June 28, 2024

Hindustan Aeronautics Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based limits	4,000.00	4,000.00	[ICRA]AAA (Stable); reaffirmed
Short-term - Non-fund based limits	2,050.00	2,050.00	[ICRA]A1+; reaffirmed
Total	**6,050.00**	**6,050.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation factors in the improvement of Hindustan Aeronautics Limited's (HAL) order book position to ~Rs. 94,000 crore as on March 31, 2024 (PY: ~Rs. 82,000 crore) along with the working capital position. The ratings continue to draw comfort from the diversified revenue mix of HAL, covering the sale of products, spares, and services for multiple aircraft programmes. The company's operating income increased at a CAGR of ~9% in the last five years to Rs. 30,381 crore in FY2024. HAL's financial profile remains strong, characterised by healthy profit margins, and return indicators, nil borrowings, and a strong liquidity profile.

The ratings factor in the majority ownership held by the Government of India (GoI) in HAL and its strategic position as a dominant supplier of aircrafts, helicopters, engines, avionics, and accessories as well as key provider of maintenance, repair, and overhaul (MRO) services to the Indian defence forces. The company faces limited competition from the private sector due to high capital intensity and long gestation periods for developing manufacturing capabilities in the sector. Though competition from the private sector is likely to intensify in the medium term, HAL's established track record, its long relationship with the Indian defence forces and large manufacturing capacities with adequate pool of trained manpower and focus on research and development (R&D) will continue to be strong mitigating factors. The GoI's increased focus on indigenisation with the Make in India policy and mandatory offset policy for defence procurement, augur well for the company's future growth.

The ratings also factor in the company's exposure to risk of time and cost overruns as orders have stiff execution timelines and predefined margins. Any material cost overruns attributable to delays by HAL could impact its overall profitability. However, the liquidity profile remains strong, supported by the healthy cash balances and strong financial flexibility with adequate access to bank credit to tide over delays in collection receipts. The ratings consider HAL's exposure to high dependence on contracts received from the Ministry of Defence (MoD), which contributes to more than 90% of the revenues. ICRA notes that while the company is trying to diversify its revenue base by increasing the share of orders from other clients and exports, however, their contribution remains low. The company remains susceptible to change in prioritisation in the defence budget affecting the order inflow and timely receipt of funds, which can have an adverse impact on its revenue growth, and liquidity position.

HAL manages its working capital intensity partly by aligning its payables to contract receivables and availing mobilisation advances. Consequently, the total outside liabilities/tangible net worth (TOL/TNW) ratio remained elevated at 1.6 times as on March 31, 2024, (PY: 1.8 times on March 31, 2023). Nevertheless, long relationships with key vendors/original equipment manufacturers (OEM) with back-to-back arrangements and majority orders being backed by the MoD, wherein advances are provided without any financial bank guarantees, provide comfort. ICRA notes that the company has significant contingent liabilities, primarily relating to sales tax demands from various states, aggregating to ~Rs. 11,000 crore as on March 31, 2023. While the same has been resolved with many state governments and any outflows pertaining to the sales tax demands are expected to be reimbursed by HAL's customers.

The Stable outlook on the [ICRA]AAA rating reflects ICRA's opinion that HAL will continue to benefit from its strategic importance to the Indian defence forces, healthy order book, high entry barriers and strong financial flexibility.

Key rating drivers and their description

Credit strengths

Majority ownership by GoI; strategically important to Indian defence forces – The GoI is HAL's majority shareholder, holding a ~72% stake as on March 31, 2024. HAL is a defence PSU, which was conferred a Navaratna status in 2007. It is of strategic importance to the Indian defence forces comprising the Indian Army, Indian Air Force, Indian Navy, and Indian Coast Guard, on account of it being the sole domestic supplier of aircrafts, helicopters, engines, avionics, and other accessories. It has a leadership position in the Indian aerospace and defence industry. Over the years, it's capabilities have been showcased in the successful development of military aircraft and helicopters. It also provides MRO services for indigenous and licence-manufactured aircraft and helicopters, as well as for those procured directly by the Indian defence services. The company faces limited competition from the private sector due to the high capital intensity and long gestation periods for developing manufacturing capabilities in the sector.

Strong order book with healthy future order pipeline – The company has healthy order inflows with an outstanding order book of ~Rs. 94,000 crore as on March 31, 2024 (PY: ~Rs. 82,000 crore), providing high revenue visibility in the medium to long term, while also indicating HAL's strong competitive and strategic position. Further, in the near to medium term, new orders are anticipated for Light Utility Helicopter (LUH), Light Combat Helicopter (LCH), Su-30 aircraft and Advance Light Helicopter (ALH) Dhruv.

Strong financial profile and continued improvement in working capital position – HAL's OI increased at a CAGR of ~9% in the last five years to Rs. 30,381 crore in FY2024. The working capital intensity improved in FY2024 to -38% (PY: -34%). HAL manages its working capital intensity partly by aligning its payables to contract receivables and availing mobilisation advances. Consequently, the total outside liabilities/tangible net worth (TOL/TNW) ratio remained elevated at 1.6 times as on March 31, 2024, (PY: 1.8 times on March 31, 2023). HAL's financial profile is strong, characterised by healthy profit margins, and return indicators, nil borrowings, and a strong liquidity profile Nevertheless, long relationships with key vendors/original equipment manufacturer (OEMs) with back-to-back arrangements and majority orders being backed by the MoD, wherein advances are provided without any financial bank guarantees, provide comfort.

Credit challenges

Revenue concentration on MoD – More than ~90% of the company's revenue is derived from sales to the Indian defence forces. ICRA notes that while the company is trying to diversify its revenue base by increasing the share of orders from other clients and exports, however, their contribution remains low.

Susceptibility to time and cost overruns in order execution – The company's operations and profitability remain exposed to time and cost overruns as orders have stiff execution timelines and predefined margins. Any material cost overruns attributable to delays by HAL could impact its overall profitability. In case of delays in delivery, the company is subject to various penalties including liquidated damages.

Liquidity position: Strong

HAL's liquidity is strong, evident from its cash balance and liquid investment of ~Rs. 26,430 crore as on March 31, 2024 (PY: ~Rs. 20,320 crore), undrawn working capital facilities of Rs. 4,000 crore and absence of debt repayment obligations over the near term. Further, the capex commitments are expected to be met through internal accruals and no debt-funded capex is envisaged in the near term. The liquidity profile remains supported by the healthy financial flexibility demonstrated by HAL in the past, by way of timely and adequate access to bank credit to tide over times of delays in collection receipts.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Negative pressure on HAL's ratings could arise in the case of an adverse impact on liquidity due to stretched debtors or crystallisation of contingent liabilities leading to significant dependence on external borrowings. Any change in strategic importance of HAL to the GoI reflecting in lower order inflows and revenues could also increase pressure on ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating approach - consolidation
Parent/Group support	Parent/Group Company: Government of India (GoI) The assigned rating factors in the strategic importance that HAL holds for the GoI, which ICRA expects should induce it to extend timely financial support to the rated entity, should there be a need.
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of HAL. As on March 31, 2024, the company had 13 joint ventures and two subsidiaries, which are all annexed in EXHIBIT-3.

About the company

HAL, a defence public sector undertaking (DPSU), was established on October 1, 1964, with the amalgamation of Hindustan Aircraft Limited and Aeronautics India Limited. The principal business of HAL is to undertake design, development, manufacturing, maintenance, repair, overhaul, and servicing of aircraft, helicopters, engines and other related systems like avionics, instruments, and accessories. Its primary consumers are the Indian defence forces comprising the Indian Air Force, Indian Army, Indian Navy and the Indian Coast Guard. It also engages with the Indian Space Research Organization (ISRO) to contribute to its space programmes. The GoI remains HAL's largest shareholder, with a stake of 71.6% as on March 31, 2024. HAL was conferred with the Navratna PSU status in June 2007.

The company has four production complexes - Bangaluru complex, MiG complex (located in Nasik and Koraput), Helicopter complex (located in Bengaluru and Barrackpore), Accessories complex (located in Kanpur, Lucknow, Hyderabad, Kasargod and Korwa). It also has a Design complex (R&D centres) jointly located with the related manufacturing divisions.

Key financial indicators (audited)

HAL Consolidated	FY2023	FY2024
Operating income	26,927	30,381
PAT	5,825	7,594
OPBDIT/OI	27.0%	32.1%
PAT/OI	21.6%	25.0%
Total outside liabilities/Tangible net worth (times)	1.8	1.6
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	125.5	303.8

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amounts in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding as Mar 31, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
					June 28, 2024	Apr 21, 2023	Jan 25, 2023	Jan 14, 2022	Apr 29, 2021
1	**Fund-based limits**	Long-term	4,000.00	-	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AA+ (Positive)**
2	**Non-fund based facilities**	Short-term	2,050.00	-	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
3	**Commercial paper**	Short-term	-	-	**-**	**-**	**[ICRA]A1+; Withdrawn**	**[ICRA]A1+**	**[ICRA]A1+**

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limits	Simple
Non-fund based facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Fund-based limits**	NA	NA	NA	4,000.00	[ICRA]AAA (Stable)
NA	**Non-fund-based facilities**	NA	NA	NA	2,050.00	[ICRA]A1+

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	HAL Ownership	Consolidation Approach
Subsidiaries:		
Naini Aerospace Limited	100.00%	Full Consolidation
Indo Russian Helicopters Limited	50.5%	Full Consolidation
Joint Ventures:		
BAeHAL Software Ltd.	49.0%	Equity Method
Indo Russian Aviation Ltd.	48.0%	Equity Method
Safran HAL Aircraft Engines Pvt. Ltd.	50.0%	Equity Method
Samtel HAL Display System Ltd.	40.0%	Equity Method
HAL-Edgewood Technologies Pvt. Ltd.	50.0%	Equity Method
HALBIT Avionics Pvt. Ltd.	50.0%	Equity Method
Infotech HAL Ltd.	50.0%	Equity Method
HATSOFF Helicopter Training Pvt. Ltd.	50.0%	Equity Method
International Aerospace Manufacturing Pvt. Ltd.	50.0%	Equity Method
Multi-Role Transport Aircraft Ltd.	50.0%	Equity Method
Aerospace & Aviation Sector Skill Council (AASSC)	50.0%	Equity Method
Helicopter Engines MRO Private Ltd.	50.0%	Equity Method
Defence Innovation Organization	50.0%	Equity Method

Source: Company

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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