



# Board's Report

Dear Shareholders,

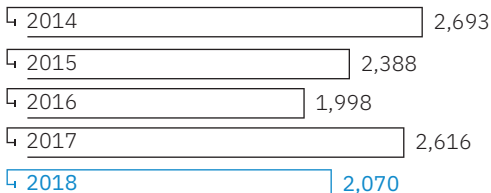
Your Board of Directors takes pleasure in presenting their 55<sup>th</sup> Annual Report on the performance of the Company, together with the Audited Financial Statements for the financial year ended 31<sup>st</sup> March, 2018 and reports of the Statutory Auditors and the Comptroller and Auditor General of India thereon.

## Financial Results and Performance Highlights:

The financial highlights for the year ended 31<sup>st</sup> March, 2018 are summarized as under:

PARTICULARS	₹ in Lakhs	
	2017-18	2016-17
Turnover	18,28,386	17,60,379
Exports	31,402	46,502
Profit Before Tax (PBT)	3,32,284	3,58,258
Provision for Tax	1,25,243	96,695
Profit After Tax (PAT)	2,07,041	2,61,563
R&D Expenditure	1,61,186	1,28,373
Earnings/ Share	58.50	72.35
Book Value / Share	360	347

### PAT (₹ in crores)



During the year under review, the Company's turnover increased to ₹18,28,386 Lakhs from ₹17,60,379 Lakhs in FY 2016-17. Profit Before Tax for the year is ₹3,32,284 Lakhs as against ₹3,58,258 Lakhs in the previous year. The Profit After Tax (PAT) for the year is ₹2,07,041 Lakhs.

### Dividend

During the year, your Company paid first interim dividend of ₹23.92 per share of ₹10 each (239%) on 9<sup>th</sup> March, 2018 and second interim dividend of ₹8.25 per share (83%) on 31<sup>st</sup> March, 2018, totalling to ₹1,07,587 Lakhs, excluding dividend tax of ₹21,902 Lakhs.

### Amount Transferred to Reserves

An amount of ₹16,723 Lakhs was transferred to Research & Development Reserve for the year 2017-18.

Further, an amount of ₹58,118 Lakhs was transferred to General Reserves for the year 2017-18.

### Buy back of Shares

During the year, the Company bought back 2,71,12,500 equity shares of ₹10/- each from the President of India at an offer price of ₹339.88 per share and paid total buy back consideration of ₹92,150 Lakhs excluding buy-back tax of ₹20,636 Lakhs on 19<sup>th</sup> December, 2017.

### Disinvestment and Listing on Stock Exchanges

The Company 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.

### Indian Accounting Standards

The Financial Statements have been prepared in compliance with Indian Accounting Standards (Ind-AS) and provisions of the Companies Act, 2013.

### Internal Financial Controls

The Company has in place adequate internal financial controls with reference to financial statements. A detailed note on internal financial controls is provided in the Management Discussion and Analysis Report.

### Significant Achievements

The Financial Year 2017-18 was an eventful year and various goals set in the beginning of the year were successfully accomplished.

- **Production of 40 aircraft and helicopters:**
  - o Production of fixed wing aircraft - LCA Tejas, Dornier Do-228 and Su-30 MKI.
  - o Civil certification of Dornier Do-228
  - o Production of Rotary Wing aircraft - Advanced Light Helicopter (ALH) Dhruv, Rudra and Cheetal helicopter.
- **Overhaul of 220 aircraft/helicopters**
- **Engines:**
  - o Production of 105 new engines;
  - o Substantial progress on the Company's new offerings Hindustan Turbo Fan Engine - 25 (HTFE) and Hindustan Turbo Shaft Engine (HTSE) 1200 with successful engine runs;
  - o Overhaul of 550 engines



- **Continuation of export activities**
- **Space:**
  - o Manufacture of 146 new aero-structures.
  - o Successful production of the tallest ever Pay Load Fairing, which protected the fragile GSAT-19 satellite and other sensitive crucial equipment for Geosynchronous Satellite Launch Vehicle (GSLV) Mk III - India's heaviest rocket during the launch phase.
- **Make-in-India:** To provide major boost to defence manufacturing and Government's 'Make-in-India' initiative, HAL invited Expression of Interest (EOI) for identification of Indian Partner for manufacturing of indigenous Advanced Light Helicopter (ALH) -Dhruv (Civil version) through Transfer of Technology (ToT) for civil sector in February, 2018.

### Program Developments:

The Company achieved significant progress in various R&D / Development Projects viz. Basic Trainer Aircraft (Hindustan Turbo Trainer HTT-40), Light Combat Helicopter (LCH), Light Utility Helicopter (LUH), Light Combat Aircraft (LCA) - Tejas, Jaguar Darin III Upgrade, Mirage 2000 Upgrade, Hawk-i, Mini UAV and the development of engines.

#### (I) Fixed Wing aircraft:

##### Combat Aircraft

##### (a) Light Combat Aircraft (LCA) - Tejas:

The LCA - Tejas is an indigenously designed and developed 'Make in India' fighter aircraft. It is the smallest and lightest multi-role supersonic single engine fighter in its class. Tejas completed 442 test flights during the year, moving closer to Final Operational Clearance (FOC). Furthermore, hot refuelling (single point pressure refuelling of the aircraft while in operation) on Tejas was carried out successfully on 26<sup>th</sup> February, 2018 followed by a sortie. This capability will give the Indian Air Force (IAF) much desired advantage during combat operations.

HAL has taken up Design and Development of LCA MK1A which will have additional features like Self Protection Jammer, Active Electronically Scanned Array (AESA) RADAR and Beyond Visual Range(BVR) Missile.



##### (b) Sukhoi – 30 MKI (Mark India):



The world's fastest supersonic missile, BrahMos was successfully test fired from IAF's frontline fighter, Su-30 MKI for the first time on 22<sup>nd</sup> November, 2017. HAL integrated the heavy weight missile on Sukhoi-30 overcoming technical challenges to bolster IAF's combat capabilities.

##### Transport Aircraft:

##### (c) Dornier Do-228:



HAL Dornier Do-228 is a multi purpose transport aircraft already in service with the Indian Armed Forces. Do-228 received the Certificate of Airworthiness from Directorate General of Civil Aviation (DGCA) for its civil variant on 21<sup>st</sup> December, 2017. This certification will enable the aircraft to be used as a passenger transport aircraft and give a boost to the Government's Ude Desh Ka Aam Nagrik (UDAN) initiative under the Regional Connectivity Scheme (RCS). HAL has successfully produced two civil variants and they are DGCA certified.

##### Trainer Aircraft:

##### (d) Hindustan Turboprop Trainer (HTT – 40)

HTT-40 is the Basic Trainer Aircraft (BTA) currently being indigenously designed and developed by HAL. The aircraft would be used for basic flight training, aerobatics, instrument flying and close-formation flights whereas its secondary roles would include navigation and night flying. Two prototypes have been produced and are undergoing flight trials towards certification. HTT-40 has so far completed 153 test



flights cumulatively. Flight with Anti-Spin Parachute System (ASPS) was carried out successfully on 27<sup>th</sup> February, 2018 as part of its activities towards IOC.



### Aircraft Upgrades:

#### (e) Mirage 2000:

On the aircraft upgrade front, Mirage 2000 upgrade was successfully completed and Service clearance certificate (FOC) from Centre for Military Airworthiness & Certification (CEMILAC) received on 29<sup>th</sup> May, 2018. A cumulative of 170 test flights is completed.



#### (f) Jaguar DARIN III:

The first flight of Jaguar DARIN (Display, Attack, Range and Inertial Navigation) III aircraft with AESA (Active Electronically Scanned Array) Radar was conducted on 10<sup>th</sup> August, 2017 giving the IAF's main stay strike aircraft a tremendous boost.



The AESA Radar, which is used in most modern combat aircraft, has improved features like multi target tracking, frequency agility, and higher bandwidth of operation, interleaved modes of operation, higher accuracies and resolution in addition to Higher Mean Time Between Failures (MTBF). The multi-mode radar is capable of air-to-air, air-to-ground and air-to-sea tracking and engagement. HAL has already provided a crucial upgrade with DARIN III (electronics system upgrade) earlier.

Aircraft modifications and flight trials towards Final Operational Clearance completed. A cumulative of 347 test flights have been completed.

#### (g) Hawk Upgrade – “Hawk-i”

Hawk India (Hawk-i) is the indigenously upgraded Hawk Mk 132 aircraft with enhanced operational and training capabilities. The Hon'ble Defence Minister dedicated Hawk-i to the Nation on 26<sup>th</sup> August, 2017.

Hawk-i was flown with HAL developed indigenous Real Time Operating System (RTOS) 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 is found to be at par.



### (II) Helicopters:

#### (a) Light Combat Helicopter (LCH):

The LCH is a dedicated combat helicopter indigenously designed and developed by HAL. 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 the Hon'ble Defence Minister. The production activities were also initiated on the same day. The indigenously designed and developed LCH has the distinction of being the first attack helicopter to land at Siachen, 4700 metres above the sea level with a payload of 500 kg. Four Technology Demonstrators (TD) are currently under extensive flight-testing. Cumulative of 1274 flights have been carried out, so far out of which 252 flights were completed in 2017-18. The LCH achieved a milestone of 1000<sup>th</sup> flight on 6<sup>th</sup> June, 2017.



Following the launch of production, the maiden flight of indigenously developed Automatic Flight Control System (AFCS) integrated on LCH was conducted successfully on 31<sup>st</sup> January, 2018. The indigenous AFCS will replace the expensive imported system bringing cost advantage besides enhancing technology base.

**(b) Advanced Light Helicopter (ALH) Weapon System Integration (WSI) - Rudra**

The ALH-WSI-Rudra is the weaponised version of the battle proven ALH Dhruv helicopter. The helicopter is integrated with Turret Gun, Rocket and Air to Air Missile. The helicopter is also integrated with particle separator for operation in desert. The helicopters are inducted into Indian Air Force and Indian Army. Intermediate Infra Red (IR) seeker evaluation trials were completed during January, 2018.



**(c) Light Utility Helicopter (LUH)**

The LUH is a single engine, new generation 3-ton weight class helicopter, incorporating state-of-the-art technology features, planned to replace Cheetah and Chetak helicopters being operated by the Indian Armed Forces. Two prototypes have been produced and are being used for certification activities. LUH has so far completed a cumulative of 133 test flights out of which 59 flights have been carried out in FY 2017-18.



**(III) Aero Engines:**

**(a) 25 kN Hindustan Turbofan Engine (HTFE-25)**

Design and development of a 25kN thrust class turbofan engine, which 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. Two core engines have been produced so far and are undergoing development trials. So far 255 runs have been completed.



**(b) 1200 KW Turboshaft Engine (HTSE-1200)**

The 1200KW Turbo shaft engine would be used as power plant for 3 to 6-ton category helicopters. HTSE-1200 engine technology demonstrator is assembled and inaugural test run successfully carried out on 12<sup>th</sup> February, 2018. 150 runs have been completed successfully



**(IV) Mini UAV (8 kg class):**

HAL's UAV programs are aimed at meeting the emerging requirements of Military, Para-Military, Police and Civil





Sectors. The first Mini UAV was handed over to Central Armed Police Forces (CAPF) on 7<sup>th</sup> September, 2017 in the presence of the Hon'ble Defence Minister and the Hon'ble Home Minister. Further, the UAV was equipped with Gimbal stabilized medium resolution camera on 10<sup>th</sup> February, 2018. Parachute recovery system proven on Mini UAV and seven successful recoveries using parachute was carried out.

### New Orders:

The Order Book position of your Company as on 31<sup>st</sup> March, 2018 is ₹61,123 crores.

- **The order book comprises the following major programmes to be liquidated.**

- Su-30 MKI for Indian Air Force (25 Nos).
- Light Combat Aircraft (LCA) in Initial Operation Clearance (12 Nos) and Final Operation Clearance for Indian Air Force (20 Nos).
- Dornier Do-228 aircraft for Indian Navy (12 Nos) and for Indian Air Force (4 Nos).
- Advanced Light Helicopters for Indian Navy (16 Nos) and Indian Coast Guard (16 Nos). New order for 41 Advanced Light Helicopters (ALH) Dhruv received from the Indian Army (40 Nos) and Indian Navy (1 No) in August, 2017.
- Cheetal Helicopter for Indian Air Force (10 Nos) and Indian Army (6 Nos).
- An order for 8 Chetak Helicopters received from Indian Navy in August, 2017.
- AL-31 FP Engines (used in Su-30 MKI Aircraft) to Indian Air Force.
- ROH task for aircraft /helicopter/engines for one year.

- **Anticipated Order:**

- Light Combat Aircraft (LCA) – Tejas in Mark (Mk) 1A: An RFP for 83 LCA MK1A configuration was received from the Indian Air Force (IAF) on 21<sup>st</sup> December, 2017.
- Light Combat Helicopters (LCH): An RFP for 15 LCHs was received from the Indian Air Force (10 Nos) and the Indian Army (5 Nos) on 22<sup>nd</sup> December, 2017.

### Particulars of Loans, Guarantees or Investments

Details of Loans, Guarantees and Investments covered under the provisions of Section 186 of the Companies Act, 2013 form part of notes to the Financial Statements provided in this Annual Report.

### Related Party Transactions

There were no significant related party transactions with the Company's promoters, Directors, Management or their relatives, which could have had a potential conflict with the interests of the

Company. All Related Party Transactions were placed before the Audit Committee / Board, as applicable, for approval. Information pursuant to Section 188(2) of the Companies Act, 2013 and Rule 8(2) of the Companies (Accounts) Rules, 2014, with related parties referred to in Section 188(1) of the Companies Act, 2013 is attached to this report as **Annexure-I**.

### Consolidated Financial Statements

The consolidated financial statements of your Company and its joint venture and subsidiary companies for the year ended 31<sup>st</sup> March, 2018 has been prepared in accordance with the provisions of Section 129(3) of the Companies Act, 2013 and applicable Accounting Standards and form part of the Annual Report.

Pursuant to first proviso of Section 129(3) of the Companies Act, 2013 read with Rule 5 of Companies (Accounts) Rules, 2014, a separate statement containing salient features of the financial statements of subsidiaries / associate / joint venture companies in Form AOC-1 is appended to this report, which shall form part of the Financial Statements.

### Subsidiary/ Associate/ Joint Venture Companies

At the beginning of the year we had one subsidiary and 13 (thirteen) associate companies.

During the year, the following changes have taken place:

#### (I) Defence Innovation Organization

Defence Innovation Organization is a Joint Venture (a Section 8 Company) formed with Bharat Electronics Limited (BEL) having 50:50 equity participation, on 10<sup>th</sup> April, 2017. This is an initiative of the Government to create an eco system to foster innovation and technology development in defence.

#### (II) Indo-Russian Helicopter Limited

Indo-Russian Helicopters Ltd. (IRHL), a joint venture between HAL, Russian Helicopters and Rosoboronexport was incorporated on 2<sup>nd</sup> May, 2017 with 50.5% holding by your Company and 49.5% by Russian partners for manufacture and supply of Kamov Ka-226T helicopters in India. The subsidiary was formed pursuant to Inter-Governmental Agreement (IGA) signed by the Government of India with their Russian counterparts.

Pursuant to the provisions of Section 134(3)(q) read with Rule 8 (1) of the Companies (Accounts) Rules, 2014 report on the performance and financial position of each of the Joint Venture and Subsidiary Companies as per provisions of the Companies Act, 2013 is provided herewith and annexed as **Annexure II**.

### Annual Return of the Company

In accordance with the provisions of Section 92(3) and Section 134(3)(a) of the Companies Act, 2013 read with Rules 12(1) of the Companies (Management and Administration) Rules, 2014, the Annual Return of the Company is uploaded on the website of the Company [www.hal-india.co.in/investors](http://www.hal-india.co.in/investors).



## Board and Number of Meetings of the Board

The composition of the Board of Directors of the Company as on 31<sup>st</sup> March, 2018 was 10 (ten) directors comprising of 5 (five) Executive Directors (functional directors including CMD) and 5 (five) Non-executive directors (Independent directors including woman director). During the year, 11 (eleven) Board Meetings were held and the maximum interval between any two meetings was not more than 120 days. The details of meetings of the Board and Committees thereof held during the year is furnished in Corporate Governance Report, which forms part of this Report.

## Changes in Board of Directors and Key Managerial Personnel

**The following changes took place in the Directors and Key Managerial Personnel (KMP) of your Company during the year:-**

- Shri P S Krishnan, Shri Pradipta Banerji, Shri Gopabandhu Pattanaik and AVM (R) D K Pande, AVSM, VSM ceased to be Independent Directors w.e.f 4<sup>th</sup> May, 2017 on completion of their tenure.
- Shri V Somasundaran, Shri Arun Kumar Sinha & Dr J K Bajaj were appointed as Independent Directors w.e.f 11<sup>th</sup> September, 2017.
- Shri Sunil Kumar was appointed as Director (Operations) with effect from 16<sup>th</sup> October, 2017.
- Shri Arun Kumar Sinha ceased to be Independent Director upon resignation w.e.f 22<sup>nd</sup> January, 2018.
- Shri V Somasundaran ceased to be Independent Director upon resignation w.e.f 6<sup>th</sup> February, 2018.
- Shri Chandraker Bharti, ceased to be Government Nominee Director w.e.f 1<sup>st</sup> March, 2018 due to withdrawal of nomination by the Government of India.
- Shri Anil Kumar, Shri Neelakanta Iyer R and Shri Siddharth were appointed as Independent Directors w.e.f 5<sup>th</sup> March, 2018.

**Changes occurred after 31<sup>st</sup> March, 2018 till the date of signing of this report are as under:**

- Dr. C.P. Ramanarayanan, DG, Aeronautical Systems, DRDO was appointed as Government Nominee Director w.e.f 1<sup>st</sup> May, 2018.
- Shri Chandraker Bharti, Joint Secretary (Aerospace), MoD was appointed as Government Nominee Director w.e.f 15<sup>th</sup> May, 2018.
- Shri D. K. Venkatesh, Director (Engg. and R &D) ceased as Director upon superannuation on 31<sup>st</sup> May, 2018.
- Shri Arup Chatterjee was appointed as Director (Engg. and R &D) with effect from 1<sup>st</sup> June, 2018.
- Dr. C.P. Ramanarayanan, DG, Aeronautical Systems, DRDO ceased as Government Nominee Director w.e.f 19<sup>th</sup> June, 2018 on withdrawal of nomination by the Government of India.

## Committees of the Board

As on 31<sup>st</sup> March, 2018, the Board had four Statutory Committees, the Audit Committee, the Nomination & Remuneration Committee, CSR & SD Committee and Stakeholders Relationship Committee.

A detailed Note on the composition of the Board and its Committees is provided in the Corporate Governance Report.

## Declaration from Independent Directors

The Company has received necessary declaration from each Independent Director of the Company under Section 149(7) of the Companies Act, 2013 stating that the Independent Directors of the Company met with the criteria of their independence laid down in section 149(6) of the Companies Act, 2013.

## Company's Policy on Directors' Appointment and Remuneration.

The appointment, tenure and remuneration of Directors (Functional Directors including CMD) are determined by the Government of India. Selection is made by the Public Enterprises Selection Board (PESB). The Terms & Conditions of appointment, including the period of appointment, the scale of pay and other entitlements are notified by the Government of India.

Government Nominee Directors are appointed by the Department of Defence Production, Ministry of Defence and they are not entitled to any remuneration / sitting fees.

Independent Directors are appointed by the Government of India and they are entitled to sitting fees for attending the Board / Committee meetings as prescribed by the Board in adherence with the statutory rules and regulations.

Your Company being a Government Company the requirement for framing policy on Directors' appointment and remuneration including criteria for determining qualifications etc under section 134(3)(e) of the Companies Act, 2013, do not apply in view of the Gazette notification No GSR 463 (E) dated 5<sup>th</sup> June, 2015 of the Ministry of Corporate Affairs (MCA) Notification.

## Board Evaluation

Pursuant to the Notification No. 463 (E) dated 5<sup>th</sup> June, 2015 issued by Ministry of Corporate Affairs, your Company being a Government Company the statement indicating the manner in which formal annual evaluation has been made by the Board of its own performance and that of its committees and individual directors is not required as the performance of directors is evaluated by the Administrative Ministry.

The performance evaluation of the Independent Directors was carried out by the entire Board at its 415<sup>th</sup> board meeting held on 30<sup>th</sup> May, 2018. The Directors expressed satisfaction with the evaluation process. The performance of non-independent directors and Board as a whole was reviewed by Independent Directors during the year.



## Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo

Your Company being a defence CPSE, the disclosure of information with respect to conservation of energy, technology absorption, foreign exchange earnings and outgo under the provisions of Section 134(3)(m) read with Rule 8(3) of the Companies (Accounts) Rules, 2014 is not required as the Ministry of Corporate Affairs vide Notification GSR No.680 (E) dated 4<sup>th</sup> September, 2015 has granted exemption to Defence Public Sector Undertakings.

## Development and Implementation of Risk Management Policy

Pursuant to Regulation 21 of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, your Company has developed and rolled out a comprehensive Risk Management Policy. The policy aims at elimination or reduction of risk exposures through identification and analysis of various types of risks and facilitating timely action for taking risk mitigation measures.

## Corporate Social Responsibility (CSR)

Your Company as a responsible corporate has always been committed towards creating a favourable environment to bring about inclusive growth in the society. The Company is fully engaged in ensuring equitable and sustainable growth especially in the area of its operations besides complying with government directives to discharge its social responsibility as a leading Indian corporate.

Pursuant to the provisions of Section 135 of the Companies Act, 2013 and Companies (Corporate Social Responsibility Policy) Rules, 2014 & Guidelines of Department of Public Enterprises (DPE), the Company has undertaken various activities as per the CSR Policy of the Company. The projects / programmes / activities are taken up in line with Schedule VII of the Companies Act, 2013.

The Board of Directors of your Company has constituted the Committee on Corporate Social Responsibility & Sustainable Development (CSR & SD) (Disclosed in Corporate Governance Report) in line with the provisions of Section 135 of the Companies Act, 2013. The Committee has formulated and recommended to the Board, CSR Policy indicating the projects / activities to be undertaken by the Company as specified in Schedule VII of the Companies Act, 2013.

The Corporate Social Responsibility Policy of the Company is posted on the Company's website [www.hal-india.co.in](http://www.hal-india.co.in).

A separate report on Corporate Social Responsibility (CSR) activities undertaken by your Company during the year 2017-18 is enclosed as **Annexure-III**.

## Business Responsibility Report

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, stipulates that the annual report shall contain a Business Responsibility Report describing the initiatives taken by the listed entity from an environmental, social and governance perspectives in the format specified. Accordingly, the Business

Responsibility Report for the year 2017-18 has been drawn up and appended to this Report.

## Significant and Material Orders

There are no significant and material orders passed by the regulators or courts or tribunals impacting the going concern status and the Company's operation in future.

## Public Deposits

During the year, your Company has not received any deposit from public.

## Issue of Equity Shares with Differential Rights

During the year, the Company has not issued any equity shares with differential rights as to dividend, voting or otherwise.

## Particulars of Employees and Related Disclosures

Your Company being a Government Company, the provisions of Section 197 of the Companies Act, 2013 and relevant Rules do not apply in view of the Gazette notification dated 5<sup>th</sup> June, 2015 issued by Government of India, Ministry of Corporate Affairs.

## MoU with Government

Your Company has been signing a Memorandum of Undertaking (MoU) every year with the Ministry of Defence, Government of India.

The performance of the Company for the year 2016-17 has been rated as "Excellent" in terms of MoU with the Government and based on the provisional assessment, the Company maintains the "Excellent Rating" for the year 2017-18 as well.

## Credit Rating

During the year, M/s Credit Analysis & Research Limited has granted your company a credit rating of CARE AAA/A1+ for Long Term and Short Term facilities amounting to ₹2,500 Crs.

India Ratings & Research Private Ltd has granted your company a credit ratings of 'IND AAA/ Stable' for working capital fund based facilities amounting upto ₹450 Crs and 'IND A1+' for non fund based working capital facilities amounting to ₹2,050 Crs.

## Event subsequent to the date of Financial Statements

Material changes and commitments affecting the financial position of the Company, which have occurred between 31<sup>st</sup> March, 2018 and date of signing of this Report are – Nil.

## Research and Development Efforts

During the year, your Company continued to focus its efforts on new platforms' development, technology development and



capability enhancement. These activities are taken up with a view to bring technological superiority to the products and to cope up with the future technological challenges that are required for development of new products and product enhancements. Towards the progress of the R&D efforts, your Company has incurred a total expenditure of ₹1,61,186 Lakhs for the year 2017-18, which is 9% 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 transferred a sum of ₹16,723 Lakhs (10% of Operating PAT) to R&D reserve for contribution to R&D corpus during the year 2017-18.

## Exports

### Company's major exports during the year include:

- Supply of second Do-228 aircraft in maritime role to Seychelles People's Defence Force and Periodic Maintenance of first Do-228 aircraft of Seychelles People's Defence Force at HAL facility,
- Repair & Overhaul of Turbomeca 2B2 engine of Mauritius Police Force,
- Supply of aero-structures to France (A320 Passenger Doors to Airbus and Engine Kits to Safran Engines), Germany (Do-228 Structures to RUAG for their ongoing Do-228 NG program), USA (Gunbay Doors and Wire harness to Boeing's F-18 fighter aircraft program),
- Supply of indigenously designed and developed Avionics (Radar Computers, Mission Computers, Display Processors to Su-30 aircraft), Rolled Rings to Rolls Royce's ongoing engine programs and Forgings & Castings to diverse countries. These orders enabled HAL to continue its association with aircraft programmes of these major OEMs while meeting stringent reliability, quality and delivery specifications.
- The Export Sales of the Company during the year is ₹314 Cr.

Over the years, the Company has exported the Aircraft platforms namely Advanced Light Helicopter (ALH)-Dhruv, Cheetal, Cheetah, Chetak, Lancer Helicopters and Do-228 aircraft to overseas customers in Nepal, Afghanistan, Mauritius, Seychelles, Namibia, Ecuador and Suriname. The Company has registered its footprint, over the years, in more than 20 Countries.

In order to ensure that the Customers attain the level of technical competency to handle the maintenance activities independently in future, the Company has deputed its technical experts to Customer Sites for providing product support. Training programmes were also conducted for Customer Pilots, Ground/Air Crews and Technicians at HAL site. The Company has also provided maintenance and overhaul services to cover the life cycle requirements of HAL products.

High-level delegations from various Countries visited HAL facilities and have conveyed their appreciation of HAL's aircraft platforms and facilities. As a follow-up of the visits, technical proposals were submitted to various countries and are being pursued. In addition, the Company is making efforts to secure export orders for aircraft and helicopter platforms arising out of bilateral Defence Cooperation Agreements between the Government of India and the respective Countries.

HAL's brand image and identity was strategically projected by showcasing its products and capabilities while participating in leading international Air Shows/Exhibitions. The Company participated in LAAD 2017-Brazil, Paris Air Show-2017, MAKS 2017-Moscow and Defence & Security 2017-Thailand. Your Company also participated in Wings India 2018 held at Hyderabad.

HAL is interacting with OEMs of Aerospace and Defence Sector and has also signed Letter of Intent to be their Indian Offset Partner to utilise the opportunities arising out of Offset obligations to enhance exports, increase self reliance and also acquire new capabilities & technologies. HAL has been exploring opportunities in the following areas:

- Export of Work Packages
- Export of Avionics and Systems
- Transfer of Technology etc.

Currently, HAL is exporting A-320 Forward Passenger Doors; Weapons Bay and Gun Bay Door of F-18; Wire harness of F-18 aircraft; Avionics and Systems for SU-30 etc., as part of various Offset Contracts.

## Procurement from Micro & Small Enterprises (MSEs)

Your Company has been providing increased thrust on enhancing procurement from MSEs and is implementing Public Procurement Policy for Micro & Small Enterprises (MSEs) as per the guidelines / notification issued by the Ministry of MSEs. During the year 2017-18, the total value of procurement including outsourcing made from MSEs is ₹58,997 Lakhs.

## Vendor Development Initiatives

Private vendors are being partnered in various projects of HAL including new projects such as LCH, LUH, HTT-40 etc., to turn them into reliable established partners over time. Your Company has got around 2000 registered sub-contractors.

Your Company has been conducting several vendor development programs including programs for MSE/SC/ST vendors to increase the participation of private vendors in the manufacturing programmes. The Company has also been participating in various programs organized by MSME, CII, NSIC and making presentations covering HAL procedures, opportunities available, and requirement from the vendors.

The fifth edition of Global Vendors' Meet was organized at Ghatage Convention Centre, Bengaluru on 12<sup>th</sup> December, 2017. A total of 37 Foreign and 53 Indian vendors participated in the meet.





## Indigenisation / Make in India

In order to achieve self-reliance, the Company has consistently focused and given emphasis on indigenous development of Platforms/Systems/LRUs, Maintenance Spares, Castings/ Forgings etc. Obsolescence of items / LRUs / Raw Materials for ageing aircraft like MiG-21, Jaguar & Kiran and current aircraft like Su-30 MKI etc. are also managed through Indigenisation.

Further, the Company has hosted more than 400 imported systems and sub systems of mechanical, electrical, avionics & instrumentation category on HAL's portal. This can be accessed at [www.hal-india.co.in](http://www.hal-india.co.in) under Make in India.

The Company has also hosted more than 100 Nos. of Tools, Testers and Ground Equipment (TTGE) for Sukhoi-30 MKI on its website under 'Make in India' for maintenance, repair and indigenization by Indian vendors.

Based on the above efforts towards Indigenisation / Make-in-India, more than 2000 items are indigenized during the year. Further, more than 25 No. of items are taken up for indigenous development from the list of imported Systems / Tools / Testers and Ground Equipment hosted on the HAL website under Make-in-India.

Additionally, details of testing facilities of HAL which could be utilized by private industries are also hosted on the website and can be accessed through [www.hal-india.co.in](http://www.hal-india.co.in).

So far, more than 40 vendors have utilized the HAL test facilities.

## Human Resource Development

As on 31<sup>st</sup> March, 2018, your Company had 29,035 employees. The Company has a scientific manpower plan aligned to the business plans of the Company.

With a view to enrich the academic base of the Company, Sponsorship for Post Graduate Programme in Public Policy and Management (PGPPM) at IIM, Bangalore has been introduced for Officers. The Programme is a one-year full time residential course

and commenced from the Academic Year 2017-18 onwards with sponsorship of 5 officers. Further, during the year 2017-18, 14 Officers were sponsored for Post Graduate Programmes at Cranfield University, UK; Indian Institute of Technology (IITs) at Roorkee, Madras, Bombay & Kharagpur to provide opportunities to the Officers to build their knowledge based competencies. Another 3 Officers were sponsored for Ph.D Programmes at IITs and 1 Officer was sponsored for the MS (Systems Engg.) at SupAero, France. In addition to the above, 90 Executives were imparted Training at least One Week duration in Centres of Excellence (IITs, IIMs, NITs, ICAI, XLRI, etc).

As on 31<sup>st</sup> March, 2018, 4,514 Apprentices were engaged in the Company.

## Leadership Development Program

As a part of the continued efforts towards building Organizational capabilities, 31 Officers in the Senior Management Level were nominated for Leadership Development Programs in collaboration with IIM-Ahmedabad during the year.

## Revision of Pay Scale of Executives

In line with the Presidential Directives issued by the Department of Defence Production vide letter dated 10<sup>th</sup> November, 2017, Pay Revision of Board Level and below Board Level Executives of your Company was effected during November 2017, w.e.f. 01/01/17, in line with the Dept. of Public Enterprises (DPE) OMs dated: 03/08/2017, 04/08/2017 & 07/09/2017.

## Employee Welfare

Your Company continues to extend welfare benefits to the employees and their dependants by way of comprehensive Medical Facilities, Housing Facilities, Canteen Facilities (for employees only), Educational Facilities for employee's Children, Sports Facilities, etc.

## Representation of SC / STs

### Representation of SC / STs in the total Strength of the Company as on 1<sup>st</sup> January 2017 and 1<sup>st</sup> January 2018

Category (Grade / Scale of Pay)	Total Strength as on		Number of SCs as on		Number of STs as on	
	1.1.2017	1.1.2018	1.1.2017	1.1.2018	1.1.2017	1.1.2018
Group – A (Grade – II & above )	9041	8807	1599	1557	541	529
Group – B (Grade-I)	92	43	17	8	7	4
Group – C (Scale -3 to Special Scale)	20507	20354	3545	3501	1470	1473
Group – D (Scales – 1 & 2 )						
(i) Excluding Safai Karmacharis	18	15	5	4	-	-
(ii) Safai Karmacharis	-	-	-	-	-	-
<b>Total</b>	<b>29658</b>	<b>29219</b>	<b>5166</b>	<b>5070</b>	<b>2018</b>	<b>2006</b>



**Recruitments made during the period 1<sup>st</sup> January, 2017 to 31<sup>st</sup> December, 2017 and the SC & STs amongst them:**

Category (Grade / Scale of Pay)	Total number of Post filled	No. of Reservations made for		No. of Posts filled by appointment of	
		SCs	STs	SCs	STs
Group – A (Grade – II & above )	83	18	9	14	8
Group – B (Grade-I)	7	-	-	-	2
Group – C (Scale -3 to Special Scale)	291	68	33	73	31
Group – D (Scales – 1 & 2 )					
(i) Excluding Safai Karmacharis	-	-	-	-	-
(ii) Safai Karmacharis	-	-	-	-	-
<b>Total</b>	<b>381</b>	<b>86</b>	<b>42</b>	<b>87</b>	<b>41</b>

**Vacancy based Promotions made during the period 1<sup>st</sup> January, 2017 to 31<sup>st</sup> December, 2017 and the SC & STs amongst them:**

Category (Grade / Scale of Pay)	Total number Promoted	No. of Reservations made for		No. of Posts filled by Promotion of	
		SCs	STs	SCs	STs
Group – A (Grade – II & above )	1277	NA	NA	211	76
Group – B (Grade-I)	1	-	-	-	-
Group – C (Scale -3 to Special Scale)	-	-	-	-	-
Group – D (Scales – 1 & 2 )					
(i) Excluding Safai Karmacharis	-	-	-	-	-
(ii) Safai Karmacharis	-	-	-	-	-
<b>Total</b>	<b>1278</b>	<b>-</b>	<b>-</b>	<b>211</b>	<b>76</b>

### Employee Relations (ER) / Industrial Relations

The Employee Relations Scenario in the Company has been peaceful, healthy and cordial. The Company has been maintaining meaningful and effective communication between the Management and the Unions / Associations in order to reduce and eliminate any scope for conflicts and misunderstandings, achieve better understanding and thus facilitate maintenance of Industrial Harmony. Regular Meetings with the representatives of the recognized Unions / Officers Associations at the Divisional, Complex & Corporate Levels were held to discuss issues.

Plant Level and Shop Level Committees with representatives from the Management and Workmen / Union Representatives are functioning in the Divisions to discuss and resolve production related issues and other related matters. In order to address Employee / Public Grievance / Representations, Grievance Redressal Mechanisms are also in place in the Company.

### Implementation of Official Language Policy

All out efforts are being made for implementation of the Official Language (OL) Policy of the Government of India. The IT wing of Department of Official Language, GoI, conducted a special Hindi workshop for OL officials on 26<sup>th</sup> July, 2017 at HAL. The aim was to make the OL officials aware of technical facilities developed in the field of official language. Decisions taken by the Apex Committee are implemented at Company level. Inspections of various Divisions related to Official Language have been conducted successfully by the Department of Official Language / Ministry of Defence during this year.

### Prohibition of Sexual Harassment of Women at Workplace

The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013 has been notified in the Company. In line with the Guidelines received from time to time, necessary actions have been taken to prevent Sexual Harassment of Women at Workplace. The HAL CDA Rules applicable to Officers and the Certified Standing Orders applicable to Workmen have the required provisions in this regard.

Internal Complaints Committees as per Section 4 of the Act have been put in place. Information for the year 2017 in terms of Section 22 of the Act, is as indicated below:

- (i) Number of Cases pending as on 01/01/2017 - 4
- (ii) Number of Complaints of Sexual Harassment received in the year 2017 - 3
- (iii) Number of Complaints disposed of during the year 2017 - 5
- (iv) Status of pending cases (2) as on 31/12/2017 - Of the two pending Cases, Enquiry was under progress before the Internal Complaints Committee (ICC) in one Case. In the other Case, the ICC had submitted the Report to the Disciplinary Authority on 30.12.17 and the same was under examination by the Disciplinary Authority for appropriate actions.

### Information Technology (IT) Initiatives

To align with the Digital India initiative of the Government of India, your Company has undertaken the following key initiatives



to enhance customer service/ satisfaction, improve processes and quality consciousness through innovative use of IT:

• **Customer Delight:**

In order to effectively track responses of all customer queries/letters by Customer Service Team, a monitoring portal “Commitment Monitoring Portal” is launched. A portal for handling Customer enquiries is also developed for Customer Service Team, which helped in tracking pending Customer RFQ.

As a part of “Gaganshakti” exercise by the Indian Air Force, a Real time monitoring portal for tracking Rotables identified by IAF was developed and launched.

• **Process Improvements:**

- i. A Quality Dashboard is developed for monitoring of Defect Investigation (DI) and Premature Withdrawal Report (PWR) of repairables sent by the customers to the Divisions. This has helped in faster clearance of repairable items in the Divisions.
- ii. Manual File system is being replaced with e-File system, which is being rolled out across the Company. Time based OTP has been used for ensuring security during e-File transmission.
- iii. KPI Dashboard (with 47 KPIs) is developed for monitoring the trends of Key Performance Indicators (KPIs) across various Divisions in the areas like IMM, Customer Service, HR, MSD, Manufacturing and Quality.
- iv. A centralized program is undertaken for implementation of GST at all Business units. This involved creation of new Tax codes, update of Customer/ Vendor/ Product Master, New invoice formats and development of reports for uploading data to GSTIN portal.

• **IT Infrastructure:**

To strengthen and to provide high speed Fibre connectivity across Bangalore based Divisions and Data centre, a MAN (Metropolitan Area Network) is completed. MAN network enables Centralization of IT Services, effective monitoring and managing critical systems of the Company.

**Awards & Recognitions**

During the year, your Company has received various Awards and Recognitions. Some of the important accolades received during the year are placed at **Annexure- IV**.

**Vigilance**

Vigilance in HAL is an ISO 9001-2008 certified Department, headed by the Chief Vigilance Officer, an IPoS Officer on deputation from the Govt of India. Vigilance Officers and Staff are positioned in Corporate Office and all the Divisions & Complexes of the Company.

102 Sensitization sessions, with an aim to bring in more awareness amongst the HAL fraternity, were held in various Divisions. Topics were:

- Transparency in Public Procurement
- CDA Rules
- Filling & Filing of APRs
- Works & Contract Services
- Common Irregularities in Civil Works
- Purchase Procedure
- GST
- Best Practices on Project Management
- Tender Guidelines
- Cyber Security
- Problem areas of contract management
- Role of Vigilance Functionaries
- Complaint Handling Policy
- Vigilance Angle
- Lokpal & Lokayukta Act,
- Online Vigilance Clearance and other Vigilance related matters.

During the period, Vigilance Department has conducted several workshops with important functionalities/stake holders like Material Management, Finance, HR, Service Contracts, Work Contracts, etc.

Vigilance Awareness Week for the year 2017 was observed throughout HAL from 30<sup>th</sup> October, 2017 to 4<sup>th</sup> November, 2017 on the theme “My Vision – Corruption Free India”.

Guidelines issued by CVC on Leveraging of Technology, information pertaining to the following aspects are being hosted on HAL Website:-

- (a) Hosting of all Tenders valuing above ₹10 Lakhs
- (b) E-Procurement
- (c) Vendor Directory
- (d) E-payment to vendors
- (e) Contracts /Purchase Orders awarded on nomination/single tender basis.
- (f) Corruption Risk Management Policy
- (g) Online filling and submission of APRs through IFS.



As stipulated by CVC and MoD, Integrity Pact has been introduced for the POs/ Contracts valuing more than ₹5 Crores.

## Directors' Responsibility Statement

Pursuant to the provisions of Section 134(3)(c) of the Companies Act, 2013 your directors state that:-

- (a) In the preparation of the annual accounts for the year ended 31<sup>st</sup> March 2018, the applicable accounting standards have been followed alongwith proper explanation relating to material departures;
- (b) The Directors have selected such accounting policies and applied them consistently and made judgments and estimates that are reasonable and prudent, so as to give a true and fair view of the state of affairs of the Company as on 31<sup>st</sup> March, 2018 and of the profit and loss of the Company for the year ended on that date;
- (c) The Directors have taken proper and sufficient care for the maintenance of adequate accounting records in accordance with the provisions of this Act for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- (d) The Directors have prepared the annual accounts on a "going concern" basis;
- (e) The Directors have laid down internal financial controls which are being followed by the Company and that such internal controls are adequate and are operating effectively;
- (f) The Directors have devised proper systems to ensure compliance with the provisions of all applicable laws and that such systems were adequate and operating effectively.

## Auditors

### Statutory Auditors

The Statutory auditors of your Company are appointed by the Comptroller & Auditor General of India (C&AG). M/s. S. Venkatram & Co., Chartered Accountants, Bangalore was appointed as Statutory Auditors for auditing the Accounts of the Company for the year 2017-18 and 18 firms of Chartered Accountants were appointed as Branch Auditors.

The notes on the financial statements referred to in the Auditors' Report are self-explanatory and do not call for any further comments.

### Cost Auditor

M/s. KPR & Associates, Cost Accountants was appointed as Cost Auditors for conducting the Cost Audit of the Company for the year 2017 -18.

### Secretarial Auditor

In terms of Section 204(1) of the Companies Act, 2013, the Company has engaged M/s. S. Viswanathan, Practicing Company

Secretary, Bengaluru to conduct Secretarial Audit of the Company for the financial year 2017-18. The Secretarial Audit report is annexed to this Report as **Annexure - V** and forms part of Annual-Report. The said report does not contain any qualification, reservation or adverse remarks.

### Auditors' Report

The Auditors' Report on financial statements for the financial year 2017-18 and comments of the Comptroller & Auditor General of India (C & AG) under Section 143(6) of the Companies Act, 2013 are appended to this Report. The statutory auditors' report does not contain any qualification, reservation or adverse marks.

During the year, no fraud has been reported by the Auditors under section 143(12) of the Companies Act, 2013 read with Rule 13 of the Companies (Audit and Auditors) Amendment Rules, 2015.

## Corporate Governance

Your Company has taken firm and structured initiatives to maintain highest standards of Corporate Governance and its practices which are valued by our stakeholders. The practices emanate from the need to position multi-layered checks and balances at various levels to ensure transparency of its operations in the decision making process.

In terms of SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015 and guidelines of Department of Public Enterprises (DPE), a report on Corporate Governance for the year ended 31<sup>st</sup> March, 2018 along with a certificate from the Company's Secretarial Auditor confirming compliance of conditions forms part of this report.

## Management Discussion and Analysis Report

As per the terms of Regulations 34(2)(e) of the SEBI Listing Regulations, the Management Discussion and Analysis Report (MDAR) forms part of the Annual Report of the Company.

## Vigil Mechanism

The Company has a Whistle Blower Policy approved by the Board and the same is placed on the website of the Company.

The employees are encouraged to raise any of their concerns by way of whistle blowing and none of the employees have been denied access to the Audit Committee.

## Quality Initiatives and Safety

Quality Management System (QMS) in all Production Divisions and Research & Design Centres of HAL are accredited to International Aerospace Standard AS9100. Further, all Production Divisions and Research & Design Centres are approved by Directorate General of Aeronautical Quality Assurance (DGAQA) as per the requirements of their document "Approval of Firm and its Quality Management System" (AFQMS). Production Divisions catering to Civil Customers are approved by Director General of Civil Aviation (DGCA) as Production/Maintenance Organization.



Divisions that are exporting products and services are certified to National Aerospace Defence Contractors' Accreditation Program (NADCAP) and have approvals from OEMs like Airbus, Boeing, Turbomeca, Rolls Royce etc. HAL Laboratories are accredited to IS17025 by National Accreditation Board for Testing and Calibration Laboratories (NABL).

The Research & Design Centres of HAL continue to hold Design Organization Approval from Centre for Military Airworthiness & Certification (CEMILAC) and Recognition of in-house R&D from Department of Scientific & Industrial Research (DSIR), Ministry of Science & Technology, Government of India.

Quality improvement through employees' participation is being encouraged by practicing concepts such as Quality Circles, Quality Improvement Teams, Lean Resource Teams and Six Sigma Project Teams in the Divisions. 10 Quality Circle teams comprising more than 50 members, participated in National Convention Quality Circles (NCQC) held at Mysore in December 2017. Nine Quality Circles won awards under PAR EXCELLENCE category and one Quality Circle won award under EXCELLENT category.

Operator's conferences and workshops at customer bases to address fleet specific operational problems continue to be organised HAL.

Joint Quality Audits (JQA) by IAF were concluded for Mirage-2000, MiG-29, SU-30 and Hawk fleets during the year. Observations/ Recommendations of JQA are being addressed to improve the system and processes in order to enhance product quality.

Standardization of Quality Procedures has been achieved through nine Corporate Quality Assurance Guidelines while four of these guidelines have been protected through registration of copyright with the Registrar of Copyrights, New Delhi.

In the financial year 2017-18, all Aircraft / helicopter Divisions at four flying locations have maintained a good flight safety record and there has been no flying accident. However, on 27<sup>th</sup> June, 2018, one Su-30 MKI produced by the Company crashed during a sortie at Ozar (Nashik) Airport and the same has been reported to the Stock Exchanges.

To enhance the knowledge level of HAL Officers participating in Aircraft Accident Investigation, the Indian Air Force was approached to increase vacancy in Aerospace Safety & Accident Investigation (AS&AI) course. IAF has increased the vacancy from two Officers to six Officers per year. HAL also conducted a Flight Safety and Accident Investigation course from 13<sup>th</sup> to 16<sup>th</sup>

June, 2017 and 50 Officers from different Divisions participated in the course.

In order to bring awareness on the procedure of Defect Investigation and various facilities and infrastructure available at HAL Divisions, a presentation was made by HAL during "Aerospace Safety Conclave" held at Air HQ, New Delhi on 23<sup>rd</sup> March, 2018 to officers from IAF, IA, IN and ICG.

## Acknowledgement

The Board places on record its sincere appreciation towards the Company's valued customers, in particular the Defence Services, for the support and confidence reposed by them in the Management of the Company and look forward to the continuance of this mutually supportive relationship in future.

Your Directors acknowledge with a deep sense of appreciation, the valuable support and cooperation received from the Government of India in particular the Ministry of Defence, Department of Defence Production, Defence Acquisition and Defence Finance as well as other Ministries of the Government of India in all the endeavours of the Company.

The Company wishes to place on record its appreciation for the co-operation extended and services provided by the Comptroller & Auditor General of India, the Principal Director of Commercial Audit & Ex-officio Member, Audit Board, Statutory Auditors, Bankers, Collaborators, JV Partners and Suppliers.

Your Directors are also thankful to the shareholders for their faith and continued support in the endeavours of the Company.

Your Directors also wish to place on record their deep sense of appreciation for the committed services by the Company Executives, Staff and Workers for progress and prosperity of the Company.

**For and on behalf of Board of Directors  
Hindustan Aeronautics Limited**



**(T. Suvarna Raju)  
Chairman & Managing Director**

Place : Bengaluru

Date : 30<sup>th</sup> June, 2018