

Hindustan Aeronautics Ltd.

Hindustan Aeronautics Ltd. is one of the largest defence PSUs engaged in the design, development, manufacture, repair, overhaul, upgrade and servicing of a wide range of products including, aircraft, helicopters, aero-engines, avionics, accessories and aerospace structures. The company has a strong order backlog of Rs. 52,000 cr. as of July 2020 which is expected to go substantially over the next few years as the company is likely to get many new orders in the coming years including orders for 83 LCA.

Long and credible history of development, manufacturing and maintenance, repair and overhaul ("MRO") services: HAL is one of the premier defence PSU in India along with BRL and has over the years showcased 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. Other than the indigenous aircraft and helicopters HAL has also manufactured aircrafts under license including the MiG 21FL/M/BIS, MiG-27, Dornier 228, Su-30 Mkl, Hawk Mk 132 aircraft etc. HAL has also upgraded several aircrafts including the MiG-21 BIS, MiG-27 Upgrade and Jaguar in order to enhance their combat capabilities and performance.

Strong order backlog and Government thrust on make in India to benefit company: Currently the company has an order backlog of ~₹52,000cr which is expected increase substantially over the next few years as the company is likely to get many new orders including orders for 83 LCA Mark 1A worth ₹39,000cr which is expected to go for cabinet approval very soon. The company also has various other projects in the pipeline including Light Utility Helicopter (LUH) and the company is likely to fetch some orders for the same in FY2021. These projects will ensure order flow for the company over the next couple of years. Post the LCA Mark 1A and the LUH, company is expected to get orders for LCA Mark II followed by the Advanced Medium Combat Aircraft (AMCA). Moreover the company will keep getting orders for upgrades of existing aircrafts which will ensure a constant flow of orders for the company.

Outlook & Valuation: At The floor price, it is offered at 11.5x FY2020 EPS of ₹86.7, which is reasonable considering the growth prospects. Considering the strong pipelines of orders and given the Government's thrust on make in Indian especially for defence sector, we are positive on the future outlook of the company and rate it as **SUBSCRIBE**.

Key Financials

Y/E March (₹ cr)	FY18	FY19	FY20
Net Sales	18,520	19,894	21,522
% chg	-	7.4	8.2
Net Profit	1,990	2,265	2,898
% chg	-	13.8	27.9
EBITDA (%)	18.6	22.3	22.9
EPS (Rs)	59.5	67.7	86.7
P/E (x)	16.8	14.8	11.5
P/BV (x)	3.5	3.1	2.5
RoE (%)	20.9	20.9	21.9
RoCE (%)	24.0	22.7	20.7
EV/EBITDA	8.1	8.5	7.9
EV/Sales	1.5	1.9	1.8

Source: Company, Valuation Done on floor price

SUBSCRIBE

Issue Open: August 28, 2020

Issue Close: August 28, 2020

Face Value: ₹10

Present Eq. Paid up Capital: ₹334.39cr

Offer for Sale: 3.35cr Shares

Oversubscription option: 1.67cr shares

Post Eq. Paid up Capital: ₹334.39cr

Issue size (amount): ₹3347cr

Floor Price: ₹1001

Allocation

Non-Retail	30% of issue
Retail	20% of issue

Post Issue Shareholding Pattern

Promoters	79.97%
Others	20.03%

Yash Gupta

+022 39357600, Extn: 6872

Yash.gupta@angelbroking.com

Issue Details

The President of India, acting through and represented by the Department of Defence Production, Ministry of Defence, Government of India is promoters of Hindustan Aeronautics Ltd is selling up to 3.35cr shares (excluding Oversubscription option of 1.67crores shares) of the company constituting 10% total equity through offer for sale on August 27 and August 27, 2020.

The OFS shares will be floated at floor price of ₹1,001 per share, which is at 1% discount to the closing price of August 27, 2020. This will fetch ₹3,347.2cr to the promoter. Promoter also proposed an option of Oversubscription to sell another 1.67cr shares (in the event the oversubscription option is exercised). In total, promoter plans to sell 5.17 crore equity shares of Hindustan Aeronautics Ltd.

Investors under the retail category will only be allowed to bid for shares valuing not more than ₹2 lakh. Retail Investors will be allocated Offer Shares at a discount of 5% to the Cut-Off Price in accordance with the OFS Guidelines.

Employee Category Such number of equity shares as would be equivalent to up to 5% of the Equity Shares sold pursuant to the Offer (over and above the Offer Shares) may be offered to eligible and willing employees of the Company at a discount of up to 5% to the Cut-off Price in the Retail Category of the Offer subsequent to completion of the Offer.

Exhibit 1: Pre and Post-OFS shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter	30,08,55,180	89.97	26,74,09,684	79.97
Other	3,35,32,320	10.03	6,69,77,816	20.03
Total	33,43,87,500	100	33,43,87,500	100

Source: Company, Angel Research

Offer Size

Total number of equity shares being offered in the offer Up to 33,438,750 equity shares of the Company of face value of ₹10 each, representing 10% of the total paid up equity share capital of the Company i.e Base Offer Size.

Maximum number of shares the seller may choose to sell over and above the offer shares Up to 16,719,375 equity shares of the Company of face value of ₹10 each, representing 5% of the total paid up equity share capital of the Company Oversubscription Option. In event, the Oversubscription Option is exercised, the equity shares forming part of the Base Offer Size and the Oversubscription Option will represent 15% (50,158,125) equity shares of the Company.

Income Statement

Y/E March (₹ cr)	FY18	FY19	FY20
Total operating income	18,519.7	19,893.9	21,521.9
% chg	-	7.4	8.2
Total Expenditure	15,071.1	15,453.9	16,593.5
Cost of materials, stores & spare parts	7,712.8	7,301.8	8,751.7
Stock Adjustments	-728.6	-1,167.5	-711.4
Employee Benefit Expense	4,310.7	4,311.0	4,778.0
Other Expenses	3,776.2	5,008.7	3,775.3
EBITDA	3,448.7	4,440.0	4,928.3
% chg	-	28.7	11.0
(% of Net Sales)	18.6	22.3	22.9
Depreciation & Amortisation	947.1	1,029.3	998.5
EBIT	2,501.6	3,410.7	3,929.8
% chg	-	36.3	15.2
(% of Net Sales)	13.5	17.1	18.3
Interest & other Charges	34.6	177.6	348.5
Other Income	775.7	376.9	419.8
(% of Sales)	4.2	1.9	2.0
Recurring PBT	3,242.7	3,610.0	4,001.2
% chg	-	11.3	10.8
(% of Net Sales)	17.5	18.1	18.6
Tax	1,252.4	1,345.2	1,103.6
PAT (reported)	1,990.3	2,264.8	2,897.7
% chg	-	13.8	27.9
(% of Net Sales)	10.7	11.4	13.5
Basic & Fully Diluted EPS (Rs)	59.5	67.7	86.7
% chg	-	13.8	27.9

Source: Company, Angel Research

Balance Sheet

Y/E March (₹ cr)	FY18	FY19	FY20
SOURCES OF FUNDS			
Equity Share Capital	334.4	334.4	334.4
Other equity	9,176.9	10,521.3	12,908.8
Shareholders Funds	9,511.3	10,855.7	13,243.2
Total Loans	904.5	4,198.5	5,775.2
Other liabilities	11,003.7	10,337.0	9,006.0
Total Liabilities	21,419.5	25,391.2	28,024.4
APPLICATION OF FUNDS			
Net Block	7,566.2	7,540.0	7,356.6
Capital Work-in-Progress	1,461.7	1,580.3	2,042.7
Current Assets	38,424.6	41,204.9	42,406.6
Inventories	20,130.7	20,526.5	26,919.3
Sundry Debtors	6,751.5	13,937.9	11,583.4
Cash & Bank Balance	6,545.5	140.5	316.6
Other Assets	4,996.8	6,600.0	3,587.4
Current liabilities	26,065.8	25,119.0	24,662.6
Net Current Assets	12,358.8	16,086.0	17,744.0
Other Non Current Asset	32.5	189.4	880.2
Total Assets	21419.3	25395.7	28023.5

Source: Company, Angel Research

Cash Flow Statement

Y/E March (₹ cr)	FY18	FY19	FY20
Profit before tax	3,242.7	3,610.0	3,969.0
Depreciation	968.6	1,278.4	1,030.3
Change in Working Capital	(1,826.4)	(8,161.1)	(373.4)
Interest Expense	28.6	169.6	282.2
Direct Tax Paid	(1,509.9)	(1,100.0)	(1,819.9)
Others	1,117.9	1,469.4	1,453.5
Cash Flow from Operations	(747.6)	(7,459.4)	1,621.1
(Inc.)/ Dec. in Fixed Assets	(1,252.6)	(1,370.2)	(1,379.2)
Net sale of Investment	(64.4)	96.5	49.9
Others	1,914.0	6,321.8	1.4
Cash Flow from Investing	597.0	5,048.1	(1,328.9)
Interest paid	(28.6)	(169.6)	(348.3)
Borrowings	-	3,294.0	1,659.0
Dividend paid on equity shares	(1,294.9)	(798.2)	(1,340.4)
Payment of financial Liabilities	(3.1)	-	-
Others	(1,213.8)	-	-
Cash Flow from Financing	(2,540.4)	2,326.2	(39.8)
Inc./ (Dec.) in Cash	(2,691.0)	(85.2)	252.5
Opening Cash balances	2,803.7	112.9	26.9
Closing Cash balances	112.7	27.7	279.3

Source: Company, Angel Research

Research Team Tel: 022 - 39357800

E-mail: research@angelbroking.comWebsite: www.angelbroking.com

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