

Investor's Delight: Hindustan Aeronautics Limited (HAL) - "Strongly poised to take off.." - "BUY" April 18, 2022



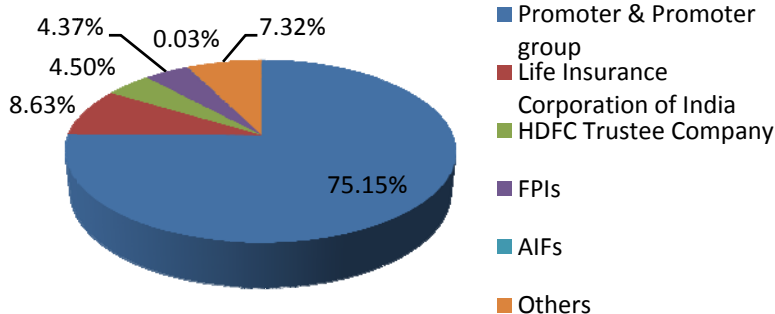
Source: Company



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CMP	Rs. 1,737.95 (Face value: Rs. 10)
Recommendation	BUY
Target price	Rs. 2,340
Upside	34.6%
52 Week High/Low	Rs. 1,754.15/Rs. 929
Beta	0.78
Market Cap	Rs. 58,114 Crore
EPS (TTM)/P/E(x)	Rs. 107.64/16x
NSE/BSE code	HAL/54154
Included	S&P BSE 500
Bloomberg code	HNAL:IN
Promoter holding	75.15%
Price performance	1 month: 20.21 %, 3 months: 25.07%, YTD: 43.56 %, 1 Year: 80.19 %, 3 years: 148.33%

Shareholding pattern



Particulars (Rs. Crore)	9MFY22	FY21	FY20	FY19	FY18
Revenue	13,059	22,755	21,446	20,008	18,519
EBITDA	3,401	3,910	3,523	3,366	2,478
EBITDA (%)	26.04	25.08	24.64	24.67	22.76
Profit after tax	1,985	3,233	2,842	2,346	1,987
PAT margin (%)	15.20	14.21	13.25	11.73	10.73
Equity share cap.	334.39	334.39	334.39	334.39	334.39
Reserves	16,096#*	15,022	12,865	11,741	9,151
Total Debt	3.83#	9.07	5,887	4,116	864
EPS (Rs.)	59.35	96.68	84.99	70.16	59.43
P/E (x)	-	18	20	25	29
RoNW (%)	-	21.05	21.53	19.43	20.94

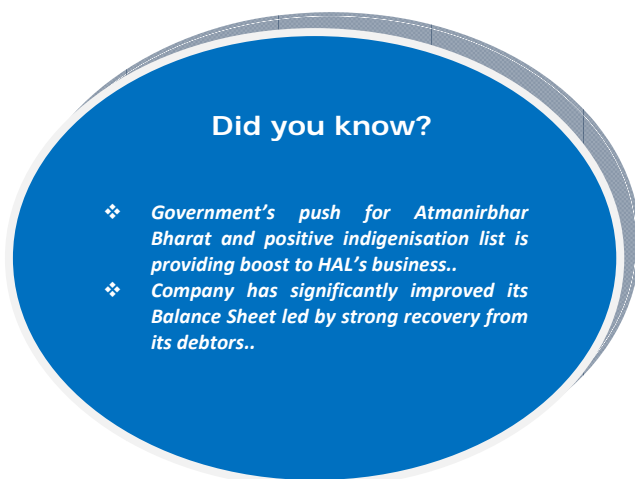
Source: Company, #denotes as on H1FY22 and *denotes Other Equity

Impressive background

Hindustan Aeronautics Limited is an Indian state-owned aerospace and defence company based in Bangalore, Karnataka. It is governed under the management of the Indian Ministry of Defence. The government-owned corporation is primarily involved in the operations of the aerospace industry. These include manufacturing and assembly of aircraft, navigation and related communication equipment and airports operation. It is currently involved in the design, fabrication and assembly of aircraft, jet engines, helicopters and their spare parts. It has several facilities spread across India. The locations where the manufacturing plants are operated by HAL include Nasik, Korwa, Kanpur, Koraput, Lucknow, Bangalore and Hyderabad. The German engineer Kurt Tank designed the HAL HF-24 Marut fighter-bomber, the first fighter aircraft made in India. Hindustan Aeronautics Limited is a defence PSU which was conferred Navaratna status in 2007. The Company boasts of research, design and development capabilities with the successful development of military aircraft and helicopters such as the Ajeet, Marut, HPT-32, Kiran and Advanced Light Helicopter. The company also manufactures aircrafts under license such as the MiG-21, MiG-27, Avro, Jaguar, Dornier 228, Su-30 MKI and Hawk Mk 132 and helicopters such as the Cheetah and Chetak.

Investment recommendation and rationale

At CMP of Rs. 1,737.95 the stock is valued at a P/E of 18x at FY21 EPS and at a P/E of 16x at EPS(TTM). We recommend a "BUY" and assign a target price of Rs. 2,340 (P/E of 18x at estimated FY23 EPS of Rs. 130) due to the following factors: a) leadership Position in the Indian Aeronautical industry and strong GoI support, b) long credible history of research, design and development, manufacturing and maintenance, repair and overhaul services, b) established track record in offering product life cycle support extending to periods beyond four decades, c) diversified product portfolio which includes fighter aircraft, trainer aircraft, transport aircraft, military helicopter and civil helicopters and their engines, avionics and accessories, d) Government's push for Atmanirbhar Bharat and positive indigenisation list providing boost to HAL's business, e) strong research and development capabilities resulting in more indigenously designed and developed platforms to offer more products in the Domestic and Export Market, f) strong order book and execution capabilities, g) following Platforms for which Acceptance of Necessity has been granted by MoD and are expected to strengthen the Order Book by Rs. 30,000 Crores and keep the Order Book Position healthy in the medium term and provide a strong visibility and platform to propel growth (70 HTT-40, 12 Su-30s, 25 ALH for Indian Army, 12 LUH for Indian Army and Indian Air Force, Mid-life upgrade of Do-228 for Indian Navy), h) the setback in the 1st Quarter performance due to Covid-19 has largely been compensated and normalcy has been restored during 2nd and 3rd Quarters. No impact was felt during the 3rd Wave, i) discussion are on with Customers for placement of additional orders for AL-31 FP Engine and RD-33 Engines, j) stable financial position with consistent growth year on year. Cash surplus keeps improving, k) management team having good experience and strong domain expertise, l) significant improvement in working capital cycle with strong collections from debtors has strengthened its Balance sheet, m) decent past and 9MFY22 performance along with good return ratios.



Products

Aircraft



HAWK, LCA, SU-30 MKI, IJT, DORNIER, HTT-40

Helicopters



DHRUV, CHEETAH, CHETAK, LANCER, CHEETAL, RUDRA, LCH, LUH

Future products



IMRH, UAV, RUAV, SPORT

Power plant



ADOUR MK 871, GARRETT TPE 331-5, RD 33, AL 31 FP, SHAKTI, ARTOUSTE III B, PTAE-7, LM 2500

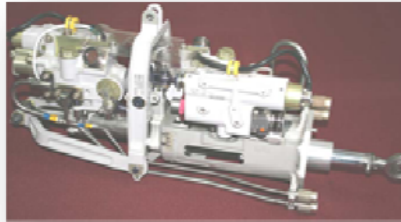
Avionics



Inertial Navigation System, Auto Stabilizer, Head up Display, Laser range System, Flight Data Recorder, Communication Equipment, Radio Navigation Equipment, Air Borne Secondary Radar, Missile Inertial Navigation, Radar Computers, Ground Radars

Source: Company

System and Accessories



Source: Company

Hydraulic System and Power Control

Hydraulic Pumps, Accumulators, Actuators, Electro-selectors, Bootstrap Reservoirs and various types of valves

Environmental Control System

Cold Air Unit, Water Extractors, Non Return Valves and Venturies

Engine Fuel Control System

Fuel After Burner Regulator and Distributor, Main Fuel Distributor, Regulator and After Burner Pump, Plunger Pumps, Fuel Metering Devices

Instruments

Electrical Indicators, Fuel quantity and flow metering instruments, Sensors and Switches, Barometric Instruments, Gyroscopic Instruments, Electromechanical instruments

Electrical Power Generation and Control System

AC/DC Generator, Control and Protection Units, AC and DC Master Box, Inverters, Transformer Rectifier Unit, Actuators

Undercarriage, Wheels and Brakes

Main and Nose Undercarriage, Main and Nose Wheel, Brake System LRUs

Test Rigs

Dedicated Test Rigs, custom-built Fuel/Hydraulic Test Rigs and Electrical Test Rigs

Aerospace



Aerospace Division is engaged in the manufacture of Aluminum alloy riveted structures and welded tankages of conical, cylindrical and other shapes with different types of detailed parts such as sheets, rings, brackets, bulkheads, panel bolts, nuts, rivets etc. Some of the important structures manufactured are Heat Shield Assembly, Nose Cone Assembly and Tank and Shrouds used stiffeners, in Satellites.

Products of aerospace division

PSLV : (Polar satellite launch vehicle)

No. Of Stages - 4-Stage Rocket With Two Solid & Two Liquid Stages With 6 Strap-on Motors

Orbit - Low Earth Polar Orbit 900 km

Mission - Inject 1000-1200 Kg Class Satellite (IRS) In Polar Orbit

GSLV : (GEO-GEO-synchronous satellite launch vehicle) MK II

No. Of Stages

3-Stage Rocket with Solid, Liquid and Cryo Stages with 4 Strap-on Motors

Orbit

Geo-Stationary Orbit 36000 km

Mission

Inject 2500 Kg Satellite INSAT Series in Geo-Synchronous Orbit

GSLV : (GEO-synchronous satellite launch vehicle) MK III

No. Of Stages - 2-Stage with Liquid and Cryo Stages and 2 Strap-on Motors

Orbit - Geo-Synchronous Orbit 36000 km

Mission - Inject 4500 – 5000 Kg INSAT Class Satellite, in Geo-Synchronous Orbit

Indian national satellite

Mission - National Tele-communication, TV Broadcasting, Radio Net Working, Meteorological Observation Satellite Aided Research & Rescue

Launch Vehicle - GSLV

Orbit - Geo-Stationary Orbit 36000 km

Life -7 Years

Source: Company

Beneficiary of “Make in India” drive and the Atmanirbhar Bharat Abhiyan

- 1) As part of the “Make in India” drive and the Atmanirbhar Bharat Abhiyan, HAL has been nurturing & developing a vibrant indigenous aerospace & defence ecosystem. In its path of moving towards a system integrated process, the Company has been striving to develop Tier-II and gradually Tier-I suppliers over a period of time while retaining the core areas as prime integrators. HAL has been taking up outsourcing diligently even in the new and upcoming projects, so as to turn the suppliers into reliable business partners over time.

Significant achievements upto Q3FY22..

- 1) Hon'ble Prime Minister handed over HAL produced indigenous Light Combat Helicopter to IAF during the “Rashtriya Raksha Samarpan Parv” celebrations to mark the 75th year of Indian's Independence
- 2) A Contract is signed between HAL and MoD on 18th Nov 2021 for a value of Rs. 357 CrORE for procurement of two Fixed Base Full Mission Simulators (FBFMS) for Jaguar DARIN III Aircraft.
- 3) HAL and Zero Avia, entered into a development collaboration agreement on 9th Nov 2021 for hydrogenelectric powertrain capable of flying the 19 seat Dornier 228 aircraft up to 500 NM.
- 4) HAL has secured an order for manufacturing, assembly, integration, testing and supply of High Speed Expendable Aerial Target (HEAT) System known as ABHYAS from Aeronautical Development Establishment, DRDO.
- 5) The Combat Air Teaming System (CATS) Warrior being designed and developed by ARDC has commenced 'Low Speed Wind Tunnel Tests' at HAL Wind on 17 Jan 2022 to commence the first test.
- 6) HAL and M/s Max AeroSpace & Aviation Pvt. Ltd, Mumbai have signed an MoU on 12th Jan 2022 to explore business opportunities for MRO of civil aircraft.
- 7) Successfully carried out the first flight of Hindustan-228 aircraft towards DGCA 'Type Certification'.
- 8) The heaviest Semi-Cryogenic propellant tank (SC120- LOX) ever fabricated by HAL was delivered to Indian Space Research Organization (ISRO).
- 9) HAL supplied the first batch of 'Ring Forgings' to GE Aviation's LEAP engine program. LEAP powers Airbus A320 neo family as well as the Boeing 737 MAX, the most produced aircraft in the world.
- 10) Basic Trainer Aircraft, HTT 40 has successfully completed the erect spin certification flight trials which is a significant milestone and the platform is under certification.
- 11) The indigenous engine development programs HTFE-25 Core Engine and HTSE-1200 Jet mode engine successfully completed High altitude cold weather trials at Leh.

Indigenisation

The Company has put in concerted effort on indigenisation of components, accessories and systems required to manufacture as well as repair & overhaul of aircraft, engine and associated accessories. Every year, HAL indigenizes various items/ components and systems of foreign origin fitted on HAL

platforms through in-house capabilities or with the help of local vendors to reduce dependence on imports, savings in foreign exchange and manage obsolescence, thus fostering self-reliance through 'Make in India'.

To support Atmanirbhar Bharat Abhiyan of Govt. of India, HAL has planned to indigenize 2,615 imported components and spares from 2020 to 2025. During the year, the Company has indigenized 1004 Nos. of items resulting in anticipated foreign exchange savings of Rs. 129.9 Crores. Towards self-reliance, a notable achievement has been made by HAL with indigenisation of 100% mandatory replacement BOF items with respect to seven LRUs of SU-30MKI. HAL has hosted the details of items available for indigenization under Make- in- India portal on its website. HAL has also hosted in its website, more than 85 types of test facilities available at HAL for utilization by industries on payment basis. These facilities are being extensively utilised by both government organizations and Indian private companies. The other major initiatives / achievements are as under:

Indigenisation through Make-II procedure: During FY21, HAL also started indigenization through HAL Make-II procedure. HAL's Make-II (Industry Funded) procedure is in compliance of the Make-II framework promulgated by MoD and envisages the assured order quantity after successful development of items through private vendors. HAL has identified items to be indigenized through Make-II procedure. During the FY 21, Expression of Interest (Eoi) for more than 700 items were issued for indigenization through Make-II procedure.

Uploading of imported items in Srijan Defence Portal: To support Indian Industries with opportunities for Make In India in Defence, MoD has developed and launched Srijan Defence Portal. HAL has also taken the lead in uploading the imported items in the portal for indigenization and uploaded more than 6,700 nos. of imported items in the portal during the FY 2020-21.

Development programs

The Company has achieved significant progress in various R&D / Development Projects viz. Basic Trainer Aircraft (HTT-40), Light Utility Helicopter (LUH), Light Combat Aircraft (LCA)- MK1A, Jaguar Darin III Upgrade, Hawk-i and Development of Engines. The progress achieved in respect of these projects during the year is given below:

BASIC TRAINER AIRCRAFT (HTT-40)

HTT – 40 is the Basic Trainer aircraft currently being indigenously designed and developed by HAL. HTT40 would be used for basic flight training, aerobatics, instrument flying and close-formation flights whereas its secondary roles would include navigation and night flying. Features of the aircraft include Air conditioned cockpit, Tandem seating, Zero-Zero ejection seats and Multifunction Displays. The aircraft has the capability to be converted to armed / weaponised version at a later stage. The program has been taken up with internal funding. A total of 3 prototypes have been built which includes two flying prototype and one Structural Test Specimen (STS).

In the FY 2020-21, the aircraft has successfully completed 8-turn spin capability on both RH and LH side with gantry. It has also successfully completed 6 turn spin (both sides LH & RH) without Anti Spin Parachute System (ASPS). HTT40 participated in Flying display during Aero India 2021. In February 2021, RFP for HTT-40 aircraft received from IAF and response has been submitted in April, 2021.

LIGHT COMBAT AIRCRAFT (LCA)Mk 1A

LCA Mk1A is a variant of indigenously developed LCA MK1 presently being developed by HAL. It is a single engine, light weight, highly agile, multi-role supersonic fighter. It has quadruplex digital fly-by-wire Flight Control System (FCS) with associated advanced flight control law and with extensive use of advanced composites in the airframe gives a high strength to weight ratio, long fatigue life and low radar signatures. It has additional features and improvements such as Self Protection Jammer (SPJ), Active Electronically Scanned Array(AESA) RADAR, Beyond Visual Range(BVR) Missile and maintainability improvements etc.

LIGHT UTILITY HELICOPTER (LUH)

The LUH is a single engine, 3 Ton weight class helicopter having Glass Cockpit with Multi-Function Displays. The LUH will be deployed for Reconnaissance and Surveillance role. The helicopter will be capable of flying at 220 Kmph; service ceiling of 6.5 Km and a range of 350 Km with 500 kg payload. Three flying prototypes have been built and were extensively flight tested. During the year, LUH successfully demonstrated Two Segment Blade Folding and completed user trial such as engine relight trials, Slope landing, Night Flying test and Hot & High Altitude User evaluation Flight trials at Leh. HAL has successfully achieved Initial Operation Clearance (IOC) for LUH Army in February, 2021.

LIGHT COMBAT HELICOPTER (LCH)

The LCH is a dedicated combat helicopter indigenously designed and developed by HAL. LCH has the distinction of being the first attack helicopter to land Siachen at a height of 4700 mtrs. Four Technology Demonstrators (TDs) have been built and were extensively flight tested. LCH has achieved Operational Clearance for IAF and the Army variants, having completed all the test including weapon trials and is ready for operational induction, awaiting orders. Two Light Combat Helicopters (LCH) were deployed for operations at high altitude at short notice to support IAF missions on August 12, 2020. Three Light Combat Helicopters (LCH) have been produced and signalled out against the Letter of Intent of IAF.

25 kN TURBOFAN ENGINE (HTFE-25)

Design and development of a 25kN thrust class turbofan engine, which can be used on Basic/ Advanced military trainers, on small business jets and also large UAV applications is under progress at HAL. The engine can be used on a 5-ton weight class aircraft in single engine configuration

and on aircraft of up to nine-ton weight class with twin-engine configuration. Two core engines have been produced so far and are undergoing development trials. Sea level trials completed on the Core engine and performance was found to be satisfactory.

1200 kW TURBOSHAFT ENGINE (HTSE-1200)

The 1200kW Turbo shaft engine would be used as power plant for 3 to 6-ton category helicopters. One technology demonstrator of HTSE-1200 engine was built and it is presently under testing. 100% speed run achieved on core engine. Sea level trials of core engine completed successfully. HAL Engine Division at Koraput in association with Defence Metallurgical Research Laboratory (DMRL) has developed Single Crystal Blade samples. HAL has also completed the manufacturing of parts and modular assemblies for Power mode engine.

HAWK-i

Hawk India (Hawk-i) is the indigenously upgraded Hawk Mk 132 aircraft with enhanced operational and training capabilities. Hawk-i has been integrated with Flight evaluation of HAL Mission Computer (MC), Radio Altimeter (RADALT), IFF Mk-XII, Solid State Digital Video Recording System (SSDVRS), Softnet Radio, indigenous Smart Anti Airfield Weapon (SAAW) and VACS (Standalone Mode). Integration of Voice Activated Command System (VACS) on Aircraft completed. Voice recognition algorithm is finetuned for maximizing the performance. Flight trials in standalone mode completed & satisfactory performance feedback obtained. VACS has been integrated on Indigenous Mission Computer (MC). Integration testing on rig and ground integration checks completed. Implementation of full Hawk Mk 132 functionalities through RTOS completed.

Ratings

Long-term rating upgraded to [ICRA]AAA; outlook revised to Stable; short-term rating reaffirmed

Improvement in Balance Sheet

The company has witnessed recovery of around Rs. 35,000 crore and Rs. 20,000 crore from its customers in FY2021 and H1FY2022 respectively, backed by receipt of substantial mobilisation advances. The company's debtor levels declined from Rs. 11,235 crore as on March 31, 2020 to Rs. 5,487 crore as on September 30, 2021

Key recent developments

1) HAL and L&T consortium has emerged as L1 to make 5 Polar Space Launch Vehicles (PSLVs) for ISRO.

The Company and L&T consortium has emerged as L1 to make 5 Polar Space Launch Vehicles (PSLVs) for ISRO. The Company is the lead partner with L&T sharing the work. Other vendors too will be involved with the consortium in the manufacturing of the Launch Vehicles. However, the contract is yet to be formalised/ awarded.

2) HAL and Israel Aerospace Industries sign MOU for Multi Mission Tanker Transport (MMTT)

In a move aimed at bolstering the 'Make in India' campaign, HAL has entered into an MoU with Israel Aerospace Industries (IAI) to convert Civil (Passenger) aircraft to Multi Mission Tanker Transport (MMTT) aircraft in India. Under the pact signed recently, HAL will convert preowned Civil (Passenger) aircraft into air refueling aircraft with cargo and transport capabilities. The move will provide India's defence ecosystem with new capabilities and cost effective solutions in the market. The MoU will facilitate HAL and IAI's decades' long expertise in developing, manufacturing and producing leading defence platforms. The scope of MoU also covers "passenger to freighter aircraft" conversion along with MMTT conversions.

A formal Memorandum of Understanding (MoU) was signed in Delhi by Mr D. Maiti, CEO (MiG Complex), HAL and Mr Yaacov Berkovitz, VP & GM, IAI in the presence of Mr Chandraker Bharati, JS Aero (MoD). "We are glad to join hands with our long standing partner IAI in this venture of MMTT conversion business which is one of the strategic diversification avenues identified by HAL", says Mr R. Madhavan, CMD, HAL.

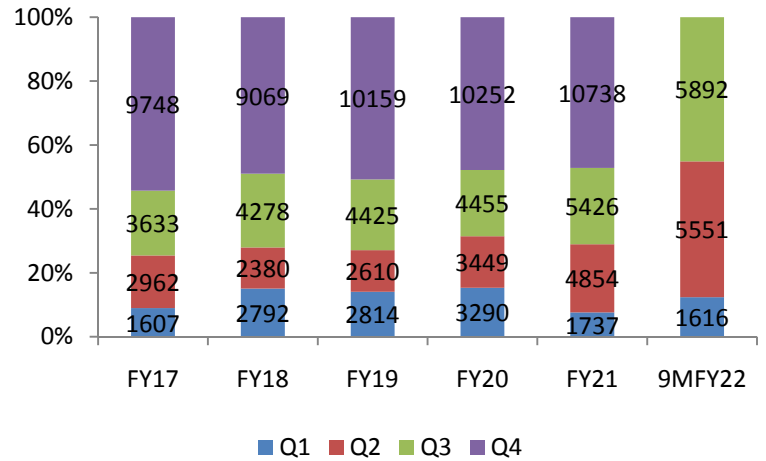
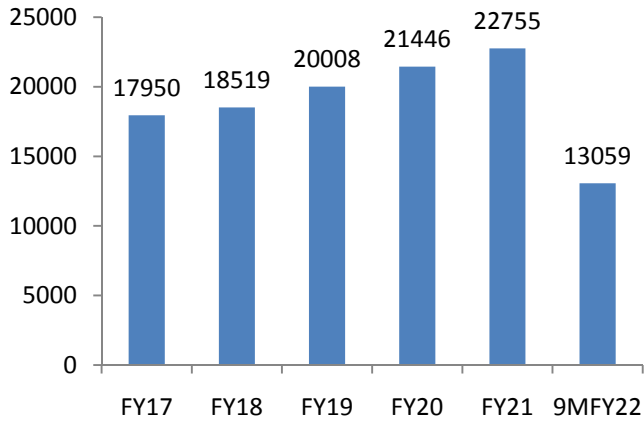
Boaz Levy, President IAI and CEO in his message said "We are proud to come together with our counterparts to bring our best value MMTT solution in India, while utilizing local resources to manufacture and market the platform. By collaborating with HAL and bringing conversion directly to India, we are supporting the 'Make in India' campaign".

3) Signed contracts with Indian Air Force and Indian Army for Light Combat Helicopters

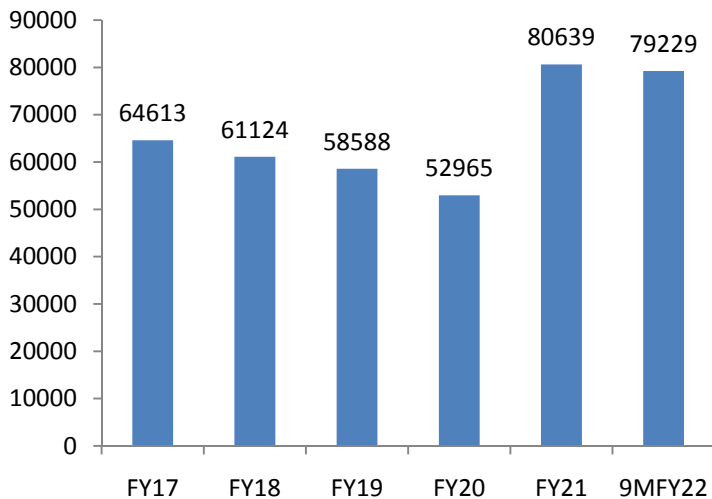
Consequent to CCS approval for procurement of 15 Light Combat Helicopters (LCH) Limited Series Production (for Indian Air Force 10 and for Indian Army 5) from the Company, Ministry of Defence has signed two separate contracts on 31st March, 2022 for Indian Air Force and Indian Army at a total cost of Rs. 3,887 Crore

Story in charts..

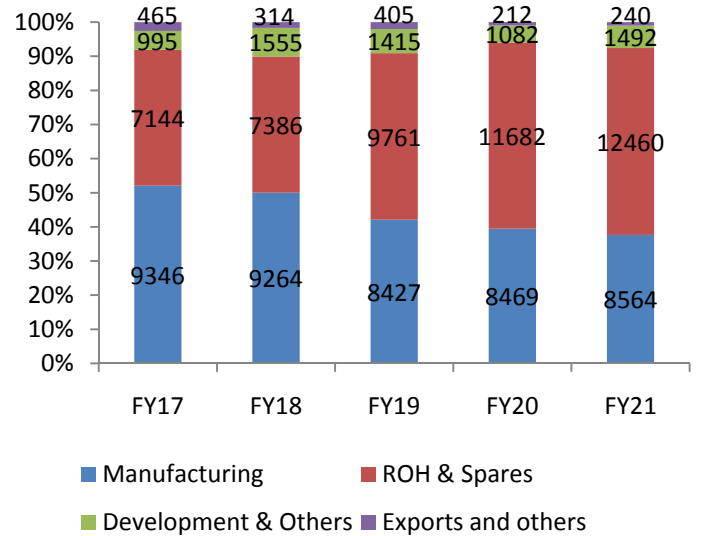
Revenue from operations (Rs. in Crore)



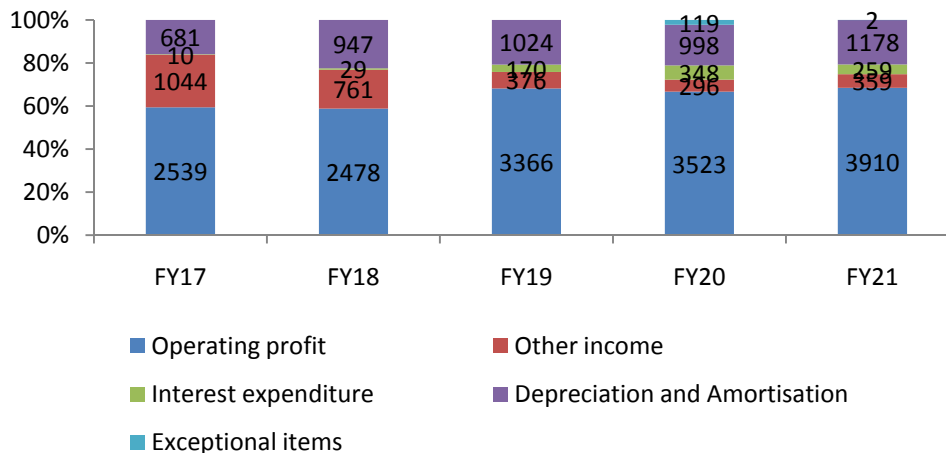
Order Book (Rs. in Crore)



Activity wise revenue from operations (Rs. in Crore)



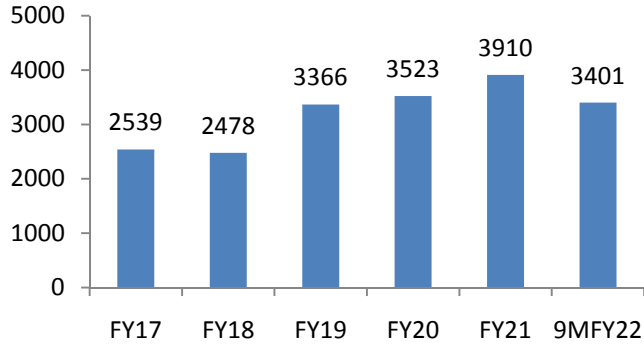
Operating profit and other key metrics



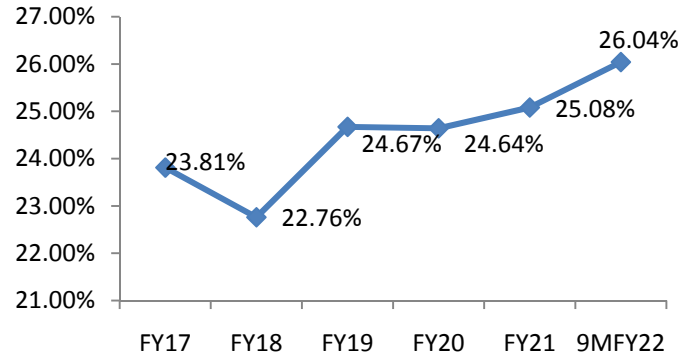
Source: Company

Story in charts..

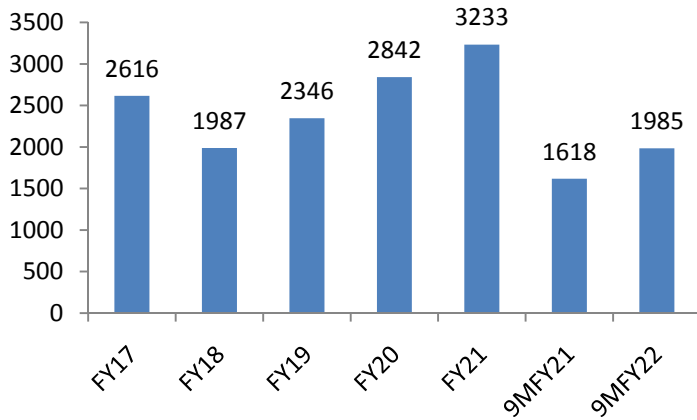
EBITDA (Rs. in Crore)



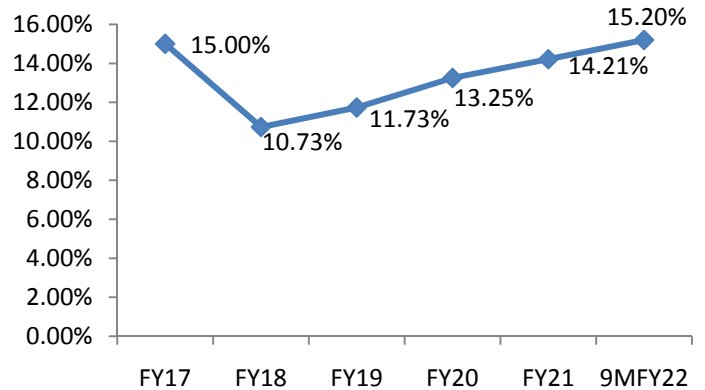
EBITDA margin (%)



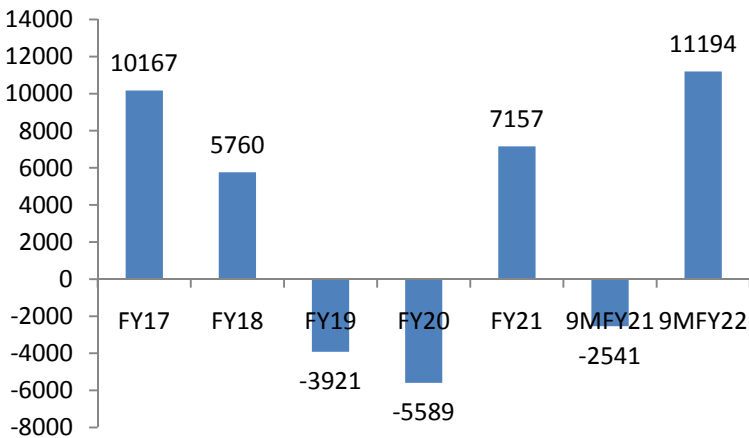
Profit after tax (Rs. in Crore)



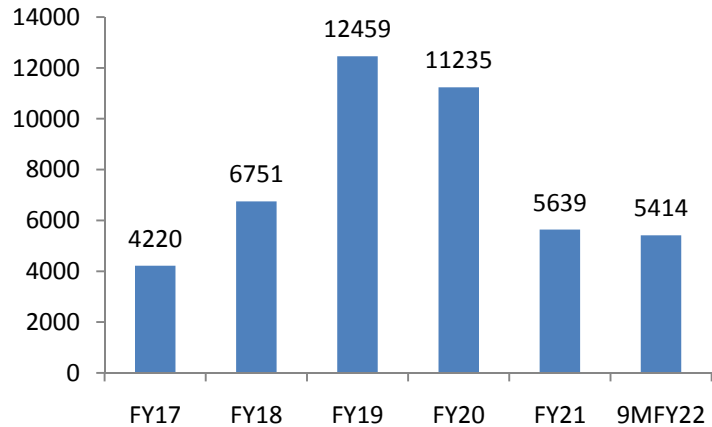
PAT margin (%)



Net Cash and Bank balance (Rs. in Crore)



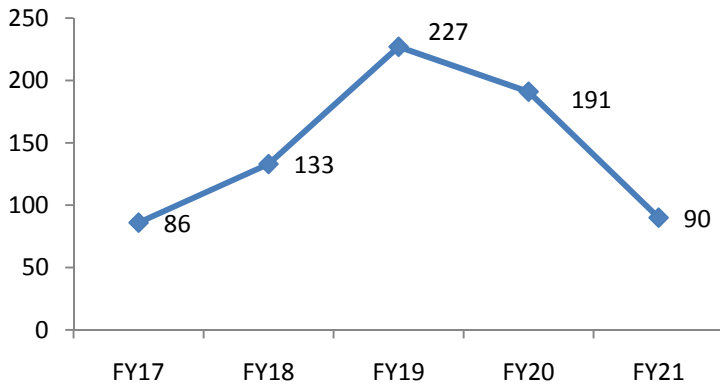
Debtors (Rs. in Crore)



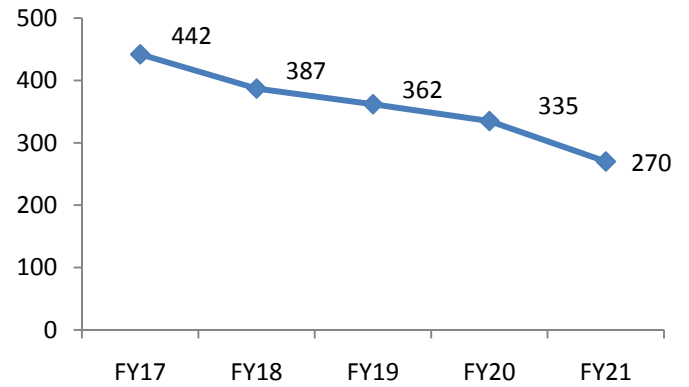
Source: Company

Story in charts..

Debtors (days)



Inventory (days)



Source: Company

One year price movement chart



Source: Trading view

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Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits - On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

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