

Hindustan Aeronautics Limited

January 03, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term/Short term- Bank Facilities	2500	CARE AAA; Stable/ CARE A1+ (Triple A; Outlook: Stable/ A One Plus)	Reaffirmed
Total	2500 (Rs. Two Thousand five Hundred crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings of bank facilities of Hindustan Aeronautics Limited (HAL) continues to derive strength from its strategic importance as the core aviation equipment supplier to the Indian Defence sector with complete ownership by Government of India (GoI), integrated presence through design, development, manufacturing, maintenance & overhaul of aviation products as well as its strong financial risk profile backed by assured margin structure and significant advance funding by customer and milestone payments resulting in negligible borrowings and robust liquidity. The ratings factor in HAL's high dependency upon Indian Defense sector. The ratings also take note of HAL initiating the IPO process involving sale of 10% stake (3.615 crore equity shares) in the company. Going forward, the company maintaining its dominant and strategic position amidst any likely competition in the long term would be a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

HAL's strategic importance to Indian Defence Sector: HAL is promoted and wholly owned by Government of India (GoI). HAL plays a strategic role in India's defence program being the only Indian company having specialization in aircraft manufacturing and providing its Maintenance, Repair and Overhauling services (MRO). The company's competitive position is strong being GoI's prime defence contractor and supported by defence outlays by GoI.

Fully integrated operational capabilities: Over the years, HAL has developed its capability to operate under entire value chain of the production right from design, development, manufacturing, maintenance, repair and overhaul of aviation products. Company has 20 Production/ Overhaul division and 11 R&D centers co-located with production divisions across the country. HAL has entered into license agreements with various international companies from Russia and Europe for transfer of technologies. Out of 31 types of aircraft produced by the company as on March 31, 2017, 17 have been of indigenous design whereas remaining 14 are being produced under license. Apart from design and manufacturing, company also derives sizeable income from providing Maintenance, Repair and Overhaul (MRO) services. HAL's MRO capabilities presently include providing services to 13 types of aircrafts/helicopters.

Strong financial risk profile: HAL's financial risk profile is backed by assured margin structure and significant advance funding by customer and milestone payments resulting in negligible borrowings and robust liquidity. HAL enters into long-term variable price contract with its customers, viz, Indian Airforce, Indian Army and Indian Navy for a period of 15-20

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

years, which ensures order book visibility with assured margins. HAL operating margins have been fairly stable at 22.69% in FY17 as against 22.40% in FY16. The company receives 10% of the order value as advance payment while remaining amount as milestone payments depending upon the progress of the order book. These healthy customer advances has helped the company in executing its projects and funding its R&D expenditure without relying on debt. As of July 31, 2017, HAL order book stood at Rs. 63,333 crore.

Analytical approach: Standalone

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[CARE's Criteria on assigning Short-term rating](#)

[Financial ratios: Non-Financial sector](#)

[CARE's Criteria On Manufacturing Industries](#)

About the Company

Hindustan Aeronautics Limited (HAL), a Navratana Company, is wholly owned by Government of India (GoI). Incorporated in 1964 by amalgamation of Hindustan Aircraft Limited and Aeronautics India Limited, 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 program. It also manufactures the structural parts of various Satellite Launch Vehicles of the Indian Space Research Organization (ISRO).

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	18363.4	19002.2
PBILDT	4076.5	4311.7
PAT	2004.8	2621.7
Overall gearing (times)	0.15	0.05
Interest coverage (times)	NM	421.9

A: Audited

Status of non-cooperation with previous CRA: ICRA had suspended the rating of HAL due to lack of co-operation from the company.

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit

Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	-	-	-	2500.00	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 (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	LT/ST Fund-based/Non-fund-based-EPC / PCFC / FBP / FBD / WCDL / OD / BG / SBLC	LT/ST	2500.00	CARE AAA; Stable / CARE A1+	-	1) CARE AAA; Stable / CARE A1+ (06-Jan-17) 2) CARE AAA / CARE A1+ (04-May-16)	-	-

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