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ಮುಖ್ಯಾಲಯ
HINDUSTAN AERONAUTICS LIMITED
CORPORATE OFFICE

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23rd May, 2023

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Dear Sir/ Madam,

Sub: Transcript of Q4FY23 Results Conference Call

Ref: BSE Scrip Code: 541154, NSE Symbol: HAL

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, transcript of Q4FY23 Results Conference Call held on Wednesday, the 17th May, 2023 hosted by Elara Securities (India) Pvt Ltd.

2. The same is made available on Company's Website at https://hal-india.co.in/Analyst/Investors%20Meet/M_423
3. This is for your information and record, please.

Thanking you,

Yours Faithfully
For Hindustan Aeronautics Ltd

(Shailesh Bansal)
Company Secretary & Compliance Officer

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“Hindustan Aeronautics Limited
Q4 FY '23 Earnings Conference Call”

May 17, 2023



MANAGEMENT: **MR. C. B. ANANTHAKRISHNAN – DIRECTOR (FINANCE)
& CHIEF FINANCIAL OFFICER WITH ADDITIONAL
CHARGE OF CHAIRMAN AND MANAGING DIRECTOR –
HINDUSTAN AERONAUTICS LIMITED**
**MR. JAYADEVA E. P. – DIRECTOR (OPERATIONS) WITH
ADDITIONAL CHARGE OF DIRECTOR (HUMAN
RESOURCES) – HINDUSTAN AERONAUTICS LIMITED**
**MR. SHAILESH BANSAL – COMPANY SECRETARY –
HINDUSTAN AERONAUTICS LIMITED**

HOSTED BY: **MR. HARSHIT KAPADIA – ELARA SECURITIES (INDIA)
PRIVATE LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to the Q4 FY '23 Earnings Conference Call of Hindustan Aeronautics hosted by Elara Securities (India) Private Limited. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harshit Kapadia from Elara Securities (India) Private Limited. Please go ahead, sir.

Harshit Kapadia: Thank you, Celvin. Good evening, everyone. On behalf of Elara Securities, we welcome you all for the Q4 FY '23 and FY '23 conference call of Hindustan Aeronautics Limited. I take this opportunity to welcome the management of Hindustan Aeronautics represented by Shri C.B. Ananthkrishnan, Director (Finance) and CEO with additional charge of Chairman and Managing Director; Shri Jayadeva E.P., Director (Operations) with additional charge of Director (HR), along with their team members. We will begin the call with a brief overview by the management, followed by a Q&A session. I will now hand over the call to Ananthkrishnan sir for his opening remarks. Over to you, sir.

C.B. Ananthkrishnan: Thank you. Good afternoon to all of you, and we welcome to fourth quarter financial year results of 2023 earnings call. First and foremost, I express my sincere gratitude to all of you for being present today to interact with us and to get all the clarifications and the, sort of, future prospects of HAL. I have with me Mr. E.P. Jayadeva, Director Operations, who is also holding the additional charge of Director HR; Company Secretary, Mr. Bansal and all of the senior officials.

As you are aware, we have declared our financial results for the FY '22-'23, and this call is intended to clarify all the questions you have on the company's performance. The financial year, as you are all aware, has been a very eventful year as far as HAL is concerned. In fact, if you recall, at the beginning of the year, we started the year with sort of a revenue deficit of almost INR6,000 crores between the executable orders on hand and the revenue target for the year.

In fact, the manufacturing orders were all getting depleted. So we were all wondering as to the INR6,000 crores, how to meet this gap. The year was even more challenging considering the business environment amidst global economic uncertainties, certain limited supply chain disruptions and other challenging results.

However, we have shown some sort of resilience and adaptability in navigating these challenges and could rather post a very strong set of numbers, which we will discuss subsequently. FY '22-'23, in general, and second half of the year, in particular, have witnessed some significant events. As you are aware, the Honorable Prime Minister of India has dedicated our greenfield helicopter project, one of the biggest, in the country at Tumakuru to the nation.

He also, at that occasion, unveiled the light utility helicopter of HAL, designed and developed by HAL. Again, in a major boost to indigenization, our Honorable Prime Minister has unveiled the HTT-40 at DEF EXPO-'22 during October '22. HAL also has concluded on that occasion 70 number of HTT trainers valued at around INR7,000 crores approximately. HAL-L&T

consortium, again, has bagged INR860 crores contract for end-to-end realization of this 5 Polar Satellite Launch vehicles, PSLV, from the New Space India Limited. This I had been mentioning because this is one of the major forays of HAL into the aerospace industry, especially the space sector in collaboration with the private industry for delivering these satellites to the ISRO, Indian Space Research Organization.

Now as far as the financial performance is concerned, we had a very robust financial results being posted in last FY '22-'23. Our revenue, we had reached a record revenue of almost INR26,900 crores as against INR24,600 crores in the previous year, registering a growth of almost 9% plus. In fact, our initial guidance, we have always been maintaining at 8% and we said that we will reach a double-digit growth from '24-'25 onwards. And in fact, I would say with confidence, we are progressing quite well. So that we could achieve a revenue target of growth of 9.37% in the last financial year.

This year would be no different from that. We will be further strengthening that. And as we have indicated in the few last calls, we will be able to reach a double-digit growth of 10% from '24-'25 onwards. The manufacturing segment, yes, it has remained subdued going to certain lower platforms available for execution. However, the shortfall, we could make good through the execution of the repair & overhaul orders. And this trend expected to continue in the current financial year as well. And from the next year onwards, the manufacturing numbers will start picking up once we start delivering the platforms basically the LCA Mk1A.

Similarly, from '24-'25 onwards, apart from your LCA Mk1A, we will also expect significant improvement towards the delivery of your HTT-40 aircraft, which is expected to come on from September '24 onwards and 25 ALH, additional ALH and AL-31FP, which is Sukhoi engine contracts once we start executing that. PBT has registered an increase of almost 24%. It has grown to INR6,500 crores approximately from INR5,231 crores in the previous financial year.

Basically, one of the reasons has been that the increase in the interest income, which has also accrued to us on account of 2 reasons. One is the healthy cash balance and the second one is the refund of the long disputed income tax dispute, which was there with the department, which we also got settled in the last year. The upward trend of the interest rates as healthy company on the nonoperating income front, we have received an interest income of almost INR900 crores plus from the surplus balances as against approximately INR400 crores in the previous year.

In addition, in the current year, we have also received an interest, as I've indicated earlier, interest of almost INR560 crores from the income tax department on account of the refund, which were against the disputed amounts, which are lying with them. Incidentally, I would also like to take this opportunity to inform you that we have settled this long-pending dispute with the income tax department and have received almost INR2,451 crores as tax refund and INR830 crores as interest from the department in the last 2 years. That is for FY '22-'23 and FY '21-'22.

This has settled the tax dispute with the department for all the financial years starting from 2008 onwards to 2015-'16. We are quite comfortable now having settled all the disputes with them. In line with this increase in the PBT and the PAT has also comparatively improved, the PAT growth also has been quite substantial at around 14%. In fact, I have seen that many people have

observed that there is a decline in PAT on the fourth quarter of '22-'23 as compared to the corresponding period of '21-'22. We would like to clarify here, the fourth quarter '22, the real profit after tax has not come down. It is only because of certain adjustments in income tax refund, the refund which we have got in the last fourth quarter was slightly higher at INR1,200 crores as against some INR700 crores during the previous fourth quarter.

So if you adjust for the same, the PAT has grown at around 10% even in the fourth quarter. This is purely -- an operating PAT has grown at around 10%. EBITDA for the year has stood at around 31% of the revenues as compared to the long-term trend of around 25% to 26%. This, again, I would like to clarify that may not be sustainable at 31%. We will settle down at 26%, 27%. This increase in the EBITDA for the current financial year is mainly on account of certain amortizations, which we have got in the current financial year of almost close to INR600 crores on account of the HTT contract, which we have finalized in the last year.

Similarly, on the dividend fund, I think we've been rewarding to all the investors. We have paid one final dividend of last financial year, '21-'22 and 2 interim dividends. All totaling to almost INR50 per share, which works out to almost 500% of the face value of INR10 per share. On the order book, you will all be interested quite as we have always been maintaining. In fact, in the last earnings call also, we have mentioned at around INR82,000, INR83,000 crores. In spite of liquidating the orders, still the order book remains at a healthy INR82,000 crores approximately. We have almost liquidated INR26,000 crores of order from the last financial year.

This was also possible because of fresh order accretion of almost INR26,000 crores during the year. Major orders, as I have already indicated, 70 numbers of HTT-40 and 6 Dornier, valued at almost INR9,000 crores. And another INR800 crores of PSLV from New Space India Limited, we have got. All this has added to the order book position. And balance order flow, as you are aware, that repair & overhaul, there has always been an accretion to the order book and almost INR18,000 crores of order for repair & overhaul accrued.

Again, the fresh orders we are expecting the new orders to come through from 25 numbers of Advanced Light Helicopter Dhruv, 12 numbers of LUH, Light Utility Helicopters and again, the engines for the AL-31FP and RD33 engines for MiG series of aircraft. So all these cost negotiations have all been completed, and these are all in the advanced stages of completion. So we expect estimated order value of almost INR48,000 crores to get concluded in the coming financial year, which means within a time span of 6 to 10 months.

Further, on the UHM -- Maritime Helicopter 60 numbers, AON has already been approved. And Coast Guard, 9 helicopters also, AON is an acceptance of necessity which has already been approved, which means that there is a very clear visibility towards these orders for HAL in the next 2 to 3 years' time period. As far as the utility helicopter that UHM -- Maritime helicopter is concerned, we will be receiving a sanction initially for the design and development and subsequently, it will be followed by the procurement order.

Similarly, we have completed the LCH. There is a light combat helicopter, 15 numbers, and we expect bigger orders from this on light combat helicopter. We are in advanced stages of negotiations with the customer. They are identifying the additional systems, which are recorded

for the light combat helicopter. And once it is getting finalized, the AON also will be getting approved.

And this is also expected at around INR45,000 crores, including the optional and rolled equipment put together. This will be an anticipated order. This again, there is some visibility, which will happen in the next 2 to 3 year timeframe. In addition, we also anticipate the LUH, light utility helicopters of additional order of almost 175 numbers. These are all anticipated orders for which visibility is there, but we are at the AON stage, the process will start subsequently.

Similarly, the additional HTT-40 and upgrades on Dornier aircraft. So once these orders are fructified, the order book positions further get strengthened and puts us on a higher trajectory of growth, which we have been promising to achieve a double-digit growth from '24-'25 onwards. We are also trying to take some very significant efforts to promote our international business with a wide range of indigenous platforms.

We are aggressively pursuing some of the export leads from various countries, we have received the export leads from Algeria, Argentina, Indonesia, Philippines, Thailand, Middle East. And we are quite involved in these various discussions, and we are awaiting one breakthrough order to happen, which we are very positive, it should happen in the next 1 year timeframe.

HAL also has been one of the major beneficiaries of Government of India's Atmanirbharta and self-reliance initiatives. Now many of our platforms and systems, which HAL is manufacturing or appearing in the positive indigenization is, it should mean that the imports will not be there and HAL will be the production agency and supplying agency for these platforms. It will help HAL in securing fresh order and also fulfill the requirement of the defense forces within the framework of the country. These efforts will not only benefit HAL but also to -- the Indian ecosystem of various vendors and suppliers.

To conclude, I will not take much time. I would say that we are committed towards excellence and will continue to propel the nation towards Atmanirbharta in defense aerospace manufacturing through our indigenous design capabilities, which we have developed over a period of almost 7 decades. I think, all in all, the future of HAL appears quite bright. And with all these initiatives towards indigenization and self-reliance, we are quite sure that the growth trajectory of HAL is very sound and strong. I think with this, I will open the floor for further questions and clarifications, which you will have. Thank you.

Moderator: Thank you. The first question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

Amit Dixit: I have 2 questions. The first pertains to actually LCA Mk1A. In certain sections of media, it has appeared that this project could be delayed by a few months. So just wanted to get your thoughts on when we can expect LCA Mk1A to be executed. And when do you expect it before the manufacturing to start and deliveries to start?

C.B. Ananthkrishnan: Yes. as per the contracted delivery schedule, the delivery should come on from February '24 onwards. And in the current financial year, we are supposed to deliver 1 fighter and 2 trainer,

total 3 aircraft during the current financial year. And we are on the track. In fact, it also involves certification of many of the systems, which are added on to LCA Mk1. And we along with the ADA, that is Aeronautical Development Agency, we are working towards achieving these certification processes well in time so that the deliveries also will happen.

As of now, we are working on a very tight schedule with all this. Many of these systems to get certified. We have already started build of the aircraft and the aircraft structure should be available, by June or in the next 3 to 4 months.

And after that, the systems also, as and when it gets certified, it will get fitted into that, and we will be in a position to have the ground test and things like that happening in the next 8 to 10 months' time frame. So we are working towards meeting the delivery time lines. Probably even if there are going to be some sort of delays, it may not be very significant. We are confident that we should be able to work on those delays and see that these aircraft are delivered as per the contracted delivery schedule.

Amit Dixit: Sir, just a follow-up on this. What is the delivery schedule like? How much you are -- how many are you expected to deliver in FY '25, '26, '27?

C.B. Ananthkrishnan: As per the contracted delivery schedule, it is 16 numbers starting from '24-'25 onwards. 3 to be there in the current financial year, and 16 are to be delivered every year. Peak load of delivery is 16 numbers. In fact, you may be aware that recently we have also started putting up a third line in Nashik division to see that how these deliveries could be expedited. While 16 numbers we will be able to make from our facilities in Bangalore, we wanted to increase these numbers so that the deliveries could be at a faster rate and we will be in a position to conclude the complete delivery within at least a year before what has been contracted to the delivery schedule. So as I've said, even if 1 or 2 aircraft, we fall short, in the current financial year, we'll be able to make good with our additional capacities in the subsequent years.

Amit Dixit: Wonderful, sir. The second question is essentially on the order book accretion. You had mentioned that in terms of manufacturing, there is a possibility of INR48,000 crores order conclusion. Can you enumerate a similar number for ROH and development also?

C.B. Ananthkrishnan: Yes. ROH, we expect the order book accretion year-on-year will be on an average, it should be INR17,000 crores to INR18,000 crores. So that will only keep increasing. But as of now, we maintain an average order book of towards ROH, it should be INR18,000 crores .

Amit Dixit: And development?

C.B. Ananthkrishnan: Development orders, depends again on certain sanctions which will come through. We are also not waiting for the development orders to come through. We are also funding it internally from our resources. And as and when it comes through, we will be able to take it down. But we are sure that the development, you know that IMRH program will be coming through.

Then your LCH Phase II systems, when it is going to be there, this will be an addition to development orders and similarly, certain AMCA portion also will come through. UHM sanctions will be there. So all this would mean the development orders also will substantially

increase. But as of now, we will not be able to commit the number on development orders because we have started discussing with them right now.

Amit Dixit: Sir, just a follow-up on the ROH. What is the execution period, like, INR17,000 crores to INR18,000 crores?

C.B. Ananthkrishnan: That is on a year-on-year basis. Our accretion, our execution timeframe is within 1 year, 12-month period.

Moderator: Thank you. The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: First of all, congratulations on good set of numbers. And sir, my first question is that in terms of this engine framework contract, which you have been talking about, for a long time, at what stage it is? And do we see this getting finalized in the next 6 months' timeframe? Because then the election and the code of conduct, can it impact some of the order inflow finalizations what we are expecting? That's my first question.

C.B. Ananthkrishnan: Which engine framework you are talking about?

Charanjit Singh: So the AL-31FP?

C.B. Ananthkrishnan: AL-31FP, 240 numbers of engines, which we are already in the advanced stages of negotiations. We have completed the CNCs also. That is a contract negotiations has been over with the customer. Now the process is on for putting up the paper for CCS approval, and we are sure that we will be able to get this order in the current financial year. It is quite in advanced stage. We will be able to conclude it within the next 6 months to 8 months timeframe.

Charanjit Singh: And sir, what will be the total value of this order?

C.B. Ananthkrishnan: Total value of this order should be around INR26,000 crores.

Charanjit Singh: Okay, sir. Sir, the other question is on the export side. You have touched upon that there is some opportunity which is emerging. So if you can just give us more details in terms of what kind of platform what we are looking at in the export market. And we had earlier also participated in one of the international export orders. So what is giving us the confidence and what will be the quantum of this order when we are looking at the exports potential?

E. P. Jayadeva: We are working on countries like Philippines, Argentina, Egypt, Sri Lanka, Maldives, Botswana, Thailand and Nigeria on fixed wing LCA as well as rotary wing helicopters like ALH, LUH and LCH. So these are the major countries we are working on. And we have submitted our proposals to all these countries for the helicopters as well as fixed wing. And we are following up with our leads in both our defense channels as well as their services. So right now, one or two leads are in the advanced stage, like, for example, Philippines and Argentina. Rest of all, we are trying to further impress upon them to consider these proposals, and then we are pushing our case with them.

Charanjit Singh: And sir, how large these initial orders could be for us?

E. P. Jayadeva: Initial orders to start with, we are looking for some foray with our ALH platform. So that could be to the tune of around USD 150 million to start with.

Charanjit Singh: Got it, sir. Sir, lastly, sir, on the spares side, earlier we had certain issues in terms of getting the spares from Russia. So now how is the -- in terms of the supply chain, any issues where we need to worry about or have you resolved that? And what is the level of indigenization now we are looking at on the spares side?

C.B. Ananthkrishnan: Yes, there have been some sort of concerns because of this geopolitical conflict, especially from the Russian side. But so far, we have been able to manage those sort of disruptions, if at all there have been some delays, but it is getting normalized, and we have started getting the supplies. And I feel that there may not be a big issue. We will be able to manage that. I would like to also highlight here that so far in the last 2 years in spite of all these COVID disruptions as well as the subsequent geopolitical conflict, HAL has always been in a position to maintain the operations without any disruptions and the fleet serviceability has also not been affected.

We are very confident that with our channels being opened up with the Russians, we will be able to get the supply chain continues without any disruptions. Certain payments issues were there, which also has been sorted out. Now we are in a position that some of our payments are also going through. Our interest is to maintain the fleet. We will not have a difficulty. We will be able to maintain those fleets.

Moderator: The next question is from the line of Aditya from Securities Investment Management Company. Please go ahead.

Aditya: My first question is on the grounding of ALH, for sure. So what I understand is that we are going to replace aluminum control rods with the steel rods. So with this change, have all the issues been resolved or there have been some pending design or any other issues? And when can we expect the armed forces to start flying the ALH?

And secondly, if you could also help us understand how has this issue impacted the future order book of the company, especially the 25 ALH order which we are expecting and also 140 LCH order, which we are expecting in the next 1 to 2 years as LCH and ALH have similar designs and engines. So will there be a delay in these orders or any other orders because of this issue?

E. P. Jayadeva: As you are aware, we landed in 3 incidents back-to-back during the last 2, 2.5 months. Actually, that has put us a little bit on back foot. But we would like to mention here that all these accidents are not due to similar issues. They are all different issues, not attributable to 1 issue only. And that's how it is not attributable to the same problem. So there's no design in all these 3 helicopters as of now. Out of these, for 2 preliminary investigations have been completed. The third one is still under investigation. We would not like to comment on that.

But otherwise, the design adequacy has been reinforced again. And we feel that there is no requirement to redesign the helicopter wherever these problems have encountered. But as a precautionary measure to reinforce the control rod of aluminum. But now we have decided to go for steel so that the steel are more damage tolerant and if some sort of a misalignment or some maintenance issues are there, they can be more accommodative. And that is the reason

why we are going for steel rods now. It is nothing to do with design adequacy as such. So the helicopters are safe in the present configuration also. So that is how it is as of now.

And other fleet owners are still flying the helicopters. So everybody has not grounded the helicopters as of now. And if you see the helicopter accident rates of ALH, it has gone for almost 3.9 lakh hours all put together. And we have incidents of around 7.3 or 7.4 per lakh hours. So this is considered to be very good indication of safety of the helicopter comparing to other international players.

And during the last 2 years also, we have got a very good record of safety. number of accidents being very, very less compared to average -- normal average, which is worldwide safe. So we feel that ALH is in good hands and then design has been robust. And then this doesn't have any impact on the future orders for ALH, either be it UHM or for any other further requirements. Our defense services are quite confident of this machine.

C.B. Ananthkrishnan:

Now just to add to what our Director Operations has said as far as the ALH, since it has been a back-to-back accidents, which have happened, there has been some concerns. But otherwise as the preliminary investigations revealed, this is not really a major concern as far as the design of helicopter is concerned. Whatever there's certain smaller issues, which are coming up, which need to be reinforced, we are very confident that we'll be able to get through that.

And one more thing which we would like to mention that not all the fleets have been grounded. I understand that one of the services is still flying. Air Force is flying. Army only has grounded it. And Army also once we get the preliminary checks done, they will also fly, because it has been in operation for the last almost 20-plus years. just a bit of statistics on this.

Up to 2018, almost 18 years, we have flown almost close to 2 lakh hours with 19 accidents, which translates into some 9.1 or 9.2 per lakh hour. And after 2018, we have exploited the machine because the numbers have increased and it has equally flown another 2 lakh hours in the last 4, 5 years. And there, the accident rate, it is somewhere around 11. And because of this back-to-back accidents, which has, in fact, reduced it. This is not to justify the accidents, but only to give you confidence that this aircraft is a very robust aircraft and a proven aircraft and tested aircraft and the design capabilities and things like that, it is a continuous improvement, which we will have to make.

It is not something which only because of accidents, which is happening, which we are trying to improve on the design capabilities, it is a continuous improvement, which we will keep to make. But we are very confidently we can tell that this machine is a very proven machine, and there is nothing concerned about that, except that unfortunate incident which has happened in the last 3 to 4 months.

Aditya:

I just had a follow-up. So just wanted to know what will be the cost of rectifying the -- or replacement of the control rods or any other issues which were identified because we'll have to replace this for all the fleet of 300 ALH. So what will be the approximate cost of recertifying this? And will we -- will be we getting compensated from the armed forces?

C.B. Ananthkrishnan: See, first of all, that it has to be established that as to what is all needs replacement and the sort of thing as we understand from the preliminary investigation, it is not going to be anything very major except for this control rods, again, it is not going to be an expensive proposition to convert it from aluminum to steel rod. The cost as of now, we don't anticipate much cost. It should be in the range of around INR150 crores to INR200 crores. And moreover, we are also having a warranty cover for many of these air crafts. So the cost will not majorly impact the profitability of company. As I told, it could be in the range of not more than INR200 crores.

Aditya: Sir. I had another question regarding ROH revenue. So we had an ROH revenue of around INR18,800 crores this year. So if you can just broadly split what would be the contribution of top 3 or 4 major platforms like SU-30, ALH and engines in our ROH revenue? And secondly, what kind of growth can we expect from ROH in the next 2 to 3 years? And what will contribute -- which platforms will continue to sub growth?

C.B. Ananthkrishnan: The ROH revenue for '22 '23, I will give some of the major platforms, which has contributed to this revenue. One is that Sukhoi-30 repair and overhaul 20 numbers of repair and overhaul has happened, which earlier it was somewhere around 18 and 15 to 18 and then to 20 now peak load. And we are further confident of increasing it to another 2 to 3 numbers extra in the current financial year.

The second one is on engines, AL-31FP engines repair and overhaul. Some 76 numbers have been done in the current year. Our target is to reach to a number of around 95 to 100 in the current financial year to a maximum of around 105. Then rotables, of course, the various rotables also that keeps increasing that contributed to around INR1,000 crores in the last financial year. And as far as the ALH is concerned, almost 30 number for ALH has been repaired and overhauled in the last financial year.

All these have been contributing to the top line growth of revenue, repair and overhaul, apart from the increase in the supply of spares, which also contributed to almost close to INR5,000 crores. So this sort of pattern is likely to continue in the current financial year as well with a marginal increase in the repair and overhaul activity. But from the next year onwards, the growth in the repair and overhaul will be at around 5% to 6%. With the manufacturing pick up, we'll be able to maintain the overall growth.

Moderator: Mr. Aditya, we request that you return to the question queue for follow-up questions. We shall take the next question. The next question is from the line of Harshit Patel from Equirus Securities.

Harshit Patel: My first question was on HTT-40. You mentioned that we will be starting the deliveries from September 2024, what will the delivery schedule look like? How many units we are planning for FY '25? And then what would be the schedule from FY '26?

C.B. Ananthkrishnan: Sorry, if I have told it is September 24, it is not September 24, it is September 25 because we have concluded the contract in last year, it is T0 plus 24 months. Hence, it will start commencing from September 25 and an average delivery of almost 20 air crafts. The peak rate of delivery will be at 20, we will start with the 12 and then 16 and then 20. But there again, we are trying to

expedite the delivery schedule to make at around 20 from the second year onwards, so that we could get the contract concluded earlier because we are expecting another 36 numbers to come from and also some potential for exports also is there.

Harshit Patel: Understood, sir. Sir, my second question is on the engine orders. You mentioned that we will be receiving the orders for AL-31FP and RD-33 in financial year '24. Sir, now here, what will be the execution schedule as to -- will this also follow T plus 24 T plus 36 kind of time line or they will immediately start the production?

C.B. Ananthkrishnan: We are planning to start immediately, the production is to commence immediately. In fact, already, we are also concluding our contract negotiations with the Russian suppliers, so that we will not be waiting for these orders to get concluded and start. We are working out with the vendors. So we are confident that we will be able to start delivering from '24, '25 onwards, both these engines RD-33. And in fact, RD-33, we are also planning in the current financial year the moment contract is concluded, we will start delivering the numbers.

Moderator: Mr. Harshit, we request that you return to the question queue for follow-up questions. The next question is from the line of Umesh Raut from Philip Capital.

Umesh Raut: Sir, my first question pertains to one of the major prospects that we have in the form of LCA Mk-2, where as per the -- some of the media sources, now we are facing the challenge of signing TOT contracts or supply of engine GE's F414. So I want to know what is exactly the status for development of LCA Mk-2? And would this TOT delay will hamper development time line for LCA Mk-2?

E. P. Jayadeva : The LCA Mk-2 all the parts is almost completed. And shortly, we want to launch the prototype production at HAL. Regarding the engine production also, we are the production agency for GE 414 earlier also our engine division in Bangalore has been identified as a production agency. Recently, we have given our willingness to be part of this also and reinforced our willingness to ADA. So ADA is taking up with GE and the U.S. government to see that the TOT is given to the full extent. After that, we are expecting the contract to be concluded once the ADA receives CCS sanction in full form.

Umesh Raut: But sir, do you see any major challenge in signing TOT with GE?

E. P. Jayadeva : No, we're not having any problem with the TOT with the GE. We'll be manufacturing the engine at HAL.

C.B. Ananthkrishnan: In fact, just to add to that, today, the sort of our strategies with all our suppliers, including the engine manufacturers is quite clear, if at all, they have to do business in India, they will have to have the TOT and the manufacturing facility established within the country. So we are working with all our OEMs towards that, and we are confident that, that will happen. And because they also have understood that once if they have to do business with India and with HAL, they will have to have the facilities established in the country. So we will be able to negotiate to our requirements of having the full TOT getting done within India.

- Umesh Raut:** Okay. My second question is related to the bookkeeping. So we have booked about INR770 crores of HTT-40 development revenue in this quarter, but I believe there is no cost to this -- which is booked above -- or before EBITDA, while we have booked about INR600 crores of amortization only. So is that assumption correct?
- C.B. Ananthkrishnan:** Yes, your assumption is correct because it is all related to design and development and especially the intangible assets, which we had it in our books -- unamortized portion. And the moment we got sanction, we have also recognized it as part of revenue and also released it as part of our amortization, removing it from the intangible assets from the balance sheet. So you are correct. Is it clear?
- Moderator:** Mr. Umesh, we request that you return to the question queue for follow-up questions. The next question is from the line of Hardik Jain from ISJ Private Securities.
- Hardik Jain:** All my questions are answered. So yes, thank you.
- Moderator:** Thank you. The next question is from the line of Jonas Bhutta from Birla Mutual Funds. Please go ahead.
- Jonas Bhutta:** Congratulations on good set of numbers. Sir, just a bookkeeping question. Firstly, can you give us the quantity of aircraft and helicopters produced in the current year FY '23?
- C.B. Ananthkrishnan:** We have produced 7 numbers of ALH, 2 numbers of LCA. And AL-31FP some 6 numbers, Light Combat Helicopters are 8 numbers, Dornier 2 numbers. These are the platforms which we have manufactured in the last financial year.
- Jonas Bhutta:** And deliveries would be -- out of these deliveries would be how much, sir?
- C.B. Ananthkrishnan:** These are all delivered. As per Q4FY23, we call it the documentation for delivery, it has all been delivered.
- Jonas Bhutta:** And for FY '24, you said you will manufacture 2 Mark-1A in terms of Tejas, but I thought there are trainers of the earlier version Mark-1 trainers are still less, so...
- C.B. Ananthkrishnan:** Yes.
- Jonas Bhutta:** So total deliveries of Tejas this year would be how much?
- C.B. Ananthkrishnan:** We are expecting a minimum of 6 plus 2, 8 numbers to be delivered in the current financial year as far as the LCA trainers are concerned.
- Jonas Bhutta:** Got it. Got it. And my final question was, sir, in terms of while it's appreciated that we've launched the third line with -- in Nasik also for LCA. So if you can tell us the man-hour rates that were -- man hour requirements from the first plane to the 83rd plain, what kind of reductions we've assumed roughly that will help.
- C.B. Ananthkrishnan:** For Nasik division, the productivity levels will be definitely as good as the Bangalore based division, the LCA division and aircraft division. So we have factored all of those things in our

contract when we had finalized it to take the average hours. The average hours which has been now considered for the contract purposes, we'll continue to be in the Nasik division as well since the productivity level remains more or less the same and the labor cost, we will try to maintain.

E. P. Jayadeva:

And we have achieved most of the learning from IOC and FOC are all 48 -- 32 aircraft fighters we have produced. So most of the learnings we are achieved. And in Mark-1A its only new systems -- 4 new systems are there. So not much of a scope for learning now. Of course, we'll have to do. At Nasik a little bit learning will be there. But in Bangalore, all the people are convergent with all the production activities.

Moderator:

Mr. Jonas, we request that you return to the question queue for follow-up questions. The next question is from the line of Mahesh Bendre from LIC Mutual Funds. Please go ahead.

Mahesh Bendre:

Sir, given the current order book and so many orders are in pipeline and the delivery you're talking about. What kind of growth one could we expect from our company over the next 2, 3 years? If I look at last year, we grew only by 9%. And if I look last from FY '19 onwards, we are hardly grown by 4%, 5% CAGR. So if I could look for next 3 years, what kind of growth one should expect from the company?

C.B. Ananthkrishnan:

See, from '19, I mean, the last 4 years, the average CAGR has been at around 7.7%. So the growth has not been at 4%. I do not know how it has been computed at 4%, we have been growing at a rate of almost 7% in the last 4 to 5 years. That apart, it is not something which we have not indicated even in the last years, we have been maintaining that in FY '23 and FY '24, the growth will be at single-digit growth of 7% to 8%. In fact, last year at 9%, we have improved our guidance and had grown at an extra percentage point to 9%.

And the current financial year also, we have been maintaining that it will be a single-digit growth only, and it will be at around the 9% is what we have achieved, but we are inching towards the double-digit growth, which we have promised to be there from FY '25 onwards. And we expect the -- from FY '25, it will be a double-digit growth. And after that, we expect the growth at around 12% to 13% and then stabilize at around 14% to 15%.

Moderator:

Thank you. Mr. Mahesh, we request that you return to the question queue for follow-up questions. The next question is from the line of Viraj from Jupiter Financial.

Viraj:

Congratulations on good numbers. I have one question. Since FY '24, you're guiding around 13%, 14% growth, is it fair to assume even the margin -- net margin would be in a range of double digits?

C.B. Ananthkrishnan:

FY '25, we have been maintaining it will be a double-digit growth, but it will be somewhere around 10% to 11%. Beyond FY '25, we will be improving the double-digit margins to 12%. And then subsequently, we expect it to get stabilized at 15%. As far as the profitability is concerned, as you are aware, we have been governed by a profit policy and all the improved profitable margins, which we are getting is because of improved efficiencies which we are trying to operate at with more of -- I mean, improving the productivity and also through outsourcing and other involving more private industry.

So this would mean that our operating profit in today's scenario is somewhere around 17% to 18% which is a quite healthy percentage for an industry like us, and we are more or less around that, maybe we may be marginally improving year-on-year. But definitely, it will not be any substantial increase will be there as far as the operating profit growth is concerned. It will be hovering somewhere around 18%, 19%.

Moderator: Thank you. The next question is from the line of Vivek N from Shanti. Please go ahead.

Vivek N: Yes. Thank you. My question is again around the growth of HAL. We have been stable and growing gradually. But given that the amount of orders that are there from the government, there are so many in different areas and almost a monopolistic kind of supplying that we are doing. Do you see in the next 2, 3 years, there will be a drastic increase in the top line at least for HAL, and it will then settle at -- because we are just 3 billion, which is the top line. And if you see the top 5 manufacturers in the U.S. because these are the largest firms, they contribute to 350 billion annually. And HAL being the top provider of these solutions in the country. Do you think there will be a drastic improvement in the top line and therefore, such a number revenue.

C.B. Ananthkrishnan: So considering all the factors which are favorable to HAL and the order book pipeline, we have projected the double-digit growth from '25 onwards and then subsequently to improve the double-digit growth, which will settle somewhere around 15%. But this growth has been with all the factors which we have been just mentioning like a very robust order book position with very clear visibility and also being -- HAL being a major player in the industry and with so much of design and development projects on the unveil. So all this would mean that we will definitely have a good order book position, but the execution time line is also there. And with the execution time line, which we envisage, the growth of around 14% to 15% should be good enough for HAL at this point of time.

Moderator: Thank you. The next question is from the line of Shirom Kapur from Prabhudas Lilladher. Please go ahead.

Shirom Kapur: I just wanted to understand the INR48,000 crores order pipeline that you mentioned for FY '24, you said the AL-31 engines will be about INR26,000 crores, the 240 numbers. For the remaining orders in the pipeline, like FP RD-33 engines and you have 25 ALH, 12 LUH, 12 Su-30 and 9 Coast helicopters. Could you give the breakup of what the potential order of values would be to each of them?

C.B. Ananthkrishnan: Yes. INR48,000 crores basically major contracts, as we have indicated, it is the 240 number AL-31-FP, which is around INR26,000 crores. RD-33 is again some 80 numbers, which is expected to be around INR4,500 crores and 25 advanced light helicopter Dhruv grew should be around INR3,500 crores. And similarly, the light utility helicopters of 12 numbers should be in the range of almost INR2,500 crores. And of course, that additional SU-30 is what we are envisaging additional another 12 numbers, if it also materializes, that will give us an additional order of almost INR12,000 crores. So all this would make up for INR48,000 crores, which we expected to realize in the current financial year.

Moderator: The next question is from the line of Abhineet from Emkay Global. Please go ahead.

- Abhineet:** Yes. I mean the prospect that you talked about for the next 2, 3 years, I think one was in terms of LCH, which was INR45,000 crores. The others were NUH -- Naval Helicopter and others, if you can just quantify what could be those in terms of planning?
- C.B. Ananthkrishnan:** See, we have got AON approved that is an acceptance of necessity approved, other than what the projects which I have just now indicated as the anticipated contract and which we'll get to conclude in the current financial year, I'm leaving out of those things. Other than that, the AON approved projects for which the negotiations is yet to commence or rather the RFP is yet to be given. It's on this ALH coast guard of 9 numbers for which AON has been approved. Now the RFP will get floated, and we will be submitting our quote.
- Similarly, the UHM that is a supply contract of 60 numbers, which will happen after the sanction for development comes through and once we start developing the aircraft, then the supply contract should come, that is another INR20,000 crores. So similarly, the PBL contract for UHM, which we will be supplying is another INR13,000 crores. So the visibility where the AON that is the acceptance of necessity has been approved, where there is certainty of orders to HAL is around INR36,000 crores. So this process will start any time in this current financial year and will get concluded in the next 2 to 3 years' time line.
- And similarly, further where AON has not been approved, that is where visibility is there, where we are confident of getting the order, but where the AON is still to be approved is towards light combat helicopter Prachand SP contract, where 145 numbers we are indicating. Similarly, the light utility helicopter another 175 numbers is what we estimate. Then the trainer HTT-40 for which we have received 70, 36 additional we are likely to get. Of course, Dornier Navy and the Dornier IAF upgrades, that is, again, an upgrade program for which an almost 60 numbers is expected.
- So this broadly would mean that the AON's which has not been approved also for which visibility is there is another INR65,000 crores. So INR36,000 crores for already AON approved and INR65,000 crores is what, in our opinion, we will get the AON's approved, which will happen in the next 2 to 5 years' timeframe.
- Moderator:** Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead.
- Bhavin Vithlani:** Congratulations for good numbers. Just one question. In the ROH, if you could give the revenue breakup of SU-30 and the engines, that will be very helpful.
- C.B. Ananthkrishnan:** You are talking about the last financial year, that is FY '23.
- Bhavin Vithlani:** Yes. FY '23 as well as FY '22, it will be very helpful.
- C.B. Ananthkrishnan:** FY '23, in ROH, as I've already indicated, some 20 numbers of Sukhoi and 76 numbers of AL-31FP engine, that is Sukhoi engine. Apart from the rotables, and repair overhaul and around 30 numbers of ALH. So this is the platform for the repair and overhaul for FY '23. This number was for FY '22 is somewhere around 80 numbers, and Sukhoi overhaul was around 20 numbers.

Moderator: Thank you. The next question is from the line of Amit Bhide from Morgan Stanley. Please go ahead.

Amit Bhide: My question is one on the margin outlook as your manufacturing deliveries start from F '25 onwards. That's one. Second, provisioning we had been aiming to keep it around 7%, but in quarter 4 as well, it has been high. So how should we look at it going forward? And third, is there any other tax refund amount that's pending in dispute since 2016 till date?

C.B. Ananthkrishnan: As far as the tax amount is concerned, more or less everything has been concluded. I mean all the disputes have been settled. So there is nothing left out now. We have received the last refund sanction in the last quarter, that is January- March '23. So we don't have anything pending left with the department. So there will not be any further settlement of dispute as far as the IT department is concerned, income tax is concerned. Then on the...

Amit Bhide: Provisions.

C.B. Ananthkrishnan: Provisions, yes, 7% is what we are trying to maintain, but we are also trying to be as conservative as possible. The provisions which we have created in the current financial year is all towards, certain loan items which we have got from the Indian Airforce, we have created a provision because once we start supplying it, we'll have to give it back to them.

So we have created a provision for that. And again, replacement and other charges also we have created some provision. So all of this depends on actual incurrence of expenditure, this could be the maximum provision which we have created to see that it is on a conservative basis, and there will not be any further impact on the profitability.

But as we could see, this expenditure as and when it is incurred, we expect that there could be some savings on these provisions as well and which could come back as an income. So we expect that the provisions to be substantially reduced in the current financial year, considering the net impact of the withdrawal of provisions, which is expected to happen in the current financial year.

Moderator: The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.

Harshit Patel: Just wanted to get an idea as to what MiG-21 would contribute towards our overall ROH revenues? Because I think now that we are going to phase them out in next few years, I think that part of the revenues would go away from the ROH sale, would that understanding be right?

C.B. Ananthkrishnan: No. I mean we are not -- there is no MiG-21 overhaul at all as far as HAL is concerned. It is not forming part of our revenue stream at all. So we will not have any impact on the MiG-21, except for the engine R-25 engines we have been doing. In the last financial year, it did not make an impact in the FY '22, '23 itself, because that was not contributing a major revenue stream. So this MiG-21 is not having any major impact as far as HAL is concerned, it is hardly INR100 crores, which we are doing and doesn't make a real impact on us, the engines part of it alone. And no aircraft repair and overhaul at all.

Moderator: Due to time constraints, this was the last question. I would now like to hand the conference over to Harshit Kapadia for closing comments. Please go ahead, sir.

Harshit Kapadia: Thank you, Kelvin. We would like to thank Shri. C.B. Ananthkrishnan Director (Finance), CFO with an additional charge of CMD; Shri. Jayadeva E P, Director (Operations) with additional Charge of Director (HR), for to bring this opportunity to host this call. We would also thank all investors and analysts for joining for this call. Any closing remarks you want to share with investors and analysts, sir.

C.B. Ananthkrishnan: Yes. Thank you. We are really thankful for this opportunity and it has really given us also to clarify many of the doubts which were there in the minds of the various investors. And we are confident that with the sort of growth which we have been showing and with the sort of performance which HAL has been consistently been giving in the last 4 to 5 years and with more visibility of orders being out there in the pipeline. We are sure that the expectations of all the investors will be met. And I'm sure I'm very confident and I can assure that we will be in a position to deliver the goods to the investors, and the investors will always feel happy at the end of the day for having been associated with HAL. Thank you.

Moderator: Thank you. On behalf of Elara Securities India Private Limited, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.