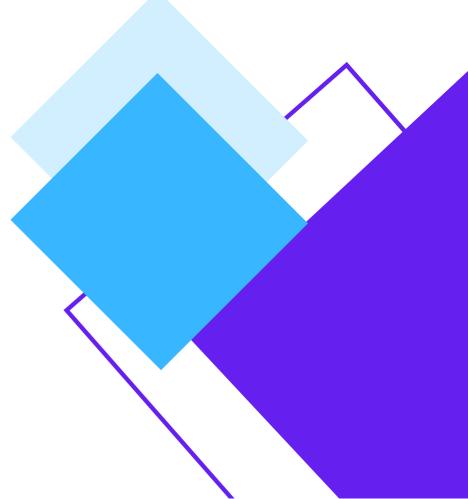


Hindustan Aeronautics Ltd





 Market Capital:
 ₹ 43641 Cr.
 52 Week High:
 ₹ 1321.6

 Enterprise Value:
 ₹ 1,400.91 Cr.
 52 Week Low:
 ₹ 1292.4

No. Of Shares: 334387500 Face Value: ₹ 10

Hindustan Aeronautics Ltd

Buy

We recommend a Buy position on Hindustan Aeronautics Ltd. with a medium to long-term view owing to strong government push, the future of precast projects, prudent capital allocation and new policies

SECTOR OVERVIEW

The Aerospace and Defence sector in India is at an inflection point, given the modernisation and indigenisation programmes being undertaken by all of the 3 offerings of one of the largest military forces in the world. The Ministry of Defence in India has laid out an expansive plan for modernisation of out of date devices via long-time period angle plans, functionality plans, functionality roadmaps and capital acquisition plans.

India being one of the most important importers of arms and defence platforms, the 3 services, supported by specialized inter-service instructions and institutions, have together taken upon themselves to be harbingers of 'Make in India' for hardware and infrastructure being inducted into their fold.

The Government of India had additionally identified the Aerospace and Defence sector as a focal point place for the 'Make in India' (i.e. 'Aatmanirbhar Bharat') programme and has taken substantial steps to push forth the status quo of indigenous production infrastructure supported by a needful research and improvement ecosystem. This is very well obvious withinside the large adjustments brought withinside the defence coverage framework in 2020, that is now primarily based totally at the cornerstone of indigenous production and value addition. With India additionally establishing its space sector for personal and overseas participation, this area ought to similarly assist in setting up long time possibilities and partnerships, capitalising the synergies in defence and space.



An interplay of guidelines governing the world certainly carve out the quintessential position of Indian production and value addition in destiny procurements. One development assisting the above is the status quo of defence corridors at Uttar Pradesh and Tamil Nadu. These corridors shall focus upon improvement of indigenous production competencies and in turn emerge as the springboard for all improvement activities undertaken by the authorities withinside the sector.

Company Overview

The Company which had its starting place as Hindustan Aircraft Limited became integrated on 23 Dec 1940 at Bangalore via means of Shri Walchand Hirachand, a farsighted visionary, in affiliation with the then Government of Mysore, with the goal of producing planes in India. HAL started plane production as early as 1942 with certified manufacturing of Harlow PC-5, Curtiss P-36 Hawk and Vultee A-31 Vengeance for the Indian Air Force. HAL presently has eleven devoted Research and development (R&D) facilities and 21 production divisions below four manufacturing devices deployed throughout India. HAL is controlled by means of a Board of Directors appointed by the President of India via the Ministry of Defence Government of India.

Amalgamation of the 2 agencies i.e. Hindustan Aircraft Limited and Aeronautics India Limited become introduced approximately on 1st Oct 1964 via way of means of an Amalgamation Order issued via way of means of the Government of India and the Company after the amalgamation become named as "Hindustan Aeronautics Limited (HAL)" with its fundamental commercial enterprise being design, development, manufacture, restore and overhaul of plane, helicopters, engines and associated structures like avionics, devices and accessories.

HAL is actively engaged and is contributing to the gap programmes of the country. A separate Aerospace department became established in 1988. HAL presently assembles the necessities of systems for aerospace release motors and satellites of ISRO via the Division. Infrastructure has additionally been installed to adopt the entire meeting of the strap-on L-forty degree booster. Structures for GSLV Mk.III, Mars Mission and Human group module were provided via means of HAL to ISRO.

Company Financials

Consolidated (cr)	FY2021	FY2020	FY2019	
Sales	22754.58	21438.38	20008.4	
Net Profit Margin (%)	14.20	13.21	11.72	
Dividend/Share (Rs.)	30.00	33.25	19.80	
EBIT	4527.98	4157.83	3911.94	
Basic EPS	96.87	85.92	69.63	
ROE (%)	21.01	21.70	19.27	
ROCE (%)	17.13	18.83	17.28	
D/E (%)	0.00	0.44	0.34	
Asset Turnover Ratio (%)	43.80	40.24	39.45	
P/E (%)	10.28	6.20	10.19	
P/B (%)	2.16	1.35	1.96	
EV/EBITDA (%)	4.57	4.49	5.64	

Shareholding Pattern



Investment Hypothesis

Government Support and Policies :

The size of India's defense and aerospace manufacturing sector will increase to Rs. 1 lakh crore in 2022 and surge further to Rs.5 lakh crore by 2047, when the country will celebrate 100 years of independence, from around Rs.85,000crore in the current year. The government also aims for India to become a net exporter of defense products. The defense minister also referred to the government's decision to not import 209 military equipment under a staggered timeline to promote the domestic defense industry and indicated that the items under the list may touch 1,000 by the end of the decade. The government has initiated a series of measures in the last couple of years to encourage the domestic defense industry. In August last year, Singh announced that India will stop the import of 101 weapons and military platforms like transport aircraft, light combat helicopters, conventional submarines, cruise missiles, and sonar systems by 2024. A second list, putting import restrictions on 108 military weapons and systems such as next-generation corvettes, airborne early warning systems, tank engines, and radars, was issued a few months later. Many of these products fall directly under the ones already being produced by HAL which will be a huge boost for the company. In a major boost to indigenization, HAL signed a contract with Bharat Electronics Limited (BEL) for the development and supply of 20 types of systems for the LCA Tejas Mk1A program here today. The five-year contract spanning from 2023 to 2028 is valued at Rs 2400 crores and involves supplying critical avionics Line Replaceable Units (LRUs), flight control computers and night flying LRUs. This is the biggest ever order that HAL has placed on any Indian company boosting the 'Atmanirbhar Bharat' campaign.



• Tejas:

The Cabinet Committee on Security (CCS) chaired by Prime Minister Narendra Modi on January 13 approved the Rs 48,000-crore deal to procure 73 Tejas Mk-1A variants and 10 LCA Tejas Mk-1 trainer aircraft from the HAL to boost the Indian Air Force's combat prowess. The delivery of the Tejas Light Combat Aircraft (LCA) to the Indian Air Force under the deal will begin from March 2024 and around 16 aircraft will be rolled out annually till the completion of the total supply of 83 jets. To complete the order Hindustan Aeronautics Limited (HAL) on Tuesday signed a \$716 mn deal with GE Aviation of the U.S. for 99 F404 aircraft engines and support services that will power the indigenous Tejas Light Combat Aircraft (LCA) Mk-1A. The main challenger for the Tejas Mark 1A, in terms of exports, is the joint Sino-Pak product, JF-17.

Defense officials, however, argued that the Tejas has superior performance since it has a better engine, radar system, and electronic warfare suit, besides an edge in weaponry like the Beyond Visual Range missiles. Sources in the defense establishment, however, said half a dozen countries, including Sri Lanka and Egypt, have evinced interest in the aircraft. The cost per aircraft is Rs 309 crore. The trainer will cost around Rs 280 crore. This is a very competitive price. Other countries also have found this cost highly competitive and have realized that it is the cheapest offer for a four-and-a-half generation aircraft. All these speculations and deals mean that the HAL manufactured Tejas is all set to rule the skies which will help HAL strengthen its position in the defense sector.



Exports and Foreign Collaboration:

US defense major Lockheed Martin on Friday said it signed an agreement with state-run Hindustan Aeronautics Limited to explore potential industrial collaboration in India's aerospace sector. Lockheed Martin said it was strengthening its relationships with the Indian industry and was working towards integrating it into the company's global aerospace and defense ecosystem. HAL as mentioned earlier also has a huge deal of Rs 5,375 crore for 99 F404-GE-IN20 engines and support services with GE Aviation, USA to power the Tejas Light Combat Aircraft. HAL also is looking at setting up logistics bases in Malaysia, Vietnam, Indonesia, and Sri Lanka as part of initiatives to woo the countries to buy India's light combat aircraft Tejas and military helicopters. Modi has set an ambitious defense export target of USD 5 billion dollars in the next five years and asked all the key military manufacturers to work hard to achieve the target. Hindustan Aeronautics Limited (HAL) has also signed an agreement with Rolls-Royce for Make-in-India Adour engine parts to support the latter's international defense customer base. This follows the MoU signed by Rolls-Royce and HAL during the Aero India 2021 to establish an authorised maintenance center for Adour at HAL to support international military customers and operators. Hindustan Aeronautics had also previously signed an MoU with Rolls-Royce to establish packaging, installation, marketing, and services support for Rolls-Royce MT30 marine engines in India.

Future Prospects:

The Indian Air Force (IAF) has accepted the comprehensive design review (CDR) of the LCA Mark 2 (Tejas). The Tejas Mark 2 is an evolution of HAL's Tejas design and the production is scheduled for 2023. In November 2021, the Deccan Herald reported that the Mark 2 is a 4.5-generation flying machine that will not only feature 70% indigenization (compared to 62% of Mark IA) but also include more advanced technology, in line with the government's 'Make in India' initiative.

The new helicopter-making facility of the Hindustan Aeronautics Limited (HAL) at Tumkuru will start operations by March 2022. The unit will manufacture the Light Utility Helicopter (LUH). Notably, the Ministry of Defence approved the procurement of 12 LUH from the HAL on November 2. This pant will have the capacity to produce about 30 of these Helicopters annually. The HAL has also requested the ministry to issue 'Acceptance of Necessity' (AON) for 175 more LUHs at the earliest.

The HAL Combat Air Teaming System (CATS) is an Indian unmanned and manned combat aircraft air teaming system being developed by Hindustan Aeronautics Limited (HAL). The system will consist of a manned fighter aircraft acting as the "mothership" of the system and a set of swarming UAVs and UCAVs governed by the mothership aircraft. A twin-seated HAL Tejas is likely to be the mothership aircraft. Various other sub-components of the system are currently under development and will be jointly produced by HAL, National Aerospace Laboratories (NAL), Defence Research and Development Organisation (DRDO), and Newspace Technologies. CATS eliminates the need to send pilots into enemy air space. This eliminates the risk of their being shot down, captured, and held hostage. The CATS concept of operations involves manned aircraft functioning as airborne controllers of lethal, unmanned kill vehicles that swarm in numbers into enemy air space and overwhelm hostile defenses. The company is also anticipating a new order for 12 Sukhoi Su30 in the near future.

PROJECTS

International agreements-

- US\$1 billion contract to manufacture aircraft parts for Boeing.
- 120 RD-33MK turbofan engines to be manufactured for MiG-29K by HAL for US\$250 million.
- Contract to manufacture 1, 000 TPE331 aircraft engines for Honeywell worth US\$200, 000 each (estimates put total value of deal at US\$200 million.
- US\$120 million deal to manufacture Dornier 228 for RUAG of Switzerland.
- Manufacture of aircraft parts for Airbus SAS worth US\$150 million.
- US\$100 million contract to export composite materials to Israel Aircraft Industries.
- US\$65 million joint-research facility with Honeywell and planned production of Garrett TPE331 engines.
- US\$50.7 million contract to supply Advanced Light Helicopter to Ecuadorian Air Force. HAL will also open a maintenance base in the country.
- US\$30 million contract to supply avionics for Malaysian Su-30MKM.
- US\$20 million contract to supply ambulance version of HAL Dhruv to Peru.
- Contract of 3 HAL Dhruv helicopters from Turkey worth US\$20 million.
- US\$10 million order from Namibia for HAL Chetak and Cheetah helicopters.
- Supply of HAL Dhruv helicopters to Mauritius' National Police in a deal worth US\$7 million.
- Unmanned helicopter development project with Israel Aircraft Industries.
- US\$15 million contract for supplying steel and nickel alloy forgings to GE Aviation for its global military and commercial engine programmes.

Domestic agreements-

- 221 Sukhoi Su-30MKI being manufactured at HAL's facilities in Nasik, Koraput and Bangalore. The total contract, which also involves Russia's Sukhoi Aerospace, is worth US\$3.2 billion.
- 200 HAL Light Combat Helicopters for the Indian Air Force and 500 HAL Dhruv helicopters worth US\$5.83 billion.
- US\$900 million aerospace hub in Shamshabad, Telangana.
- US\$57 million upgrade of SEPECAT Jaguar fleet of the Indian Air Force.
- US\$55 million helicopter simulator training facility in Bangalore in collaboration with Canada's CAE.
- 64 MiG-29s to be upgraded by HAL and Russia's MiG Corporation in a programme worth US\$960 million.
- Licensed production of 82 BAe Hawk 132.

Peer Comparison

Company	MCAP	P/B	P/E	EPS	ROE (%)	ROC E(%)	P/S	EV/E BIT
Hindustan Aeronautics Ltd	40501 cr	2.63	12.50	105.1 8	22.6	17.19	1.75	7.35
Paras Defence and Space Technologies Ltd	2895.75 cr	14.01	184. 09	0	8.29	13.91	20. 02	83.7 9
Bharat Dynamics Ltd	7203.87cr	2.68	27.9 5	18.11	9.74	9.74	3.5 9	16.3 6
Data Patterns (India) Ltd	4038.3 cr	19.44	72.6 7	13.31	30.7 6	34.6 9	17.8 3	45.6 3



Paras Defence and Space Technologies Ltd

Revenue: 144.61 cr Net Profit: 15.73 cr Employees: 500

Paras offers a wide range of Products & Solutions for Defence & Space Applications. With focus on Defence & Space Sector we have five verticals of our business, namely Defence & Space Optics, Defence Electronics, Heavy Engineering, Electromagnetic Pulse Protection Solutions and Niche Technologies.

With over 40+ years of sustained business growth in the area of Defence & Space Engineering, We are involved in Technologies for Rocket & Missiles, Space & Space Research, Naval Systems, Land & Armoured Vehicles, Electronic Warfare & Surveillance, ElectroMagnetic Shielding to name a few.

Paras has state-of-the-art manufacturing setup with 400+ workforce and having capabilities to offer a Turnkey Solution from Design to Commissioning of Small to Large Systems.

Strong Fundamentals, Impeccable Business Ethics & Customer Centric Approach are the pillars of our business as we aim to become the most significant Indian Company in the Defence & Space Sector.

Bharat Dynamics Ltd

Revenue: 14233 cr Net Profit: 2,098.94 cr Employees: 3,030

Bharat Dynamics Limited (BDL) is one of the leading defence PSUs in India engaged in the manufacture of Surface to Air missiles (SAMs) Anti-Tank Guided Missiles (ATGMs) underwater weapons launchers countermeasures and test equipment. It is the sole manufacturer in India for SAMs torpedoes ATGMs. It is also the sole supplier of SAMs and ATGMs to the Indian armed forces. Additionally it is also engaged in the business of refurbishment and life extension of missiles manufactured. It is also the co-development partner with the DRDO for the next generation of ATGMs and SAMs. The President of India acting through the Ministry of Defence granted the Company the status of Category I Miniratna Company'. As a Miniratna Company the Company is eligible to some enhanced delegation of powers to the Board including having greater autonomy to incur capital expenditure for its projects without the Gol approval. The Company currently has three manufacturing facilities located in Hyderabad Bhanur and Vishakhapatnam.

The Company is also in the process of setting up two additional manufacturing facilities at Ibrahimpatnam (near Hyderabad) and Amravati in Maharashtra which shall be used to manufacture SAMs and Very Short Range Air Defense Missiles (VSHORADMs) respectively. The Indian Army placed orders worth Rs 14180 crore on Bharat Dynamics (BDL) during the year 2011 for the supply of the Akash Weapon System. In 2013 the company's gross sales crossed Rs 1000 crore mark. In 2015 the company's gross sales crossed Rs 2000 crore. The Company has been awarded various prestigious awards such as Raksha Mantri's institutional award for 'Excellence' in performance for the year 2014-15.

Data Patterns (India) Ltd

Revenue: 226.55 cr Net Profit: 55.56 cr Employees: 567

Data Patterns is a vertically integrated Defence and Aerospace electronics solutions provider catering to the indigenously developed defence products industry. Data Patterns' key strength is founded on over two decade history of developing high reliability products in this domain with the broad capability to develop and manufacture any high reliability product. Data Patterns has developed several electronic systems for it's customers with the support of it's captive manufacturing facility and attention to detail. Data Patterns achieves it's philosophy of manufacturing products with the reliability of life span expected in it's market domain.

Data Patterns is recognized by it's customers for it's ability to deliver complex programs in short turnaround times with ease.

Related to Industry

Industries related to Aerospace & Defense sector are:

Technology

Technology Sector worldwide aim to secure their market position through disruptive innovation. As new technologies are adopted around the world, it has become increasingly important for the leaders in this sector to understand the complexity and business transformation impact of rolling out these new products, services and the resultant new emerging models.

Trasnport & Logistics

Mobility forms the backbone of a country's growth. By allowing for an efficient and affordable movement of people and goods across the country it has a multiplier effect on the economy. India's transport and logistics sector continues to play a key role to play in this regard. Its robustness was tested amidst unprecedented events when it facilitated essential and emergency passenger transport and supply of essential goods in the country.

Telecommunications

The sector has witnessed phenomenal growth over the last few years, attracting several new players across the telecom ecosystem, including value added services, passive infrastructure, and equipment manufacturing.

• Building & Construction

The world is witnessing urbanisation at an unprecedented pace, which is expected to further accelerate, and India is anticipated to lead this growth. This rapid urbanisation coupled with a host of other factors such as favorable demographics, policy reforms undertaken and sound macro-economic fundamentals, have made India the fastest growing large economy in the world. The Indian real estate holds immense significance in the Indian economy with the sector being the third largest employer after agriculture and manufacturing.

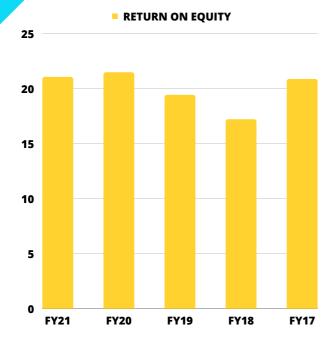
Energy & Natural Resourcs

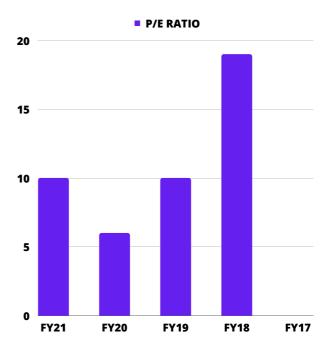
India's energy requirements have grown significantly since market reforms were initiated by the Government of India in the 1990s. Energy sector reforms, capacity addition and improvement in existing infrastructure are the government's primary focus areas as energy is a key necessity for meeting the country's high economic growth expectations.

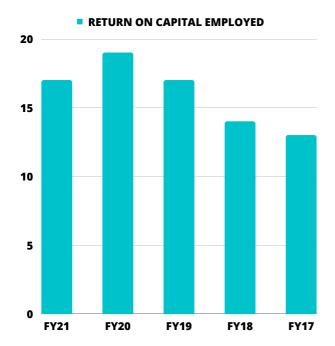
India's economy is embracing renewable energy at a rapid pace. The focus is on strengthening of distribution and transmission infrastructure, development of hydropower, conventional power, energy storage and atomic energy.

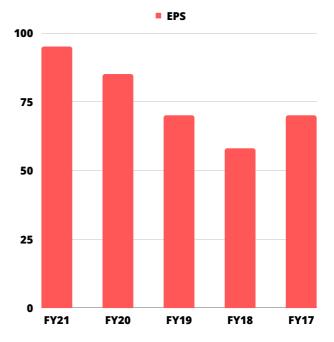
Risk and Concerns:

- Delay in execution of key projects due to the pandemic and cut in Government spending on defence. The company depends heavily on Ministry of Defence (MoD) contracts, the quantum of allocation of the Defence budget, and timely allocation of budget. Any changes in the policies could adversely impact the company's revenues.
- Many of the company's deals require the permission of the Government and the processes can often be slow and delays are quite common, with some projects already being delayed for over 5 years.
- Back-ended payments from the government, long-dated contracts, and negligible advances in new contracts could lead to an increase in working capital.
- Competition from foreign companies due to technology edge and an increase of FDI limit from 49% to 74% through the automatic route.
- HAL being majority Govt owned, may not always take decisions that are in favor of minority shareholders. Hindustan Aeronautics Limited 15
- Margins on orders from the Govt could be lower but can be offset to some extent by HAL through lower employee costs (retirements), higher outsourcing and local sourcing.
- Possible divestment by the Govt of India to raise resources could be a
 headwind as it still owns 75.2% stake in the company. This could create an
 additional supply of shares depressing the stock prices, at least
 temporarily.
- HAL has to pay liquidated damages in case of delay in delivery and has to provide for warranty costs. Any delay in deliveries and/or need to meet warranty claims could result in a higher debt to margins.
- Risk of US sanctions due to India's deal to purchase Russia's S-400 Air defense system could impact HAL's LCA program as it is built around engines purchased from General Electric.

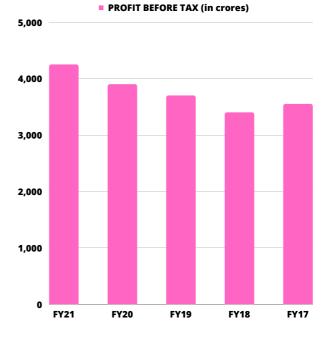


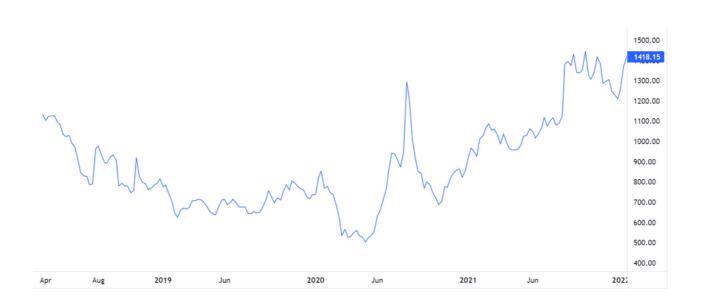












Summing Up

We recommend a Buy position on Hindustan Aeronautics Ltd. with a medium to long-term view owing to the following:

- Strong Government Push
- Exciting upcoming Future
- Precast Project
- Prudent Capital Allocation
- Growing order-book

After looking at sector growth from recent years, and policies and orders given by the government in recent times, we expect a high growth in the Aerospace and Defense Sector as the government has also set ambitious targets for the same in the upcoming 5 years.

The following industries are directly or indirectly related to Aerospace and Defence sector:

- Technology
- Transport & Logistics
- Telecommunications
- Energy & Natural Resources
- Building & Construction

Any major change in these sectors will affect the growth of the Aerospace and Defence sector. Hindustan Aeronautics Limited is strongly placed to face the competition and is the largest player in its sector and its management is constantly trying to come up with new policies to take it's growth further.

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