ಹಿಂದೂಸ್ತಾನ್ ಏರೋನಾಟಿಕ್ಸ್ ಲಿಮಿಟೆಡ್
ಪ್ರಧಾನ ಕಛೇರಿ
हिन्दुस्तान एरोनाटिक्स लिमिटेड
मुख्यालय
HINDUSTAN AERONAUTICS LIMITED
CORPORATE OFFICE

CO/SEC/4(7)/2022-23/ BSE & NSE Filing/86

7th December, 2022

BSE Limited Listing Department Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001	National Stock Exchange of India Ltd Listing Department Exchange Plaza, 5th Floor, Plot No C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai – 400051

Dear Sir/ Madam,

Sub: Intimation of Rating

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

***

Pursuant to the Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulation, 2015, we hereby inform you that, based on the operational and financial performance of the Company, CARE Ratings Limited ("CARE") has reaffirmed its rating, as follows:

Facilities	Amount (Rs. in Crore)	Rating	Rating action
Long Term/Short Term Bank Facilities (both Fund based and Non-Fund based)	6,050.00	CARE AAA; Stable / CARE A1+ (Triple A; Outlook: Stable/ A One Plus)	Reaffirmed
Total Facilities	**6,050.00**		

2. CARE communication dated 6th December, 2022 for assignment of credit rating, is enclosed.

3. This is for your information and records.

Thanking you,

Yours Faithfully
For Hindustan Aeronautics Ltd

SHAILESH
BANSAL

Digitally signed by SHAILESH BANSAL
DN: c=IN, postalCode=560093, st=KARNATAKA, street=QUARTER NUMBER FD 39 HAL SENIOR OFFICERS ENCLAVEBENGALURUOLD MADRAS ROADC V RAMAN NAGAR POST 560093, l=BENGALURU, o=Personal, title=9169, serialNumber=2fa74fb29e5b22e3f69ce9f4b2744722d3b2e10640bec0245509ef4767c45738, pseudonym=916920221102135617427, 2.5.4.20=0c1e98bc63a69fb52335123f2b1199152a349797bc575a30e199cb9152024f8f, email=SHAILESH1245@HOTMAIL.COM, cn=SHAILESH BANSAL
Date: 2022.12.07 12:49:16 +05'30'

(Shailesh Bansal)
Joint Company Secretary & Compliance Officer

www.hal-india.co.in

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CareEdge RATINGS

Hindustan Aeronautics Limited

December 06, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term/Short-term bank facilities	6,050.00 (Reduced from 12,050.00)	CARE AAA; Stable/CARE A1+ (Triple A; Outlook: Stable/A One Plus)	Reaffirmed
Total bank facilities	**6,050.00 (₹ Six thousand fifty crore only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Hindustan Aeronautics Limited (HAL) continue to factor in the strategic importance of HAL to the Government of India (GoI) as its core defence aviation equipment supplier with HAL's integrated presence through design, development, manufacturing, maintenance and overhaul of aviation products for the Indian defence forces. GoI continues to have majority ownership in the company despite divestment of part of its stake in August 2020.

The ratings also take comfort from the high-entry barrier in the business considering the capital intensity and long gestation period required for developing the manufacturing and servicing facilities. HAL continues to invest in research and development resulting in continually improving product portfolio in a technology-intensive industry. The government's initiatives for promoting domestic manufacturing and HAL's established relationship with its customers is expected to continue to benefit HAL in the long run, though there might be some increase in the competition from the private sector.

The order book of HAL remains healthy at ₹83,858 crore as on September 30, 2022 (₹80,640 crore as on March 31, 2021) including manufacturing orders mainly for various models of helicopters and aircraft of around ₹59,000 crore which provides long-term revenue visibility. The repair and over-hauling (ROH) order book where the gross margins are relatively higher has also been increasing and provides stability to revenue.

The ratings also factor in the healthy operating performance of the company in FY22 (refers to the period April 1 to March 31) and H1FY23 marked by improvement in total operating income (TOI) and profit levels. Receivables remaining under control and significant advances outstanding for the orders under execution have led to negligible reliance of HAL on external borrowings and nil utilisation of its fund-based working capital limits. The liquidity remained strong at ₹16,783 crore as on September 30, 2022.

Going ahead, as strongly articulated by the company, HAL's collection period is expected to remain under control which would result in continued low reliance on debt and maintenance of significant surplus liquidity notwithstanding the dividend pay-out.

The ratings also take note of HAL's high dependence on the Ministry of Defence, GoI, for the contracts and the annual budget allocation towards strengthening the defence infrastructure, apart from the risk associated with time or cost overrun in execution which might impact profitability.

Rating sensitivities

Positive Factors – *Factors that could lead to positive rating action/upgrade:* Not applicable

Negative Factors - *Factors that could lead to negative rating action/downgrade*

- Any significant fall in the company's order book and/or substantial dilution of GoI stake in the company
- Substantial increase in bank borrowings on a sustained basis resulting in significant deterioration of its leverage
- Significant decline in its surplus liquidity in the form of cash and cash equivalents maintained by the company

Detailed description of the key rating drivers

Key rating strengths

HAL's strategic importance to the Indian defence sector and GoI's majority ownership:

HAL is a Navratna Central PSU promoted and majorly owned by GoI. HAL plays a strategic role in India's defence programme being the major Indian company having specialisation in aircraft manufacturing and providing its ROH services. Furthermore, HAL has an established track record in offering product life cycle support. The company's competitive position remains strong as it maintains leadership position in the Indian Aerospace and Defence industry, being GoI's prime defence contractor and supported by defence outlays of the GoI.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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Strong order book providing healthy revenue visibility:
HAL's order book remained healthy at ₹83,858 crore as on September 30, 2022 (March 31, 2022: ₹82,154 crore; March 31, 2021: ₹80,640 crore) majorly contributed by manufacturing of various models of helicopters and aircraft of around ₹59,000 crore to be executed over the next 5-8 years. Majority of the manufacturing orders are for the supply of 83 Light Combat Aircraft (LCA) and 15 Light Combat Helicopters (LCH). The ROH order book remained healthy at ₹23,135 crore and is expected to remain robust in the near to medium term as HAL undertakes the repair and maintenance work of aircraft manufactured by it for its entire life as well as for aircraft manufactured by others for which it has built infrastructure across the country. Furthermore, there remains visibility of future orders with strong order pipeline and new orders anticipated for various aircrafts in the near to medium term.
Given the significantly long tenure of its contracts, HAL enters into variable price contracts with its customers, viz., Indian Airforce, Indian Army and Indian Navy, which have escalation clauses for increase in cost including forex fluctuation on procurement and y-o-y escalation built-in the pricing of its long-term contracts. This protects its margins from forex and raw material price escalation to a large extent. However, profitability may get impacted due to time or cost overrun in case there is execution delays at HAL's end.

Strong financial risk profile marked by healthy profitability and cash accruals; which are likely to sustain in medium-term:
HAL continues to have a sizeable scale of operations and the total operating income grew y-o-y by 8% from ₹22,539 crore in FY21 to ₹24,438 crore in FY22 majorly on the back of increase in revenue from repairs and maintenance of aircraft. The PBILDT margin stood healthy at 22.28% in FY22 as against 22.70% in FY21. The company earned Gross Cash Accruals (GCA) of ₹5,634 crore in FY22 as against ₹4,839 crore in FY21. Its debt coverage indicators remain strong due to low reliance on external borrowings. Its income is likely to get a fillip from FY24 onwards once deliveries start for 83 LCA in a staggered manner.
In H1FY23, HAL achieved PAT of ₹1816 crore on TOI of ₹8767 crore as against PAT of ₹1047 crore and TOI of ₹7168 crore in H1FY22. The profitability and debt coverage indicators are expected to remain healthy going forward.

Improvement in the operating cycle and continued low reliance on debt:
The receivables of HAL reduced to ₹4,642 crore as on March 31, 2022 as against ₹5,639 crore as on March 31, 2021, and ₹11,743 crore as on March 31, 2020. The outstanding receivables were majorly from GoI (primarily relating to supplies to the IAF). The government released substantial payment to HAL in February 2021 resulting in noteworthy improvement in its receivable days to 135 days in FY21 as against 201 days in FY20. It further improved to 76 days in FY22.
HAL also receives advance from its customers against the contracts which constitutes a stable source of funding its working capital requirement. The advances increased to ₹26,662 crore as on March 31, 2022, as against ₹25,725 crore as on March 31, 2021.
Timely realisation of dues and increase in advances has resulted in continued low reliance on debt to fund working capital requirement. The same resulted in the overall gearing ratio of almost nil as on March 31, 2022. The company has strongly articulated that going forward HAL's debt level is expected to remain low on the back of sustaining its improved collection period.

Fully-integrated production capabilities and continually improving product portfolio:
Over the years, HAL has developed its capability to operate in the entire value chain of the aviation production right from design, development, manufacturing, maintenance, repair and overhaul. The company has 20 production/overhaul divisions and 10 R&D centers co-located with production divisions across the country. Apart from design and manufacturing, HAL takes up maintenance and overhaul services to cover the life cycle requirement of all the old and new products, which is also a very important revenue generator for HAL. The company is also setting up a new facility in Karnataka to expand its manufacturing capacity for defence helicopters and other products. The total cost of the capex is estimated to be around ₹5,000 crore spread over a period of five years out of which the company has already committed around ₹900 crore till October 31, 2022. The project is proposed to be entirely funded out of internal cash generation.

Strong research and development capabilities:
HAL is present in an industry which demands constant innovation and technological advances. Consequently, it is critical for HAL to adapt to technological advancements and absorb imported technologies. In order to ensure the same, the company has been regularly spending on R&D through its 10 R&D centres. The company has been making dedicated contribution towards R&D costs over the years and is expected to continue doing the same in future.

Liquidity: Strong:
HAL's liquidity stood strong marked by free cash and cash equivalents of ₹14,343 crore as on March 31, 2022, which further increased to about ₹16,783 crore as on September 30, 2022. Furthermore, there has been negligible utilisation of its sanctioned fund-based working capital limits of ₹6,050 crore over the past 12 months ended September 30, 2022. The cash accruals remain healthy and are expected to comfortably meet its working capital and the planned capex requirement for its new plant being set up in Karnataka over a period of next five years. The company does not have any term debt repayment obligations. Furthermore, the company derives significant financial flexibility by virtue of it being majorly held by GOI and its strategic importance to the defence sector.

Key rating weaknesses
Prospects of the company depend on Indian Defence sector with limited exports:
HAL derives majority of its revenues from the Indian defence sector. Accordingly, continuous flow of orders from defence segment which in turn is dependent upon defence budget is critical for the company's prospects. Apart from licensed production, HAL has focused on development of indigenous aircrafts and helicopters which can be translated into production orders and shall give revenue visibility for the next 5-10 years. Moreover, the company has been making efforts towards improving exports and aims to secure export orders with its existing platforms. However, the level of export continues to remain low.

Increasing private sector participation:
Due to relaxation in foreign direct investment (FDI) guidelines to ease entry of foreign companies in India, there has been increase in alliance and collaboration between foreign original equipment manufacturers (OEMs) and Indian private companies coupled with government thrust on private participation in defence production. This may result in competition in the sector but given the huge investments required and HAL's established position in the sector along with its strategic relationship with its customers, competition is not expected to significantly impact the company in the medium term.

Analytical approach: Standalone along with strategic importance to GoI. Investments in the defence sector are critical to the government as seen from sustained annual budget allocation to the sector.

Applicable criteria
Policy on default recognition
Factoring Linkages Government Support
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company
HAL was incorporated in 1964 by the amalgamation of Hindustan Aircraft Limited and Aeronautics India Limited and is a 'Navratna' company. GoI held majority stake of 75.15% in the company as on September 30, 2022, while 5.01% was held by the Life Insurance Corporation of India. HAL is into carrying out design, development, manufacture, repair and overhaul of aircraft, helicopter, engines and related systems like avionics, instruments and accessories primarily serving Indian defence programme. It also manufactures the structural parts of various Satellite Launch Vehicles of the Indian Space Research Organization (ISRO).

Brief Financials of HAL (₹ crore)	FY21 (A)	FY22 (A)	H1FY23 (UA)
Total operating income	22,539	24,438	8,767
PBILDT	5,115	5,444	2,452
PAT	3,239	5,087	1,816
Overall gearing (times)	0.00	0.00	0.00
Interest coverage (times)	24.13	574.83	2452.00

A: Audited; UA: Unaudited
Ratios are classified as per CARE Ratings standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	6050.00	CARE AAA; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	6050.00	CARE AAA; Stable / CARE A1+	-	1)CARE AAA; Stable / CARE A1+ (20-Sep-21)	1)CARE AA+; Stable / CARE A1+ (03-Jul-20)	1)CARE AA+; Stable / CARE A1+ (26-Dec-19)
2	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (28-Jun-21)	1)CARE A1+ (03-Jul-20)	1)CARE A1+ (14-Jan-20)
3	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (28-Jun-21)	1)CARE A1+ (03-Jul-20)	1)CARE A1+ (09-Mar-20)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Available

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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