Hindustan Aeronautics Limited

April 03, 2025

Facilities	Amount (₹ crore)	Ratings[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

Ratings assigned to 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 in the last few years.

Ratings also derive comfort from high-entry barriers in the business considering capital intensity and long gestation period required for developing, 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.

HAL's order book improved significantly to ₹1,33,238 crore as on December 31, 2024 (₹84,814 crore as on December 31, 2023), including manufacturing orders mainly for various models of helicopters, engines and aircraft of ₹1,04,222 crore, which provides long-term revenue visibility. The repair & over-hauling (ROH) and spares order book, where the gross margin is relatively higher also remained healthy at ₹25,294 crore, providing stability to its revenue.

Ratings also factor in the healthy operating performance of the company in FY24 (refers to April 01 to March 31) and 9MFY25 marked by improvement in total operating income (TOI) and profit levels. Receivables remaining under control and significant amount of interest-free 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. Liquidity remained strong marked by free cash and cash equivalents of ₹25,307 crore as on December 31, 2024.

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

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Significant fall in the company's order book and/or dilution of GoI stake below majority in the company.
- Substantial increase in bank borrowings on a sustained basis resulting in total debt/profit before interest, lease rentals, depreciation and taxation (TD/PBILDT) exceeding 0.50x on a sustained basis.
- Significant decline in the compnay's surplus liquidity in the form of cash and cash equivalents maintained.

Analytical approach: Standalone

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, high entry barriers and maintaining its highly comfortable financial risk profile.

Detailed description of key rating drivers:

Key strengths

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

HAL is a Maharatna (w.e.f October 14, 2024) Central Public Sector Enterprise (CPSE) promoted and majorly owned by GoI. HAL

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

plays a strategic role in India's defence programme being a major Indian company having specialisation in aircraft manufacturing and providing its ROH services. 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 ₹1,33,238 crore as on December 31, 2024, majorly contributed by manufacturing of various models of helicopters and aircraft and orders for manufacturing of engines of ~₹1,04,222 crore to be executed in the next 5-6 years. The ROH and spares order book remained healthy at ₹25,294 crore and is expected to remain robust in the near-to-medium term as HAL undertakes repair and maintenance work of aircraft manufactured by it for its entire life and for aircraft manufactured by others, for which it has built infrastructure across the country. The balance order book is from design & development projects and exports, which together stood at ₹3,721 crore as on December 31, 2024.

There remains visibility of future orders with strong order pipeline, where orders for procurement of new platforms 156- Light Combat Helicopter (LCH) and 97- Light Combat Aircraft-Mk1A aggregating to ~₹1,30,000 crore are in the advance stage of conclusion and are anticipated to be received within the next 3-6 months. In addition, orders for procurement of additional 60 Nos Utility Helicopter-Maritime (UHM) and 43- Advanced Light Helicopter (ALH) among others aggregating to ₹25,000-30,000 crore, orders against them are anticipated within the next 18-24 months.

Given the significantly long-tenure of its contracts, HAL enters variable price contracts with its customers, Indian Airforce, Indian Army and Indian Navy, where future escalation is built into prices excluding forex fluctuation on procurement. Forex fluctuations are paid on an actual basis by 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

HAL continues to have a sizeable scale of operations, and the TOI grew y-o-y by 7% to ₹28,314 crore in FY24, majorly considering increase in revenue from repairs and maintenance services. The PBILDT margin stood healthy at 27.30% in FY24. The company earned gross cash accruals (GCA) of ₹8,700 crore in FY24 against ₹7,000 crore in FY23. Its debt coverage indicators remain strong due to low reliance on external borrowings. Timeline for induction of 83 LCA Mk1A aircraft is expected to receive a boost starting from FY26. This follows delays in engine supply, which have pushed back the initial delivery schedule from the originally planned FY24 and FY25.

Continued low debt position

HAL's total receivables continued to remain below ₹4800 crore as on balance sheet date in the last three years ended FY24 as it had realised substantial payment from government in FY22. The average collection period has steadily improved in the last three fiscals with 60 days in FY24. HAL also receives advances from its customers against contracts, which constitutes a stable source of funding its working capital requirement. Advances stood robust at ₹32,618 crore as on March 31, 2024. Timely realisation of dues and increase in advances has resulted in continued low reliance on debt to fund its working capital requirement. This resulted in overall gearing ratio of almost nil as on March 31, 2024. The company has strongly articulated that going forward HAL's debt level is expected to remain low considering 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 nine 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 old and new products, which is also an important revenue generator for HAL. HAL's MRO capabilities presently include providing services to over 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 this, the company has been regularly spending on R&D through its nine R&D centres. The company has been making a dedicated contribution towards R&D costs over the years and is expected to continue doing it in the future.

Liquidity: Strong

HAL's liquidity stood strong marked by free cash and cash equivalents of ~₹26,421 crore as on March 31, 2024, which stood at ₹25,307 crore as on December 31, 2024. There has been negligible utilisation of its sanctioned fund-based working capital limits of ₹4000 crore for 12 months ended December 31, 2024, as the working capital requirement is met from internal accruals and advances from its customers. The company reported cash flow from operations of ₹8,671 crore in FY24. Its cash accruals also remained healthy and are expected to comfortably meet its working capital and the routine capex requirements of ₹2000-3000 crore per annum. The company does not have 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 being majorly held by GOI and its strategic importance to the defence sector.

Key weaknesses

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

HAL derives majority revenues from the Indian defence sector. Accordingly, continuous flow of orders from defence sector, which in turn is dependent upon the defence budget, is critical for the company's prospects. Apart from licensed production, HAL 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. The company has been making efforts towards improving exports and aims to secure export orders with its existing platforms. However, 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 sector companies, coupled with the government's thrust on private sector participation in defence production. Although this may result in competition in the sector, given the huge investments required, 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 diverse requirements of Armed Forces and these platforms give HAL significant advantage against the competition. HAL also has the 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	• HAL made investments towards rainwater harvesting systems, energy efficient air-conditioners, sewage treatment plants, energy efficient pumps, bio-gas plant and energy efficiency lighting. • HAL manages waste by segregating it at the source, converting biodegradable waste into manure, and using bio-gas plants. Metal scrap is disposed off through MSTC Limited. They also recycle wastepaper into various products such as writing pads and bags. • HAL generates e-waste from electrical and electronic systems, which are segregated and collected at the source. This e-waste is stored in designated areas and auctioned through MSTC Limited for disposal by authorised dismantlers, recyclers, or refurbishes. • Most divisions have taken initiatives towards banning plastics bags / articles and declaring 'No-Plastics' Zones. Non-bio-degradable waste including polythene among others, are collected and sent to recycling agencies. • Total of 7.57 MW capacity of rooftop solar power plants has been installed till March 31, 2024. Projects for installing another 1.4 MW capacity rooftop solar power plants are in progress. Total of 26.50 MW capacity ground mounted solar power plants have been installed.
Social	• The company has taken CSR projects, where ₹119.98 crore has been spent against the CSR budget/ obligation of ₹109.31 crore for FY24. • In FY24, there were no complaints relating to child labour, forced labour/involuntary labour, wages, discrimination at workplace and other human rights-related issues except one complaint for sexual harassment at workplace, which was resolved by end-FY24. • Around 95.50% employees and workers are part of recognised associations and unions and there was one complaint pending for resolution as at end-FY24 pertaining to working conditions and health & safety (each). • There were no consumer complaints pending for resolution at the end of FY24.
Governance	• 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.

Risk factors	Compliance and action by the company
	• In FY24, there were no whistle-blower complaints received from employees and directors by the company. The company received 152 complaints from shareholders, all of which were resolved at the end of FY24. • A comprehensive policy on Related Party Transactions (RPT) has been approved by the Board as per the listing regulations and Companies Act and company makes regular disclosure of RPT transactions on its website. Further as per the threshold mentioned in the RPT Policy, there were no material related party transactions with any of the related parties.

Applicable criteria

Definition of Default
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

Macroeconomic 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 'Maharatna' (w.e.f October 14, 2024) company. GoI held majority stake of 71.64% in the company, while 2.53% was held by the Life Insurance Corporation of India as on December 31, 2024. HAL is engaged in carrying out design, development, manufacture, repair and overhaul of aircraft, helicopter, engines and related systems including 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)	FY23 (A)	FY24 (A)	9MFY25 (UA)
Total operating income	26,397	28,314	17,281
PBILDT	6,780	7,731	4,311
PAT	5,811	7,595	4,359
Overall gearing (times)	0.00	0.00	NA
Interest coverage (times)	175.09	686.56	Very High

A: Audited UA: Unaudited; NA: Not Available; Note: these are latest available financial results

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: Annexure-5

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 and 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 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 2024-2025	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
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+ (05-Mar-24)	1)CARE AAA; Stable / CARE A1+ (06-Dec-22)	1)CARE AAA; Stable / CARE A1+ (20-Sep-21)
2	Commercial Paper-(Carved out)	ST	-	-	-	-	-	1)Withdrawn (28-Jun-21)
3	Commercial Paper-(Carved out)	ST	-	-	-	-	-	1)Withdrawn (28-Jun-21)

ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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

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