For Your Better Tomorrow

Hindustan Aeronautics Ltd (IPO)

"The individual investor should act consistently as an investor and not as a speculator." - Ben Graham.

Date – 15th March, 2018

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General Info

Offer Price Band	**Rs 1215- Rs 1240**
Face Value	**Rs 10**
Issue Size (In cr)	**Rs 4113-4198 cr**
Issue Open	**16th Mar-20thMar**
Min Bid	**12 Shares**
Retail & Employee Discount	**Rs 25/ Share**

Offer

Offer for Sale of 34,107,525 Equity shares The offer shall constitute 10.20% of the post offer paid up equity share capital

Objective of the Issue

Cat	No. of Shares	Rs (cr)	% of Issues
QIB	16719374	2031-2073	50%
NIB	5015813	609-622	15%
Retail	11703563	1393-1422	35%
Emp	668775	80-81	
Total	34107525		

Company Overview

Incorporated on August 6, 1963, June 5, 1992, Hindustan Aeronautics Limited ("HAL") is the largest Defence Public Sector Undertakings ("DPSU") in terms of value of production according to the MoD Annual Report 2016- 2017. They are the 39th largest Aerospace Company in the world in terms of revenue (in USD million) in 2016 according to Flight International. HAL has been conferred with the "Navratna" status by the GoI in June 2007.

Management Team

T. Suvarna Raju is the Chairman & Managing Director (CMD) of the company with effect from April 1, 2015. He joined the company on July 28, 1980 and thereafter worked in various capacities. He has over 37 years of work experience in the aerospace industry and has held various positions in the company.

V. M. Chamola is the Director (Human Resources) of the company with effect from July 27, 2011. He has approximately 34 years of work experience in the field of personnel management and human resources.

C.V. Ramana Rao is the Director (Finance) with effect from February 1, 2016 and also the Chief Financial Officer of the company with effect from February 26, 2016. He joined the company on March 1, 1985. He has more than 35 years of work experience in the field of financing.

Daljeet Singh, Rajiv Kumar, Shekhar Shrivastava and G V S Bhaskar is the Chief Executive Officers of the company.

Infrastructure

Company's operations are organized into 5 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.

Design Complex
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 System and Equipment R&D Centre, Lucknow
7. Aerospace Systems and Equipment R&D Centre, Korwa
8. Strategic Electronic R&D Centre, Hyderabad
9. Transport Aircraft R&D Centre, Kanpur
10. Gas Trubine R&D Centre, Koraput

Bangalore Complex
1. Aircraft Complex, Bangaluru
2. LCA Teja Division, Bangaluru
3. Engine Division, Bangaluru
4. Industrial & Marine Gas Turbine, Bangaluru
5. Overhaul Division, Bangaluru
6. Aerospace Division, Bangaluru
7. Foundry & Forge Division, Bangaluru
8. Facilities Management Division
9. Central Materials and Processes, Bangaluru

Accessories Complex
1. Transport Aircraft Division, Kanpur
2. Accessories Division, Lucknow
3. Avionics Division, Hyderabad
4. Strategic Electronic Factory, Kasargod
5. Avionics, Korwa

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, Bangaluru
2. Helicopter MRO division, Bangaluru
3.Barrackpore Division, Barrackpore
4. Aerospace Composite Division, Bangaluru

Order Book

As of December 31, 2017, the order book was Rs.68, 461 crore.

Intellectual Property Rights

As of Dec 31, 2017			
Trade Mark	Patent	Design Registration	Copyrights
2	7	11	77

Strength of the Company

1. **Research, design and development, manufacturing and maintenance, repair and overhaul ("MRO") services.**
   HAL has showcased their 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. These indigenous aircraft and helicopters were manufactured by them along with aircraft manufactured under license such as the MiG 21FL/M/BIS, MiG-27, Avro, Jaguar, Dornier 228, Su-30 MkI, Hawk Mk 132 aircraft and For additional information & risk factors please refer to the Red Herring Prospectus - 7 - Hindustan Aeronautics Ltd manufactured helicopters such as the Cheetah and Chetak helicopters, along with the associated engines, accessories and avionics to meet the demand of the Indian Defence customers.

2. **Strong Design and Development Capabilities**
   HAL has 11 dedicated R&D Centres and these 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 their future needs. These R&D Centres have facilities for research and prototype activities and are colocated with their production divisions to provide effective concurrent manufacturing, design and development support. Their design capabilities provide them with a significant competitive advantage in the Indian aeronautical industry

3. **Strong GoI Support and Leadership position in Indian Aeronautical Industry**
   HAL is the largest Defence Public Sector Undertakings ("DPSU") in terms of value of production in the Indian defense sector according to the MoD Annual Report 2016-2017. They have their longstanding relationships, particularly with the Indian Defence Services and the DRDO as well as with various academic institutions and regulatory agencies.

4. **Diversified Product Portfolio**
   Company's products portfolio includes 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

5. **Experienced Management Team**
   The senior management team and key management personnel possess extensive management skills, operating experience and industry knowledge and are able to take advantage of market opportunities.

Strategy for Growth

1. **Partnership and Collaboration**
   HAL co-develop products with their partners in order to improve the sharing of knowhow and reduce the risks and time involved in developing new products. They also collaborate with their partners to provide product support and service to their customers, including through planned collaboration in HE-MRO, the joint venture between HAL and Safran Helicopter Engines, to provide maintenance repair and overhaul services for the Safran TM-333 and their Shakti engines that power HAL-built helicopters. Apart from foreign OEMs, they are jointly working with leading Indian research and development organizations and institutions such as DRDO laboratories, IITs and IISc to support India in achieving self-reliance in the aviation industry.

2. **New Growth Area**
   In order to meet the demand for aircraft and helicopter engines, HAL has initiated the indigenous design and development of the Hindustan Turbo Fan Engine (“HTFE-25”), a 25 kN thrust class turbofan engine, and the Hindustan Turbo Shaft Engine ("HTSE-1200"), a 1,200 KW shaft power engine. In addition, they have initiated the indigenous design and development of a mini UAV of the 8 kilograms class to meet the emerging requirements of military, paramilitary, police and civil sectors, and intend to subsequently enter into the market of larger UAVs with the Rustom-II medium-altitude, long-endurance UAV which they are jointly developing with the Aeronautical Development Establishment (ADE).

3. **Civil Aviation**
   In order to reduce their dependence on defense products, HAL aim to increase the contribution of other business segments in future years, such as from the civil aircraft and helicopter segments. As a result, HAL has commenced the manufacturing of the civil variant of the Dornier Do-228 aircraft and have obtained the production organization approval from the DGCA.

4. **Develop in house capabilities**
   HAL is currently pursuing:
   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.

Financial

(Fig in Cr)	FY16	FY17	YoY (%)
Revenue	17158	18554	8.1
EBITDA	4076	4314	5.8
PBT	3213	3591	11.8
PAT	2004	2624	30.9
No. of Shares	36.1	36.1	0
EPS	55.5	72.7	
P/E	21.9	16.7	

EBITDA Margin remained flat at 24%.
PAT Margin grew from 11.68% to 14.15%.

Valuation and Outlook

HAL EPS for FY2017 on post-issue equity works out to Rs 73. At the price band of Rs 1215 to Rs 1240, P/E works out to 16.7 to 17 times for FY17 EPS.

Company has strong order book and leadership position in Indian Aeronautical space. Also increasing indigenization and defense expenditure is positive for the company.

Thus we recommend our investors to “SUBSCRIBE” the issue from medium to long term perspective.

Safe Harbor Statement

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