

Hindustan Aeronautics Limited

Issue Snapshot:

Issue Open: Mar 16 – Mar 20, 2018

Price Band: Rs 1215 – 1240 (A discount of Rs 25 per eq sh offered to retail and employees.)

Issue Size: 34,107,525 Equity Shares (Entirely Offer for sale including Employee reservation of 668,775 eq sh)

Offer Size: Rs 4144.0cr – 4229.3cr

QIB	Upto	16,719,374 eq sh
Non Institutional	atleast	5,015,813 eq sh
Retail	atleast	11,703,563 eq sh
Employee	Upto	668,775 eq sh

Face Value: Rs 10

Book value: Rs 358 (Sept 30, 2017)

Bid size: - 12 equity shares and in multiples thereof

100% Book built Issue

Capital Structure:

Pre Issue Equity: Rs 334.39 cr
 Post issue Equity: Rs 334.39 cr

Listing: BSE & NSE

Book Running Lead Manager: SBI Capital Markets Limited, Axis Capital Limited

Registrar to issue: Karvy Computershare Private Limited

Shareholding Pattern

Shareholding Pattern	Pre issue %	Post issue %
Promoter and Promoter Group	100.00	89.80
Public & Others	0.00	10.20
Total	100.0	100.0

Source for this Note: RHP

Background & Operations:

Hindustan Aeronautics Ltd has been conferred with the "Navratna" status by the GoI in June 2007 and is the largest DPSU in terms of value of production according to the MoD Annual Report 2016-2017. It was the 39th largest aerospace company in the world in terms of revenue (in USD million) in 2016 according to Flight International. It is 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. Its operations are organised into five complexes, namely the Bangalore Complex, MiG Complex, Helicopter Complex, Accessories Complex, and Design Complex, which together include 20 production divisions and 11 research and design centres ("R&D Centres") located across India. It rely on indigenous research as well as enter into technology transfer and licence agreements to manufacture its products. In addition, it has entered into 13 commercial joint ventures to grow its operations.

HAL has a sustained track record of profitability and has paid dividends to its stakeholders every year for over four decades. As of December 31, 2017, its order book was Rs 684,610mn, which generally includes products and services to be manufactured and delivered and excludes anticipated revenues from its joint ventures and subsidiaries. In addition to sales to the Indian Defence Services, which accounted for 91.4%, 93.3%, 94.2% and 92.6% of its total sales in the six-month period ended September 30, 2017 and in Financial Years 2017, 2016 and 2015, respectively, it sells its products and provide services to state governments, para-military forces and corporates. In addition, during the Financial Year 2017, it exported its products and services, primarily spares, to more than 13 countries. During the six month period ended September 30, 2017 and during the Financial Years 2017 and 2016, exports of products and services accounted for 3.0%, 2.6% and 2.7%, of its revenue from operations (net of excise duty) respectively.

HAL sign a memorandum of understanding with the MoD on a yearly basis, which outlines various targeted performance parameters for a given year. The Company has also received an "Excellent" rating from the GoI every year from the Financial Years 2002 to 2016. In addition, it was conferred with the "Raksha Mantri's Award for Excellence in Performance" for the "Institutional Category" for the years 2007-2008, 2009-2010, 2010-2011, 2012-2013 and 2015-2016. Its Aircraft Upgrade R&D Centre ("AURDC") was conferred with the "Raksha Mantri's Award for Excellence in Performance (Design Effort)" in relation to the MiG-27 aircraft for the year 2005-06. It also received the "SCOPE Excellence" award for the "Institutional Category" for the year 2011-2012, the "SCOPE Meritorious" award for research and development, technology development and innovation for the year 2012-2013 and the "SCOPE Meritorious" award for good corporate governance for the year 2014-2015.

Objects of Issue:

The objects of the Offer are: (i) to carry out the disinvestment of 34,107,525 Equity Shares by the Selling Shareholder constituting 10% of HAL's Pre-Offer paid up Equity Share capital; and (ii) to achieve the benefits of listing the Equity Shares on the Stock Exchanges. HAL will not receive any proceeds from the Offer and all proceeds shall go to the Selling Shareholder.

Competitive strengths

- Long credible history of research, design and development, manufacturing and maintenance, repair and overhaul ("MRO") services
- Established track record in offering product life cycle support extending to periods beyond four decades

- Strong design and development capabilities
- Leadership position in the Indian aeronautical industry and strong GoI support
- Diversified product portfolio
- Strong financial track record
- Experienced management team and operating team

Business strategy:

- Expand operations through partnerships or collaboration
- Diversify through expansion in new growth areas.
- Diversify further into the civil aircraft segment for both manufacturing and servicing opportunities
- Develop in-house capabilities to design and develop specialised products including aero-engines
- Leverage Existing Cost Advantage
- Developing Human Capital
- Enhancing customer satisfaction
- Optimising operations towards becoming a lead integrator of aircraft platforms

Key concerns

- Any decrease in sales from work performed under the contracts with the MoD, which account for a substantial portion of HAL's business
- A decline or reprioritisation of funding in the Indian defence budget, that of customers including the Indian Defence Services, Indian Coast Guard, Border Security Force, Central Reserve Police Force and Paramilitary forces or delays in the budget process;
- Inability to keep pace with the technological changes or devote sufficient resources for research, design and development
- Competition in the markets in which HAL operates, including with respect to international competitors who may have substantially greater resources than the company;
- The outcome of legal and/or regulatory proceedings that HAL is or might become involved in;
- Any adverse change in laws, rules and regulations and legal uncertainties;
- Any significant risks and uncertainties that may not be covered by indemnity or insurance
- Inability to attract or retain key personnel; and
- Any occurrence of natural calamities or natural disasters affecting the areas in which HAL operate

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