Other current assets	36,812	35,058	33,866
<b>Total Current Asset</b>	<b>525,168</b>	<b>457,259</b>	<b>401,702</b>
Less: Current Liabilities	352,149	326,503	255,921
<b>Net Current Assets</b>	<b>173,019</b>	<b>130,756</b>	<b>145,781</b>
<b>Total assets</b>	<b>272,054</b>	<b>238,816</b>	<b>259,602</b>

Source: Company, BP Equities Research

### Key Risks

- ⇒ A decline or reprioritization of the Indian defense budget, the reduction in their orders, termination of contracts or failure to succeed in tendering projects and deviations in the short term and long term policies of the MoD or the Indian armed forces.
- ⇒ Failure to comply with the procurement rules and regulations of the MoD, Government regulations and other rules and regulations.
- ⇒ Failure to improve research and development capabilities, access new markets and develop new relationships which can complement the existing business operations or changing market demands.

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

We analysts and the authors of this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer (s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation (s) or view (s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the BP EQUITIES Pvt. Ltd (Institutional Equities).

**General Disclaimer**

This report has been prepared by the research department of BP EQUITIES Pvt. Ltd, is for information purposes only. This report is not construed as an offer to sell or the solicitation of an offer to buy or sell any security in any jurisdiction where such an offer or solicitation would be illegal.

BP EQUITIES Pvt. Ltd have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time. Prospective investors are cautioned that any forward looking statement are not predictions and are subject to change without prior notice.

Recipients of this material should rely on their own investigations and take their own professional advice. BP EQUITIES Pvt. Ltd or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. BP EQUITIES Pvt. Ltd. or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

BP EQUITIES Pvt. Ltd and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This report is not directed to or intended for display, downloading, printing, reproducing or for distribution to or use by any person in any locality, state and country or other jurisdiction where such distribution, publication or use would be contrary to the law or regulation or would subject to BP EQUITIES Pvt. Ltd or any of its affiliates to any registration or licensing requirement within such jurisdiction.

**Corporate Office:**

4th floor,  
Rustom Bldg,  
29, Veer Nariman Road, Fort,  
Mumbai-400001  
Phone- +91 22 6159 6464  
Fax-+91 22 6159 6160  
Website- [www.bpwealth.com](http://www.bpwealth.com)

**Registered Office:**

24/26, 1st Floor, Cama Building,  
Dalal street, Fort,  
Mumbai-400001  
  
BP Equities Pvt. Ltd.  
CIN No: U67120MH1997PTC107392