

Gearing up!

Hindustan Aeronautics' (HAL) AR emphasizes on the development of marquee programs such as LCA Mk-II, Advanced medium combat aircraft (AMCA), Indian multi-role helicopter (IMRH)/ Twin Engine Deck Based Fighter (TEDBF) which are poised to play a pivotal role in the coming decade. It is planning to meet UAV requirements of the Indian Defence Forces through indigenous efforts and collaborations with the global OEMs. HAL also intends to make significant strides in the international market via LCA (Tejas) Mk-1A. Focused efforts on indigenization has resulted in forex savings of Rs3.9bn for HAL over the last three years. Further, it plans to indigenize 2,615 imported components and spares by 2025. Repairs & Overhauling (RoH) segment is expected to gain traction as delivery of more than 250 Sukhoi-30s and 300+ Advanced Light Helicopter (ALH) are complete which would be up for MRO within two years. We expect PAT CAGR of 13% over FY21-FY24E backed by steady execution, margin sustainability & balance sheet discipline. We retain 'BUY' with a TP of Rs1,693 at 13x Sept'23E EPS.

Ordering momentum expected to accelerate...

HAL's order backlog of Rs806bn (3.5x TTM sales), reflects steady execution in near term. Further, it has a healthy pipeline worth ~Rs1.2trn to be finalized over the next 3 years which includes, i) Su-30 (12 units): Rs100bn, ii) Hindustan Turbo Trainer-40 (HTT-40): Rs80bn, iii) Light Combat Helicopter (165 units): Rs320bn, iv) Light Utility Helicopter (187 units): Rs160bn, iv) Kamov Ka-226 (200 units): Rs150bn & v) RoH: Rs400bn. Moreover, marquee programs like AMCA, IMRH & LCA Mk-II offers prospects worth ~USD 30bn between FY25-FY30.

Encouraging response for HAL's platform in overseas market

HAL intends to explore opportunities in a big way in order to replicate its success in international markets. Notably, the company's LCA Tejas platform has received positive response overseas, with Tejas being a likely candidate for the Malaysian Air Force's recently released RFP for fighter aircraft. In addition, the company had responded with LIFT variant of the LCA Tejas for the US Navy (though it has received unfavorable response). Apart from that, the ALH and Dornier Do-228 have a bright prospect in Sri Lanka, the Maldives, and Nepal. Similarly, the Dornier Do-228 platform is expanding its reach in the civilian market.

Parts of an evolving ecosystem are now paying off

HAL has been focusing on indigenization of components, systems, and accessories in order to create an efficient manufacturing ecosystem in India. In FY21, these efforts resulted in cost savings of Rs1.3bn (vs Rs1.4bn in FY20). Besides, its efforts in vendor development are bearing fruition, with MSE procurement totaling ~Rs32bn in the last five years. Moreover, HAL also issued EoI for more than 700 items for indigenization for Make-II procedure in FY21, which is a significant step. The Company is embarking upon a major e-initiative called "Project Parivartan" in a journey to revive company's ERP system to increase operational efficiencies. HAL has benefited from favorable sales mix as share of manufacturing, RoH & spares stood at 38%/38%/16% in FY21 vs 58%/21%/12%. Further, as a part of cost rationalization strategy, HAL's manpower has reduced by 27% to 26k & value added per employee has increased from Rs1.4mn to Rs4.3mn between FY11-FY21, which has resulted in margin expansion.

| | |
|-----------------|----------------|
| CMP | Rs 1,382 |
| Target / Upside | Rs 1,693 / 23% |
| BSE Sensex | 58,270 |
| NSE Nifty | 17,378 |

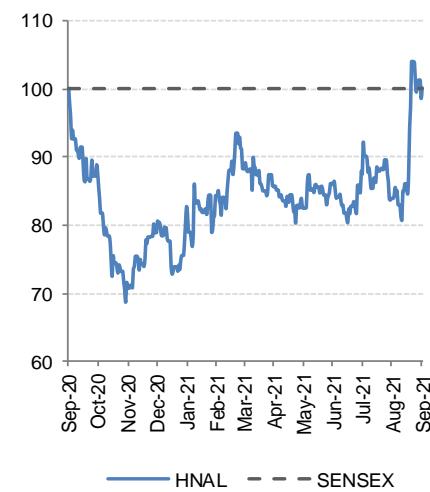
Script Details

| | |
|------------------|--------------------|
| Equity / FV | Rs 3,344mn / Rs 10 |
| Market Cap | Rs 462bn |
| | US\$ 6bn |
| 52-week High/Low | Rs 1,457/Rs 658 |
| Avg. Volume (no) | 7,03,832 |
| NSE Symbol | HAL |
| Bloomberg Code | HNAL IN |

Shareholding Pattern Jun'21(%)

| | |
|-----------------|------|
| Promoters | 75.2 |
| MF/Banks/FIs | 20.6 |
| IIs | 1.0 |
| Public / Others | 3.3 |

HNAL Relative to Sensex



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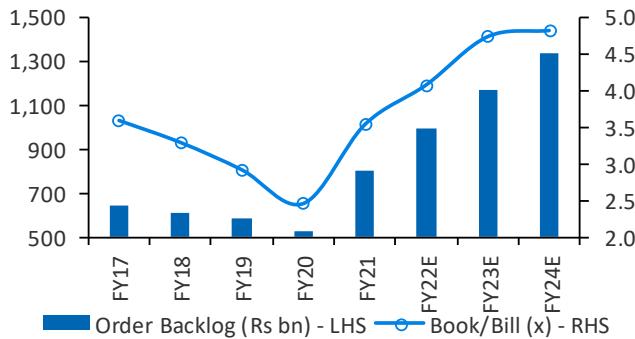
Annual Report Macro View

| Key Management | Shri. R. Madhavan - Chairman and Managing Director Shri C B Ananthakrishnan - Director (Finance) & CFO | | | | | | | | | | | | | | |
|-----------------------------|--|-----------------------------|------|------------------|------|-----|------|---------|-----|--------|-----|--------|---|--------------|------------|
| Board of Director | The Board of Directors of the Company comprised of five Whole time / Functional Directors including the Chairman and Managing Director, two Government Nominee Directors and two Non- Executive (Independent) Directors. | | | | | | | | | | | | | | |
| Auditors | M/s. Maharaj NR Suresh and Co.,LLP are the statutory auditors of the company. | | | | | | | | | | | | | | |
| Pledged Shares | No shares pledged | | | | | | | | | | | | | | |
| Macroeconomic factor | <p>The Covid-19 pandemic caused a sharp drop in global trade, commodity prices, and tighter external financing conditions, all of which had varying effects on various countries' current account balances and currencies. Nonetheless, central bank stimulus and a resumption of vaccination programs resulted in economic revival. According to a SIPRI report published in April 2021, global defence spending in 2020 will reach \$1981bn, a 2.6% annual increase in real terms over 2019 – the highest level since 1988.</p> <p>In India, the budgetary allocation for defence was increased to Rs4,781bn for fiscal year 2021-22, a Rs6.8bn or 1.4% increase. The capital expenditure allocation for modernization and infrastructure development of the Armed Forces has been significantly increased. The capital allocation for FY22 is Rs1350bn, an increase of 18.8% over FY21. The Air Force received Rs532bn in capital expenditure, the Army received Rs366bn, and the Navy received Rs332bn.</p> <p>Furthermore, as part of a policy initiative, the route limit was raised from 49% to 74% in September 2020. This modification was made as part of the Aatmanirbhar Bharat Abhiyaan with domestic firms expected to benefit from increased access to capital and cutting-edge technology.</p> | | | | | | | | | | | | | | |
| Key Holders | <table border="1"> <thead> <tr> <th>Category of Shareholder (%)</th> <th>FY21</th> </tr> </thead> <tbody> <tr> <td>Promoter Holding</td> <td>75.2</td> </tr> <tr> <td>DII</td> <td>20.3</td> </tr> <tr> <td>FII/FPI</td> <td>0.9</td> </tr> <tr> <td>Public</td> <td>3.6</td> </tr> <tr> <td>Others</td> <td>0</td> </tr> <tr> <td>Total</td> <td>100</td> </tr> </tbody> </table> | Category of Shareholder (%) | FY21 | Promoter Holding | 75.2 | DII | 20.3 | FII/FPI | 0.9 | Public | 3.6 | Others | 0 | Total | 100 |
| Category of Shareholder (%) | FY21 | | | | | | | | | | | | | | |
| Promoter Holding | 75.2 | | | | | | | | | | | | | | |
| DII | 20.3 | | | | | | | | | | | | | | |
| FII/FPI | 0.9 | | | | | | | | | | | | | | |
| Public | 3.6 | | | | | | | | | | | | | | |
| Others | 0 | | | | | | | | | | | | | | |
| Total | 100 | | | | | | | | | | | | | | |

Source: Company, DART

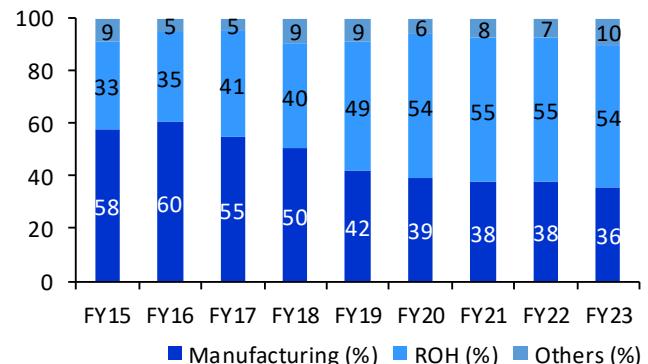
Story in charts

Exhibit 1: Order backlog to gain significant traction



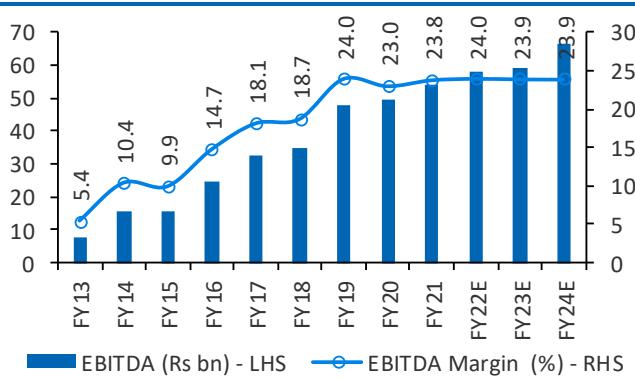
Source: Company, DART

Exhibit 2: Favorable mix leading to margin uptick



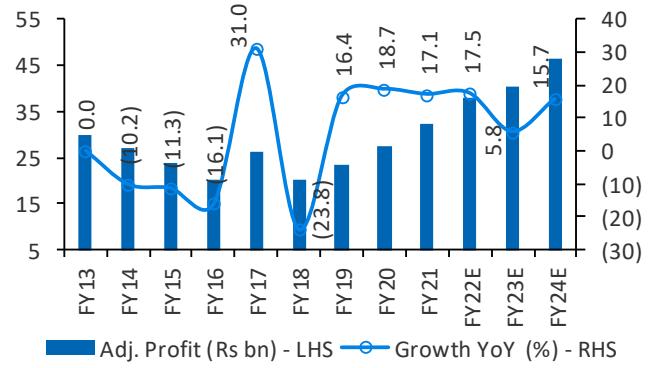
Source: Company, DART

Exhibit 3: Margins likely to sustain



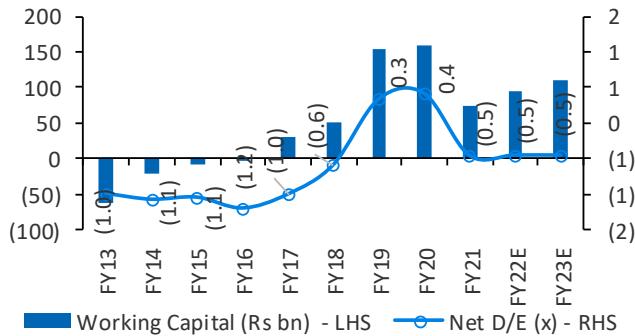
Source: DART, Company

Exhibit 4: PAT to increase led by steady execution & balance sheet strengthening



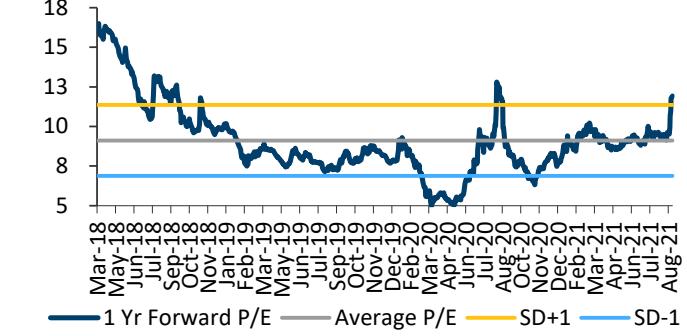
Source: DART, Company

Exhibit 5: Working Capital to improve significantly led by better collection & mobilization advances



Source: DART, Company

Exhibit 6: Stock is trading at a 1-Yr fwd PE of 12xdiscount to BHE/Global peers by 40%/20% resp.



Source: DART, Company

Production highlights

In FY21, HAL produced 44 Nos of new Aircraft and Helicopters, including Su-30 MKI, LCA Tejas, Dornier Do-228, ALH Dhruv, Light Combat Helicopter (LCH) and Chetak helicopter in addition to the production of 102 New Engines and Accessories. Besides, the company overhauled 198 Nos of Aircraft and Helicopters. Further, 506 engines were also overhauled during the year.

Progress of current development programs

HAL has made significant progress in various R&D / Development Projects, allowing it to better meet the demand of the armed forces. The progress achieved in some of the major projects during the year includes:

HTT-40 Basic Trainer Aircraft

- HTT – 40 is the Basic Trainer aircraft currently being indigenously designed and developed by HAL. HTT- 40 would be used for basic flight training, aerobatics, instrument flying and close-formation flights whereas its secondary roles would include navigation and night flying. The aircraft has the capability to be converted to armed / weaponized version at a later stage.
- A total of 3 prototypes have been built which includes two flying prototype and one Structural Test Specimen (STS). In the FY 2020-21, the aircraft has successfully completed 8-turn spin capability on both RH and LH side with gantry.
- It has also successfully completed 6 turn spin (both sides LH & RH) without Anti Spin Parachute System (ASPS). In February 2021, RFP for HTT-40 aircraft received from IAF and response has been submitted in April, 2021.

Light Combat Aircraft (LCA) Mk 1A

- LCA Mk1A is a variant of indigenously developed LCA MK1 presently being developed by HAL.
- It is a single engine, light weight, highly agile, multi-role supersonic fighter. It has quadruplex digital fly-by-wire Flight Control System (FCS) with associated advanced flight control law and with extensive use of advanced composites in the airframe gives a high strength to weight ratio, long fatigue life and low radar signatures.
- It has additional features and improvements such as Self Protection Jammer (SPJ), Active Electronically Scanned Array(AESA) RADAR, Beyond Visual Range(BVR) Missile and maintainability improvements etc.

Light Utility Helicopter (LUH)

- LUH is a single engine, 3 Ton weight class helicopter having Glass Cockpit with Multi-Function Displays. Three flying prototypes have been built and were extensively flight tested.
- In FY21, LUH successfully demonstrated Two Segment Blade Folding and completed user trial such as engine relight trials, Slope landing, Night Flying test and Hot & High Altitude User Evaluation Flight trials at Leh. HAL has successfully achieved Initial Operation Clearance (IOC) for LUH Army in February, 2021. Besides, the customer has issued Letter of Intent for LUH in FY21.

Light Combat Helicopter (LCH)

- LCH is a dedicated combat helicopter indigenously designed and developed by HAL. LCH has the distinction of being the first attack helicopter to land Siachen at a height of 4700 mtrs. Four Technology Demonstrators (TDs) have been built and were extensively flight tested. LCH has achieved Operational Clearance for IAF and the Army variants, having completed all the test including weapon trials and is ready for operational induction, awaiting orders.
- Two Light Combat Helicopters (LCH) were deployed for operations at high altitude at short notice to support IAF missions on August 12, 2020. Three Light Combat Helicopters (LCH) have been produced and signalled out against the Letter of Intent of IAF.
- HAL has submitted quotation against RFP for supply of initial batch of 15 LCH in March, 2018 against which order is awaited.

25 kN TURBOFAN ENGINE (HTFE-25)

- HAL is currently working on the design and development of a 25kN thrust turbofan engine. It can be used on Basic/ Advanced military trainers, on small business jets and also large UAV applications is under progress at HAL. The engine can be used on a 5-ton weight class aircraft in single engine configuration and on aircraft of up to nine- ton weight class with twin-engine configuration.
- So far, two core engines have been built and are undergoing development tests. The Core engine underwent sea level testing, and its performance was found to be satisfactory.

1200 kW TURBOSHAFT ENGINE (HTSE-1200)

- 1200kW Turbo shaft engine would be used as power plant for 3 to 6-ton category helicopters. One technology demonstrator of HTSE-1200 engine was built and it is presently under testing.100% speed run achieved on core engine. Sea level trials of core engine completed successfully.
- HAL Engine Division at Koraput in association with Defence Metallurgical Research Laboratory (DMRL) has developed Single Crystal Blade samples. HAL has also completed the manufacturing of parts and modular assemblies for Power mode engine.

HAWK-i

- Hawk India (Hawk-i) is the indigenously upgraded Hawk Mk 132 aircraft with enhanced operational and training capabilities. Hawk-i has been integrated with Flight evaluation of HAL Mission Computer (MC), Radio Altimeter (RADALT), IFF Mk-XII, Solid State Digital Video Recording System (SSDVRs), Softnet Radio, indigenous Smart Anti Airfield Weapon (SAAW) and VACS (Standalone Mode).
- Integration of Voice Activated Command System (VACS) on Aircraft completed. Voice recognition algorithm is fine tuned for maximizing the performance. Flight trials in standalone mode completed & satisfactory performance feedback obtained. VACS has been integrated on Indigenous Mission Computer (MC). Integration testing on rig and ground integration checks completed. Implementation of full Hawk Mk 132 functionalities through RTOS completed.

RFIs responded by HAL in overseas markets

- Light Combat Aircraft (LCA), Tejas was shortlisted by Royal Malaysian Air Force (RMAF) and RFI issued to HAL. The RFI response was re-validated in June 2020.
- Offered Light Combat Aircraft (LCA) as Lead in Fighter Trainer (LIFT) configuration to Australian DoD in July 2020.
- Offered Light Combat Aircraft (Naval Twin seat Trainer) to US Navy in July 2020.
- Offered Do-228 aircraft to US Navy in July 2020, in response to their Global RFI for Multi Engine Trainer Aircraft program.
- Received interest from Philippines Coast Guard for procurement of 7 ALH and 8 Do-228 aircraft through Government of India Line of Credit.

HAL has had an eventful FY21, with significant milestones achieved

- FOC standard LCA Tejas was inducted into IAF Squadron 'The Flying Bullets' on May 27, 2020
- Second production line for LCA aircraft has been operationalized and 2 LCAs have been produced in FY21.
- Two LCH were deployed for operations at high altitude at short notice to support IAF missions on August 12, 2020.
- Three LCH have been produced and signalled out against the Letter of Intent of IAF.
- The Company has overhauled 5 Nos of Su30-MKI aircraft within 15-month cycle time against the stipulated ROH cycle time of 22 months.
- HAL received IOC of LUH for the Indian Army from CEMILAC at the Aero India 2021.
- HAL successfully demonstrated the tail boom folding operation on ALH Mk-III helicopter in November, 2020.
- The first Upgraded ALH Mk III CIVIL helicopter has been produced in November, 2020.
- The biggest Cryogenic propellant tank (C32 LH2) ever fabricated for ISRO, was delivered to ISRO on November 28, 2020.
- First 'ISROSENE Propellant Tank' of semi cryo developmental project has been formally handed over to LPSC, ISRO on February 5, 2021.
- Inner Ring, a critical aero-engine component operating in the hot zone, has been successfully developed and manufactured through 3D printing technology with the collaboration of Wipro Enterprises (P) Ltd. The Inner Ring has been awarded 'Airworthiness Certification' from Centre for Military Airworthiness and Certification (CEMILAC) during Aero India 2021.
- Successful integration and trial of NGARM (New Generation Anti-Radiation Missile) and Precision Guidance Kit for High-Speed Low Drag 500 kg bomb on Su-30MKI aircraft.
- HAL received Operational Clearance from CEMILAC for ALH Mk-III for Indian Coast Guard and Indian Navy in January, 2021. The Company handed over three ALH Mk III to the Indian Navy and two ALH to Indian Coast Guard at the Aero India 2021.

- The Company has indigenously designed and developed a 60kW Gas Turbine Electrical Generator (GTEG-60), the Auxiliary Power Unit (APU) for the Military Transport aircraft AN-32, which has attained operational clearance on May 28, 2020. The control unit (FADEC) of GTEG-60 is also designed and developed in-house by the Company.
- The 150th Do-228 aircraft, produced by HAL was handed over on November 11, 2020. A digital 'Pilot Operating Handbook (POH)' was also released as in-house efforts towards automation and 'Digital India'.
- HAL manufactured 300th Advanced Light Helicopter (ALH) was rolled out and certified on 29th September, 2020. With over 2,80,000 flying hours ALH has proven to be a multirole helicopter for 'Any Mission, Any Place, Any Time'.

New initiatives undertaken during FY21

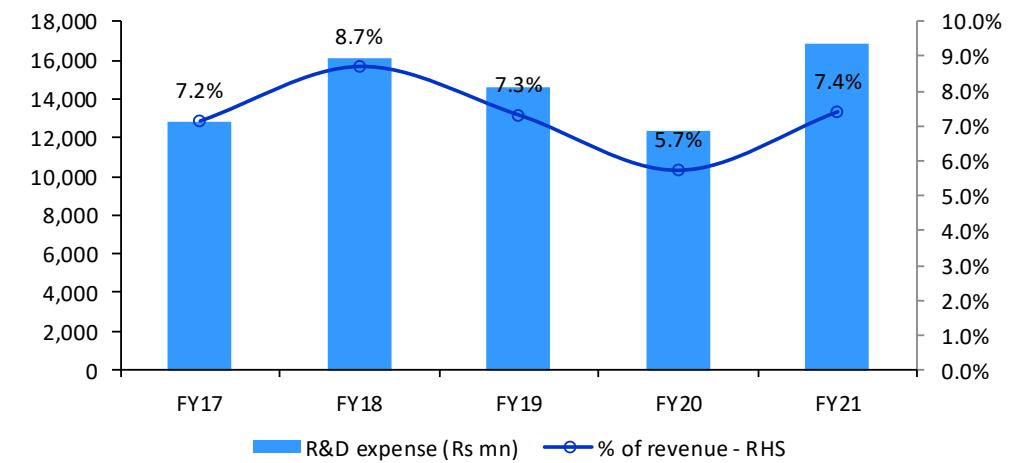
- Design and development of Combat Air Teaming System (CATS) with TEJAS-MAX cockpit as the mother-ship platform with the embedded air teaming intelligence concepts to demonstrate the fully integrated as well as autonomous wingman platforms and swarming of drones to engage in the mission.
- Design and development of Amphibian / Seaplane variant of HAL Do-228 aircraft.
- HAL has signed two MoUs with Air Works India (Engineering) Pvt Ltd and Air India Engineering Service Limited to foray into Civil MRO segment
- HAL entered into MoU with ADA for Design and Development of Advanced Medium Combat Aircraft (AMCA). AMCA is a twin engine multi role aircraft with fifth generation capabilities and is being developed by ADA for the IAF.
- MoU signed between HAL and DRDO for Transfer of Technology for Production and Designated HAL as Lead System Integrator of UTTAM Radar, an Active Electronically Scanned Array (AESA) Radar, designed & developed by DRDO for LCA Mk1 & Mk1A aircraft.
- HAL appointed M/s Boston Consulting Group (BCG) for providing strategic advisory services for devising business cum growth plan

Unwavering commitment to R&D

HAL has continued to focus its efforts towards new platforms development, technology development, and activities to enhance its capability with a view to bring technological superiority to its products and to cope up with the future technological challenges. The Company has incurred a total expenditure of Rs16.9bn in FY21, 8% of the Turnover. The Company has transferred a sum of Rs3bn (10% of Operating PAT) to R&D reserve for contribution to R&D corpus during FY21.

The continued efforts of the Company to Design and Develop new platforms/ products have resulted in achieving operational clearance for ALH MKIII Navy/ CG and Light Utility Helicopter (LUH) – Army, completion of User Assisted Technical Trial phase-I and 8 turn spin trial of HTT-40. The Company is also progressing with the development of 10 ton class Indian Multi Role Helicopter (IMRH), Turbo fan Engine HTFE-25 and Turbo shaft engine HTSE-1200.

Exhibit 7: R&D spend has remained fairly strong



Source: DART, Company

Sharp decline in Provision for LDs

Provisions have reduced by 13% YoY, mainly due to the reduction in Provision for Liquidity Damages by 37% YoY in FY21. Cumulative provisions have dropped to 24.4% of revenue, compared to 29.6% in FY20.

Exhibit 8: Provisions (Rs mn)

| Particulars (Rs mn) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 |
|---|---------------|---------------|---------------|---------------|---------------|---------------|
| Provision for Warranty Charges | 9,581 | 8,869 | 4,306 | 5,646 | 6,538 | 8,258 |
| % of revenue | 5.7 | 4.9 | 2.3 | 2.8 | 3.0 | 3.6 |
| Provision for Replacement and Other Charges | 6,603 | 5,389 | 10,158 | 14,466 | 18,175 | 15,327 |
| % of revenue | 3.9 | 3.0 | 5.5 | 7.2 | 8.5 | 6.7 |
| Provision for Redundancy in Raw Material and Components, Stores and Spares, Construction Material and Loose Tools | 6,189 | 7,008 | 7,731 | 7,825 | 9,253 | 13,324 |
| % of revenue | 3.7 | 3.9 | 4.2 | 3.9 | 4.3 | 5.9 |
| Provision for Doubtful Debts | 15,074 | 12,850 | 1,812 | 1,673 | 1,597 | 1,636 |
| % of revenue | 9.0 | 7.2 | 1.0 | 0.8 | 0.7 | 0.7 |
| Provision for Claims | 1,107 | 1,425 | 2,983 | 3,116 | 3,122 | 2,831 |
| % of revenue | 0.7 | 0.8 | 1.6 | 1.6 | 1.5 | 1.2 |
| Provision for Liquidated Damages | 1,190 | 1,388 | 16,115 | 19,031 | 20,274 | 12,794 |
| % of revenue | 0.7 | 0.8 | 8.7 | 9.5 | 9.5 | 5.6 |
| Provision for Impairment of Investments | 646 | 659 | 1,288 | 1,315 | 1,329 | 1,331 |
| % of revenue | 0.4 | 0.4 | 0.7 | 0.7 | 0.6 | 0.6 |
| Provision for Onerous contract | 11,047 | 11,047 | 9,033 | 5,290 | 3,218 | - |
| % of revenue | 6.6 | 6.2 | 4.9 | 2.6 | 1.5 | - |
| Total | 51,460 | 48,655 | 53,450 | 58,389 | 63,534 | 55,526 |
| % of revenue | 30.7 | 27.1 | 28.9 | 29.2 | 29.6 | 24.4 |

Source: DART, Company

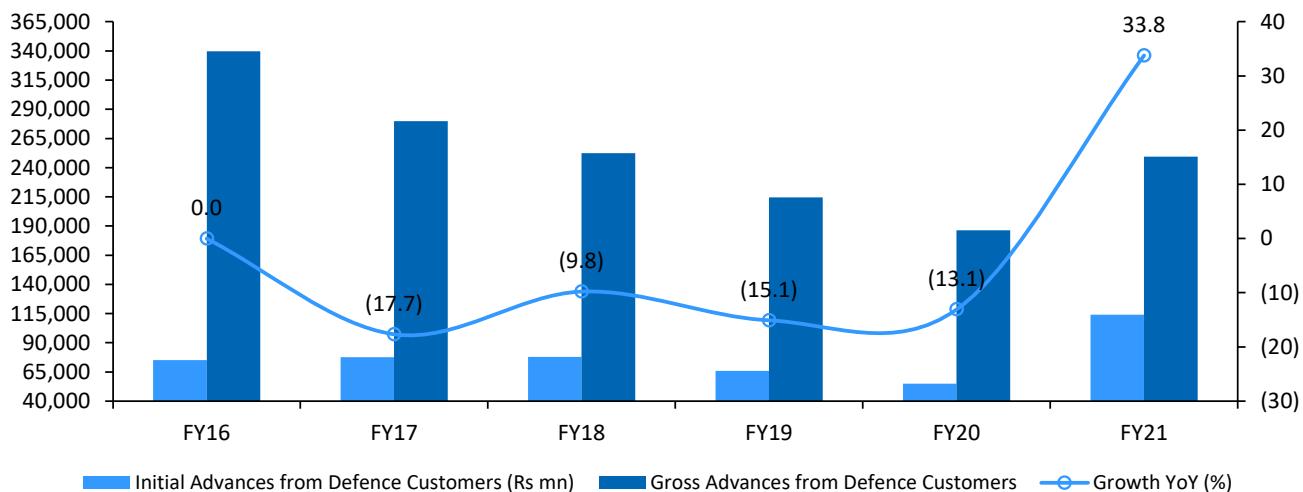
Exhibit 9: Movement in provisions

| Nature of Provision | Opening Balance as at 1st April 2020 | Provision made during the year | Utilization during the year | Reversal during the year | Closing Balance as at 31st March 2021 |
|---|--------------------------------------|--------------------------------|-----------------------------|--------------------------|---------------------------------------|
| Provision for Warranty Charges | 6,538 | 3,256 | 1,290 | 247 | 8,258 |
| Provision for Replacement and Other Charges | 18,175 | 2,118 | 2,655 | 2,310 | 15,327 |
| Provision for Redundancy in Raw Material Components, Stores and Spares, Construction Material and Loose Tools | 9,253 | 4,301 | - | 230 | 13,324 |
| Provision for Doubtful Debts | 1,597 | 143 | 0 | 104 | 1,636 |
| Provision for Claims | 3,122 | 296 | 3 | 583 | 2,831 |
| Provision for Liquidated Damages | 20,274 | 4,388 | 11,867 | - | 12,794 |
| Provision for Impairment of Investments | 1,329 | 3 | - | - | 1,331 |
| Provision for Onerous contract | 3,218 | - | 3,218 | - | - |

Source: DART, Company

Improved Advances from Defence customers

The company's liquidity profile deteriorated in FY20 as a result of a continuous decline in customer advances caused by delayed allocation of budgeted amounts. As a result, the shortfall was filled through increased working capital borrowings and the use of cash and bank balances. However, the recent major payment of Rs56bn for LCA Mk1A has resulted in an improvement in the liquidity position.

Exhibit 10: Advances included a payment of Rs56bn for LCA Mk1A


Source: DART, Company

Independent auditor's remark
Pay revision

Executive and labor pay scales were revised with effect from January 1, 2017, in accordance with DPE guidance issued in FY20. However, based on the interpretation of pay refixation and in accordance with Administrative Ministry directives, the pay fixation is being revised, and the excess amount paid is to be recovered from employees. This has resulted in a Rs1445mn reduction in salaries and wages, as well as a Rs568mn reduction in sales revenue.

HAL has received 'NIL' comments certificate from the C&AG for the year 2020-21.

Financial Statement analysis

Profit and Loss

Order book - The company had an order backlog of Rs806bn as of 31st March 2021. The company received the long-awaited order of LCA Mk1A for 83 aircraft in Q4FY21.

The order book majorly includes that majorly includes - LCA MK1A (Rs363bn), LCA (49bn), ALH (100bn), Su-30(3.8bn), AL-31 (Rs17bn), IJT (Rs55bn), Dornier mid-life upgrade (Rs10bn), Jaguar Darin upgrade (Rs21bn), Mirage upgrade (Rs7.8bn), aerospace structure(Rs10bn), Engine (Navy & Shipyard)- Rs7bn, Dornier (1)- Rs3.6bn, and Others -Rs7bn; MRO- Rs75bn; and Exports- Rs1bn.

Revenue – HAL's revenue increased by 6% YoY in FY21 to Rs228bn as Manufacturing/Spares revenue increased by 1%/44% YoY, while ROH revenue declined by 4% YoY.

During the year, HAL produced 44 Nos of new Aircraft and Helicopters, covering Su-30 MKI, LCA Tejas, Dornier Do-228, ALH Dhruv, Light Combat Helicopter (LCH) and Chetak helicopter in addition to the production of 102 New Engines and Accessories. The company also overhauled 198 Nos of Aircraft and Helicopters. Further, 506 engines were also overhauled in FY21.

EBITDA – BHE's EBITDA grew by 10% YoY to Rs54bn. Employee cost included a one-time adjustment of Rs1.9bn that has accounted for reduction in salary. Management has guided an employee cost of Rs44.5bn with an escalation of 3-4% YoY going forward. EBITDA margin stood at 9.7% (vs 3% in FY20).

PAT – Adj. PAT grew by 17% to Rs32bn, compared to Rs28bn in FY20. EPS stood at Rs96.8 in FY21, vs Rs82.7 in FY20. The total dividend paid by the Company was Rs30 per equity share (300%), resulting in outflow of Rs10bn.

Balance Sheet and Cash flow

Share Capital - The Paid-up Equity Share Capital of the Company as on March 31, 2021 was Rs3.3bn. There was no change in the company's share capital during the year under review.

Net block increased by 3% to Rs88bn in FY21 from Rs85bn in FY20.

Working capital- Inventories declined by 15% YoY to Rs165bn. Inventory days stood at 265 days, compared to 331 days in FY20. Receivables declined significantly by 51% YoY to Rs56bn. Receivable days reduced to 90 days from 196 days last year. Creditors declined by 45% YoY to Rs22bn with payable days at 36 days compared to 70 days last year.

Borrowings - During the year, Commercial Paper (CP) amounting to Rs60bn were issued. The outstanding amount of CP as at March 31, 2021 was Nil. As on March 31, 2021, the company's debt stood at Rs90mn (vs Rs58bn in FY20).

Net Cash flow from operations improved significantly to Rs153bn in FY21 (vs Rs16bn in FY20). Capital expenditure stood at Rs13bn in FY21. FCF increased to Rs142bn (vs Rs5bn in FY20).

Profit and Loss Account

| (Rs Mn) | FY21A | FY22E | FY23E | FY24E |
|--|-----------------|-----------------|-----------------|-----------------|
| Revenue | 2,27,545 | 2,42,624 | 2,45,364 | 2,78,444 |
| Total Expense | 1,73,413 | 1,84,439 | 1,86,418 | 2,11,504 |
| COGS | 1,10,440 | 1,15,246 | 1,15,321 | 1,34,488 |
| Employees Cost | 43,052 | 47,357 | 49,014 | 51,955 |
| Other expenses | 19,921 | 21,836 | 22,083 | 25,060 |
| EBIDTA | 54,132 | 58,185 | 58,946 | 66,940 |
| Depreciation | 12,421 | 12,464 | 12,485 | 12,647 |
| EBIT | 41,711 | 45,721 | 46,461 | 54,294 |
| Interest | 2,592 | 700 | 150 | 150 |
| Other Income | 3,582 | 5,732 | 7,165 | 8,598 |
| Exc. / E.O. items | 20 | 0 | 0 | 0 |
| EBT | 42,722 | 50,752 | 53,475 | 62,741 |
| Tax | 10,379 | 12,790 | 13,476 | 15,811 |
| RPAT | 32,391 | 38,025 | 40,081 | 47,036 |
| Minority Interest | 0 | 0 | 0 | 0 |
| Profit/Loss share of associates | 48 | 63 | 81 | 106 |
| APAT | 32,370 | 38,025 | 40,081 | 47,036 |

Balance Sheet

| (Rs Mn) | FY21A | FY22E | FY23E | FY24E |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|
| Sources of Funds | | | | |
| Equity Capital | 3,344 | 3,344 | 3,344 | 3,344 |
| Minority Interest | 39 | 39 | 39 | 39 |
| Reserves & Surplus | 1,50,779 | 1,73,594 | 1,97,642 | 2,25,864 |
| Net Worth | 1,54,123 | 1,76,938 | 2,00,986 | 2,29,208 |
| Total Debt | 91 | 0 | 0 | 0 |
| Net Deferred Tax Liability | 1,10,190 | 1,17,492 | 1,18,819 | 1,34,838 |
| Total Capital Employed | 2,64,443 | 2,94,469 | 3,19,844 | 3,64,085 |

Applications of Funds

| | | | | |
|---|-----------------|-----------------|-----------------|-----------------|
| Net Block | 87,773 | 87,310 | 87,824 | 89,178 |
| CWIP | 7,916 | 7,916 | 7,916 | 7,916 |
| Investments | 22,056 | 23,518 | 23,783 | 26,990 |
| Current Assets, Loans & Advances | 4,01,713 | 4,50,335 | 4,79,296 | 5,48,960 |
| Inventories | 1,65,448 | 1,92,770 | 2,11,752 | 2,40,301 |
| Receivables | 56,379 | 59,825 | 60,501 | 68,657 |
| Cash and Bank Balances | 71,774 | 81,081 | 92,428 | 1,13,748 |
| Loans and Advances | 147 | 332 | 336 | 381 |
| Other Current Assets | 1,07,967 | 1,16,327 | 1,14,279 | 1,25,872 |
| Less: Current Liabilities & Provisions | 2,55,016 | 2,74,609 | 2,78,975 | 3,08,958 |
| Payables | 22,410 | 26,589 | 30,250 | 34,329 |
| Other Current Liabilities | 2,32,606 | 2,48,020 | 2,48,725 | 2,74,629 |
| <i>sub total</i> | | | | |
| Net Current Assets | 1,46,697 | 1,75,726 | 2,00,321 | 2,40,002 |
| Total Assets | 2,64,442 | 2,94,469 | 3,19,844 | 3,64,085 |

E – Estimates

Important Ratios

| Particulars | FY21A | FY22E | FY23E | FY24E |
|---|----------|----------|----------|----------|
| (A) Margins (%) | | | | |
| Gross Profit Margin | 51.5 | 52.5 | 53.0 | 51.7 |
| EBIDTA Margin | 23.8 | 24.0 | 24.0 | 24.0 |
| EBIT Margin | 18.3 | 18.8 | 18.9 | 19.5 |
| Tax rate | 24.3 | 25.2 | 25.2 | 25.2 |
| Net Profit Margin | 14.2 | 15.7 | 16.3 | 16.9 |
| (B) As Percentage of Net Sales (%) | | | | |
| COGS | 48.5 | 47.5 | 47.0 | 48.3 |
| Employee | 18.9 | 19.5 | 20.0 | 18.7 |
| Other | 8.8 | 9.0 | 9.0 | 9.0 |
| (C) Measure of Financial Status | | | | |
| Gross Debt / Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Interest Coverage | 16.1 | 65.3 | 309.7 | 362.0 |
| Inventory days | 265 | 290 | 315 | 315 |
| Debtors days | 90 | 90 | 90 | 90 |
| Average Cost of Debt | 8.8 | 1543.6 | | |
| Payable days | 36 | 40 | 45 | 45 |
| Working Capital days | 235 | 264 | 298 | 315 |
| FA T/O | 2.6 | 2.8 | 2.8 | 3.1 |
| (D) Measures of Investment | | | | |
| AEPS (Rs) | 96.8 | 113.7 | 119.9 | 140.7 |
| CEPS (Rs) | 134.0 | 151.0 | 157.2 | 178.5 |
| DPS (Rs) | 30.0 | 45.5 | 47.9 | 56.3 |
| Dividend Payout (%) | 31.0 | 40.0 | 40.0 | 40.0 |
| BVPS (Rs) | 460.9 | 529.1 | 601.1 | 685.5 |
| RoANW (%) | 22.6 | 23.0 | 21.2 | 21.9 |
| RoACE (%) | 12.8 | 13.8 | 13.1 | 13.8 |
| RoAIC (%) | 17.8 | 22.5 | 21.1 | 22.7 |
| (E) Valuation Ratios | | | | |
| CMP (Rs) | 1382 | 1382 | 1382 | 1382 |
| P/E | 14.3 | 12.2 | 11.5 | 9.8 |
| Mcap (Rs Mn) | 4,62,124 | 4,62,124 | 4,62,124 | 4,62,124 |
| MCap/ Sales | 2.0 | 1.9 | 1.9 | 1.7 |
| EV | 3,90,441 | 3,81,042 | 3,69,696 | 3,48,375 |
| EV/Sales | 1.7 | 1.6 | 1.5 | 1.3 |
| EV/EBITDA | 7.2 | 6.5 | 6.3 | 5.2 |
| P/BV | 3.0 | 2.6 | 2.3 | 2.0 |
| Dividend Yield (%) | 2.2 | 3.3 | 3.5 | 4.1 |
| (F) Growth Rate (%) | | | | |
| Revenue | 6.1 | 6.6 | 1.1 | 13.5 |
| EBITDA | 10.4 | 7.5 | 1.3 | 13.6 |
| EBIT | 6.8 | 9.6 | 1.6 | 16.9 |
| PBT | 7.6 | 18.8 | 5.4 | 17.3 |
| APAT | 17.1 | 17.5 | 5.4 | 17.4 |
| EPS | 17.1 | 17.5 | 5.4 | 17.4 |

Cash Flow

| (Rs Mn) | FY21A | FY22E | FY23E | FY24E |
|--------------|----------|----------|----------|----------|
| CFO | 1,52,627 | 30,768 | 39,318 | 41,322 |
| CFI | (12,710) | (6,160) | (11,939) | (1,187) |
| CFF | (71,249) | (15,301) | (16,032) | (18,814) |
| FCFF | 1,41,879 | 25,132 | 27,491 | 40,247 |
| Opening Cash | 3,166 | 71,774 | 81,081 | 92,428 |
| Closing Cash | 71,774 | 81,081 | 92,428 | 1,13,748 |

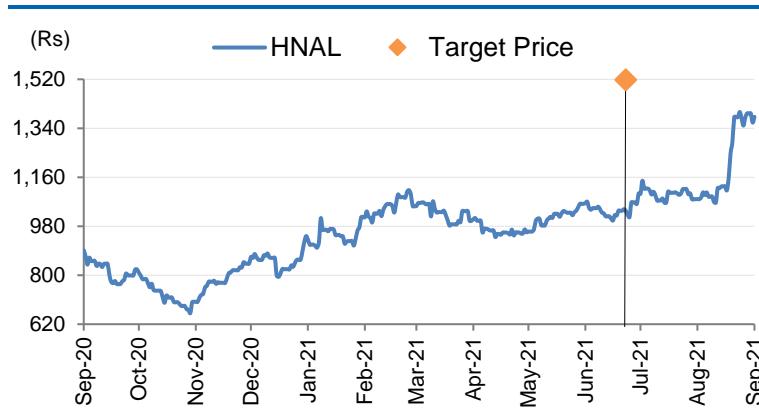
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

| | |
|------------|-----------|
| Buy | > 20% |
| Accumulate | 10 to 20% |
| Reduce | 0 to 10% |
| Sell | < 0% |

Rating and Target Price History



**Price as on recommendation date*

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