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हिन्दुस्तान एरोनाटिक्स लिमिटेड
मुख्यालय
HINDUSTAN AERONAUTICS LIMITED
CORPORATE OFFICE

CO/SEC/4(7)/2020/ BSE & NSE Filing/17 2nd July, 2020

BSE Limited Listing Department Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001	National Stock Exchange of India Ltd Listing Department Exchange Plaza, 5th Floor, Plot No C/1, G Block, Bandra-Kurla Complex, Bandra (E), Mumbai – 400051

Dear Sir/ Madam,

Sub: Outcome of Q4 and FY20 Post Results Conference Call under SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Ref: BSE Scrip Code: 541154, NSE Symbol: HAL

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In furtherance to our Letter No. CO/SEC/4(7)/2020/ BSE & NSE Filing/14 dated 25th June, 2020 on the subject, please find enclosed herewith copy of the outcome of Q4 and FY20 Post Results Conference Call held on 26th June, 2020.

2 The same is also made available on Company's website www.hal-india.co.in in Sub-section "Intimation to the Stock Exchange" under "Investors" Section.

3. This is for your information and record, please.

Thanking you,

Yours Faithfully
For Hindustan Aeronautics Ltd

(G. V. Sesha Reddy)
Company Secretary & Compliance Officer

15/1, ಕಬ್ಬನ್ ರೋಡ್, ಬೆಂಗಳೂರು - 560 001, ಕರ್ನಾಟಕ, ಭಾರತ, 15/1, कब्बन रोड, बेंगलूर - 560 001, कर्णटक, भारत
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CIN: L35301KA1963GOI001622

"Hindustan Aeronautics Limited Q4 FY2020 Earnings Conference Call"

June 26, 2020

ANALYST: MR. ABHIJIT MITRA – ICICI SECURITIES LIMITED

MANAGEMENT: MR. R. MADHAVAN - CHAIRMAN AND MANAGING DIRECTOR – HINDUSTAN AERONAUTICS LIMITED
MR. C.B. ANANTHAKRISHNAN - DIRECTOR FINANCE – HINDUSTAN AERONAUTICS LIMITED
MR. M.S. VELPARI - DIRECTOR OPERATIONS – HINDUSTAN AERONAUTICS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Hindustan Aeronautics Limited Q4 and FY2020 earnings Conference Call hosted by ICICI Securities Limited. As a reminder all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this Conference is being recorded. I now hand the conference over to Mr. Abhijit Mitra from ICICI Securities Limited. Thank you and over to you Sir!

Abhijit Mitra: Thank you Faizon and good afternoon to all the participants. We have today with us the management of Hindustan Aeronautics Limited represented by Mr. R. Madhavan, Chairman and Managing Director. Mr. C.B. Ananthakrishnan, Director Finance and Mr. M.S. Velpari, Director Operations. Without further ado, I handover to the management to start with their opening remarks over to Sir!

R. Madhavan: Good afternoon. This is Madhavan CMD of HAL. It is my privilege to extend a very warm welcome to all the investors for this Analyst meet. I take this opportunity to inform you that we have just published our financials for the year 2019-20. The year 2019-20 was a very eventful year, during which the company has achieved several significant achievements both in terms of financials as well as in terms of physical progress of the projects.

The 2019-20 was a strong year wherein we have recorded a growth in all spheres and achieved a record turnover of Rs.21,301 Crores which is 7.5% increase over the previous year and in line with the guidance given by us earlier. The EBITDA margin is maintained at 24% for the last two years. The profit after tax has increased by 22% on a year-on-year basis to Rs.2857 Crores and during the year the earnings per share was of the order of Rs.85 and the company has declared interim dividend of Rs.33.25 per share that is around 332%.

In terms of broad activity wise business breakdown while manufacturing business was maintained at the previous year's level, the repair and overhaul segment has witnessed a healthy growth of 20% which has helped us to maintain the growth trajectory. We expect the manufacturing sales also to catch up with the orders in pipeline like 83 LCA, 12 SU-30 and 15 LCH orders coming in. The development projects undertaken by the company i.e. LCA Mark-I, the LUH, the LCH etc., have reached a certification phase and hence there was a decline in the development sales last year.

However, with the anticipated projects likely to be taken up by us that is IMRH projects, UAV's and AMCA with DRDO, these are expected to develop indigenous platforms which will increase our development sales.

In terms of liquidity position, we have realized dues in excess of Rs. 18,000 Crores during the year 2019-20 from the different customers which has eased our cash flows. However, for meeting the working capital requirements the company has availed Rs.5,500 Crores of cash credit limits from consortium of banks. With a view to contain the interest cost we have also gone with a mix of cost competitive financial instruments including commercial papers, REPO-linked borrowings etc., within the cash-credit limits.

These instruments have helped the company to contain the interest cost at Rs.268 Crores for the year. We are happy to inform that recently placed Rs.2000 Crores of commercial paper for 90 days at just 3.81%. The summary of the production during the year 2019-20 is as follows like: aircraft and helicopters we have manufactured 31 Aircrafts and Helicopters- we have overhauled 201, new engines- we have supplied 117 numbers and we have overhauled 486 engines and we have supplied 158 aero-structures.

On the credits point during the year the company has achieved milestones which will help the company to propel itself from the next decade. The FOC Standard Light Combat aircraft was manufactured within a record period of 12 months after release of the drawing by the design agency. The operation clearance for light duty helicopter was achieved on 7th February 2020 paving way for induction into service. The LCA naval prototype being designed jointly by HAL and DRDO successfully performed the key jump take off and arrestor hook landing from ship on January 11, 2020 which is a first aircraft which successfully took off from the ship and landed on a ship. Through this major achievement, India joins a live club of five nations who have developed a naval fighter aircraft.

The HTT 40 basic trainer has successfully demonstrated six turn spin capability in October 2019 on schedule with a spin capability proven. The HTT40 demonstrated compliance to all the requirements of the service and is moving towards its certification.

HAL successfully completed the integration of Brahmos missile and five of them are in operation with the Air Force. HAL has played an important role in almost all of ISRO's ambitious program namely, Chandrayan-1, Chandrayan-2, Mangalyaan and upcoming Gaganyaan. As we are experiencing the impact of COVID pandemic we have also evolved suitable change strategy to continue with our production lines and also to provide un-interrupted supplies and services to the defense customers.

The COVID 19 has minimally impacted the performance of the company during 2019-20, since HAL deals with different customers major negative impact on the future business in the long-term is not anticipated currently. Further, the defense customers have given time extension of four months which will help us to avoid liquidity damages.

If any due to delay in supplies because of this COVID we may have to extend some of the supply positions. However, considering the production disruption caused by the lockdown and the supply disruption with the foreign OEM's factories the next two quarter performance could be impacted.

On the positive side Atmanirbhar Bharat Abhiyaan led by the Government is giving significant impetus to self reliance and local production which may favorably influence the operations of the company as a defense services may demand indigenous design and development, develop products like the LCH, LUH, HTT40 and LCA. Hence I am confident that HAL will continue with the operations with minimum impact and will ensure that the interest of all stakeholders is protected during the ensuring financial year 2020 and 2021. Now, my team is ready to take the questions that you may have. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the line of Jonas Botha from PhillipCapital. Please go ahead.

Jonas Botha: Good afternoon. Congratulations on a very strong set of numbers Sir. I had three quick questions. Firstly, though you did mention the number of helicopters and aircrafts manufactured, would that number for delivery be available because that is what sort of determines our revenues right not function?

R. Madhavan: These are delivered aircrafts, the numbers that we have declared.

Jonas Botha: No, have you delivered more than 31?

M.S. Velpari: Yes, we have delivered all the 31 what is put in there, physically.

Jonas Botha: Some were manufactured last year and delivered this year or should we assume that deliveries are also only just 31?

R. Madhavan: The deliveries were done before March of last year all 31.

Jonas Botha: Okay, and as far as the ROH is concerned Sir how many SU-30's did we overhaul in the current year and what that number last year?

R. Madhavan: We actually overhauled 17 but deliveries that we have counted, was for 14.

Jonas Botha: For fiscal 2021 given the handicap that we have of the lost productivity due to the pandemic do you believe that is fiscal 2021 the deliveries and overhaul numbers that you just mentioned can be maintained or it will be lower Sir?

R. Madhavan: As of now we cannot commit that, but we hope that in the coming two quarters that is the third and the fourth quarter we will make up what is the loss till now. But it all depends on how fast we recover from the situation especially at my vendor places and the channel that we can open with our foreign vendors to supply to us.

Jonas Botha: My last question, I will come back in the queue after that is, Sir for FY 2020 your receivables which is your debtors went up by Rs.2000 Crores while we appreciate that you collected Rs.18, 000 Crores during the course of the year but your receivables went up Rs. 2000 Crores as against our earlier estimates, we were expecting somewhere in the middle of the year that the overall receivable number will decline. Now, going into fiscal 2021 and given the state of affairs the defense budget could be materially cut. Where do you see the receivable levels at the end of the year? Will it be higher than fiscal 2020 and what will be the implication of that on the debt because you already have a Rs.5, 700 Crores of debt on which you borrowed Rs. 2000 Crores more in June for CP's but that is more short term but what happens to the debt level you can cover these two-three points within that?

C.B. Ananthakrishnan: Yes, good evening Jonas, this is C.B Ananthakishnan. See you have two-three questions, first let me answer your question on the receivables. You have told that Rs. 2000 Crores of receivable had gone up. See basically we have made a collection of Rs. 18,000 Crores which in normal year would have been one of the good collections which we would have made but because of this backlog which we were carrying forward from the earlier year this Rs.18,000 Crores was appearing to be not sufficient. But notwithstanding that we were able to maintain our operations with this collections of Rs. 18,000 Crores where with the fund available cash-credit limit of Rs.10,000 Crores which we had utilized almost Rs.5,400 Crores. Now, as far as the current year is concerned yes definitely there is a sort of concern on the budget allocation to HAL but one positive thing which is happening is that we have started receiving the cash flows and during the first quarter i.e. up to June 30, we expect the cash inflow of around Rs. 5,000 Crores from the defense customers and as you know that today's circumstances defense also is getting a priority even though we anticipate there could be some defense budget allocation being cut but we are confident that as far as HAL is concerned because in order to maintain the operations now in the given scenario we will be provided with sufficient cash flows from the customers and I do not think we will have any difficulties this year in continuing with our operations uninterrupted. Having said that the receivables for the current year will also have an impact in the sense our revenue which we are generating is maintained, if naturally the receivables will continue to remain at the same level assuming that we are in a position to collect of around Rs. 16,000 Crores to Rs. 18,000 Crores in the current year. So, I expect that if things continue with the way what has been happening in the last quarter we should be in a position to maintain our receivables at around Rs. 16,000 Crores to Rs.18,000 Crores including contract assets. I hope I have clarified.

Jonas Botha: Just that if the receivable level is going to be maintained, does that mean that the debt levels will also be maintained at whatever Rs. 5,000 Crores-Rs.5,500 Crores?

C.B. Ananthakrishnan: That is what we anticipate. Debt level will also be maintained and on an average the debt level will be somewhere around Rs.4,500Crores throughout the year. In spite of that our combination of instruments which we could raise from the market and with better fundamentals we could negotiate a better interest rate with our bankers as well. So, we could end up the year with an average interest rate of around 6.58% last year. This year also we had negotiated special interest rates with State Bank of India which is around 6.5% for a major portion of our borrowings and also we were in a position to raise commercial paper at around 3.81% during the first quarter for 90 days. So, we expect that we will be in a position to maintain our average interest cost at around 6% in the current year as well.

Jonas Botha: This is really helpful and I will come back in the queue.

Moderator: Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar: Good afternoon Sir, first of all when will be final agreement for 83 LCA, which are replacement for MiG and these 15 LCH will happen and going forward the LUH for the naval forces, I believe we are in the fray and beyond that the MMRC also, the prototype can be done here. So, what are your thought process on the longer term projects and the last question is that MI-17 replacement that you will be offering to the Forces so, short term, medium term and long term?

R. Madhavan: Coming to the short term one, there are two orders which are in the pipeline. Basically, what you are talking about is 83 LCA, the PNC has been completed. DAC has cleared it and it is now waiting for cabinet sanction and we hope to get it through by the third quarter of this year. At the same time, LCH also is just behind the LCA order and we expect that also to come through very quickly. In fact we have started the production activities of LCH assuming that it will come this year and we are accounting for more than five aircrafts to be delivered this year. In the long term there are basically now since the Atmanirbhar Bharat is concerned the AMCA project and the LCA Mark-II will be given more impetus both of which are under design both at HAL as well as in DRDO. So, that is the MMRCA that we are looking at rather than one which is coming imported. This is we are more than related to that project and that is going on schedule. In fact LCA Mark-II, the role out is expected somewhere around the second to third quarter of 2022. Compared to all these the biggest project that we have taken now independently at HAL is of course IMRH project which is supposed to be what we feel, it will be the replacement for the MI-17. The numbers are very exciting. In fact, it is more than 350 helicopters is what we are looking at it and this being a larger helicopter 10 tons to 12 tons category can be used for a variety of other purposes including evacuations, SAR movements, so many other activities can be used and also acts a very good export potential. So, IMRH project has been given the go ahead by the MoD, Ministry of Defense and we have started the review meetings, we have come to a state of initial design is already on the verge of completion so we are going strong on that. This has seven years timeline for first delivery starting from the day T-0 which will happen this year some time, so we are quite confident of that project coming in.

Bhagyesh Kagalkar: Sir, the 12 Sukhoi which can be made in Nasik the replacement order?

R. Madhavan: That is also under consideration now but as of now the prices has to be fixed up with Soviet Union that is Russia regarding couple of equipments on board aircraft which is new to this SU-30 and we should be moving off quite fast on that so as to continue that quite quickly.

Bhagyesh Kagalkar: Sir, your Nasik lines will not idle for too long as 12 Sukhoi starts?

R. Madhavan: Nasik we have given, other projects are also coming up mainly, HTT-40 when it comes 70 of them are immediately required and additional 36 also we are expecting on that and it is on the verge of certification so once that is placed Nasik will get that load also. Nasik should not go idle and we have two more projects at Nasik one more coming up on the UAVs which, of course, is with the Israeli's so that is for the third country market as well as for our armed forces that is another project that is going to come up in Nasik.

Bhagyesh Kagalkar: I will come later on in the queue. Thanks.

Moderator: Thank you. The next question is from the line of Nilesh Soni from IndiaNivesh Limited. Please go ahead.

Nilesh Soni: Thank you for the opportunity Sir. Coming on this ROH segment Sir, can you give some sense or idea that what program will be driving the revenue growth for ROH segment for FY 2021 and FY2022? I hope you will be having some sense on that so can you please help from that front?

R. Madhavan: The ROH when we are talking, we are talking about that both army and air force ROH which is mainly that we are undertaking. The main driver for the ROH starts to increase basically SU-30 which every year we are increasing as of now 17 and next year we are planning to do 20 of them. So, that gives an impetus for the growth in supplies of spares and ROH engines which is a second major line that we have, then we also have ROH of Mirage aircrafts as well as the Jaguar and ROH of ALH which is also increasing. So, this is one that we are looking at and of course the spares supply also is increasing this year as compared to the last year. So, we definitely look at an increase in the ROH sales this year.

Nilesh Soni: Okay, and for FY2022 do we have some sense that what can be the orders or the projects?

R. Madhavan: In ROH segment this will be the same one but new projects are coming up in the sense the HTT-40 is something that we will start production if suppose we get this year the order, the next FY2022 onwards the production of that will start then you have naval and Coast Guard orders for the ALH for the maritime version that will continue and we are also undertaking Dornier production for the civil use.

Nilesh Soni: Thank you Sir, and on next question on balance sheet, can you give us the difference of the inventory level breakup between manufacturing and ROH segment the break for inventory which we have for this segment for FY2019 and FY2020 in numbers in percentage terms?

C.B. Ananthakrishnan: It is around 35%-36% of our inventory is towards ROH and another 10% is towards spares and other products. Manufacturing it is around 55%.

Nilesh Soni: Okay, and was this level same for FY2019 or is there any some change if you can give for FY2019 also it would be great?

C.B. Ananthakrishnan: You are talking about FY2020 or FY2019?

Nilesh Soni: You gave for FY2020 I was just comparing it with FY2019 if you can help me out with that?

C.V. Ananthakrishnan: FY2019 also the ratio is more or less the same.

Nilesh Soni: Sir one last question, can you give the receivables for more than one year means the breakup which you give normally between for one to two years and above two years?

C.B. Ananthakrishnan: But let me clarify one thing, see in our sales, major sales are only to the defense customers almost 97% of our revenue comes from the defense sources. Defense sources the money which is receivable from them, it is all because of that some delays in the budget allocation it is more than a year otherwise we always carry the advances and we have got sufficient balances left. Now, the receivables which we are carrying ranges from one to two years and less than one year will be around 50% and another 30% comes from the contract assets. Once it is getting finalized we will be realizing that money and is on the advanced stages of discussions and agreement is likely to be signed any time now. Beyond two years it will be around 10%.

Nilesh Soni: Okay, around 10%.

C.B. Ananthakrishnan: That is also fully recoverable because all these receivable from the defense customers, they are all for want of certain clarifications and the documentation related issues and amendment which we will have to receive from the defense customers providing but fully realizable.

Nilesh Soni: Okay, it is fully realizable. Thank you. That is it from my side. Thanks a lot Sir.

Moderator: Thank you. The next question is from the line of Santosh Yellapu from IndiaNivesh Limited. Please go ahead.

Santosh Yellapu: Sir, congratulations on good set of numbers. I have three questions Sir, first thing I would like to understand what would be the timelines for the completion of the design then the preliminary trials and then the final clearance for AMCA, IMRH and UAV?

R. Madhavan: For IMRH which is our project we have a timeline of seven years of delivery of which four years we are keeping for development and the prototype build and three years for the testing as a timeline. For LCA Mark-II which is also a project which we are also handling along with the DRDO, the roll out is expected somewhere around August to September of FY2022. So, that is a line and for AMCA because it is still under development with DRDO, I may not be able to give a timeline for that.

Santosh Yellapu: Second question what percentage of the current ongoing orders has import content. The intention of asking is to understand because of any delays in the imports what percentage of the revenue should get impacted during the quarter?

R. Madhavan: See on an average the import content is generally around 30% to 40% of all the projects that is on hand now that includes the TOT projects from the foreign sources. In fact, if you look at SU-30, lot of indigenization has happened but still we import the raw materials and some of the line replacement units from Soviet Union i.e., Russians. Similarly, for other TOT projects, indigenous content of course is better in budget i.e., of indigenous origin i.e. ALH and all the helicopters projects that we have taken and it is the same for LCA also that is around 40% import and 60% indigenous.

Santosh Yellapu: Sir, you would have talked to the clients so, have you got any feedback that or any data that some of the supplies that you are expecting on certain timelines could get delayed for these orders in hand?

R. Madhavan: Yes, we have been talking to the customers and they also understand there will be some delays because of the COVID situation and we hope that it will come out because there are certain countries where the production has not yet started properly. So, we hope that is the temporary effect that will have on us and we do carry some of the inventories which can be utilized by us.

Santosh Yellapu: Couple of more bookkeeping questions. Sir, first thing if in my estimate the gross block of the company year-on-year should have increased somewhere around 7% whereas the depreciation for the full year has declined by 19%. Can you throw some color what led to this decline in the depreciation?

C.B. Ananthakrishnan: No, you are asking depreciation per se or including amortization?

Santosh Yellapu: Depreciation per se Sir?

Anant Yellapu: Because we include amortization also into that?

Santosh Yellapu: Depreciation also include amortization my mistake Sir?

C.B. Ananthakrishnan: Amortization, it depends on the number of aircrafts which we are producing and what is the rate of amortization for that. So, there will always be a change in the amortization pattern depending on the type of aircraft which we produce and the rate of amortization which we consider for those aircrafts. Depreciation more or less remains constant at around Rs.500 Crores year-on-year so, it is only the change in the amortization which is driving the reduction this year because the products which we have produced have got less amortization rate and that is the reason why it has come down but this year depending on the product mix what we have got the amortization may change. But as far as depreciation is concerned it is remaining constant there is not much of change.

Santosh Yellapu: Anant Sir, one more last question please. Sir, contract assets increase from Rs.4,700Crores in FY2019 to Rs.7,400 Crores, so if my understanding is right when our manufacturing revenues have been more or less constant and our ROH segment reported 17% kind of growth, should I connect these two data points to understand the reason for the increase in the contract assets?

C.B. Ananthakrishnan: No, the increase in the contract assets is basically because certain activities which are required for raising documentation i.e., the form Q 423 what we call, that documentation is pending. So, this time whatever pending documentation wherever it is there that also we have included it in contract assets even though as per the contract these amounts are payable but we are not in a position to raise the invoice with the vendor to realize payment because certain documentation needs have to be completed.

Santosh Yellapu: Sir, these are related to the manufacturing these documentation or to the ROH revenue?

C.B. Ananthakrishnan: Both manufacturing and repair overhaul both put together because the final documentation is for repair and overhaul, the documentation as far as aircraft is concerned it is more or less the same both for the aircraft and repair and overhaul.

Santosh Yellapu: So, is it fair to assume that with the ROH revenue likely to continue strong growth going forward also contract assets would increase along with this?

C.B. Ananthakrishnan: No, it has increased this time basically because we have adopted a more conservative approach but in the years to come this will more or less remain constant in the sense that depending on the activity which repair and overhaul activity or depending on our sales growth to that extent it may probably go but otherwise it will again to be related to your sales growth. But it will not be to the extent of this Rs.3,000 Crores.

Santosh Yellapu: Okay, got it Sir. Thank you.

Moderator: Thank you.

Moderator: Thank you. The next question is from the line of Hardik Jain from White Stone Financial Advisers Private Limited Please go ahead.

Hardik Jain: Good evening Sir. Most of my questions are answered, just one question Sir, the recent order that they are placed with Russia regarding MiG and Sukhoi worth Rs.5, 000

Crores for 33 aircraft I was just wondering Sir, if you can explain why the order size is just Rs. 5,000 Crores in this case for 33 aircrafts and do we have role to play in this?

R. Madhavan: Except for the SU-30, 12 numbers which will be through HAL, the MiG-29's are on direct purchase from Russia. I have no idea how they have placed the number at around Rs.5, 000 Crores because we are not privy to that MiG-29 order. But SU-30's at the rate which we have already finalized for the previous order and it will be executed to the year of delivery.

Hardik Jain: So, this SU-30, 12 order what is the size of the order Sir?

C.B. Ananthakrishnan: The prices are still not been finalized. They are still on the negotiation stage and depending on the phase of aircraft, the prices will be decided.

Hardik Jain: Okay, this Rs.5, 000 Crores country announced that is for just the MiG-33?

C.B. Ananthakrishnan: I am not sure where from this Rs.5,000 Crores we have not come across that number.

R. Madhavan: This number we do not know.

Hardik Jain: Thank you.

Moderator: Thank you. The next question is from the line of Jonas Botha from Philip Capital India Private Limited. Please go ahead.

Jonas Botha: Sir, my question pertains to the impact of debt on the balance sheet you explained almost Rs.350 Crores on the interest expenses to service this debt does this in any form of content get reimbursed to you by the client?

C.B. Ananthakrishnan: First of all, let me clarify that Rs.350 Crores what you are talking about is not the interest which has been paid on cash credit. Cash credit interest is only Rs.262 Crores. The balance is on account of the income tax dues which are pending with us for which we are creating provision. Incidentally for the income tax whatever the disputed claims we have already presented our proposal with the department to avail under the Income Tax settlement with PSUs it is there we are likely to get it settled before September is what we are anticipating so, in which case that interest will disappear, I mean will not be there. But as far as this reimbursement of interest is concerned as of now there is no such possibility of reimbursement even though we have made our claims with the customers. But not withstanding that we still maintain our profitability and operating profit levels in spite of that Rs.262 Crores of interest Rs.350 Crores to put it on a gross basis. I mean that may not probably become an issue. We have made a claim with the government to see but we are not very sure at this point of time.

Jonas Botha: I get that but my question is more from the perspective that every incremental manufacturing order now going to come at 7.5% margins than the earlier 12.5%, Rs.260 Crores accounts for almost 1.3% of sale and if I see that on manufacturing sale this is about Rs.10,000 Crores it is almost 2.5% of manufacturing sales. In that scenario, where your margins if the contract go down to 7.5% how will you be able to absorb when 2.5% is going to be the interest cost on manufacturing sales? Have you given thought on that Sir?

C.B. Ananthakrishnan: Yes, sure what we have done this 7.5% what you are talking about is only for the future manufacturing order. So far we have not signed any contract with 7.5% as of now. Only the future 83 LCA contract and the LUH contract it will be a 7.5%. Having said that we have already included in our draft contract which we have submitted we have already included a clause for delayed payments to protect such sort of financing cost which will arise an account of the delays. So, all the contracts where this 7.5% profit will be there and delays in payments also will be protected suitably so that there will not be any suffering any interest loss on account of delay. Further, we will also get some 15% advances on signing of the contract which should make us give us some leeway at which sufficient funds will be available for our procurement. So, on account of future contracts the borrowing if at all it is happening on account of delays, that is protected and borrowings may not happen because we may be getting an advance payment of around15%.

Jonas Botha: So, basically I am sorry to harp on this what you do is that the client always pays with a lag right, but after the advance there is a lag in milestones then you will end up having to borrow it comes on your P&L but then it get reimbursed at a later release is that understanding correct?

C.B. Ananthakrishnan: Yes, in our contract we are including a clause to say that in case of delays in payment beyond a certain period which period we have negotiated, we do not want to exceed more than 30 days, if it exceeds we want that interest to be compensated to financing cost to be added and reimbursed it to HAL for the delays in payment. What interest we will be paying to the bankers is of no matter, we will only be recovering that is bank rates from the customer for delay in payment.

Jonas Botha: Go ahead.

Moderator: Thank you. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Thank you for the opportunity. Sir, our next few years how will the employee cost pan out? That is the only question I have.

C.B. Ananthakrishnan: Employee cost last year in 2018-19 somewhere it was 23%, the current year even after the wage revision impact we have still maintained it around 22%. Our target is to reduce it to 18% by FY2022 that is what we are aiming at by not increasing the recruitment by stopping all the recruitment we have taken a slew of measures to see that the manpower cost is contained at the same level. Today it is at around Rs.4, 500 Crores and we wanted to maintain it around this level so that the topline when it increases the ratio will be at around 18% is what we intend to bring it down.

Anurag Patil: Sir how frequent are these wage revisions?

R. Madhavan: That is once in ten years.

Anurag Patil: Once in ten years. Okay, thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Sagar Gandhi from Future Generali. Please go ahead.

Sagar Gandhi: Good afternoon Sir. It is heartening to see that in line with your earlier guidance, your inventory days have constantly kept coming down, so over the next few years what is the guidance you would want to give? Can it be anywhere between 250 and 300 days?

R. Madhavan: It is already below 255 days. There is a minimum requirement of inventory that we have to keep so that the operations continue without disruption especially in such cases what we have seen in the last three months. So, we will be maintaining an optimal level of 180 days or so, below that we will not like to go down.

Sagar Gandhi: There is some more space as of now?

R. Madhavan: Yes, we will improve it somewhat more, but we would not like to keep it below 180 days because there are some spares requirements which we have to maintain so that our operations are not affected.

Sagar Gandhi: The 180 days on a net basis inventory plus receivables minus creditors?

R. Madhavan: Includes the work in progress also.

Sagar Gandhi: Thank you.

Moderator: Thank you. The next question is from the line of Sachin Maniar from CGS-CIMB. Please go ahead.

Sachin Maniar: Sir, basically I want to understand can you give breakup of deliveries what was there in FY2020 for SU-30, LCA Mark-IA and ALH in FY2020 and what you expect this delivery in FY2021. Basically, to understand that if you have revenue loss on Sukhoi how you can recoup through the deliveries?

R. Madhavan: See in SU-30 we were supposed to have delivered 12 last year and we accounted for 10 with 2 could not be delivered though it was produced because it came in at the end of March the lockdowns happened. So, two deliveries making this year and that will end the project of SU-30 as of now. In ALH we have delivered 22 number of which it was actually one year ahead of schedule for army, the deliveries we have taken some concession from them saying that we will be delivering ahead so we are delivering ahead of schedule. In the coming year we are also accounting for similar numbers in ALH and again we will be asking army to allow us to deliver one year ahead of schedule.

Sachin Maniar: Correct and Sir, Tejas Mark-IA?

R. Madhavan: SU-30 will not be there. There are only two numbers balance of last year will be given this year.

Sachin Maniar: No Sir, Tejas Mark-I how much you have done and what do we expect?

R. Madhavan: Tejas we are planning for manufacture of 8 numbers and delivery of 6 numbers.

Sachin Maniar: My second question was on the gross margin which you have done well in last two years, do you expect this type of gross level to sustain. Basically to understand because of Sukhoi project is going to end so, are you comfortable that gross margin will be sustained?

C.B. Ananthakrishnan: Our efforts are on to sustain this gross margin at 22% what we are maintaining now that we expected to continue.

Sachin Maniar: The last question what were the customer advances in FY2020 and do you expect this customer advance from Tejas Mark-1A project in FY2021?

C.B. Ananthakrishnan: We will get depending on what value contract is getting finalized we will get 15% of that. The terms are that 15% of the total contract value we will get as advance. It will be a sizable sum at this point of time once let the contract get signed and we will be able to reveal the numbers.

Sachin Maniar: Can you give this customer advance number of FY2020 level what was that?

C.B. Ananthakrishnan: FY2020 level the outstanding customer advance is somewhere around Rs.18000 Crores.

Sachin Maniar: Thank you. That is it from me.

Moderator: Thank you. The next question is from the line of Bhagyesh Kagalkar from HDFC Mutual Fund. Please go ahead.

Bhagyesh Kagalkar: Sir, as government is giving orders to various PSUs intention also is that we should make an effort to export, last year what was the export revenue that we did and next three to five years what is your strategy in exports?

R. Madhavan: Last year, the export what we did it was around Rs.220 Crores and more or less it will continue as of today unless major platform contracts are getting finalized, with the other supply of spares and certain repair and overhaul activities it will be at around Rs.220 Crores level but in case if we are in a position to finalize certain export contract then this export level will go up.

M.S. Velpari: There are some contracts which are likely to come in from some of the target countries in South East Asia so if that comes in, then the numbers will go up but as of now the export is toward what we supply the mission computers and other things to Russia as well as to Rolls Royce such things will continue to be there and there should not be any change in that numbers.

Bhagyesh Kagalkar: Thank you.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investments. Please go ahead.

Pritesh Chheda: Sir, one observation that our revenue growth for the last three-four years has been fairly on the single digit side. So, when can we start and what project execution or project status level can we start seeing some acceleration in revenue growth if you could give some idea there, based on whatever projects we have in the execution in schedule?

R. Madhavan: The revenue growth if you look at it for the previous years before, let us say, 2017-18 was of the order of likely to 3% to 4.5% so we decided to increase the revenue growth to above 6% and we have been maintaining that for the last two years at 7% and 7.5%. Of course if you look at the global averages revenue growth for across all aerospace companies is around 4% which has increased basically from 2.5%. So, we are above the average revenue growth but we do hope that this revenue growth will improve further to double digits once the LCA Mark-II comes into play that after FY2023 till such time we will maintain and hope to maintain the same revenue growth of 7% to 8%.

Pritesh Chheda: Even we have to give revenue target and the margin target to ministry on an ongoing year basis and if so then what target have set for our self and communicated to the ministry for FY2021?

C.B. Ananthakrishnan: As far as ministry is concerned all public sector units, as you are aware will have to enter MoU with our Department of Public Enterprises. We have already given a revenue target with our department and we have initially proposed it. But in the light of this COVID situation we also probably there could be a small disruption in our revenue targets what we had given so we are discussing with the ministry as to factor this COVID impact also and then to give a revised revenue target. So, as of now the target which we proposed for 2020-21 what we had given earlier and what we proposed now we are still at discussion stage at this point of time, we are only hoping that things will improve and we will be able make good the loss which we have suffered in the two years but we will not be able to give any clarity on the precise revenue target at this point for the current year.

Pritesh Chheda: Lastly, Sir on the margin side since you said the employee cost target reduction is from 22% of sales to 18% and you are saying that the gross margin will sustain itself is there a case where the margin expansion comes in at 7% topline growth?

C.B. Ananthakrishnan: Yes, but you see what we are factoring is that we also have to factor that the new contract the profit will come down from 10% in fact it is 12.5% to 10% range it was there now it will come down to 7.5%.

Pritesh Chheda: But you said that you have not taken any contracts at the revised rates?

C.B. Ananthakrishnan: No, at this point of time but in future it will come all contracts which are getting signed now in future will all have a profit margin of 7.5% only. So, we factor that 7.5% but still we will do various cost cutting measures like including overheads, including employee cut and we tried to maintain that EBITDA of 24%.

Pritesh Chheda: Thank you.

Moderator: Thank you. The next question is from the line of Santosh Yellapu from IndiaNivesh Limited. Please go ahead.

Santosh Yellapu: Thank you. Couple of questions here. First if my understanding is right the wage cost is now frozen for the next ten years and there will certain lime items which were earlier not included for the PBT margin calculation and now they would be included which gives you some kind of comfort I think on terms of maintaining the margins. Can you please throw some light that what all line items or what all things that we are not including earlier would be now included in the calculation purpose like in ports or other line items?

C.B. Ananthakrishnan: No, I mean, I am still can you just come again?

Santosh Yellapu: Sir, my intention of asking you that question is that while you held the earlier PBT margins guidelines like for example any items procured for integration with the final product like BEL has where they never used to include that line item for the PBT margin calculation and now it is being allowed under the new guidelines does the same kind of margin calculation applies for you also Sir?

R. Madhavan: As far as HAL is concerned there has not been any major change between earlier and now for us to have any major policy changes as far as this PBT, margin guidelines are concerned, more or less it remains constant except for this reduction in the profit rate from 10% to 7.5%.

Santosh Yellapu: Even the developmental expenditure, the trial expenditure all that which was it earlier part of the PBT margin?

Madhavan: Yes, it was there and the same ratio only it will continue for future as well. We have got certain percentage and that will continue.

M.S. Velpari: One more point that I have to add that 7.5% is only for the new nominated source manufacture. For others the margins are different especially for our repair and overhaul the margin is different at 10% and that is still there at 10% and of course we improve on our profitability just by improving our efficiencies also the overheads are now getting reduced and outsourcing of lot of activities outside of HAL. So, this brings in a better operational advantage for us.

Santosh Yellapu: Just a follow up Sir, the new 83 aircrafts order will be will it be a nomination order or will?

M.S. Velpari: 83 will be a nomination order.

C.B. Ananthakrishnan: It will be nomination order and it carries a profit percentage of 7.5% only.

Santosh Yellapu: Sir if you could just give color on what are the cost cutting initiatives that gives you the comfort that you should be able to have a better PBT margin going forward also. Just lastly would help me understand more in detail? I will be very thankful for that.

C.B. Ananthakrishnan: Yes, basically two areas, one is from the material we are trying in getting into some LTBA with major OEM suppliers so that our escalation rates known well in advance and then we are able to push in ourselves as to what will be the cost for the future as far as the material is concerned and further since there is better visibility now as far as the future tasks are concerned we will be in a better position to negotiate and we are trying to bring down the prices of our foreign OEMs. On the other side, other overhead expenses I told you that employee cost we are trying to prune it down our employee levels and we wanted to bring down the cost from 22% to 18% that has been our target. That is one major area. The second area has been on the other overheads including travelling and other manufacturing overheads and other repair and overhaul overheads which we are trying to restrict and we are following certain austerity measures in different heads of expenses and in fact last year in 2019-20 as compared to 2018-19 we have started our austerity measures way back in January 2019 itself when we had this cash flow stress and we could substantially reduce almost to close 13% of our overheads had come down during 2019-20 as compared to 2018-19 and we expect to further bring it down during the current year by at least another 7% to 8%. So, with all this cost cutting measures that is how we are planning to maintain our EBITDA levels at 24% in spite of the profitability rates coming down.

Santosh Yellapu: Got it Sir. Thank you.

Moderator: Thank you. Ladies and gentlemen we will take the last question from the line of Abhijit Mitra from ICICI Securities Limited. Please go ahead.

Abhijit Mitra: Thanks to the management for taking this question. I have three questions actually regarding your manufacturing order book which you have shared around Rs.37200 Crores can you break it up into projects and broad project that you have on hand in FY2021?

C.B. Ananthakrishnan: The question is on manufacturing, we can give the broad outlook, but we will not be very comfortable in giving the breakup numbers and what we have given almost Rs.53000 Crores is the pending order book of which Rs.37000 Crores is towards manufacturing and rest all it is towards repair and overhaul is another Rs.14000 Crores and development orders and exports are there balance. So, broadly this is there. Manufacturing orders as far the manufacturing ongoing projects are Sukhoi then your 73 ALH is there then Dornier there and then AL-31 FP engines are there which are meant for Sukhoi Aircraft and these are the broadly the big manufacturing orders which forms part of that Rs.37000 Crores and breakup of it in terms of numbers these are the projects numbers may not be very relevant here at this stage.

Abhijit Mitra: But the single biggest line item within that Rs.37000 Crores would be the helicopter order book is that probably you are looking at it?

C.B. Ananthakrishnan: Yes, the helicopter and Sukhoi. Another major ongoing project is that LCA, LCA and helicopter project major leftovers.

Abhijit Mitra: LCA FOC you mean?

C.B. Ananthakrishnan LCA FOC, yes.

Abhijit Mitra: Also in current year's execution, manufacturing execution of Rs.8500 Crores this too would constitute the majority as in LCA FOC and the helicopters? Is it the right understanding?

R. Madhavan: Yes.

Abhijit Mitra: This order book will continue for how long two years or more?

R. Madhavan: Another couple of years. It will be there till 2022-23. Just to add on to that the repair and overhaul order book I mean it is repetitive in nature so we will keep getting the task for every year-on-year so that is for sure that we will get it and order to that manufacturing order.

M.S. Velpari: We consider only one year repair and overhaul task into the order book position but every year we get the repair overhaul task so that will keep on coming every year.

Abhijit Mitra: My last question was regarding repair and overhaul. It is more of an industry question so from FY2016 to FY 2020 if I look at the ROH topline it has exactly doubled for Hindustan Aeronautics it used to be Rs.5500 Crores it is now almost Rs.11000 Crores now there are certain questions which has been forwarded to us from various clients trying to know which line item within the Air Force acquisition budget does this repair and overhaul sit? Is it within the other expenses budget of the Air Force acquisition that we can expect ROHs to be part of or is it within the aircraft and aero engine?

C.B. Ananthakrishnan: They have got a classification known as capital following revenue route, which is nothing but this repair and overhaul orders. It is forming a part of capital Budget only. That is the aircraft and aero engines.

Abhijit Mitra: Aircraft and aero engines.

C.B. Ananthakrishnan: This is classification done by CGDA but our understanding is that it is forming part of capital budget of Air Force only.

Abhijit Mitra: Just to understand in FY2020 out of total revised aircraft and aero engine budget if 21700 Crores ROH alone is 11000 Crores, is that the way of looking at it?

C.B. Ananthakrishnan: The total capital acquisition budget for Air Force is around 39000 Crores.

Abhijit Mitra: Out of that aircraft and aero engine is around Rs.22000 Crores this year.

C.B. Ananthakrishnan: Yes. Aircraft and aero engines, but this I have told that repair and overhaul activity it comes as part of that capital following revenue route which is a separate classification. They have got within that 39000 Crores.

Abhijit Mitra: Essentially what we were trying to understand this capitalization is because the budget is still not growing as fast as this ROH line item is growing for HAL. So, have we seen all the growth that has to be seen from this line item or do you see more possibility from ROH to grow in future?

C.B. Ananthakrishnan: No. It is like this there is always a cycle. As far as this aircraft industry is concerned, there will be on phase where the manufacturing activities will be more and there would be a phase where the ROH activities will be more because it is cyclic in nature. For the aircrafts which we have delivered during the last 10 years, the major contacts are coming to a close and naturally the ROH activity has picked up during the last three years. Probably this trend will continue for another couple of years and after which once we get manufacturing orders when we start delivering the manufacturing orders then the manufacturing ratio will go up. Then after once the completion then because there will be on certain phases where the manufacturing orders will keep coming and we will keep delivering it. Once that phase is over, ROH activity will keep going up.

Abhijit Mitra: Margin profile of this ROH activity is actually lower than that of manufacturing activity?

R. Madhavan: It is just opposite. The margins for ROH is much more than the manufacturing.

Abhijit Mitra: Why I am asking is that between 2016 and 2020 years your topline from ROH has actually doubled as a percentage also it has moved up to almost 50% now, but your gross margin has hardly moved. So is there somewhere else you are losing out?

C.B. Ananthakrishnan: It is not exactly losing out. Yes, in some of the manufacturing contracts where there has been delays in deliveries, the profitability margin has come down to quite a bit and which has been compensated by this increase in the repair and overhaul activity and that is the reason why we were able to sustain the gross margin at the broader level.

Abhijit Mitra: That is mostly LCA FOC? Is that the right way to look at it?

R. Madhavan: Pardon.

Abhijit Mitra: The LCA FOC order is sort of leading to some loss on the gross margins side?

C.B. Ananthakrishnan: No. IOC order as well as FOC order even though the contracts, which we have signed at a particular price, we have already made a claim as far as IOC is concerned. We have already made an additional claim for the prices in view of the scope changes. Similarly, in case of FOC also since we have commenced our production now and deliveries so we will also be preparing a claim for additional cost because the contract provides for an additional payment when there is a change in the scope.

Abhijit Mitra: That is helpful and that is all from my side. Thank you.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to management for closing comments.

R. Madhavan: I thank all the participants for making it lively discussion and taking your time off to discuss with us our financials and our future projects. Thank you all of you for joining in today.

Moderator: Thank you. On behalf ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.