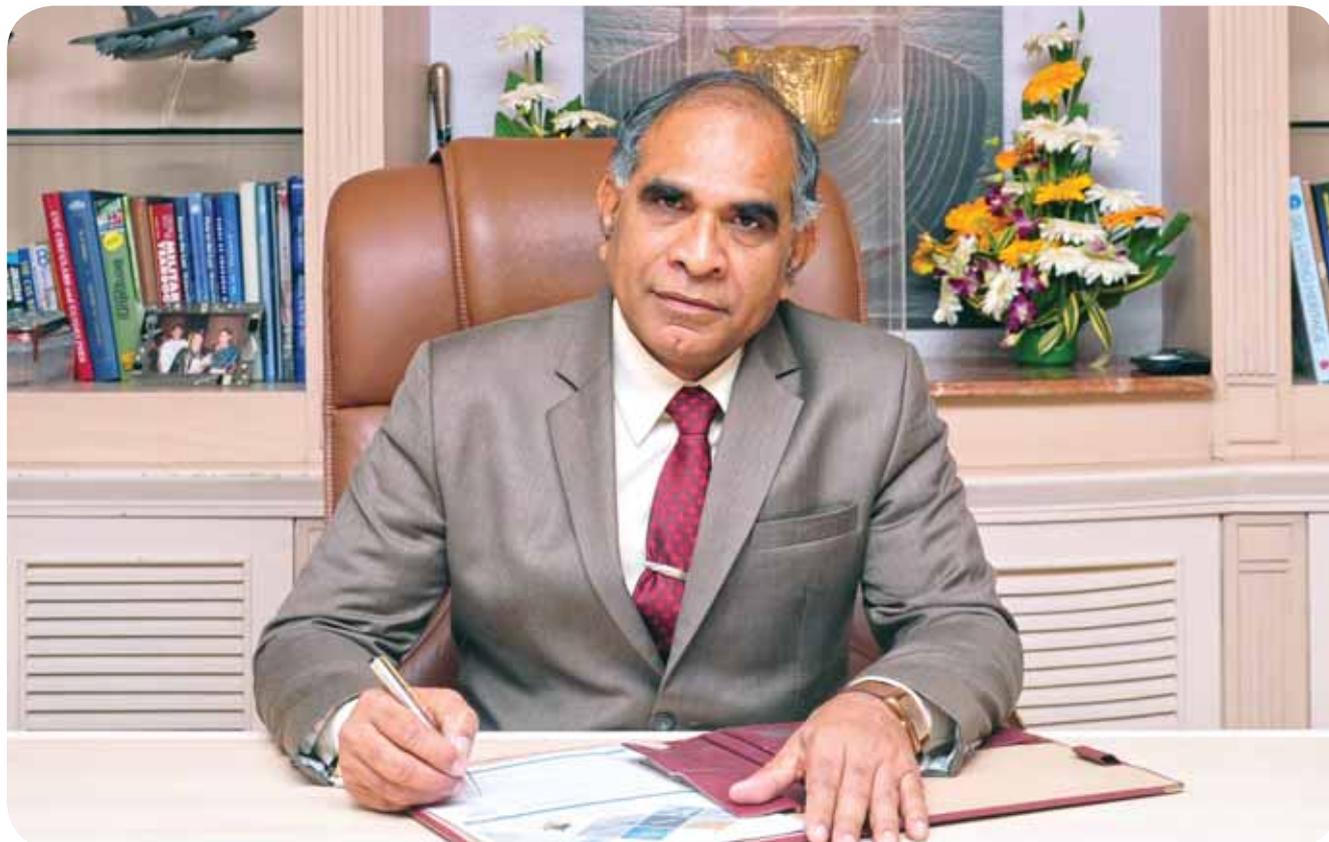


# Chairman's Statement



## Dear Shareholders,

At the outset, I thank you for your continued support.

I must sincerely acknowledge the trust and confidence you have placed in the Company during the recent years. As always, we remain committed to pursuing growth opportunities not only ensuring expansion of our businesses but also creating value for all our stakeholders in a sustainable manner.

With this note, I, on behalf of the Board of Directors of HAL, the country's most valued defence public sector enterprise, feel extremely privileged & delighted in communicating with you on the occasion of the AGM and present to you the 55<sup>th</sup> Annual Report for the financial year 2017-18. In spite of the challenges, your Company has achieved significant growth in revenue and profits. At ₹61,123 crores (as on 31<sup>st</sup> March, 2018) the order book continues to be healthy and also good order inflow are expected in the future years.

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

Your company has achieved growth targets in revenues and profit amidst the challenging business environment.

## Financial and Performance Highlights of the Year

The Company has recorded highest ever turnover of ₹18,284 crores with growth of 3.86% in comparison with the previous year turnover of ₹17,604 crores.

### Revenue from Operations

(₹ in crores)

↳ 2014	15,135
↳ 2015	15,730
↳ 2016	16,758
↳ 2017	17,950
↳ 2018	18,519

Profit Before Tax for the year is ₹3,323 crores as against ₹3,583 crores in the previous year. The Profit After Tax (PAT) for the year is ₹2,070 crores.



The Company had paid 1<sup>st</sup> interim dividend of ₹23.92 per share of ₹10 each (239%) on 9<sup>th</sup> March, 2018 and 2<sup>nd</sup> interim dividend of ₹8.25 per share (83%) on 31<sup>st</sup> March, 2018, totalling to ₹1,076 crores excluding dividend tax of ₹219 crores.

The Company has bought back 2,71,12,500 equity shares of ₹10/- each from the President of India representing 7.5% of the Share Capital on 19<sup>th</sup> December, 2017.

The Company has made Initial Public Offering (IPO) of 3,41,07,525 Equity Shares of ₹10/- each through an Offer for Sale by the President of India, acting through the Department of Defence Production, Ministry of Defence, Government of India. The shares of the Company were listed on both BSE Ltd. and National Stock Exchange of India Ltd. on 28<sup>th</sup> March, 2018.

Your Company has produced 40 numbers of Aircraft and Helicopters covering Su-30 MKI, LCA Tejas & Dornier Do-228 in Fixed Wing Aircraft and ALH Dhruv & Cheetal Helicopters in Rotary wing; in addition to the production of 105 New Engines, overhaul of 220 Aircraft/ Helicopters & 550 engines. Also 146 new aero-structures for space programs have been produced during the period.

## Significant Achievements

The Company has witnessed many significant achievements during the year, as follows:-

- HAL received the Initial Operation Clearance (IOC) certificate from the Centre for Military Airworthiness & Certification (CEMILAC) for successfully developing Light Combat Helicopter (LCH), on 26<sup>th</sup> August, 2017 in the presence of Hon'ble Raksha Mantri.
- The maiden flight of indigenously developed Automatic Flight Control System (AFCS) integrated on LCH has been conducted successfully on 31<sup>st</sup> January, 2018. The flight of 20 minutes duration saw flawless system engagement throughout. The indigenisation of this critical system may result in FE savings to the tune of ₹2000 Crs over 10 years and more importantly self reliance in this critical technology.
- HAL is proud to have developed the first indigenous Real Time Operating Systems (RTOS) in the country from scratch which is also the first RTOS certified by CEMILAC. The maiden flight of Hawk-i integrated with this indigenously designed & developed RTOS was conducted successfully on 11<sup>th</sup> December, 2017. HAL's RTOS performance is benchmarked with other commercially off-the-shelf RTOS available around the world in avionics domain and found at par.
- Certificate of Airworthiness was received from DGCA for HAL manufactured Dornier Do-228 Civil Variant aircraft on 21<sup>st</sup> December, 2017. This will enable its use as a passenger transport aircraft to cater the requirements arising from UDAN (Ude Desh ka Aam Nagrik) initiative under Regional Connectivity Scheme (RCS) of Govt. of India.
- FOC upgrade of Mirage 2000 has been completed successfully and acceptance letter has been received from Air HQ on 22<sup>nd</sup> March, 2018.

- Hot refuelling on indigenous LCA-Tejas has been carried out successfully followed by a sortie on 26<sup>th</sup> February, 2018.
- The supersonic 2.5 ton cruise missile Brahmos was integrated by HAL and test fired successfully for the first time from Su-30 MKI aircraft on 22<sup>nd</sup> November 2017.
- First successful test run of "Hindustan Turbo Shaft Engine (HTSE) -1200 engine" technology demonstrator was carried out on 12<sup>th</sup> February, 2018.
- First flight of Jaguar DARIN III aircraft with AESA (Active Electronically Scanned Array) Radar was conducted on 10<sup>th</sup> August, 2017. AESA Radar has features like Multi Target Tracking, Frequency agility, Higher Bandwidth of operation, interleaved modes of operation, higher accuracies and resolution in addition to Higher MTBF.
- HAL produced the tallest ever Pay Load Fairing which protected all the sensitive crucial equipment for GSLV Mk III - India's heaviest rocket during the launch phase.

## New Initiatives

Your Company has taken many new initiatives in its pursuit of achieving all round excellence. The highlights are as follows:

- HAL Division at Koraput, Odisha signed a MoU with Odisha Renewable Energy Development Agency (OREDA), on 10<sup>th</sup> May, 2017 for provisioning of solar energy as an alternative source of power supply to the Division.
- A MoU was signed with the Space Application Centre (SAC), Ahmedabad on 9<sup>th</sup> May, 2017 to establish a long-term mutually benefitting relationship in the areas of aerospace technologies. The major areas identified for interaction are Airborne Radar systems related technologies, communication systems technologies and Electro-Optic (EO) Payload Development.
- More than 400 imported systems and sub systems of mechanical, electrical, avionics & instrumentation for HAL projects such as ALH, LCA, DO-228, Jaguar etc and over 100 TTGE (Tools Testers and Ground Equipment) items of Su-30 MKI aircraft are hosted in HAL's portal ([www.hal-india.co.in](http://www.hal-india.co.in)) to enable private industries to take up indigenization for import substitution / maintenance and repair.

## Future Outlook

According to the "2018 Global Aerospace & Defence (A&D) Sector Outlook" of M/s Deloitte Touche Tohmastuu Ltd, the global aerospace and defence industry is expected to strengthen in 2018 with Deloitte forecasting industry revenues to grow by about 4.1 percent. Commercial aircraft sector revenues are expected to grow 4.8 percent as production levels are likely to be robust. Defence sector is likely to record 3.6 percent growth as the US defence budget returns to growth after experiencing multi-year declines. India is likely to be the 3<sup>rd</sup> largest aviation market by 2025. The country is forecasted to have a demand for a record 2100 new aircraft in the next two decades, worth USD 290 Billion, with majority being single-aisle planes.



India's defence sector has experienced robust growth over the recent past with India's defence budget for 2017-18 reaching USD 57.4 Billion. This has been led by the country's focus on recapitalising and strengthening its military to counter any potential threat, as well as efforts to upgrade existing assets. Over the past two years, Government has taken multiple initiatives to attract foreign investment in Aerospace & Defence industry, including increased international engagement, a revamped Foreign Direct Investment (FDI) policy and a new defence procurement procedure with amendments in offset regulations.

The Indian Government announced a 'Strategic Partnership Model' for defence manufacturing, under which Indian firms will be allowed to enter into strategic partnerships with non-Indian OEMs in key defence sub-sectors such as fighter aircraft, submarines, helicopters and armoured fighting vehicles. The Strategic Partnership Model aims to enhance India's self-reliance index in defence procurement, including technology transfer.

Considering the changing economic and business environment, HAL has formulated strategies aligned to the government's initiatives and implementing them to maximise the benefits for the company and support the development of Indian Aerospace and Defence Manufacturing Industry.

## 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. In pursuit of technological advancement, your Company continues its focus on technology development. Towards the progress of the R&D efforts, the company has incurred a total expenditure of ₹1,612 crores for the year 2017-18, which is 8.82% of the turnover.

HAL is jointly working with premier R&D organisations like DRDO laboratories, CSIR-NAL and CIPET towards self-reliance in the aviation field. The Company also works closely with premier educational institutes and has established chairs at IIT Madras, IIT Roorkee, IIT Kharagpur, IIT Bombay, IIT Kanpur and IISc Bangalore, to enhance its R&D efforts.

The Company has also transferred a sum of ₹167 crores (10% of Operating Profit After Tax) to R&D reserve for contribution to R&D corpus during the year 2017-18.

Your Company has achieved major progress in various R&D / Development Projects viz. Light Combat Aircraft (LCA), Hindustan Turboprop Trainer Aircraft (HTT-40), ALH-WSI (Rudra), Light Combat Helicopter (LCH), Light Utility Helicopter (LUH), Jaguar Darin III Upgrade, Mirage 2000 Upgrade, Hawk-i, 25 KN Turbofan Engine (HTFE-25), 1200 KW Turboshaft Engine (HTSE-1200) and Mini UAV (8 Kg Class).

HAL has continued the drive across the Company, to assess & identify the technologies & processes which will build its Intellectual Property portfolio. During the year, HAL has filed 114 IPR applications which makes cumulative number of IPRs filed

by the Company to be 1533. During the year, 54 IPRs have been granted and the cumulative IPRs held by the company are 108 (as of March, 2018).

## Corporate Governance

Your Company always strives to attain highest standards of Corporate Governance practices. The Company is complying with Government Guidelines on Corporate Governance framed by the Department of Public Enterprises (DPE) for CPSEs, in letter and spirit. A report on Corporate Governance compliances has been made part of the Board's report. Your company is continuously working for the optimum benefit of its stakeholders and has thus moulded its corporate conduct to fulfil these responsibilities. The Company has established systems & 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.

## Corporate Social Responsibility and Sustainability Development

Your Company is committed for discharging its Corporate Social Responsibility as a good Corporate Citizen. During the year, an amount of ₹77.29 crores has been spent on CSR activities.

## Acknowledgement

As a going concern, we have to continue our pursuit and cross various milestones to become a significant global player in the aerospace industry. I am sure that with the continued support and encouragement of all stakeholders, the Company shall achieve new heights in all spheres of its activities.

I take this opportunity to extend my sincere gratitude to the Department of Defence Production, 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 who have extended their continuous support from time to time.

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

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

**Jai Hind**

**T. Suvarna Raju**

*Chairman and Managing Director*

Place: Bangalore  
Date: 13.07.2018