



ಹಿಂದೂಸ್ತಾನ್ ಏರೋನಾಟಿಕ್ಸ್ ಲಿಮಿಟೆಡ್  
ಪ್ರಧಾನ ಕಛೇರಿ  
ಹಿಂದುಸ್ತಾನ ಏರೋನಾಟಿಕ್ಸ್ ಲಿಮಿಟೆಡ್  
ಮುಖ್ಯಾಲಯ  
HINDUSTAN AERONAUTICS LIMITED  
CORPORATE OFFICE

CO/SEC/4(7)/2022-23/ BSE & NSE Filing/81

22<sup>nd</sup> November, 2022

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

Dear Sir/ Madam,

**Sub: Transcript of Q2FY23 Results and Business Update Conference Call**

**Ref: BSE Scrip Cod e: 541154, NSE Symbol: HAL**

\*\*\*

Pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, transcript of Q2FY23 Results and Business Update Conference Call held on Tuesday, the 15<sup>th</sup> November, 2022 hosted by Elara Securities (India) Pvt Ltd.

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

(Shailesh Bansal)  
Joint Company Secretary & Compliance Officer

15/1, ಕಬ್ಬನ್ ರೋಡ್, ಬೆಂಗಳೂರು - 560 001, ಕರ್ನಾಟಕ, ಭಾರತ, 15/1, ಕಬ್ಬನ್ ರೋಡ್, ಬೆಂಗಳೂರು - 560 001, ಕರ್ನಾಟಕ, ಭಾರತ

15/1, Cubbon Road, Bangalore - 560 001, Karnataka, India

ದೂರವಾಣಿ (ಫೋನ್) Ph. : +91-80-2232 0001, 2232 0475, ಫ್ಯಾಕ್ಸ್ (ಫೇಕ್ಸ್) Fax : +91-80-2232 0758

ಇ ಮೇಲ್ (ಇ) Email : cosec@hal-india.co.in

CIN: L35301KA1963GOI001622



# “Hindustan Aeronautics Limited Q2 FY23 Earnings Conference Call”

**November 15, 2022**



**MANAGEMENT**    **MR. C. B. ANANTHAKRISHNAN – CHAIRMAN &  
MANAGING DIRECTOR, DIRECTOR (FINANCE) AND  
CHIEF FINANCIAL OFFICER, HINDUSTAN  
AERONAUTICS LIMITED**  
**MR. JAYADEVA E.P. – DIRECTOR (OPERATIONS),  
HINDUSTAN AERONAUTICS LIMITED**  
**MR. KRISHNA – ED (PLANNING), HINDUSTAN  
AERONAUTICS LIMITED**  
**MR. SENAPATI – GENERAL MANAGER (FINANCE),  
HINDUSTAN AERONAUTICS LIMITED**  
**MR. SHAILESH BANSAL – JOINT COMPANY  
SECRETARY, HINDUSTAN AERONAUTICS LIMITED**

**Moderator:** Ladies and gentlemen, good day and welcome to the Hindustan Aeronautics Limited Q2 FY23 earnings conference call, hosted by Elara Securities Private 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 and operator by pressing “\*” then “0” on your touch tone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Harshit Kapadia from Elara Securities Private Limited. Thank you, and over to you, sir

**Harshit Kapadia:** Thank you, Faizan. Good evening, everyone. On behalf of Elara Securities, we welcome you all for the Q2 FY23 and H1 FY23 conference call of Hindustan Aeronautics Limited. I take this opportunity to welcome the management of Hindustan Aeronautics Limited, represented by Shri C. B. Ananthkrishnan, Director (Finance) and CFO with an additional charge of Chairman and Managing Director; Shri Jayadeva E .P. Director (Operations) along with their team.

We will begin the call with a brief overview by the management followed by Q&A session. I'll now hand over the call to Mr. Ananthkrishnan sir for his opening remarks. Over to you, sir.

**C.B. Ananthkrishnan:** Good evening to all of you and warm welcome. I'm thankful to Mr. Harshit Kapadia and Elara Securities for arranging this investors call immediately after our financial results for the last quarter has been announced. At the outset, it gives me immense pleasure in interacting with you immediately after our Q2 results, which was published on 11th November. As you are aware, last few years have been challenging time for all of us. On the one hand, we had to deal with the unprecedented COVID pandemic situation. And on the other hand, we have the changing geopolitical scenario due to the Ukraine war, resulting in certain supply chain disruptions and a new world order. Amidst these challenging times, we remain focused on our core competencies and continue to deliver the products and services required by our Armed Forces without affecting their operations.

Today, I have with me for this investor call Mr. Jayadeva who is the Director (Operations) to answer to any of your technical queries. And with me is also our ED Planning, Mr. Krishna; and our GM Finance, Mr. Senapati; and Mr. Bansal who is the Joint Company Secretary coordinating this call.

As you're aware, during our interactions last year in financial year '21-'22, there were concerns in respect of revenue for the current financial year '22-'23 because many of the manufacturing contracts were getting concluded, and more or less, it was all left to only the repair and overhaul activity to take care. Many of the platform sales have all been completed last year and not much was left over. However, we did maintain that we will try to make good the gap and then see that the revenue shortfall which is arising on account of conclusion of manufacturing contracts will be made good by the repair and overhaul sales and for the supply of spares. And we are very happy that we are rather successful in doing that in the last half year. All this has resulted in an overall growth rate for the first half over the last financial year in spite of the manufacturing platforms getting over and not much could be delivered in the first half of the financial year.

The first half of the year has been quite encouraging results as you all know. On the revenue front, we have achieved a growth of 22% when compared to the corresponding period of the previous year. In terms of broad activity wise business breakdown, while manufacturing activity business was maintained at more or less than the previous year's levels, there is an increase in the ROH segment, repair and overhaul segment which has helped us to maintain this growth. The growth in repair and overhaul activity is in line with our plan as we have to achieve the current year revenue as well. Development revenue which is nothing but the design and development sales as we call it, grew by almost 69% owing to the LCA Mark 1A development activities which are on track, which is also very important for us for commencing the deliveries from 2023 and '24 onwards.

As far as the profitability is concerned during the first half year, ending for the financial year 2022-23, as you would have all observed, there has been an increase in the EBITDA margins from 32% to 33% of our revenue as against 25% which we have been maintaining in the previous years. Some of the major factors which is something which is abnormal for this current half year I thought probably I should bring it to your notice, one is that, because of the improved cash flow situation, which has resulted in maintaining our cash balance at 14,000 crore plus, we could earn an interest income, which is almost double that of last year almost to the tune of around Rs. 160 crore to 170 crore. That was one major reason why the margins have grown up. And the second major activity, as you all know, we always maintain a healthy margin in our repair and overhaul activity as compared to our manufacturing activity. But we try to make good the shortfall in the manufacturing activity through the repair and overhaul activity. So, for the last half year, since the ROH activity has been quite substantial, as you know that it is almost 75% of our revenue has been generated through the repair and overhaul activity, the margins have also been improving over there and that is another reason why there has been an increase in the margin. Of course, in the second half of the financial year, when we start supplying the platforms under the manufacturing contracts, we will still be able to maintain the margins at around 26% to 27% on a yearly average. Another reason could be that the liquidated damages because most of our deliveries were all scheduled on the ROH business segment, the liquidated damages which we were paying to the customers on account of delays in supply of platforms has been reduced drastically almost Rs. 80 crore to Rs. 85 crore. And similarly, because of ROH activity having a warranty of only 1 year as compared to 2 years for manufacturing contracts, the expenditure on warranty also has come down. This has all contributed to the improvement in the EBITDA margins to almost 33%, but on average for the full financial year, it will be maintained at 26% to 27% as we have been maintaining in the past.

Another area of importance, which I should bring it to your notice is on the material consumption. You may all be wondering the material consumption has also been reduced when compared to the previous year. The major reason for that is that since the ROH activity has increased, the material consumption proportionate in the ROH activity is relatively less which is a reason why it has come down. But again, when we start supplying the manufacturing platforms, material consumption rates will be maintained.

The most important and most interesting point which you would all like to know is on the order book. As we have been maintaining in the last few quarters, our order book position even in the current quarter is quite comfortable in spite of all the liquidation which has been happening on the revenue front, we still maintain a healthy order book of almost at Rs. 84,000 crore and with the accretion of almost Rs. 10,000 crore of contracts which has been concluded in the last half year, the most important to being two things. One is on the Polar Satellite Launch Vehicle, PSLV, which we have concluded with the New Space India limited at a value of almost Rs. 860 crore. Why I'm making a special mention about it that, this is one of the new segment which we have been successful in getting the contract, working in consortium with L&T. We have bagged this order amidst competition and this has been a big good opening for HAL for getting more and more in the satellite launch vehicle.

Similarly, as you're all aware, the price contract negotiations for the HTT-40, 70 numbers which has been concluded and which has also been announced in the recent Def Expo will also add to our order book by our almost Rs. 6500 crore. In respect of price negotiations for the new contracts of 25 Advanced Light Helicopters and 6 Dornier 228 aircrafts have already been completed. And similarly for the 12 numbers of LUH, Light Utility Helicopters and 12 additional Sukhoi 30 engines are in advanced stages. The RFP for 240 AL-31FP engine and 80 numbers of RD-33 engines have been received. And we are in the process of submitting the bids. Incidentally, we are also happy to inform that today we have received an LOI, Letter of Intent for 9 numbers of helicopters to be supplied to Indian Coast Guard, which will also add up to our order book position. The aggregate value of all these contracts is expected to be around Rs. 50,000 crore, which should all materialize since it is all there in the advanced stages. We expect it to get materialized in the next six months to one year timeframe. Added to that, there are also further orders in the pipeline with the LCH 140 numbers plus with the LUH, Light Utility Helicopters, another 170 number and another Naval Utility Helicopters of almost 60 numbers also we are likely to get the RFP in the near future, all these should provide further impetus to the growth momentum of the company in the years to come. These platforms will have significant business potential and is expected to materialize in the next 2 to 5-year time span. This value is expected to be almost close to Rs. 70,000 crore subject to the negotiations which we will have to have with the customers and any scope increase or changes in scope which will have to be accommodated.

As far as the design and development area, we are also working on platforms which you all know, the LCA Mark-2 for with the recent sanction from CCS has been received by ADA and the work share arrangement between HAL and ADA is likely to be finalized. And once it is done, the design and development activity will commence in full swing and we will also be associated once it is commercialized and production streams are put in place. Similarly, on the twin engine deck based fighter for the similar LCA for the Navy program, then of course, the AMCA, IMRH and the CATS program which we have been all been telling in the past, we are also progressing with the design and development for each of these things. These will all contribute to the development sales in the coming years. But major portion is what we expect the revenue to come through for our manufacturing orders which has been highlighted I mean, which I told you earlier.

Similarly, as you are aware, we have also declared a dividend in the current quarter of Rs. 20 per share, which accounts for almost 200% of our face value because we anticipate the profits for the current year also should be as what has been projected and we will be comfortable paying the dividend for the investors who have reposed the confidence in the company, the way we have been paying in the past, and probably we look forward to for better rewards in the days to come.

To sum up, with the sort of order book position with the business potentials, which we have and the continuous development of indigenous platforms, we are confident of meeting the expectations of all our stakeholders, both our customers as well as our investors. I think with these few words, I would open up now the forum for further clarifications and questions, if any. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Kiran Sebastian from Franklin Templeton. Please go ahead.

**Kiran Sebastian:** Can you please give us some color on the expected growth rate of the ROH business? Secondly, you mentioned that when the OE business is weak, you are able to compensate with ROH business. How much discretion do you have in this front? Because I would assume some of the fleet will be under use and there is a certain timeline to follow, right, for doing the ROH work. So, how much discretion do you have in terms of managing that? And the third is the clarification. your Rs. 50,000 crore pipeline, does it also include the ROH part which is roughly around Rs. 20,000 crore or it is not including that?

**C.B. Ananthkrishnan:** As far as the growth rate for ROH is concerned, we expect the growth rate to be somewhere around 12% to 15% on a year-to-year basis. So, this has been the trend in the past and we expect the trend to be maintained in the current year as well. You are asking, the second question was how are we going to the fill the gap with respect to manufacturing sales with ROH activity and what is the discretion which is available? Basically, we talk about ROH and the supply of spares. Supply of spares is that both ROH repair and overhaul activity, there is an induction plan and the deliveries will have to be made within a defined timeframe. And similarly for the supply of spares, there is also a delivery schedule which is available. We have got the discretion to the extent to that within the delivery schedule to the extent possible for us to expedite the activities both ROH as well as the supply of spare to the extent we can expedite it within the delivery timeline for which orders are pending. We will be in a position to do that. So, we since we have already completed placement of orders well in advance and we expect the deliveries to happen and similarly, the ROH activity as well since the induction for the subsequent years or so, because there is a cycle time of ranging from 6 months to 18 months, wherever it is possible and wherever we could expedite it, we are doing that so that the activity is completed and revenue from these activities are generated. Whatever we are committing now, to maintain the growth rate and to meet the targets is all well within that. We have planned for that and we are also working out the supply chain so that we will not be put into any difficulty in meeting our targeted plans. So, that is reference to making good the manufacturing shortfall through ROH facilities.



And the Rs. 50,000 order pipeline which we are talking about is exclusive of the repair and overhaul activity, which we expect on an average around Rs. 15,000 crore to be the minimum accretion year-on-year. So, that will be added to the order book position. I hope that that makes clarifies your question.

**Kiran Sebastian:** And sir, on the ROH, earlier, the guidance used to be about 5% to 6% growth going forward, although historically, the growth has been much higher. So, now, you're saying that the next 2, 3 years, we'll see 10% to 12% growth in ROH revenue, right?

**C.B. Ananthkrishnan:** Yes, 10% to 12% in ROH growth. This year and next year, once we start these manufacturing platforms when it comes through that in the next year, the ratio between the manufacturing and ROH, there will be improvement in the manufacturing activity and ROH activity will come down. But ROH as a growth perspective, it will be 10% to 12%.

**Moderator:** The next question is from the line of Amit Dixit from ICICI Securities. Please go ahead.

**Amit Dixit:** I have a couple of questions. The first one is on essentially the relative EBITDA margin of ROH and manufacturing. So, if we see EBITDA margins have been held in this half year, because of increasing proportion of ROH as you rightly mentioned, is it possible to share with us separately the EBITDA margin that you typically get in our ROH and manufacturing?

**C.B. Ananthkrishnan:** No, I mean because that is something which on an average, we will retain an EBITDA margin of around 26% to 27% with these ratios, but this we will not be exactly be able to because again in ROH, there are different levels of margins for different platforms. So, it again depends on the product mix and the sales mix, which is happening in the respective quarter, the margins are likely to change. So, we may not be exactly be able to differentiate between manufacturing contracts and ROH contracts and we would like to reiterate that we'll maintain an average margin of 26% to 27%.

**Amit Dixit:** Sir, the second question is essentially, I would like to pick your brains further on this ROH and manufacturing. So, with manufacturing due to come from third quarter or possibly fourth quarter, by end of this year, what is the percentage of manufacturing you see versus ROH and what it would be like by FY24 end, let us say?

**C.B. Ananthkrishnan:** Even earlier, we have been maintaining that for the 2 years, that is for '22-'23 and for the financial year '23-'24, the ratio of ROH activity will be more than the manufacturing activity because major of contracts like LCA, we will start delivering from '24 end, towards the financial year last quarter of '24, we will start delivering and it will pick up in '24-'25 onwards. So, for the current year, we expect the ROH, I mean manufacturing contract revenue should be in the ratio of 40% to 60%, that is manufacturing should be 40% and ROH should be 60%. And we expect the ratio to be maintained in the next year as well. And from the subsequent years, the ratio will improve. We expect 50:50 ratio and it will go up beyond 50.

- Amit Dixit:** Just a clarification, sir, so that means in FY23 and FY24, your EBITDA margins would remain relatively higher, provisions relatively lower because of higher component of ROH. Is it the correct understanding?
- C.B. Ananthkrishnan:** No, that is not. Definitely that because of this ROH being there, it will be there but we are also trying to see how to improve and maintain the margins in the manufacturing contracts as well in the subsequent year. But again, our guidance would be that 26%, 27% of EBITDA margin should be the target which we are working on.
- Moderator:** The next question is from the line of Bharat Sheth from Quest Investment Advisors. Please go ahead.
- Bharat Sheth:** Sir, on the business development side, recently we started integrated cryogenic engine manufacturing facility at Bengaluru. So, how big is this opportunity? And when do we expect to supply all this material?
- C.B. Ananthkrishnan:** Yes. The cryogenic engine facilities which we've commenced we will be starting our operations in the current financial year. But as far as the opportunities in business, as a business segment, it is taken more for strategic reasons right now because we wanted to get our footprint being there in the engine technology for rockets. So, that is one major reason where we wanted to expand ourselves, but business potential as such, it may not contribute much to our present revenue, but in the days to come in future, we expect it once the order picks up and when PSLV and GSLV launches increases we get a better share, we will be able to improve that. But right now, it is taken more for our technological capabilities and to prove ourselves and to have a footprint on the ISRO Programs.
- E.P. Jayadeva:** That production, I think we are working closely with ISRO now. So, at HAL, now we are integrating the whole of the cryogenic manufacturing facility which was earlier distributed over different work centers. Now, we are doing at HAL as integrated facility at Aerospace Division in Bangalore. So, we are closely working with ISRO for productionizing. Most of the productionizing work we have completed. The balance work is expected to be completed this year. So, we should be in a position to deliver these cryogenic engines from next year financial year onwards.
- Bharat Sheth:** And sir, second question on this export side, we were talking so, what stage I mean, whether Malaysia or Brazil status of our development, I mean, getting order. And when do we expect those things to really materialize?
- C.B. Ananthkrishnan:** See, exports is something which we have started in an aggressive way in the recent past where as you know, that Malaysia contract also we have bid for that Malaysian contracts and we have got the leads from Argentina as well as from Philippines, and we are pursuing that very vigorously. But in fact, we will not be able to comment anything as to when it will get concluded, but we are pursuing our efforts to see that we are getting the orders so that we are competing in a very favorable environment and we will get one breakthrough order after which we will be in



a position to continue with the other countries as well. But definitely, there are challenges and in fact, we understand even with Malaysian contract, there are certain difficulties and challenges which we are facing. We will have to wait and see as to how it gets transformed because recently the elections also have been announced. So, the change in political landscape, the evolving things, we will have to wait and see. Like that, these export order for the defense supplies is dependent on so much of other factors other than your commercial aspects only. So, we will not be able to commit as of now, but our efforts to get 1 breakthrough order is continuing and we are sure that at some point of time in the next few months, we should be able to conclude some, at least one contract.

**Moderator:** The next question is from the line of Abhishek Poddar from HDFC Mutual Fund. Please go ahead.

**Abhishek Poddar:** Sir, could you give some understanding on the development orders, which are the major ones that we are going to receive and how the margins are on those development orders?

**C.B. Ananthkrishnan:** Development orders, it is more of a design and development activity which we are getting.

**E.P. Jayadeva:** Right now, we are working on advanced stages of development HTT-40 and LCA Mark1A and both of them will be productionized shortly. So, Mark1A, the first aircraft which has been upgraded with all engineering systems and AESA radar, has undergone the first flight during June of this year, and we will continue to do the flight testing during the next course of 1 to 1.5 years. And then we should be ready for deployment in production and delivery sometime in 2024. Similarly, HTT-40 also already flight certification is already obtained. And we are working on other customer specific customer requirements like moving maps generation in the GPS like that, small development efforts are going on, but it'll be in time. By the time we get the order and then within the cycle time for the first test flight, we'll be ready to launch that also.

Next on the development front, the next one is LCA Mark2, which closely we're working with ADA and CDR, that is Critical Design Review has already been completed with the participation of our major customer that is IAF. So, with this completion of CDR, it is good to go for launch of production of prototypes. And on production of prototypes, we'll be working. But after the production of prototypes, naturally the next follow-on will be flight testing and certification of the system. In addition to that, we have launched initial design of IMRH as a HAL funded project we are carrying on, that is a 12-ton multi role helicopter. So, that also initial configuration studies, all those things are going on. Then we are also working on a rotary UAV that is unmanned aerial vehicle of a helicopter type about 200 kg we are working. So, these are the major development programs which is going on.

**C.B. Ananthkrishnan:** Your second part of the question was on margins for this development order, margins we get around 10% on the labor efforts, whatever the different labor which we are putting, we will get 10% of it.

- Abhishek Poddar:** Sir, in terms of value, how much budget will be allocated by the government and how much order value would be received for the three orders?
- C.B. Ananthkrishnan:** But that will again depend on the budget allocation and from the CCS sanction. So, on an average it will be around the Rs. 1600 crore to Rs. 1700 crore per annum
- Abhishek Poddar:** So, that will be booking in our revenues from here on?
- C.B. Ananthkrishnan:** Yes.
- Abhishek Poddar:** And sir, regarding this large order for LUH and LCH, you mentioned about 170, 140, and NUH of 60. Sir, how would the pacing of this order quarter will be? How many per year would you expect to receive from '23, '24, '25?
- C.B. Ananthkrishnan:** So, see, the RFP, once the process for contract initiation is started then you know that the contract conclusion will take not less than 1 year to 2 years at least, I mean it ranges from 1 to 2 years. But what we are trying to once the contract is getting concluded, in fact, in majority of the contract once we get visibility of the contract, like AON has been approved or an RFP has been issued, we will start planning for the procurement of material and start productionizing it, so that we will be in time to deliver this items the moment the contract is signed, and we will also schedule the deliveries accordingly so that the we will not say that after T 0, we will not take it as a contract date and after 18 months will be the minimum time which will be required. That we are trying to avoid by planning well in advance once we get some visibility of the contract. But on the capacity part of it, we are today as far as your helicopters are concerned, we have also as you all know, that we have started out Tumkur facility also, which can cater to an additional 30 numbers to start with apart from another 30 number from our existing facility. So, almost 60 helicopters we will be in a position to deliver irrespective of whether it is advanced light helicopter or LCH or LUH, any combination, once we get an order then the deliveries are scheduled, I mean capacities are available, we need to plan and start producing so that we can deliver at 60 aircrafts at a maximum. So, on the helicopters, we will not have any difficulties, we'll be able to deliver that with 60 numbers on an average
- Abhishek Poddar:** Sir, this will be 1 large order or it will be many orders? So, the total number ordered units you have mentioned is 370. So, will that be one order of 370 or it will be many orders of 370, which will combine 2, 3 sets in there?
- C.B. Ananthkrishnan:** We have conveyed our sort of interest to see that why we should get 1 order with the customer and with the Ministry so that we will get the benefit of visibility which we can have a better bargain with our supplier. So, we have to wait and see as to whether because it is ultimately the other factors of customer comfort and then budget availability, how it is to be phased in and then it all depends on the customer. But our efforts would be to get all these things in one single order.
- Moderator:** The next question is from the line of Mihir Manohar from Carnelian Asset Management. Please go ahead.

**Mihir Manohar:** Sir, I wanted to understand on the ROH side of the business, I mean how does margins on the ROH side? I mean, are they contracted? I mean, are they nominated? Just wanted to understand how does the business model work here. And you mentioned about Rs. 15,000 crore kind of revenue which could be there on the ROH side. So, I mean, which fleet of airplanes is coming and what is the potential business here in the next 3 to 4 years, specifically what fleet of planes or what fleet of helicopters are going to come in the next 3 to 4 years on the ROH side? And my second question was on the HTT-40 trainer aircraft. I mean, the Rs. 7,000 crore order that we have got, so at what stage is that particular order currently and when should one expect revenue to flow in from that particular order?

**C.B. Ananthkrishnan:** The ROH business model, what you are referring to, it is a very well proven model, which we have already been working on. Rather we have working arrangement with the customer. That is we have got a pricing policy mechanism where the prices are all verified and the profitability is fixed for the base year, and subsequently with the parameter, financial parameters, escalation and all the other parameters it is decided. So, we know for sure that for during the pricing period, what is going to be the price. As of today, the profit of 10% on cost is getting paid. Manufacturing contracted is 7.5%. For repair and overhaul activity, it is 10%. But because of our proven experience and the way we can plan our materials, we are able to generate an operating margin of not less than 16% to 17% in our ROH activity all through and we expect these margins to keep growing and basically because of one is that material planning and the second one is also more of outsourcing and indigenization and that is how we are able to maintain the operating margin at around 16% to 17%. And the second part of your question on the fleet service, I mean what is the constitution of fleet, major fleet towards this ROH program generated from the Sukhoi aircrafts which we have been increasing the number and which also contributes substantially to the ROH revenue. Besides we have also got the helicopter fleet of ALH. We also have this Hawk which has started coming and Jaguar and Mirage upgrades and the whole lot of engines for the all these platforms and the accessories and avionics. So, all in all, it is a multiple platform, multiple engine and multiple segments of accessories and avionics which generate this ROH order. The second part of your question, the HTT-40, as you know that the contract is getting concluded. We have already started placing the order for the engine. And we are planning to go ahead with our material procurement. So, ideally it should be somewhere in October 2025, the delivery should start commencing from. So, on an average, we expect almost 20 aircraft of HTT-40 to be delivered, which means that in 3.5 years time, we should be able to liquidate the 70 number. And beyond that, if we can get another 36 numbers, which we also expect to come through. If it happens, then we'll be able to deliver those also in the next 1.5 to 2 years, which means on a total time timeframe of almost 5 years, we should be able to deliver 100 plus number under HTT-40.

**Moderator:** The next question is from the line of Aditya from Securities Investment Management. Please go ahead.

**Aditya:** Sir, a few questions from my side. Sir, how do you see the cash balance going forward? Do you think that the Rs. 16,000 crore cash balance is sustainable? Or this will start reducing as we start executing our orders? Second question is if you could talk about our indigenization efforts and

how HAL has benefited in terms of execution timelines or margins or any other criteria? And third is if you could provide any update on the Navy ALH, where is it currently, what stage of testing is it in? How long before you can start commercializing it?

**C.B. Ananthkrishnan:** See, first question on the cash balance, you know as of now, we are comfortable in cash balance, we are having a balance of almost Rs. 16,000 crore which we expect the year end should be somewhere around Rs. 14,000 crore to Rs. 15,000 crore after releasing some of the payments towards procurement. But notwithstanding that, in case, we are also trying to get some more milestone payments and advances. So, on average, we should be able to maintain Rs. 15,000 for 31st March 2023. So, that will be on the cash balance.

**E.P. Jayadeva:** On the indigenization front, we have taken up indigenization of most of the LRUs, which were earlier being imported. And we are also addressing most of the foreign stock supplies of items and spare parts, those things also we have started indigenizing. And though we spent initially for development of these systems and then spares, we do spend some development funds. But over a longer ROH cycle, we would be making good of all these indigenization efforts. And around 400 LRUs are currently in the indigenization range, that includes all mechanical systems, avionics, several other LRUs. And then coming to your Navy ALH, one of the major requirements of the Navy ALH has been the blade folding mechanism. So, we already demonstrated this as a company funded project we have taken up and then we already demonstrated it and it is already flying on the helicopter and then we should be able to certify this shortly. By the time we get the order from Navy, which is under discussion at MoD level, we should be able to integrate most of the other requirements also on to this Navy ALH. By the way it is called UHM now, Utility Helicopter Maritime. So, we are on right track on this and we should be able to finish this around in a 3-year timeframe. The development and the first aircraft delivery can happen by about 36 months.

**Moderator:** The next question is from the line of Jonas Bhutta from Aditya Birla Mutual Fund. Please go ahead.

**Jonas Bhutta:** Sir, couple of questions. Firstly, if you can share what our targets are for the current year in terms of deliveries of aircrafts, both fixed wing and helicopter for the current year.

**C.B. Ananthkrishnan:** LCA, you know that is a major program. We are expecting to deliver the balance, I mean trainers, 8 numbers are there and for the other the normal for that FOC aircraft 2 numbers is there.

**E.P. Jayadeva:** We are going to complete the fighter version of the FOC order during this year. And then the first trainer will be delivered this year.

**Jonas Bhutta:** So, out of 8, 1 trainer will go this year and FOC 2 units?

**C.B. Ananthkrishnan:** We are talking about FOC of 2 and trainer 4 numbers. That is on the LCA front. And as far as ALH is concerned, we are left with 9 ALH which we'll be delivering i.e.9 numbers of ALH, 6 numbers of LCA and LCH will be the balance 9 numbers out of the 15 we'll be able to deliver.

Of course, Cheetal is there and then engines are there, AL31 FP engines. So, platforms are such, it is only LCA 6 numbers, ALH 9 numbers and LCH 9 numbers.

**Jonas Bhutta:** So, roughly 24-25 numbers?

**C.B. Ananthkrishnan:** 24-25 numbers, yes.

**Jonas Bhutta:** And so how will this look next year because will LCA Mark1A start showing up here and so should we expect this number closer to 30? Or you think it'll be around this 20?

**C.B. Ananthkrishnan:** Which year. You're talking about '23-'24?

**Jonas Bhutta:** Yes, sir, next year?

**C.B. Ananthkrishnan:** Next year, you know that out of the 83 Mark1A LCA program, we will be delivering 3 numbers as per the schedule. And apart from that we are also targeting LCA balance trainers of 4 numbers should get delivered. And also we are also working out as you know that additional ALH order we should be getting 25 numbers. If we get that, that will also a portion of it will get delivered the next year. Similarly, on the 12 Sukhoi also we are trying to get that additional order. If that happens, we should be able to deliver a portion of that. And also that LUH program for which the orders will get concluded because the 12 numbers of LOI, we have already received it. So, that number also should get delivered next year. So, all in all, next year also we should be in a position to deliver all these platforms. So, we should total up to 25 plus if all this order materializes. We are preparing ourselves. We are not waiting for the order to get concluded. We have started provisioning of materials and we will also try to commence our manufacturing activities.

**Jonas Bhutta:** So, in case Su-30 gets delayed, will there be a material impact or we're expecting only normal Sukhoi?

**C.B. Ananthkrishnan:** Yes, we expect that Su-30 order if it gets materialized, otherwise whatever that shortfall and whatever the gap will be there in the manufacturing contract, we will try to make good through the repair and overhaul activity. And the engines also, Engines, we are expecting that our 240 AL 31-FP engines although should get concluded, it means that we will be able to make good with it.

**Jonas Bhutta:** So, this year how much would the engine revenues, F '22-'23?

**C.B. Ananthkrishnan:** Only 6 engines of AL 31-FP is left which means almost Rs. 300 crore to Rs. 400 crore.

**Jonas Bhutta:** So, next year if you do 200, that should be almost Rs. 1500 crore to Rs. 2000 crore. Is that correct or more?

**C.B. Ananthkrishnan:** What is it.

- Jonas Bhutta:** No, sorry. If you get the 200 number order for the Su-30 engines, how much can you execute next year?
- C.B. Ananthkrishnan:** We are estimating around 12 to 13 numbers will get executed next year.
- Jonas Bhutta:** 12 to 13. So, that's about Rs. 100 crore a piece, right?
- C.B. Ananthkrishnan:** Yes, approximately.
- Jonas Bhutta:** Rs. 1300 crore to Rs. 1500 crore from that?
- C.B. Ananthkrishnan:** Yes.
- Jonas Bhutta:** Sir, on the ROH side, sir, last year, '21-'22, you got some very large order inflows, almost Rs. 21,000 crore. A large part of that seems to be getting executed in the current year already. So, our first half ROH revenues are almost up 30%. So, when you guide for the 10% to 12% sustainable growth, what is the base assumption on Su-30? Sir, so, have you already touched 20 number Su-30?
- C.B. Ananthkrishnan:** Yes. We are already touched 20 Number Su-30. We are also looking at ways and means to improve that 20 numbers so that what is being done at the BRDs whether we could be able to take up and do that. So, that is one major revenue contributor which will come through. And apart from that the AL 31-FP engines also today we are doing around 75 number. Our target is working at around 105. So, which means that the 30 engines accretion also will be there, which will also generate some additional ROH revenue. And on the other hand, the helicopter side also, ALH, we'll try to increase the numbers. We are planning to increase the number because once the Tumkur factory becomes fully operational, we will be able to shift our manufacturing activities over there so that the repair and overhaul activities at our helicopter factory can increase. So, this all in all, we are targeting as to also the RMSO side, that is the repair and maintenance of that supply orders. Spares order also we are trying to get some additional orders. All of this would mean that we will be able to maintain the growth rate at around 10% to 12%.
- Moderator:** The next question is from the line of Harshit Patel from Equirus Securities. Please go ahead.
- Harshit Patel:** Sir, my first question is on a clarification of the AL 31FP engines. You mentioned that we might be getting the order probably 1 year down the line for these 240 numbers. So, how soon we are going to start booking the revenues? I believe you mentioned that we will start on a few numbers initially. So, if you can give us the execution schedule of these 240 units, how long will it take us to execute the entire order?
- C.B. Ananthkrishnan:** Because now that the RFP has been issued and we have to respond to the RFP with a bid, in the next 2 days, we'll have to submit the bid so which means that the negotiations will start and we expect the order to get concluded before 31st March, that is what our expectation is. We do not know for any delays from the customer side. We expect, if everything goes well, it should get completed in the current financial year. And we should start delivering from the next financial



year. As I've told, the first year will be something less because it will be somewhere around 12 to 13 numbers only. But subsequent years once the orders are being placed and we start manufacturing the engines we should be able to reach a peak load of around 30 numbers on an average. So, with 30 numbers per annum, we should be able to liquidate in 8 years. This is what the schedule which has been given to the customer.

**Harshit Patel:** Similarly, on the RD 33 front, how would the schedule look like?

**C.B. Ananthkrishnan:** RD-33, total it is 80 numbers. On an average again it will around –

**E.P. Jayadeva:** 20 numbers per annum.

**C.B. Ananthkrishnan:** RD-33 also we should be able to complete it in 4 to 5-year timeframe.

**Harshit Patel:** And the order you expect to receive in this financial year or it will spill over to the first half of next year?

**C.B. Ananthkrishnan:** For RD-33, we may not be able to get, next financial year only.

**Harshit Patel:** Sir, my second question would be on light utility helicopters, I think in the last call, you had mentioned that we will be delivering or booking the revenues for 4 units in FY23 only and 8 will be delivered in the next financial year, that is FY24. So, how are we looking at it at the moment? So, are we on track or the entire execution has shifted to next year only?

**C.B. Ananthkrishnan:** Yes, we were planning and in fact, we are getting ready to deliver. We have commenced our manufacturing activities and the aircrafts are getting ready. So, if only the contract gets concluded earlier, we will be in a position to deliver it in the current financial year as what we had promised 4 numbers. But because there is some delays in the contract getting executed because we are operating on an LOI, that is the letter of intent. So, if the contract gets through in the next 1 or 2 months, then we should be able to book those 4 numbers in the current financial year.

**Moderator:** The next question is from the line of Amit Bhide from Morgan Stanley. Please go ahead.

**Amit Bhide:** Sir, I wanted to understand on the capacity front, how are we placed because once the deliveries of Tejas and other aircrafts start, so right now, as you mentioned that including Tumkur, we have 60 units of facility for helicopters. For other aircrafts, how is the capacity placed? And what would be the CapEx plan? I understand in the last call you had guided around Rs. 1,700 crore. So, how is the timeline once you start investing? How much time does it take to establish a facility and how does things work over there?

**C.B. Ananthkrishnan:** As far as the capacity is concerned for the LCA program, we have got sufficient capacity. Today, we have got capacity to scale up to 16 numbers. We have got the second lane also established. So, added to this, we also have developed the private, 4 companies to whom we have given the structure. So, that will be in addition to another 8 aircrafts. So, all in all, we should be able to

scale up our capacity up to 20 to 24 numbers in the next 2 years. Once we start delivering 83 LCAs, to start with we will do 3 numbers and subsequently as per the delivery schedule, it is 16 numbers per annum. So, we should be able to meet those capacities and any further order on LCA also we should be able to meet that with the participation from the private industry on the work packages which has been given and the supply chain which we have already developed and established. Added to that with our capacity being there for another 8 number second line which we have already established, we should be able to scale it up. So, capacity will never be a constraint as far as the LCA program is concerned. Helicopters as I've told you already, another 60 number we are already well equipped to handle those things. And you know that the Nashik division also on the HTT-40. Apart from the aircraft division, we have also got our Nashik division facility where the Su-30 program is not there as of now, even if that additional order of 12 number comes, we should be able to execute it in 1-year timeframe. And subsequently that facility will become available for our other platforms. So, all in all, the capacity will never be a constraint, we'll be able to take additional orders whenever as and when it comes.

**Amit Bhide:** And on the civil aviation part where we were looking at getting some orders, how are things working over there? Is there any major progress?

**C.B. Ananthkrishnan:** Civil aviation, you're talking about the ALH? Which one you're talking?

**Amit Bhide:** Civil aviation, Dornier and Hindustan aircraft that we were looking at to get some orders?

**C.B. Ananthkrishnan:** Dornier, yes, it has been civil certified and we have also leased it out to one of the airlines for operating in the Northeast region, 2 numbers have been leased out and it is operating quite well. Depending on its performance and the feedback which we get, business prospects will also come through. So, as of now, we have all started working on 6 number for aircraft, we have started producing on Dornier. But as and when the order comes, we should be able to deliver that. But as of now, the 2 aircraft which we have leased out is flying quite well.

**Moderator:** We'll take the next question from the line of Shirom Kapur from Prabhudas Lilladher. Please go ahead.

**Shirom Kapur:** I just had a bookkeeping question. Would you be able to provide the numbers of your revenues from products and revenues from services for H1 this year as well as H1 last year?

**C.B. Ananthkrishnan:** Yes, we'll get back to you. We're having the data.

**Shirom Kapur:** Okay, sure. No worries. I can follow up on that.

**C.B. Ananthkrishnan:** We have got the numbers, if I can just clarify that so that the issues will get sorted out. For the last year, the repair and overhaul revenue was somewhere around Rs. 3,700 crore and the current year, the revenue has gone up to Rs. 4,800 crore So, almost a 29% increase in the revenue as compared to the corresponding period last half year.

**Shirom Kapur:** And do you have the same number for the products?

**C.B. Ananthkrishnan:** Products, it was Rs. 1,600 crore of manufacture last year and this time, it remains more or less at Rs. 1,600 crore. It is more or less flat, maybe for some Rs. 15 crore to Rs. 20 crore, it has gone up in the first half.

**Shirom Kapur:** And my next question would be, so as we saw last year, a large chunk of our FY '22 revenues came in H2. So, was that kind of an abnormal decrease from H1 to H2? Are we expecting a similar jump in revenues in H2 this year? So, if I'm right in my reading, last year, H1 we are about Rs. 7,100 crore revenue, but overall FY22, we had Rs. 24,600 crore. So, that means Rs. 17,500 crore came in H2 last year. So, are we expecting a similar jump in H1 to H2 this year?

**C.B. Ananthkrishnan:** Yes. See, in last year, one of the reasons for muted H1 also is because of the lockdown which has happened in the first quarter of the last financial year. But we could make good that in the second quarter and I mean the H1 was relatively stabilized, more or less stabilized. But the second half year for '21, '22, we were able to completely make good the shortfalls in the first half year. This year, the spread is more or less even. So, we expect the target what we have told for the current year, the balance of the target will be achieved in the second half of the current financial year which means that we have given a target revenue guidance of almost 7% to 8% growth in the full financial year. Other than what we have achieved, the balance will get achieved in the second half of the financial year.

**Moderator:** We'll take the next question from the line of Venkatesh Subramanian from LogicTree Investment Advisors. Please go ahead.

**Venkatesh Subramanian:** It's kind of a continuation of the earlier question. The guidance for FY23, while it's actually been a very pleasant surprise on the operating profits as well. So, in terms of operating profit and net profit for the financial year '23, can we say that we would be able to exceed last year's EPS or PAT by say about 10% to 15%. Would that be a decent guidance?

**C.B. Ananthkrishnan:** We may not be able to commit the growth what we will be able to achieve, but we are striving to show some growth as compared to the last financial year as far on the profit front. Last financial year, we also had as far as the EPS is concerned, EPS has gone up, one reason was because we had some refund of income tax orders which was settled in last year. So, that is one reason why the EPS has gone up, but on the profitability as a whole, we'll be able to maintain the profitability of last year and also show some growth. We are expecting a growth of not less than 4% to 5%.

**Shirom Kapur:** On the profitability front?

**E.P. Jayadeva:** Yes.

**Moderator:** The next question is from the line of Yellapu Santosh from Asian Market Securities. Please go ahead.

- Yellapu Santosh:** One small clarification. For manufacturing of Su-30 aircraft, do we need an approval or the license manufacturing approval from the Russians before we can start the production or pursue the procurement of the RM and other key subsystems?
- C.B. Ananthkrishnan:** We don't need any specific approval because there is a general agreement which has been entered with the Russians for the Su-30 program right at the beginning of the program. General agreements is still valid. So, all the procurements, it is getting extended as per the general agreements and so we don't foresee any specific approvals from the Russians for these programs. For any additional requirements, we can always place the, as we call it as a supplementary agreement which we call it, we get it signed and we start getting delivery of the kits or the raw materials from the Russians and we will be able to manufacture. Of course, the license fee which has been there, on an aircraft basis, that is all forming part of the price. So, we don't foresee any other approvals required.
- Yellapu Santosh:** Sir, 2 questions from me. First, what is the status of the ROH international opportunities with the current geopolitical scenario? Do we see any large opportunities coming up on our way, one? And second thing for the IMRH and AMCA, the design and developmental works were supposed to be implemented through the SPV route? In one of the presentations I heard you saying that, where 1 SPV partners along with ADA will have some role. So, what has changed now that for IMRH, there is no SPV partner who would be spending or working on the D&D part, but we are doing it? And does ADA has any role in this IMRH program at this moment?
- C.B. Ananthkrishnan:** Just to answer your second question faster. As far as this IMRH program is concerned, it is HAL designed and developed program. So, ADA has no role in this, it is exclusively HAL only. And for the 2 programs which you are talking about the SPV route, yes, IMRH also we are looking at SPV route. We are working on that. We have not rather come out to any conclusion on the model. We'll have to see the interest which is being expressed by the private partner to go through this SPV route. Depending on that, we will be in a position to take a final call on the model as such. As far as AMCA is concerned, it is at a very preliminary stage. Yes, there has been some talks of collaborating with the private industry for the productionizing program. We will have to wait and see as to how it will get evolved. But as of now, wherever opportunities exist and wherever the private industry is willing to collaborate with HAL and start working on the programs, we are open to that, we will be in a position to take them along. So, the other first question, what you are asking on the repair and overhaul leads, whether we have got any leads from any of these foreign countries in the light of geopolitical situation. So, far we have not got the leads as such. But definitely there has been some interest shown for the Su-30 fleets in Malaysia and in other places where they are not in a position to source it directly from the Russians, whether HAL will be able to take care of the requirements of the Su-30 fleet elsewhere. We are also in talks with the Russians because ultimately there the Russians will also have to concur to that because it is directly under their license agreement. So, when expressed our desire and the leads which we have got, Russians are also willing to part with them and rather give permission for HAL to work on. We will have to see how it gets evolved in.

- Moderator:** We'll take the next question from the line of truth may vary from Dhruv Maheshwari from Premji Invest. Please go ahead.
- Dhruv Maheshwari:** Sir, 2 questions from my side. One is just on the export side and especially after the Defense Expo, are you seeing any sort of new conversations and opportunities that are sort of evolving? And the second one on the UAV side, especially drones, it seems everybody sort of building out capabilities there and this could be a fairly competitive market. So, from an HAL perspective, what is the game plan from a medium-term perspective?
- C.B. Ananthkrishnan:** On the exports, yes, definitely we have already been maintaining that we had leads to from these 2-3 countries. And I mean some more countries have also started enquiring about our product, especially LCA. After the Def Expo, the Argentina team has come over here to see our facilities, especially on the helicopter segment and also they've also shown some interest on the LCA. But the Malaysian thing which I have already indicated to you, there are some challenges which are emerging in the recent past and the changes in the political situation, there we'll also have an impact on the program. So, we will have to wait and watch what will HAL's Tejas positioned over there. So, we are aggressively following up our export strategy and trying to have some sort of a breakthrough order. We will have to wait and see as to how it gets evolved in the days to come.
- E.P. Jayadeva:** On the UAV front, as we informed earlier, we are developing 1 rotary UAV of 200 kg class. In addition to that, we are also participating in MALE program of ADE, that is called TAPAS. So, we are building the prototypes for that and then flight testing will shortly commence. And after the certification, we plan to productionize it and then depending on the order book position what we are going to get from our Indian Defence Services, we'll be supplying to them. In addition to this TAPAS, we're also in talks with IAI for HALE and MALE class of UAVs and also for Rustom, also we are working with them. In addition to that, we are into big projects on CATS where a lot of UAVs will be taking part in this CATS program. For example, you have CATS Alpha, Wingman, you must have seen all this in our Def Expo. And in addition to that, we also have a high-altitude pseudo-satellite also forming part of this. And then optionally manned aircraft also will be forming part of this. And we are progressing quite satisfactorily on the development front on this, both at HAL as well at private industries.
- Dhruv Maheshwari:** But sir, do you think that will be a fairly competitive market because while it is appreciated what the programs at HAL has taken up, it is also seen that everybody seems to be doing it. So, do you think that sort of also hampers the long-term ability to sort of succeed in this business?
- E.P. Jayadeva:** See, CATS is not a standalone program, it's an integrated program. It is not just 1 MALE UAV or something like that. It's got a whole lot of players into that in the sense, HAP, Wingman, then Hunter, so it's an integrated thing. And in India, not many people who have already launched this program in addition to HAL. So, we are the only people right now who are working on this. And our major Defense Services is also getting involved in this. They are also showing interest and they are closely watching our development cycle. And then they are also getting involved

in this slowly. So, as of now, we don't foresee any competition from the Indian soil as an integrated program.

**C.B. Ananthkrishnan:** Just to add clarity, if you're looking at drones, we are not into the business of drones. There only is the competition and many number of players are there. We are only looking at combat aerial vehicles, which HAL only has initiated the program as of now. So, we don't foresee any competition because it is a standalone program of HAL and it involves much of defense related combat capability which we don't foresee any major competition from that. This is a program which is much, much bigger than the normal drones program where we are not competing at all.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Harshit Kapadia for closing comments.

**Harshit Kapadia:** Thanks, Faizan. We would like to thank Shri C.B. Ananthkrishnan, Director (Finance), CFO with an additional charge of Chairman and Managing Director, Shri Jayadeva E.P., Director (Operations), for giving us an opportunity to hold this call. We also would like to thank all investors and participants and analysts for joining this call. Any closing remarks sir you would want to share with investors.

**C.B. Ananthkrishnan:** Thank you for this opportunity. And it has been a good discussion wherein we could clarify most of our positions. Probably I hope that it has been to the satisfaction of the investors. But one thing I can tell is that HAL is looking for a lot of growth opportunities and with the recent Atmanirbhar and self-reliance and the changes in the geopolitical situation, we are quite aware of all the opportunities which are available in the defense industry scenario and at the same time, we are also looking at the space which is to be looked into by the private sector. So, wherever opportunities are there for us to collaborate with the private sector, we will collaborate to take things forward in the right direction. But all-in-all, I can say that there is the potential for business and HAL having been there in the business for the last 7 decades and with some of the major programs coming through, once it is all getting converted into contracts and once it is all getting converted from the design and development stage to productionization stage, we will continue to be there and we will be able to further grow at a much faster rate once these programs materialize and we start delivering of the aircraft. And our objective is to see that we have reached the double-digit growth by 2024, '25 once we start delivering the platforms so that we get into the next phase. All through we have been trying to stabilize ourselves. Our target is to see that growth is multiple so that the investors' wealth gets maximized. Thank you.

**Moderator:** Thank you. Ladies and gentlemen, on behalf of Elara Securities Private Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your line.