



Hindustan Aeronautics Limited

57th Annual Report 2019-20





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Vision



To become a significant global player in the aerospace industry.

To achieve self reliance in design, development, manufacture, upgrade and maintenance of aerospace equipment, diversifying into related areas and managing the business in a climate of growing professional competence to achieve world-class performance standards for global competitiveness and growth in exports.

Mission



Chairman's Statement



ear Shareholders,

It is my privilege to extend a very warm welcome to you all for the 57th Annual General Meeting of your Company.

I take this opportunity to share the performance highlights during the year and future outlook for the Company.

Financial and Performance Highlights of the Year

In 2019-20, we recorded the turnover of ₹ 21,218 Crore, which is a 7% increase from the previous year's ₹ 19,821 Crore. The Profit Before Tax (PBT) saw a growth of 5% from ₹ 3,742 Crore to ₹ 3,928 Crore while the Profit After Tax (PAT) increased by 21% from ₹ 2,346 Crore to ₹ 2,832 Crore. Our Order Book position stood at a healthy ₹ 52,965 Crore, as on 31st March, 2020.

We paid an Interim Dividend of ₹ 33.25 per share of ₹ 10 each (330%) for the Financial Year 2019-20, totalling to ₹ 1,111.84 Crore, excluding Dividend Distribution Tax of ₹ 228.54 Crore.

Our focus on production continues and during the year 2019-20, your Company has produced 31 new Aircraft and Helicopters, covering Su-30 MKI, LCA Tejas, Dornier Do-228, ALH Dhruv, Cheetal Helicopter and Chetak Helicopter. Additionally, we produced 117 New Engines and Accessories. I am proud of our initiatives to indigenise production and become self-reliant, as set out by the Make in India mandate.

Your Company overhauled 201 platforms including both fixed wing and rotary wing aircraft of various types. Further, 486 aero-engines of Russian and western origin were also overhauled during the year under review.

Offer for Sale (OFS)

After end of the financial year 2019-20, to meet minimum public shareholding requirement of the Company as prescribed under Rule 19(2)(b) of the Securities Contracts (Regulation) Rules, 1957, as amended, and Regulation 38 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, Govt of India has made Offer for Sale (OFS) upto 15% of Paid up Equity Capital of the Company out of its shareholding of 89.97% in the Company on August 27-28, 2020.

Significant Achievements

Your Company has witnessed several significant achievements during the year, some of which are highlighted as under:

- Final Operational Clearance (FOC) for Jaguar DARIN-III upgrade was achieved on July 30, 2019.
- First Do-228 Aircraft equipped with the state-of-the-art Glass Cockpit system was delivered to IAF on November 2, 2019 and First Naval version of Dornier Do-228 Aircraft was delivered to Indian Navy on December 14, 2019.



- LCA Naval Prototype (NP1) being designed jointly by HAL and ADA successfully performed ski jump take-off and arrested hook landing from the ship INS Vikramaditya on January 11, 2020.
- Initial Operational Clearance for Light Utility Helicopter (LUH) was achieved on February 7, 2020.
- First Light Combat Aircraft (LCA) in FOC standard (SP-21) took to the skies for maiden flight on March 17, 2020.
- Successfully demonstrated hot refueling on HTT-40 while keeping the engine running.

New Initiatives

During the year, your Company has taken many new initiatives. Some of the major initiatives taken are as under:

- ◆ Manufacturing, Testing and Integration of Bombs and Missiles.
- ◆ Venture into MRO of Civil aircraft and helicopters.
- ◆ Letter of Acceptance (LOA) signed with M/s Dassault Aviation for undertaking ROH of Mirage 2000 LRUs for French Air Force.
- ◆ HAL and CSIR-NAL has signed MoU on March 13, 2020 for Design, Development, Certification, Production, Marketing and Life Cycle Maintenance of 19 seater SARAS MK II Aircraft.
- ◆ HAL, IAI, Israel and Dynamics Technologies (DTL) entered into a tripartite MoU on February 5, 2020 to form a strategic collaboration for marketing, manufacturing and selling of UAVs to Indian Defence Forces, Paramilitary Forces and Central Armed Police Forces (CAPF).
- ◆ MoU between HAL and Elbit Systems ISTAR Division, Israel was signed on February 5, 2020 for assessing the feasibility of a joint development of a Vertical Take-off and Landing (VTOL) Unmanned Aerial Vehicle (UAV) (Rotary UAV of 2000 kilo class) for maritime and land based military operations which caters to the domestic as well as the global requirements.
- ◆ MoU was signed between HAL and Elbit Systems, Israel on February 5, 2020 for extending cooperation for new Digital Head Up Displays (HUD) technologies and promote Digital HUD to the Indian Defence Services and other potential customers.

Future Outlook

The past one decade has seen consistent growth of military and commercial sectors of the Aerospace and Defence Industry, both in the international as well as the domestic market. During the past decade, your company has reported an impressive growth with an increase in sales of the order of 62% and efforts are

in place to maintain the growth momentum. However, the last quarter of the financial year saw the COVID-19 pandemic engulfing countries world over, disrupting normal operations of industries due to the lockdown. While the pandemic has impacted all major industry sectors, in the A&D sector it has put severe supply and demand challenges for the commercial aviation sector, world over.

Looking at the Indian scenario, demand on Aerospace and Defence (A&D) manufacturing sector in the country is dominated by the demands from Defence sector. The Company business is mainly concentrated to Defence Services, major negative impact on the demand side of the business due to the pandemic in the long term is not anticipated currently, as the defence contracts reflects long term requirements of national interest. However, the Company is a highly technology intensive company with product spectrum including both ToT as well as indigenous platforms and contain systems/ sub-systems/ raw-materials etc. of foreign origin used on these platforms. Since the pandemic has caused world-wide lockdown, suppliers in general are financially stressed due to cash flow and liquidity problems, possible production hold up in suppliers' facilities and restriction on movement of goods through international freights can lead to disruption of established supply chains and hence there could be likely disruption of production in the short term at HAL. However, through all out efforts the Company is confident to tide over such aberrations with resilience.

Defence projects, policies and funding of Govt of India play crucial role in the growth of A&D industry in India and in-turn HAL, because of the major dependence on the Defence sector. Hence, downsizing of Defence budget and risk of economic recession can lead to difficulty in the working capital availability. However, as a positive note, there is a strong push from the government through the 'Atmanirbhar Bharat Abhiyan', the policy formulations and reforms post COVID which is giving significant impetus to self-reliance and local production. This is expected to favorably impact the operations of the Company. The Defence Services are looking for more indigenous options as compared to import and your company is expected to greatly benefit from this as there are a slew of indigenous products like LCA Tejas and its variants, LCH, LUH, HTT-40, etc.

The Company has been the flag bearer for the country in the aviation sector and has contributed immensely towards indigenous capability development in this niche segment. This was possible due to the continued focus on technology upgrade and innovative business initiatives. The futuristic programs on the anvil such as Advance Medium Combat Aircraft (AMCA), LCA Mk II, the advance version of LCA Tejas, Twin Engine Deck Based Fighter, the twin engine naval version of LCA, twelve ton class Indian Multirole Helicopter (IMRH), aero engine development etc., will ensure the technological lead of your Company in the years to come. Collaborative

initiatives such as the tripartite MoU between HAL-IAI-DTL for UAV segment, lease agreements with Airline operators for Do-228 civil operations etc are expected to add new business streams to the Company portfolio.

Overall the future behold bright promises to you by your Company, to be a part in building an Atmanirbhar Bharat, through truly indigenous contributions.

Research and Development (R&D)

R&D has been the main focus area of your Company for increasing indigenisation and value addition in our products / systems. During the year, the Company continued to focus its efforts towards development of new platform, technology and activities to enhance its capability with a view to bring technological superiority to its products and in order to cope with the future technological challenges. Towards the progress of the R&D efforts, the Company has incurred a total expenditure of ₹ 1,232 Crore for the year 2019-20 which is 6 % of the Turnover. Further, an amount of ₹ 254 Crore has been transferred to the R&D reserve during the year. It is pertinent to note that many of the in-house R&D projects could be commercially exploited in the past. The major success has been in Advanced Light Helicopter (both utility and weaponised version). Many of in-house R&D projects currently undertaken including LCH, LUH, HTT-40, LCA MK1A are in the final stage of Design & Development and are likely to be commercially productionised in the next couple of years.

Corporate Governance

Your Company always strives to attain highest standard of Corporate Governance practice. The Company is complying with the Guidelines on Corporate Governance framed by the Department of Public Enterprises (DPE) and SEBI Listing Regulations. The Company has established Systems and Procedures to ensure that its Board of Directors is well informed about the Policies of the Company, to enable them to discharge their responsibilities and to enhance the overall value of all stakeholders. We are constantly reviewing the Policies and Procedures of the Company, and updating them to ensure transparency in all aspects of the Company's working.

Corporate Social Responsibility and Sustainability Development

As always, your Company is committed to social responsibility. We have undertaken various programmes and projects, towards integrating our social and business goals, and in a sustainable manner in line with schedule VII of the Companies Act, 2013. During the year, an amount of ₹ 82 Crore has been spent on CSR activities.

Acknowledgement

We continue, and will continue to pursue global standards, and I am confident that the Company will achieve many milestones. We hope to attain all round success with the continued support and guidance of all our stakeholders.

I take this opportunity to extend my sincere gratitude to the Department of Defence Production, the Defence Acquisition Council, Defence Finance, Department of Civil Aviation and our valuable customers viz., the Indian Air Force, Army, Navy, Coast Guard, Border Security Force, ISRO and other Global Aviation Companies.

I also thank DGAQA, CEMILAC, Principal Controller of Defence Accounts, Principal Director of Commercial Audit, C&AG, Statutory & Branch Auditors, Bankers, Legal Advisors, Collaborators, Suppliers, Shareholders and other Agencies and acknowledge their contributions in our achievements.

I am grateful to my colleagues on the Board for their valuable guidance, and acknowledge the immense contribution and dedication of the employees of the Company at all levels.

JAI HIND



R. Madhavan

Place : Bengaluru

Date : August 28, 2020

Chairman and Managing Director



Major Achievements



Light Combat Helicopter (LCH) prototypes have cumulatively logged 1500 flights and the 1500th flight was flown on Technology Demonstrator (TD3) prototype on April 11, 2019.



Certifying Agency RCMA (Regional Centre of Military Airworthiness) accorded Final Operation Clearance (FOC) for Jaguar DARIN III upgrade on July 30, 2019.



HTT-40 successfully demonstrated 6-turn spin capability at Bengaluru on October 1, 2019.



Light Utility Helicopter (LUH) successfully completed night flying tests on November 15, 2019.



LCA Navy Mk-1 prototype-2 successfully demonstrated arrested landing on ship INS Vikramaditya on January 11, 2020.



First Light Combat Aircraft (LCA) in FOC standard took to the skies for maiden flight on March 17, 2020.

Major Events



HAL organized a workshop of Indian private players to boost manufacturing of upgraded ALH Dhruv (Civil version) under ToT in Bengaluru on June 29, 2019.



Shri Rajnath Singh, Hon'ble Defence Minister flew the LCA Tejas Aircraft on September 19, 2019 at HAL, Bengaluru.



Air Chief Marshal RKS Bhaduria, Chief of the Air Staff flew HTT-40 Aircraft at HAL Airport, Bengaluru on November 14, 2019.



HAL received the Initial Operational Clearance (IOC) for its Light Utility Helicopter (LUH) during DefExpo 2020 on February 7, 2020 at Lucknow.



Master General of Ordnance (MGO) flew the Light Combat Helicopter (LCH) during his visit to Helicopter Complex on January 17, 2020.



Defence Minister Shri Rajnath Singh inaugurated the new LCH production hangar at Helicopter Division on February 27, 2020.



Visitors



South Korean delegation led by Mr Yougeun Kim, First Deputy Director of National Security, Republic of Korea (ROK) visited Accessories Division, Lucknow on July 30, 2019.



Five member delegation from Saudi Arabia visited HAL facilities in Bengaluru on August 19, 2019.



Shri Shripad Yesso Naik, Raksha Rajya Mantri paid a maiden visit to HAL facilities in Bengaluru on August 21, 2019.



Mr. Atanasio Salvador M'tumuke, Minister of National Defence of the Republic of Mozambique along with a delegation visited HAL Bengaluru facilities on November 29, 2019.