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HINDUSTAN AERONAUTICS LIMITED  
CORPORATE OFFICE

CO/SEC/4(7)/2022-23/ BSE & NSE Filing/20

27<sup>th</sup> May, 2022

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Dear Sir/ Madam,

**Sub: Transcript of Q4FY22 Results Conference Call**

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

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Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, transcript of Q4FY22 Results Conference Call held on Friday, the 20<sup>th</sup> May, 2022 hosted by ICICI Securities.

2. The same is made available on Company's Website [www.hal-india.co.in](http://www.hal-india.co.in) in Sub-section "Analyst / Investors Meet" under "Investors" Section.
3. This is for your information and record, please.

Thanking you,

Yours Faithfully

**For Hindustan Aeronautics Ltd**

**(G V Sessa Reddy)**

**Company Secretary & Compliance Officer**

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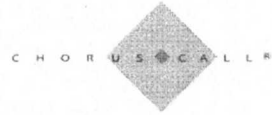


“Hindustan Aeronautics Limited  
Q4 FY2022 Earnings Conference Call”

May 20, 2022



 **ICICI Securities**



**ANALYST: MR. ABHIJIT MITRA - ICICI SECURITIES**

**MANAGEMENT: SHRI R MADHAVAN - CHAIRMAN AND  
MANAGING DIRECTOR - HINDUSTAN  
AERONAUTICS LIMITED  
SHRI C.B. ANANTHAKRISHNAN - DIRECTOR  
FINANCE - HINDUSTAN AERONAUTICS LIMITED**



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**Moderator:** Ladies and gentlemen, good day, and welcome to Hindustan Aeronautics Limited Q4 FY2022 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:** Thanks and good afternoon to all the participants and thanks for joining in. We are here to discuss Hindustan Aeronautics Q4 and fiscal 2022 results. With us we have today Mr. R Madhavan Chairman and Managing Director, Mr. C.B. Ananthakrishnan, Director Finance of Hindustan Aeronautics so without any further ado we hand it over to Mr. Madhavan for his opening remarks. Over to you Mr. Madhavan!

**R Madhavan:** Thank you Abhijit and welcome and good afternoon to everybody for joining us today. I suppose you have read through our presentation that we have already uploaded to the website and as you can see we had large number of major achievements this year and we had good financial figures also at the end of the year and some of the things that has already happened between what we uploaded and today is that we did get DGCA clearance for Hindustan 228 so we have got the Civil certification and rest of the projects as we have indicated is going on as projected and in all probability by July we will be opening our Tumkur factory and from there we will be also flying out the first LUH aircraft so let us hope that the coming year also is as good as it was for the last year for us and before ending this because I do not want take a long time in the intro because we are already late for some time, so let us go straight to the question and answer session.

**Moderator:** Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Aditya Priyadarshi from Skill Ventures. Please go ahead.

**Aditya Priyadarshi:** When I was looking at your manufacturing revenue it has been one of the lowest in the last five to seven years so just wanted to understand why has there been such a decrease considering we had considerable order book in manufacturing excluding Tejas also and how do you expect this part of revenue to move in the next one to two years and can you please specify the number of aircrafts you are planing to manufacture for the next year, the various platform that you have LUH, LCH, ALH etc.



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- R Madhavan:** Coming to the manufacturing task actually I have been telling that we are at fag end of the projects that we already have that is the orders that has been placed on us, so we expected this number to come down and if you remember last meet we also said that this numbers will come down but we will also make sure by increasing the spares and MRO support activities so that has improved. If you look at it that is why it has gone up so the manufacturing numbers this year was 44 sold so that is the number that is there and next year it will be slightly less but that should not affect us as far as the revenues are concerned because the other part of it that is from ROH side it is increasing so we should be able to meet that. Secondly as you said about the pending orders, that is you are talking about LCA, LCA kicks in only 2024. Next year that is 2023-2024, it is not there. The only order book that we have for is LCA trainers are there that is we will be liquidating this year and partially next year and we have the LCH order for 15 which will be liquidated at this year finally and we are expecting small order of 12 LUH also to come in so this also should be done this year and next year so this is the lines that will be operational along with certain balance items of helicopters from army, coast guard and navy.
- Aditya Priyadarshi:** Sir just wanted to understand. This year we had completed sale of LCA 10 number and only trainer are left and so now your LCA is not going to be there and the manufacturing revenue is around 7300 so is it going to be difficult for maintaining this sort of revenue because the LCA had a higher sales price then helicopter?
- R Madhavan:** No, because we do have LCA program still going on so we will be meeting the revenues, absolutely no issues on that. Apart from LCA we have got helicopter project still going on and LCH is one which is coming up in larger numbers because this year we will complete the 15<sup>th</sup> order and we also have some Dornier's and other ALH is coming up so we will get number of aircrafts ready for that.
- Moderator:** Thank you. We will take out next question from the line of Viraj from Securities Investment Management. Please go ahead.
- Viraj:** Sir I just have three larger questions. First is the Defense Acquisition Council has approved acquisition of 150 LCH and we have received so far 15 orders now similarly they have also approved acquisition of 180 to 190 LUH and we just got around 12 orders so far. So at what stage we are in terms of balance of orders and are these orders certainty in terms of you will be getting them or depending on army's budget or there are some other factors so if you can just elaborate on the timelines for that? The second is in this third import list the import of naval utility helicopter has been restricted and earlier DAC had approved the acquisition of around 100 NUH so where we are again in getting these orders and is the ALH navy version ready to satisfy this demand?



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**R Madhavan:** Your question is in two parts; one regarding both the LCH and LUH, the numbers that you quoted is correct and it will happen. There is nothing like it will not happen. The only thing is the procedures involved is that first they will give you a limited series production order that is for 12 LUH and 15 LCH has already come in. After that they have sometime for utilizing this and any changes if they are required they have to bring it in. Generally it is one year for that to happen after we supply the first aircraft and in this case they may do it a bit earlier because they are in a hurry to place the orders also for the larger number so that happens then the balance of aircrafts which is already cleared up by DAC will be put for RFQ, so the process is long but it is there and we are trying to improve on the timing for the placement of the orders.

**Viraj:** Based on your experience would that be in 2023-2024?

**R Madhavan:** At least two years from now. At least two years it will take. Of course time limit given between AoN to placement of Order is nine months also if it happens the armed forces will take some time for evaluation of the ALH order aircraft so that will take some time so at least two years is what I expect to happen. It is not a bad timeline if it is done at least within two years. The next thing you talked about is the navy utility helicopter. Yes we have come to a conclusion and the QRs for that have been almost finalized by navy. They are yet to give it to us and once it comes in we have already discussed with them the possibilities of converting the existing ALH for the LUH and the initial order that they are planing to place is for 40 followed by the balance number as per the LUH program requirement so that is also going on fairly good pace and we expect that we finalize on all the specs in the coming couple of months.

**Viraj:** Just one question. In 2019 the Indian Army had issued a request of 114 jets so just wanted to know what is the current status of this and is HAL expected to supply these aircrafts with LCA or AMCA platforms or there is a foreign supplier?

**R Madhavan:** See LCA was not in that list and secondly that question should really go to air force rather than to us.

**Viraj:** Any updates in terms of where exactly it is and what stage it would be?

**R Madhavan:** We know as much as you know about it.

**Viraj:** Okay I will come back in queue. Thank you.



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**Moderator:** Thank you. We will take out next question from the line of Venkatesh Subramanian from Logictree Investment Advisers. Please go ahead.

**Venkatesh:** Good evening. I have two questions. I just wanted to check with you in terms of margin if I look at the EBITDA margins as well as PAT margin for this year obviously apart from considering the other income, the income tax refund broadly this is probably the best margin that we have had in a very long term. Are these margins sustainable in the future that is my first question? Second question is the current 82,000 Crores order book that we have what could be the execution time frame for this approximately and can you kind of give us a ballpark figure on what kind of order flow would you expect this year?

**R Madhavan:** The order part of it I will do it after that Mr. Ananthkrishnan will answer on the margins part of it. As far as the order book position is concerned, we did get an order book of around 25000 Crores this year additional, so out of which it is basically the repair and overhaul part of it is there and 15 LCH. These 25000 Crores will be liquidated within the same year. That is this year we will be liquidating it. As far as balance of that which basically relates to LCA MK-I order that will start getting liquidated from 2024 onwards for the next six years so that is liquidation plan for the other part of it and you asked what is expected increase in your order book positing that of course as you have been discussing earlier is basically the biggest part which we have not discussed till now is the aircraft engines Bofor Su 30 which is 240 numbers and RD 33 that is for MIG 29 that is for another 80 numbers so together this project is more than 32000 Crores. 33,000 Crores worth of order placement is eminently due for this coming year. Other than that there is of course two helicopter program we are expecting that the orders will flow and that definitely will not happen in the coming year but it will happen in 2024-2025 or sometime around that so that is the order book immediate positions on that. Of course there are some other orders which are there which is advanced stage one is HTT-40 for somewhere around 1 billion that is around 7000 Crores less than 1 billion. There is also a likely order for top requirements for the SU 30 that is around 12 numbers. These two are in the process as of now so this is the order book position that we expect between the next couple of years. As far as margins are concerned Mr. Ananthkrishnan will answer.

**C.B. Ananthkrishnan:** The question which has been asked the margins part of it the current margin we have been maintaining this margin for the last 3, 4 years. It is not something which has come up in the current year. Of course one abnormal income which has come up in the current year is on account of this FPQ pricing, the differential sales as we call it which has added to our margin but notwithstanding that we have also created certain amount of provisions towards our LCA change order three which is around 1000 Crores and similarly for IJT 270 Crores it is after creating this provision and after this abnormal income we are still maintaining this



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margin of around 26% so we are also sure that this current year also our EBITDA margins will be somewhere between 25% to 26% because the profitability remaining the same, all the other parameters remaining the same we will be in a position to continue with this margin in the current year as well.

**Venkatesh:** That is very helpful. Mr. Madhavan just a last one Sir which is when we look at the topline growth over the last 5 years we are at 6.52% in terms of top line. Next 5 years would it be better than 6.52, Can we hope for better times?

**R Madhavan:** We are expecting it to go grow up and by 2025-2026 and beyond we are looking into double digit growth.

**Venkatesh:** Excellent Sir. Thank you so much Sir. I will join the queue.

**Moderator:** Thank you. Our next question is from the line of Madhura Nansi from O3 Securities Private Limited. Please go ahead.

**Madhura Nansi:** Good evening Sir I have two questions. One is how much of the revenue from MRO dependent on the import from Russia. Are the timely supplies coming for spares from Russia and the other question is other than engines are there latest components which are related imported for Tejas aircraft. Do we import anything from Russia for Tejas?

**R Madhavan:** Let us start with the first one that is the Russian dependence for MRO support. We get around 6000 Crores worth of revenue through the Russian platforms and their support system so we get around 6000 Crores there. As far as supply position is concerned, it is a bit fluid but we do not expect any major problems for us because we do are carrying some inventory on that which will sail us through for about 6 months for production now and beyond that since our payment lines are more or less open so we do not expect that we will face any problems in supply of spares. The Russian have already confirmed that once the payment lines are open they will supply the spares to India so we are in a relatively good position as compared to other countries as far as spares supply from the Russian sources are concerned. As far as LCA is concerned there is no Russian parts as such except one part which comes from Ukraine that we have an alternative source also available also for us, so it should not affect the LCA production line so other than there is nothing Russian in LCA, so that should not be a matter of concern for us.

**Madhura Nansi:** Addition to the same question on the supplies are we thinking of adding any alternate new vendor for it?



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- R Madhavan:** Yes we are already in the process of indigenization and alternate vendors for many of the platforms not only Russians but wherever we are dependent on a foreign country we want to get it from Indian source, so we have full setup for doing that and we have also earmarked some money for the indigenization and development activity. That is 5% of my profit goes into that part of it along with our own design process that we created which we have now usually from 10% to 15% of our profits. Because our future lies in how many things are there from our own stables that is our design houses so that is why we are increasing that part. Our profits we are putting into more and more into design and indigenization activities not only Russian platform but also from any other sources. Even for LCA we are getting lot of items from abroad that also we are indigenizing every year we do have indigenization targets which we are keeping it so that in future we are less dependent on foreign sources for any of these materials.
- Madhura Nansi:** Okay thank you so much Sir.
- Moderator:** Thank you. We will take the next question from Harshit Patel from Equirus Securities. Please go ahead.
- Harshit Patel:** Thank you very much for the opportunity. Sir my question would be our order intake on ROH and spares. This year we had done almost Rs.230 billion of order intake on this front which is a very sharp growth from FY2021 level so Sir could you explain what exactly has happened over here. What are these platforms for which we have got these new orders and what is going to be our order intake trajectory for ROH and spares over the course of next two to three years?
- R Madhavan:** When we talk about our order book position we only account for one year of ROH task because that is a firm task that is available with us. We also know two years in advance also how much is going to be next two years worth of repair and overhaul task. For our order book we always put only those orders which are firm and final with us, so we use only one year of ROH task when we are projecting 82,000 Crores. There is only one year's worth of it in that and that is immediately liquidated in the coming year. So that is how it works. Yes as we have told earlier also the ROH component will keep increasing as and when number of aircraft produced by us is increasing in the fleet they all will come for repair and overhaul so that is always in higher trajectory that you will get repair and overhaul going up. Especially SU30 which is now more than 270 of them are in operation so yearly task is also increasing now. Last year we did 21 aircrafts but sold 20 aircrafts after ROH and this is likely to go up. Of course yearly there will be slight variation here and there sometimes a dip, sometimes increase but it will be around 25 aircrafts is the average that air force is projecting so there will be an increase. Similarly there is an increase in the engine task





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especially for SU230 we are increasing from earlier 65 numbers. Last year it was around 80 numbers, 85 numbers for 2022-2023 and it will grow up to 105 numbers so these are the areas where the ROH keeps increasing and that was bit abnormal last year because I think there was some pending repairable left with air force and army so that must have come in so otherwise this will keep increasing and should not be an issue as far as firm task are concerned because they always project three years task out of which one we take it for our order book position and remaining two we provision for the next two years.

**Harshit Patel:** Understood Sir. Thank you for very detailed update on that. Sir my second question would be on our execution of old contract. I believe by now all the FOC execution would have completed and we would be left with only trainer order. Would that be a right understanding?

**R Madhavan:** That is right. We have already finished the production of all aircrafts. Delivery two numbers are pending because that is for the customer to pick it up from us and I think one is already under collection and another one will be collected very soon, but production part of it is completed so there is nothing pending from the IOC, FOC order as far as the fighters are concerned. There are eight trainers are pending so that we will be taking up this year and next year, four each both the years so that my production line is also up and running till such time that 83 orders start coming in.

**Harshit Patel:** Understood Sir similarly on the LCA front as well since the last year we did not get a confirmed order, I believe we would not have booked the sales. All the sales for all the 15 units will be booked in FY2023 would that be a right understanding?

**R Madhavan:** No we booked three numbers right so balance we will book this year.

**Moderator:** Thank you. We will take our next question from the line of Anshul from Care Portfolio Managers. Please go ahead.

**Anshul:** I just wanted to understand after the Tejas we would start recognizing the revenue from 2025 onwards so do we expect to maintain those margins as well considering the 10% limit of government on Tejas order?

**R Madhavan:** See we are slowly getting into the 7.5% margin for the last couple of years and you have not seen any dip in our margins did you no, So we do not expect that will affect us as far as the margins are concerned. Margins are dependent also on the efficiency and the way we execute the projects so 7.5% profit margin will not really be effective for us and secondly the major part of my income also is my revenues are also from the ROH front from where



the margins are not really being contracted so if you look at it we do not expect much change in our profit margins after LCA 83 kicks in.

**C.B. Ananthakrishnan:** Just to add on to what our CMD has told the 7.5% margin is only applicable in case of new manufacturing contracts which mean the platform delivery wherever it is there. In case of repair and overhaul the existing 10% keeps continuing and as of now even with the 7.5% and then 10% combination we are still able to make an operating margin of around 16% to 17% so these operation we have already identified areas where this reduction in this margin of 2.5% for only manufacturing contracts which constitute around 40% which effectively means that 1% of the margin will have an impact which we have identified areas where we should make good so that we maintain our operation margin at around 16% to 17% and EBITDA margin at around 25%.

**Moderator:** Thank you. We will take our next question from the line of Nikhil from SIMPL. Please go ahead.

**Nikhil:** Sir just two questions on the P&L one was on the employee cost. Across so many quarters our average cost was around 1000 Crores which jumped to 1400 Crores so is there some on off of 400 Crores in this quarter or should we consider this 1400 as the base for future just if you can help me understand and secondly Sir there is one impairment cost which we have taken in the P&L so what is that and if we adjust for the provision exact provision we have taken till the provision as a percentage comes to 10% of sales which was earlier 6 to 7%. Is there some higher provision even after that one of provision we have taken?

**C.B. Ananthakrishnan:** Your first question on the manpower cost. The manpower cost towards the last quarter normally if you see, because we keep making provision of PRP what is that incentive provision and other bonus provisions which we will have to make for both officers and employees so naturally it will be on the higher side but on the overall as compared to last year there has been a 7% increase in the employee cost as compared to the last year that is 2021 and in terms of the overall manpower cost to revenue in fact it has come down from 20% the last year to almost 19% in the current year. In fact three years back it was 24% and consistently it has been coming down and today it stands at 19% and our endeavor is to bring down this manpower cost to further down. Our target is to reach at around 16% by 2024-2025 so that next year also the manpower we expect by another percentage point to come down. This is on the manpower cost. Second is on the impairment. Impairment is on account of this licensing for the IJT program which we have kept it in since it has been existing for more than five years and we did not foresee any immediate output from that. We have made that impairment and that is towards the IJT program.



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- Nikhil:** On the provision if we adjust the one time provision in the notes to account still the provision comes to almost 10% of sales versus it is coming to 6% to 7% so is there still some higher provision we have taken even after that onetime adjustment?
- C.B. Ananthkrishnan:** There are certain elements which we have taken on the higher side. One is the replacement and the other changes for which we have to create a provision that has gone up by around 500 Crores. Basically because the additional provision which we will have to make towards the delivery of aircraft which we are yet to deliver with some modification and with some additions of LRU which we will have to make, we will normally create a provision for that. That is almost it has gone up by 500 Crores for Sukhoi additional LRUs which we will have to give and similarly sometimes we do take the loan items also from the customer when the items are not immediately available which we will have to replace it back to the customer so towards that another 150 Crores are there so like this there has been an addition towards replacement and other charges of around 575 Crores and warranty provision again it has gone up 189 Crores and sales goes up and the warranty period is there as per the contract when it is supplied when the platform sales are more the warranty also goes up that is another 200 Crores of warranty provision have been added. Apart from this as I have already indicated to you the LCA Change order three which is one time provision this is also we are going to finalize the contract and the change order is approved we will get back this money and then on account of that it is another 1000 Crores so all this make up to addition of around 2100 Crores overall as compared to the previous year out of which we are sure of getting back this 1000 Crores of change order and this LD around 300 Crores we are also trying to extend the delivery schedule. We are trying to get the contract amended towards the LD so mostly portion of this LD also we should get it back so this 2200 Crores is account of this broad category.
- Moderator:** Thank you. We will take our next question from the line of Aditya Priyadarshi Skill Ventures. Please go ahead.
- Aditya Priyadarshi:** Can you specify the amount of revenue generally we receive from manufacturing of engines which form a part of manufacturing revenue and how has the trend been and what kind of revenue do you expect from sales of those engines in the next few years since you have recently signed MOUs with Safran and Rolls-Royce?
- R Madhavan:** Just hold a minute because revenue from engine are from three sources we will have to just combine all those figures and let you know that. Can we take the next question? We will come back on that later.



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- Aditya Priyadarshi:** Just one more question. So we are guided for 6% revenue growth for FY2023 and 2024 but this one time revenue which we received in Q4, our revenue have come better than expectation so we still expect our revenues grow by 6% from higher base?
- R Madhavan:** Yes definitely because this year we had a revenue growth of 7.5% so for the last three years the CAGR has been what we are expecting it to happen and it should continue next year at least by 6%.
- C.B. Ananthkrishnan:** Manufacturing revenue for engine that is Sukhoi engine it is around 1500 Crores.
- Moderator:** Thank you. The next question is from the line of Tejas Shigwan from Magadh Capital. Please go ahead.
- Tejas Shigwan:** Good evening Sir. Just wanted to understand you have granted the tie up certification of first indigenous flight transport passenger aircraft Hindustan 228, Can you please elaborate on this?
- R Madhavan:** No. We got the type certification from DGCA recently on Hindustan 228. This is our own version of Dornier 228 with lots of modification including the engines, the propellers, display system everything has been changed and then we have gone with our modification and we have renamed it since the old aircraft was not anywhere near to this so we have renamed as Hindustan 228 and we have got the certification. This now we are trying to place for the Udaan scheme already started in northeast area so we expect that now we will get more markets for civil utilization of this Aircraft as well as for exports.
- Moderator:** Thank you. Our next question is from the line of Viraj from Securities Investment Management. Please go ahead.
- Viraj:** I just have one question on the ROH revenues. Just wanted to understand that how often does an aircraft or helicopter needs repair. I mean is it after every fly or there is certain duration that repair and everything is required?
- R Madhavan:** No it is not like that. See after every flight there is a daily inspection or DI service. Other than that we do a full repair or full overhaul happens after a long period of time depending on the utilization. Of course there are two conditions under which it gets utilized. Typically let us say if it is 2000 hours and 10 years something like that, so each aircraft has its own life and its own utilization rates so depending on that it comes for full overhaul and because of let us say a bird hit or FOD or any other damages, sometimes it comes in between for



repair but otherwise full overhaul generally happens somewhere around 8 to 10 years and in some cases even up to 15 years.

**Moderator:** Thank you. We will take our next question from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

**Bharat Sheth:** Thanks for the opportunity Sir. I mean on the HR cost which is around 19% we expect to reduce 16% on the next two to three years timeframe so what are the initiative that we have taken and how that will really play out, so if you can give little more colour?

**R Madhavan:** Yes there are two things that are happening. My employee costs are not increasing at the same rate as my revenues. So what you can see the revenues grow at a much faster rate than the employee cost, employee cost are more or less at stabilized level and it is likely to come down because we are not inducting new people as of now because we are downsizing ourselves little bit to come to a situation where we will be around 22000 to 23000 strength as compared to 26000 as of now. So the employee cost will definitely at the same level or maybe reduced but the revenues are increasing that is one part. We were talking about the increase in revenue versus increase in the manpower cost which is not at par so the manpower cost generally comes down as a percentage. The other plan is that we are now more into more outsourcing our activities, keeping only the final assembly, the design development and delivery of the aircraft so what has happened is that my own manpower requirement have come down so with reduced manpower I can give a better revenue with the support of all the vendors in the line so that is how we have the time to reduce the manpower. Generally speaking in our line of business about 16% to 18% in some cases up to 20% to 22% is norm so we like to bring it down to 16% or maybe around 15% to 17% will be the ideal situation for us to be in.

**Moderator:** Thank you. We will take out next question from the line of Venkatesh Subramanian from Logictree Investment Advisors. Please go ahead.

**Venkatesh S:** Just a quick question on the 40 naval utility helicopters that we mentioned probably we will get an update in the next few months. What could be the approximate order value of that Sir and what would be the execution timeframe for that?

**R Madhavan:** It all depends on the configuration. See the helicopter part of it will be a standard cost so depending on that time of delivery and the equipment that navy will be asked to provide so that is how it is going to be decided. Initially we may not even be able to put a ball park figure to that because some development cost is also involved in that.



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- Venkatesh S:** Other one is about the 15 LCH orders and are you getting anymore LUH orders, new orders in the pipeline?
- R Madhavan:** After this initial orders executed that will happen this year then that it will take some time probably a year's time before start of the activity for main order. Main order is generally around 140 odd aircrafts are pending so they will start action for that. We expect the order placement not before two years from now.
- Moderator:** Thank you. We will take our next question from the line of Jyoti Patankar from Quest Investment Advisors. Please go ahead.
- Jyoti Patankar:** Sir what would be the percentage of ROH going ahead and the margin in the same?
- C.B. Ananthkrishnan:** ROH percentage we expect it to be around 50% to 55% depending on the induction which is happening from IAF side and as far as the margins are concerned, the overall margins will continue to remain at around 16% to 17% and for manufacturing contracts it will be 7.5% as per the pricing for profit policy which we have got with the customers IAF and army and 10% in case of ROH program but because of internal efficiencies and better bargaining with our vendor we have maintained our operating margin at around 16% to 17%.
- Jyoti Patankar:** Thank you Sir.
- Moderator:** Thank you. Our next question is from the line of Mayank Chaturvedi from Equirus Securities. Please go ahead.
- Mayank Chaturvedi:** Thank you for the opportunity. Sir my question is on our ALH order book so many numbers of ALH are still in our order book left unexecuted and what numbers will be executing in FY2023?
- R Madhavan:** The present order for navy and coast guard is around 9 and that includes of course army also so that is not many left out for this year that is 9 numbers left out but there are other orders which we can start working on but the order is in the pipeline is for 25 ALH from army so we will start the work on that so we are able to supply that helicopter the moment the orders come in place which we expect that will be done very quickly now. The RFP is already out so we should expect that to happen within this year.
- Mayank Chaturvedi:** So how many numbers of ALH will we be executing in FY2023 and overall?



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- R Madhavan:** As of now firm number is 9 but this will go up on depending on the possibility of getting fresh orders in place.
- Moderator:** Thank you. Our next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.
- Mihir Manohar:** Thanks for giving me the opportunity and congratulations on a good set of performance. I wanted to understand the Tejas Mk 1 order which is there. I mean how it is progressing. Wanted to get an update on that and second thing on the margins front I mean we are having regulated margins at least I am struggling to understand how are we such good margins at the EBITDA level so if you could clarify these two points that will be really helpful?
- R Madhavan:** The first part of it is that LCA the prototype all the items are already in and it is flying already now. The prototypes are flying now. Today itself it has taken it right now, so that is going as we have planned so that within another maybe one and half years we will be ready with the type certification of all the systems of LCA Mk1A. Margins I think we have given as quite of numbers so of course Ananthkrishnan will continue with that.
- C.B. Ananthkrishnan:** Just to add on the margin front I mean some more explanation on the margins front. I just would like to apprise on the pricing policy what HAL has got in respect of repair and overhaul activity and for the supply of spares. We have got a fixed price quotation as what it is known, where the base year verification is done and subsequently for the subsequent pricing period which could be as long as seven years. The financial parameters on fixed and then based on the financial parameters, we keep getting the prices, revenue generated but what happens in the process is that once we get the base year verified and the subsequent pricing parameter fixed as we progress if suppose we are able to achieve better operational efficiencies both in case of material and as well as in case of labor by way of learning curve and by improved productivity in case of labor and way of better margins with our vendors in case of materials once we give a long term visibility with the benefit which accrues to HAL we retain within the HAL till the next pricing period is through so during this period the increased profit is being retained by HAL and that is one major reason why this operating profit and then it remains at around 17% and in case of manufacturing contract again the same thing is there for bigger orders we get better visibility of our product and also because of the learning curve benefits which we get accrued in terms of labor cost benefit and the material cost once we negotiate with the vendor we always negotiate for a longer period and we get better margins over there so these improved operational efficiencies help us to improve the margin from minimum which we are getting as per the contract to what we are actually achieving in terms of our year on year profitability.



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- Moderator:** Thank you. We will take our next question from the line of Harshit Kapadia from Elara Capital. Please go ahead.
- Harshit Kapadia:** Just wanted to check with you. Sir for SU 30 order which we were supposed to receive in this quarter is now being delayed over the end of this financial year is that correct understanding?
- R Madhavan:** No SU 30 order is being discussed. Even yesterday also we discussed on that. It is going on probably by the end of the year we should be expecting something out of that.
- Harshit Kapadia:** Okay and if you can give an update on the export order for Malaysia when it is getting finalized. Any clarity on timelines will be helpful?
- R Madhavan:** What we will say that we are attempting to get into export order from Malaysia, Philippines and other places like that but unless it is finalized we will not be able to tell the timeline either because it is dependent on them to place the order now. We are definitely short listed so once it is declared by them probably we will be able to tell then.
- Moderator:** Thank you. Our next question is from the line of Kenil Mehta from Omkara Capital. Please go ahead.
- Kenil Mehta:** Can you provide some details on your recent signing of MOU with Philippines Aerospace?
- R Madhavan:** We have signed a MoU with Philippines Aerospace one organization there which is also a government of Philippines undertaking organization. We have done that to set up a MRO facility in Philippines train them and probably go for even up to D level of maintenance there. This is something new for them and this will be useful if and when our platforms get inducted in Philippines.
- Kenil Mehta:** Sir what are the reason for decrease in our working capital in year-on-year basis. It was decreasing 20,000 Crores to 16,400 Crores due to better efficiency in receivables or due to lower inventory requirement?
- C.B. Ananthkrishnan:** This was on account of two reasons, one is on the debtor and the other one is on the inventory. Debtors we have brought it down from 90 days earlier to almost 69 days and on the inventory front last year it was some 266 days and this year it has come to 230 days so the current assets had come down and that is one reason why the overall working capital requirement has also come down.





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**Moderator:** Thank you. We will take our next question from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.

**Bharat Sheth:** Just wanted to get update on our export initiative that what we have and how do we see ourselves in next three years and which are the geographies from where we are expecting exports?

**R Madhavan:** We started export activity only about a couple of years back when we have our own platforms to sell not something that we are making under license or anything like that and we do have it now in all categories whether it is transport aircraft, whether it is trainers, whether it is fighter that is LCA or if it is helicopters so we have got wide range of aircrafts to offer for exports. As far as geographies are concerned the first attempt we did was with Malaysia which is going on fine as of now. Then we are looking at Indian Ocean region countries that is Philippines, Indonesia, Vietnam that is one area that we are looking at and the other area that immediately we are looking at is the MENA that is Middle East and North African countries so there are also we are looking at countries like Egypt and others who are likely to be our customers. The third area that we will look after these two is in the LATAM countries but that is not immediately in our radar as of now, but these two areas definitely we are looking at it. Some smaller countries with smaller requirements we are already fulfilling and that will continue to be there but if you look at it the immediate ones if you want in numbers it will Malaysia, Vietnam, Philippines, and Egypt if it is possible.

**Bharat Sheth:** Sir taking on this export how is our competitive strength and how do we really position vis-à-vis this established global players and what are the chances that we get a preference over there, how do we manage that?

**R Madhavan:** This is a very good question for us also because product specification and uniqueness we are there and we have worked against global tender in Malaysia and we have been doing good there. Price wise we are definitely better off in most cases but my unique selling point for our sales is that we provide ROH and MRO support within the country wherever we are going to operate and it is not sell and forget type of business that we are looking at it so that is why we are setting up in Philippines, we are also setting up in Malaysia. We are also trying to set up in Egypt and other places so first thing what we have to do is what is that you are differentiating yourself from what the established players are doing. They do a lot of negative marketing as far as we are concerned but the thing is somewhere when you enter into the market once then only your product and serviceability are over, and that is where we are trying to prove that we are better off than other OEMs who are in the market.



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- Moderator:** Thank you. Our next question is from the line of Anshul from Care Portfolio Managers. Please go ahead.
- Anshul:** I just wanted to ask what the manufacturing capacity for Tejas is every year. How many pieces can you manufacture?
- R Madhavan:** As of now it is 8 but we are gunning for 16 when the 83 LCA orders comes in and this can be ramped up to 20 if it is so required if the exports also come in at the same time.
- Anshul:** Okay understood and what is going to be our dividend pay off policy going forward considering there has been a reduction overall to 29% from I guess 40% couple of years back sustainable during pay out policy. Are we planning to maintain this kind of dividend going forward as well?
- R Madhavan:** Dividend it depends on year to year. This year we did give dividend of 400% and it depends on the profitability every year.
- C.B. Ananthkrishnan:** And there are some DPE guidelines of the dividend I think probably you may be aware which says that, 30% of the PAT or 5% of net worth whichever is higher should be the minimum dividend payable so which means that at least 30% of our PAT or 5% of net worth we will keep paying every year that will be the minimum amount and over and above that in fact it is our effort also to improve the dividend so the profitability is shared. Of course keeping in mind the various R&D program which we have to fund it ourselves and also the capital expansion which in case we have to fund ourselves so keeping these two R&D design development programs and capex requirement we will keep distributing the dividend and that will not in any case be less than this DPE guidance which indicates the 30% of PAT and 5% of reserves or surplus.
- Moderator:** Thank you. Our next question is from the line of Venkatesh from Logictree. Please go ahead.
- Venkatesh:** Sir I just wanted to check on this 15 LCH order. What is the value of the order?
- R Madhavan:** Rs. 3142 Crores.
- Venkatesh:** Okay that is it Sir. Thank you.
- Moderator:** Thank you. Our next question is from the line of Aditya Priyadarshi from Skill Ventures. Please go ahead.



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- Aditya Priyadarshi:** Sir just wanted to understand whether rising commodity prices having any impact on the margins of HAL and what kind of fair results HAL take to combat this inflation. Do we enter into any long term contract with suppliers or HAL takes over the high end, so just wanted to understand how do we tackle with this rising commodity price scenario?
- C.B. Ananthakrishnan:** Now that wherever we have got the contract signed and wherever we have got the ROH programs very clear programs tasks are being issued. We do the procurement planning and also consequently enter into LTBA's with our vendor so the LTBA's will also provide for the various indices which will take care of the escalation parameter and back to back we also have the escalation protected with our customers by the way of pricing parameter which is being picked for the base year and based on the verification of data they also fix the pricing parameter for the subsequent years in provisioning the pricing period. Since the escalation is also been taken by the customer as well as whatever is being given to the vendor and incidentally in respect of yearly since majority of products are imports so the exchange rate variation which comes through that is also being reimbursed to us by the customer on a yearly basis based on the cut off date. The cut off date keeps varying from project to project but we have got that yearly cover also it is there. Under that there are big variations between what we are getting and what we have to pay to the vendor that incidentally it has not happened in the past so that much of protection is there so back to back coverage therefore.
- Moderator:** Thank you. Our next question is from the line of Abhijit Mitra from ICICI Securities. Please go ahead.
- Abhijit Mitra:** Thanks for taking my questions. You have to clarify I think some of the numbers we discussed earlier. Target of production for FY2023 is 40 aircrafts.
- R Madhavan:** No 2022-2023 we said 40.
- Abhijit Mitra:** I will break it up I caught the numbers right. It will be four Dornier, four LCA, plus two trainer, six LCH, and four LUH plus 20 ROH for SU30 right broadly.
- R Madhavan:** ROH for SU 30 is not counted into this. We are talking about fresh manufacture and 40 was what we gave for 2022-2023, 2023-2024 we can give that number.
- Abhijit Mitra:** Yes 2023. I was referring to that only 2022-2023 only.
- R Madhavan:** So 2022-2023 so we would sell LCA six number, ALH 9, LCH 3. We will produce 9 LCH, 6 engines, and upgrades of four Jaguar, nine mirages, and 3 Dornier.



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- Abhijit Mitra:** What about the ROH? I mean what is the number of ROH we are looking at. Sorry I missed that number.
- R Madhavan:** We did 20 last year for SU 30. We also look at aircraft and helicopter overhaul numbers. Total overall numbers, that is ROH numbers is 246 this year that includes SU 30, then Jaguar, Mirages, Kiran, Hawks, Dornier 228, Avaros, ALH, Chetak, Cheetahs.
- Abhijit Mitra:** Okay right and with this 6% top line guidance over and above 22 right as in 2021-2022.
- R Madhavan:** Yes that is expectations.
- Abhijit Mitra:** Right and what about 2024 revenue guidance did I miss it or you said it is 6% or it is double digit. What did you mention for 2024?
- R Madhavan:** I told 6%.
- Abhijit Mitra:** Okay for 2023 as well as for 2024 the revenue guidance is 6%.
- R Madhavan:** You are mistaken that is 2023-2024 that is FY2023-2024 it is 6% over and above 2022-2023, which was 24,620.
- Abhijit Mitra:** Right. Got it and just to understand this Tumkur facility now phase one.
- R Madhavan:** We will have a 6% growth in the coming year as compared to last year that is what I wanted to tell you.
- Abhijit Mitra:** Right. But nothing of 2023-2024 you mentioned right. You did mention 2023-2024.
- R Madhavan:** No we did not mention that.
- Abhijit Mitra:** Okay so 2023-2024 your earlier guidance was double digit so you are sticking to that guidance in absence of any new guidance.
- R Madhavan:** That is from 2025-2026 onwards not before that.
- Abhijit Mitra:** Okay got it. Just to understand the Tumkur facility, the phase one and phase two of the facility is complete. The utilization will be there or whether additional overhead or some cost element which we get to this year or you feel that is manageable.
- R Madhavan:** Now this is capex we have already included in our accounting



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- Abhijit Mitra:** Right. Utilization of the facility and it does not look like it is picking up in a medium term so that will have some margin impact or that is manageable.
- R Madhavan:** No it would not have a margin impact but we are hoping that it will be utilized very soon. In fact the first helicopter fly out from there is going to happen in July. Because the full utilization of the capacity, the phase one and two that we have created that is for 30 helicopters, will depend on the speed at which the orders are placed for LUH.
- Abhijit Mitra:** But for FY2022-2023 in general the utilization of facility is not a concern as per you. I think the order book is running out for manufacturing where as the capacities are all sort of in place. Do you see any sort of rest of utilization impacting margins a bit over 2022-2023 not only in Tumkur but overall in Nasik may be Bangalore all put together.
- R Madhavan:** Not really to that extent. Yes if it comes down further that should be a matter of concern for us but we are alternatively using the capacities in terms of ROH that is required on the overall. In case there is Nasik if the pending order is less we are utilizing every facility that we have for repair and overhaul, so like that in all other places. So Tumkur facility is set up on time of course the orders are slightly delayed but it should not affect my margin as far as we are concerned because there is deployment of manpower and our resources are minimal till such time that we start the operations.
- Abhijit Mitra:** Okay got it. Thanks. That is all from my side.
- Moderator:** Thank you. That was the last question. I would now like to hand the floor back to the management for closing comments.
- R Madhavan:** Thank you for joining us today for this analyst meet so hopefully we have tried to answer all your questions and I am sure that you have faced to your liking and probably satisfied. As far as next year production is concerned we do have little bit concern regarding the delays in the order placement but it should not affect us as far as short term revenue generation is concerned, we will be able to meet that in this year and for the coming year so I am sure that before we meet next time we will have something more positive to add to this story of ours. Thank you for joining us.
- Moderator:** Thank you members of management. Ladies and gentlemen on behalf ICICI Securities Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.