

Bid for Long Term

Key Data	
Floor Price (Rs)	1001*
Face Value (Rs)	10/-
Issue Size (Rs)	5020.83cr
Total Shares Offered	5.02cr shares
Retail	
Issue Opens	August 28, 2020
Issue Closes	August 28, 2020
Offered Shares	1 Cr Shares
NSE Code	HAL
BSE Code	541154
52 Week High	1423
52 Week Low	448
Source:BSE	

*Retail Investor will be allocated OFS at a discount of 5% to the cut off Price

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HINDUSTAN AERONAUTICS LIMITED

Company Background

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% as on March 31, 2020. 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 .

Issue Details

The promoter of the company – The President of India, acting through and represented by the Department of Defence Production, Ministry of Defence, Government of India, proposes to sell up to 33,438,750 equity shares representing 10% of the total paid-up equity share capital of the company and face value of Rs. 10/- each, with an option to additionally sell up to 16,719,375 equity shares representing 5% of the total paid-up equity share capital of the company. The floor price has been set at Rs. 1001/- per share.

Allocation Methodology

The allocation would be made on price priority method at multiple clearing prices in accordance with the SEBI OFS circular. The issue opens for subscription on August 27, 2020 for institutional bidders. Retails investors for whom 20% shares have been reserved will get to bid on August 28, 2020.

Rationales

Order book provides strong visibility

The company has a strong order pipeline as reflected by the order book of Rs 52,965 crore as on March 31, 2020 which provides strong revenue visibility for next 2-3 years. HAL enters into long term variable price contract with its customers viz. Indian Airforce, Indian Army and Indian Navy for period of 15-20 years which ensures order book visibility with assured margins. Going forward, HAL is estimating orders for 12 Sukhoi-30, 83 LCA (Low Combat Aircraft) and 15 LCH (Low Combat Helicopter) which is expected to improve manufacturing order book position.

Government's new defence procurement policy will provide growth

The government recently announced policy reforms in the defence sector. Key provisions include mandatory 'Make in India' for a notified list of weapons/platforms, indigenization of imported spares and raising FDI limit to 74% from 49% under the automatic route. The new proposal has the outright notification on the year-wise import ban of certain weapons/platforms, assuring timeliness for domestic manufacturing. It would, thus, force the defence services to place orders with the domestic companies. We believe HAL is well-positioned to benefit substantially from weapons/platform earmarked for Make in India and imported spares indigenization

Diversified products and services

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. Apart from design and

manufacturing, HAL takes up maintenance and overhaul services to cover the life cycle requirement of all the old and new products, which is also second highest revenue generator for HAL.

Strong Research and Development capabilities

HAL is present in an industry which demands constant innovation and technological changes and it is critical for HAL to adapt to technological advancements, absorb imported technologies. In order to ensure the same, company has been constantly spending on R&D through its 11 R&D centres. HAL has also established 12 commercial Joint Venture companies in collaboration with leading international aviation and Indian organizations like BAe Systems (UK), Safran Aircraft engines (France), Elbit Systems (Israel), Rolls Royce (UK) etc. for supply of aircraft engines, components (like compressor rings, turbine blades) etc.

Strong financial performance led by consistent and profitable growth

Over the years, HAL has a successful track record of delivering consistent growth in sales and profits. In the last three years FY18-FY20, HAL's operating revenues and profitability have grown by a CAGR of 5% and 13% respectively. Further, during the same period, company's operating profit grew by a CAGR of 23%. The company's operating margin has improved from 18% in FY18 to 30 % in FY20.

Recommendations

At the floor price of Rs 1001/-, the stock trades at 11.55x its FY20 EPS of Rs. 86.66. HAL is the largest aircraft manufacturer in the country with expertise in fighter planes and helicopters. HAL has a proven track record of operational excellence as well as an order book that gives good visibility for the near term. We believe HAL is well-positioned to benefit from Government's new defence procurement policy based on its strong manufacturing platform which is supported by R&D. Hence, we recommend to **BID** for the OFS on a long-term basis.

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