Hindustan Aeronautics Limited

January 07, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term/Short term Bank Facilities	2500.0	**CARE AAA; Stable/ CARE A1+ (Triple A; Outlook: Stable/ A One Plus)**	**Reaffirmed**
Total	**2500.0 (Rs. Two thousand five 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 majority 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. The ratings factor in HAL's high dependency upon Indian Defense sector. The ratings also take note of restricted release from allocated budget by customers resulting in significant increase in receivables and consequentially increased reliance on borrowings. Going forward, the company maintaining its dominant and strategic position amidst any likely competition in the long term and timely realization of receivables would be key rating sensitivities.

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, 2018, 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. However, in 9MFY19, there is increased reliance on borrowings due to delay in receipt of advances from customers. Company's GCA continues to be healthy at Rs.3040 crore in FY18. HAL operating margins have been stable at 21.49% in FY18 as against 21.20% in FY17. As of March 31, 2018, HAL order book stood at Rs. 61,123 crore providing revenue visibility for near to medium term.

Key Rating Weaknesses

Prospects of company depend on Indian Defence sector: HAL's derives revenue of 97.97% (FY17:96.90%) from sales and services to Indian Defence sector. Continuous flow of orders from defence segment which in turn is dependent upon defence budget is critical for company's prospects.

Liquidity profile: HAL receives significant advance funding by customer and milestone payments resulting in negligible borrowings and robust liquidity. These healthy customer advances has helped the company in

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

executing its projects and funding its R&D expenditure without relying on debt, however delay in disbursement of sanctioned budget has resulted in high receivables position and the same leading to decline in cash and bank balance to Rs.725 crore as on September 30, 2018 as against Rs.5856 crore as on March 31, 2018. The growing receivables position is proposed to be funded by way of short term borrowings however it is expected that the receivables shall be realized soon post resolution of constraints in budget allocation and release.

Analytical approach: Standalone alongwith its strategic importance to GOI.

Applicable Criteria

- CARE's methodology for manufacturing companies
- CARE's methodology for Short-term Instruments
- Criteria on assigning Outlook to Credit Ratings
- CARE's policy on Default Recognition
- Financial Ratios-Non Financial Sector

About the Company

Hindustan Aeronautics Limited (HAL), was incorporated in 1964 by amalgamation of Hindustan Aircraft Limited and Aeronautics India Limited, is a Navratana Company. Government of India (GoI) holds majority stake of 89.97% following listing of shares on March 28, 2018. 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 (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	18635.5	19010.3
PBILDT	3951.1	4085.7
PAT	2624.8	2073.2
Overall gearing (times)	0.01	0.01
Interest coverage (times)	240.19	361.25

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.*

Analyst Contact:
Name: Himanshu Jain
Tel: 080-46625528
Mobile: 8123793397
Email: himanshu.jain@careratings.com

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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
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+ (03-Jan-18)	1)CARE AAA; Stable / CARE A1+ (06-Jan-17) 2)CARE AAA / CARE A1+ (04-May-16)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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