

Rating Advisory

January 11, 2019 | Mumbai

Hindustan Aeronautics Limited

Advisory as on January 11, 2019

This rating advisory is provided in relation to the rating of Hindustan Aeronautics Limited

The key rating sensitivity factors for the rating include:

- Timely servicing of Debt

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from Hindustan Aeronautics Ltd (HAL) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If HAL continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the Company

HAL is wholly owned by the Indian government and has a memorandum of understanding with the Ministry of Defence's Department of Defence Production and Supplies. HAL is a vertically integrated aerospace company, and designs, manufactures, and overhauls aviation products. It has 19 production units supported by research and development centres at Kanpur, Lucknow, Korwa in Uttar Pradesh; Koraput in Odisha; Bengaluru; Nashik in Maharashtra; and Hyderabad.

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Rating Rationale

March 28, 2018 | Mumbai

Hindustan Aeronautics Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.1500 Crore
Long Term Rating	CRISIL AAA/Stable (Reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)
Rs.450 Crore Bond	CRISIL AAA/Stable (Reaffirmed)
Rs.450 Crore Short Term Debt	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has reaffirmed its 'CRISIL AAA/Stable/CRISIL A1+' ratings on the bank facilities and debt programmes of Hindustan Aeronautics Limited (HAL).

The ratings continue to reflect the company's strategic position as the main aviation equipment supplier to the Indian defence sector, its technology absorption capability, sizeable order book, and sound financial risk profile. These strengths are partially offset by its exposure to revenue concentration risk on account of high dependence on the Indian defence sector.

CRISIL has noted HAL's initial public offer concluded on March 20, 2018, with sale of Gol's stake of 10% to the public. Gol continues to hold the balance stake. The stake sale will not make any material impact on the credit risk profile of the company as major control will remain with the government, the company being strategically important in the aerospace and defence sector. The amount raised shall be utilised by Gol.

The rating review is based on the annual report of 2016-17 along with information available on company's website.

Analytical Approach

CRISIL has applied its criteria for notching up standalone ratings of entities based on government support.

Key Rating Drivers & Detailed Description

Strengths

* **Strategic position as the main aviation equipment supplier to the Indian defence sector:** HAL occupies a strategic position as the major domestic supplier of aviation equipment to the Indian defence sector. The company is also the primary provider of maintenance and overhauling services to the defence forces. HAL is expected to derive benefit from the government's budget allocation of Rs 2.95 lakh crore for the defence sector in the Union Budget for fiscal 2019. HAL has also identified growth opportunities in the non-defence segment to diversify its revenue base, which comprises advanced light helicopters (ALHs), structures and tankages for launch vehicles of Indian Space Research Organisation (ISRO), and marine gas turbine overhaul and sub-assembly supplies to global majors.

* **Strong order book and superior technology absorption capability:** HAL's strong business prospects are reflected in its sizeable order book, which provides revenue visibility over the medium term. As on July 31, 2017, HAL's order book position was Rs 63,333 crore. Its superior technology absorption capability signifies its in-house development capability for licensed production of aircraft, repairs and overhaul services, as well as indigenous design and development of aircraft and helicopters.

* **Strong financial risk profile:** The financial risk profile is backed by strong liquidity, substantial internal cash accrual, low indebtedness, and sound debt coverage ratios.

Weakness

* **Significant revenue concentration due to dependence on the Indian defence sector:** HAL derives 80-90% of its revenue from the Indian defence sector, primarily aviation. Inability to fulfil critical defence needs may lead to increased share of private or foreign players in the defence budget of Indian Air Force (IAF). Also, lowering of the defence budget could hit HAL's revenue.

Outlook: Stable

CRISIL believes HAL will maintain its strong business and financial risk profiles over the medium term because of its strategic importance to the Indian government and the business support it receives from IAF. The outlook may be changed to 'Negative' if any change leading to dilution in HAL's strategic importance to the Indian defence sector.

About the Company

HAL is wholly owned by the Indian government and has a memorandum of understanding with the Ministry of Defence's Department of Defence Production and Supplies. HAL is a vertically integrated aerospace company, and designs, manufactures, and overhauls aviation products. It has 19 production units supported by research and development centres at Kanpur, Lucknow, Korwa in Uttar Pradesh; Koraput in Odisha; Bengaluru; Nashik in Maharashtra; and Hyderabad.

Key Financial Indicators

Particulars	Unit	2017	2016
Revenue	Rs Cr.	18,555	17,158
Profit After Tax	Rs Cr.	2616	1998
PAT Margin	%	14	12
Adjusted Debt/Adjusted Networkth	Times	0.14	0.05
Interest coverage	Times	227	624

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs crore)	Rating Assigned with Outlook
NA	Short Term Debt	NA	NA	7-365 Days	450	CRISIL A1+
NA	Bond*	NA	NA	NA	450*	CRISIL AAA/Stable
NA	Bank Guarantee	NA	NA	NA	20.00	CRISIL A1+
NA	Cash Credit	NA	NA	NA	450.00	CRISIL AAA/Stable
NA	Letter of Credit	NA	NA	NA	1030.00	CRISIL A1+

*Yet to be issued

Annexure - Rating History for last 3 Years

Instrument	Current			2018 (History)		2017		2016		2015		Start of 2015
	Type	Quantum	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Bond	LT	450	CRISIL AAA/Stable		No Rating Change		No Rating Change		No Rating Change		No Rating Change	CRISIL AAA/Stable
Short Term Debt	ST	450	CRISIL A1+		No Rating Change		No Rating Change		No Rating Change		No Rating Change	CRISIL A1+
Fund-based Bank Facilities	LT/ST	450	CRISIL AAA/Stable		No Rating Change		No Rating Change		No Rating Change		No Rating Change	CRISIL AAA/Stable
Non Fund-based Bank Facilities	LT/ST	1050	CRISIL A1+		No Rating Change		No Rating Change		No Rating Change		No Rating Change	CRISIL A1+

Table reflects instances where rating is changed or freshly assigned. 'No Rating Change' implies that there was no rating change under the release.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bank Guarantee	20	CRISIL A1+	Bank Guarantee	20	CRISIL A1+
Cash Credit	450	CRISIL AAA/Stable	Cash Credit	450	CRISIL AAA/Stable
Letter of Credit	1030	CRISIL A1+	Letter of Credit	1030	CRISIL A1+
Total	1500	--	Total	1500	--

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

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