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

CO/SEC/4(7)/2023-24/ BSE & NSE Filing/86

6th March, 2024

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

2. CARE communication dated 5th March, 2024 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

(Shailesh Bansal)
Company Secretary & Compliance Officer

15/1, ಕಬ್ಬನ್ ರೋಡ್, ಬೆಂಗಳೂರು - 560 001, ಕರ್ನಾಟಕ, ಭಾರತ, 15/1, कब्बन रोड, बेंगलूर - 560 001, कर्णटक, भारत
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CIN: L35301KA1963GOI001622

Hindustan Aeronautics Limited

March 05, 2024

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	6,050.00	CARE AAA; Stable / CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Hindustan Aeronautics Limited (HAL) continue to factor in its strategic importance 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 (71.64%) in the company despite divestment of part of its stake over past two years.

The ratings also derive 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 (R&D) 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 ₹84,814 crore as on December 31, 2023 (₹83,858 crore as on September 30, 2022) including manufacturing orders mainly for various models of helicopters and aircraft of around ₹56,569 crore which provides long-term revenue visibility. The repair and over-hauling (ROH) order book where the gross margins are relatively higher has also remained healthy at ₹28,277 crore, providing stability to its revenue.

The ratings also factor in the healthy operating performance of the company in FY23 (refers to the period April 1 to March 31) and 9MFY24 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 marked by free cash and cash equivalents of ₹20,215 crore as on December 31, 2023.

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: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- 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

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

Outlook: Stable

CARE Ratings believes that HAL will continue to benefit from its strategic importance to the Indian defence forces resulting in maintaining its leadership position in the Indian Aerospace and Defence industry supported by long track record of operations and high entry barriers along with maintaining its highly comfortable financial risk profile.

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

Detailed description of the key rating drivers

Key strengths

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

HAL is a Navratna Central Public Sector Undertaking (PSU) promoted and majorly owned by GoI. HAL plays a strategic role in India's defence programme being the major Indian company having specialization 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.

Strong order book providing healthy revenue visibility

HAL's order book remained healthy at ₹84,814 crore as on December 31, 2023 majorly contributed by manufacturing of various models of helicopters and aircraft of around ₹56,569 crore to be executed over the next five to six years. Major orders in the manufacturing segment pertains to supply of 83 Light Combat Aircraft-Mk1A version (LCA), 70 HTT-40, 6 LCA IOC/FOC, 4 Dornier apart from various aerospace structures for PSLV and GSLV. The ROH order book remained healthy at ₹28,277 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 wherein orders for procurement of new platforms viz. Advanced Light Helicopter (ALH), Light Utility Helicopter (LUH), Additional Su-30, AL31 FP Engines and RD-33 Engines and mid-life upgrade of D0-228 Aircraft aggregating to ₹55,000 crore are in the advance stage of conclusion and are anticipated to be received within next three to siz months. In addition, orders for procurement of additional 97 Nos of LCA, 156 Nos of Light Combat Helicopter (LCH), 60 Nos Utility Helicopter-Maritime (UHM) including Performance Based Logistics (PBL) Contract, among others aggregating to ₹158,000 crore have been approved by the Defence Acquisition Council and the orders against the same are anticipated within next 18-24 months.

Given the significantly long tenure of its contracts, HAL enters into variable price contracts with its customers, Indian Airforce, Indian Army and Indian Navy, wherein the future escalation is built into the prices excluding forex fluctuation on procurement. The forex fluctuations are paid on an actual basis by the customers. 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 and continued improvement in its collection period

HAL continues to have a sizeable scale of operations and the TOI grew y-o-y by 8% to ₹26,397 crore in FY23 majorly on the back of increase in revenue from repairs and maintenance services. The PBILDT margin stood healthy at 25.68% in FY23. Income tax refund of ₹1193 crore and ₹973 crore further supported profitability in FY22 and FY23 respectively. The company earned gross cash accruals (GCA) of ₹7,000 crore in FY23 as against ₹5,634 crore in FY22. Its debt coverage indicators remain strong due to low reliance on external borrowings. The revenue contribution from manufacturing activities declined in FY22 and FY23 y-o-y, as majority of the manufacturing orders were completed, and the new contracts were under manufacturing and in development phase and delivery of the same is expected to be booked in FY25 onwards. Accordingly, its income is likely to get a fillip from FY25 onwards once deliveries start for 83 LCA Mk1A in a staggered manner.

In 9MFY24, HAL registered TOI of ₹15,612 crore and profit after tax (PAT) of ₹3,303 crore as against TOI of ₹14,433 crore and PAT of ₹2,970 crore registered in 9MFY23. CARE Ratings expects the profitability and debt coverage indicators to remain healthy, going forward.

The total receivables of HAL continued to remain below ₹5000 crore as on balance sheet date for past two years ended FY23 as it had realised substantial payment from government in FY22. The collection period has improved from 135 days in FY21 to 64 days in FY23. HAL also receives advances from its customers against the contracts which constitutes a stable source of funding its working capital requirement. The advances stood robust at ₹28,981 crore as on March 31, 2023 which further increased to ₹32,588 crore as on December 31, 2023. Timely realisation of dues and increase in advances has resulted in continued low reliance on debt to fund its working capital requirement. The same resulted in the overall gearing ratio of almost nil as on March 31, 2023. 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 centres 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. HAL's MRO capabilities presently include providing services to more than 17 types of aircrafts/helicopters, which also includes aircrafts not manufactured by HAL. The company has also set up a new facility in Karnataka (Tumakuru) to expand its manufacturing capacity for defence helicopters and other products which was entirely funded through internal accruals.

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. To ensure the same, the company has been regularly spending on R&D through its 10 R&D centres. The company has been making a 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 around ₹20,300 crore as on March 31, 2023 which stood at ₹20,215 as on December 31, 2023. There has been negligible utilisation of its sanctioned fund-based working capital limits of ₹4000 crore over the past 12 months ended December 31, 2023, as the working capital requirement is met out of internal accruals and advances from its customers. The company reported cash flow from operations of ₹9,406 crore in FY23. Its cash accruals also remain healthy and are expected to comfortably meet its working capital and the routine capex requirements of ₹1800-2000 crore p.a. The company does not have any term debt repayment obligations and has completed Phase-1 of capex at Tumakuru with capacity of 30-helicopter unit while second phase for increasing its capacity to 60 helicopters p.a. will be contingent upon order inflow. The company derives significant financial flexibility by virtue of it being majorly held by GOI and its strategic importance to the defence sector.

Key weaknesses

Prospects of the company dependent on Indian defence sector with limited exports

HAL derives majority of its revenues from the Indian defence sector. Accordingly, the continuous flow of orders from defence sector 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 quantum 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. Although this may result in competition in the sector, given the huge investments required and HAL's established position in the sector and its strategic relationship with its customers, competition is not expected to significantly impact the company in the medium term.
Over the years, HAL has indigenously developed various platforms starting from trainers, fighters and helicopters. These platforms are custom designed to meet the diverse requirements of the Armed Forces and these platforms give HAL significant advantage against the competition. Besides, HAL has license for providing life-cycle support for platforms such as Su-30, HAWK, Mirage and Jaguar, among others.

Environment, social and governance (ESG) risk assessment

Risk factors	Compliance and action by the company
Environmental	• The waste generated by the company is recycled through authorized recyclers and on-site composting machines (in facilities and residential establishments) and remaining waste is disposed through State Pollution Control Board approved landfill/incineration facilities. • The company has made investments in an effluent treatment plant (ETP) with Zero Liquid discharge (ZLD) system. • Sewage treatment plants (STPs) and ETPs have been installed at the production locations for treating waste-water/effluent. The treated water is used for gardening and other non-potable uses. • The company undertakes greenhouse gas (GHG) inventory accounting and disclosures on Scope-1 and Scope-2 emissions. HAL has lowered its Scope-1 and Scope-2 emissions by 17% y-o-y in FY23.

Risk factors	Compliance and action by the company
	• The company has initiated a project for evaluation of 10% blended bio-jet-fuel on Do-228 aircraft and has 48.77 MW of installed renewable energy capacity for captive consumption at production sites.
Social	• The company has taken around 14 CSR projects, wherein there were 13 lakh beneficiaries in FY23. • In FY23, there were no complaints relating to child labour, forced labour/involuntary labour, wages, discrimination at work place and other human rights-related issues except one complaint for sexual harassment at workplace which was resolved by end-FY23. • Around 98% of the employees and workers are part of recognised associations and unions and there were no complaints pending for resolution as at end-FY23 pertaining to working conditions and health & safety. • There were no consumer complaints pending for resolution at the end of FY23.
Governance	• Out of total strength of eight directors on its board, two are independent directors and due to non-appointment of requisite number of independent Directors, HAL was imposed fines by BSE and NSE. HAL being a CPSE, the appointment of Directors is made by GoI and the company has no control over filling up the vacancy within the stipulated time frame specified under the Act/ Rules / Regulations. • In FY23, there were no whistle-blower complaints received from the employees and directors by the company. The company received 173 complaints from shareholders, all of which were resolved at the end of FY23. • A comprehensive policy on Related Party Transactions (RPT) has been approved by the Board as per the SEBI (LODR) Regulations and Companies Act and company makes regular disclosure of RPT transactions on its website.

Applicable criteria

Definition of Default
Factoring Linkages Government Support
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital goods	Aerospace & defence	Aerospace & defence

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 71.64% in the company, while 1.59% was held by the Life Insurance Corporation of India as on December 31, 2023. HAL is engaged in 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 structural parts of various satellite launch vehicles of the Indian Space Research Organization (ISRO).

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	9MFY24 (A)
Total operating income	24,438	26,397	15,612
PBILDT	5,444	6,780	3,843
PAT	5,087	5,811	3,303
Overall gearing (times)	0.00	0.00	0.00
Interest coverage (times)	574.83	175.09	5,821.97

A: Audited; Note: 'the above results are latest financial results available'.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history of last three years: Please refer to Annexure-2

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

Complexity level of various facilities rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of 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 of 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 2023-2024	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
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+ (06-Dec-22)	1)CARE AAA; Stable / CARE A1+ (20-Sep-21)	1)CARE AA+; Stable / CARE A1+ (03-Jul-20)
2	Commercial paper-Commercial paper (Carved out)	ST	-	-	-	-	1)Withdrawn (28-Jun-21)	1)CARE A1+ (03-Jul-20)
3	Commercial paper-Commercial paper (Carved out)	ST	-	-	-	-	1)Withdrawn (28-Jun-21)	1)CARE A1+ (03-Jul-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated:

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

Annexure-5: Lender details

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

Annexure-6: List of all the entities consolidated: Not applicable

Note on the 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.

Contact us

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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.

For the detailed Rationale Report and subscription information,
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