HAL's turnover to cross ₹20,000 cr in FY20

IAF owes the firm ₹17,000 crore in unpaid bills: MoD

AJAI SHUKLA
New Delhi, 16 March

Hindustan Aeronautics (HAL) on Monday announced the payment of interim dividend of ₹33.25 per share, entailing a payout of around ₹1,000 crore, mainly to the government.

HAL is also poised to scale another summit this year, with its operational turnover for 2019-20 on track to exceed ₹20,000 crore — for the first time ever.

However, HAL has to take a bank loan to pay its interim dividend. That is because its finances are deep in the red because of huge dues from the Indian Air Force (IAF), by far HAL's biggest customer.

Business Standard learns the IAF's dues, which are for aircraft and services already delivered, is likely to be around ₹17,000 crore — only a little less than its entire year's turnover.

Contacted for comments, the IAF did not respond. However, senior air force officials, speaking on condition of anonymity, argued that the dues to HAL are not more than ₹13,600 crore. Furthermore, according to the IAF planners, it is the defence and finance ministries that are holding up payments to HAL.

This unpaid bill reflects a rising trend that is evident in HAL's annual reports. In 2016-17, the IAF's dues to HAL amounted to ₹3,995 crore; in 2017-18 it rose to ₹6,751 crore; in 2018-19 it more than doubled to ₹13,939 crore; and is likely to rise this year by another ₹3,000 crore.

With HAL lacking money for day-to-day production, design and development, and even to pay salaries of employees, the once cash-rich defence public sector undertaking (DPSU) has had to turn to the banks for loans. HAL's past two annual reports paint a picture of financial decline. Bank balances dropped from ₹8,345 crore in 2016-17 to ₹6,433 in 2017-18 to ₹101 crore last year. This year, it will be in negative.

Meanwhile, borrowings have steadily risen. HAL's annual reports reflect borrowings of ₹950 crore in 2016-17, which dipped slightly to ₹764 crore the next year, before zooming to ₹4,058 crore in 2018-19. This year, HAL is learnt to have already borrowed over ₹8,000 crore and this is on course to rise by another ₹1,500 crore for running expenses and dividend payouts.

It is unclear why the IAF has not been clearing its dues to HAL, even while making payments on schedule to foreign vendors such as Dassault. Every financial year since 2017-18, the IAF has been allocated the lion's share of the military's capital Budget: a 40 per cent share in 2017-18 (₹34,917 crore); 40.5 per cent in 2018-19 (₹36,481 crore); 42.5 per cent in the current year (₹44,869 crore).

For the coming year, the IAF has again been allocated 40.5 per cent of the services capital allocation, amounting to ₹43,282 crore.

The firm's annual report for 2018-19 takes note of the dues, but states in its "Significant Accounting Policies" that: "Debts from Government departments are generally treated as fully recoverable and hence the firm does not recognise credit risk of such financial assets. Impairment on account of expected credit loss is being assessed on a case to case basis in respect of dues for a significant period of time."

Even if the IAF's debts are fully recoverable, there are significant financial penalties that HAL is paying as a result of its disrupted cash flows. Prior to 2015, HAL's hefty cash reserves generated income for the company. Today, its balance sheet reflects a growing "cost of finance": ₹10 crore in 2016-17, ₹28 crore in 2017-18, ₹170 crore in 2018-19 and, apparently, an even larger figure in the current financial year.

It is unclear what HAL's board is doing to deal with this problem. A decade ago, the DPSU would have encountered no enquiries, since it was wholly government-owned. Now, however, with disinvestment having placed shareholding partially in public hands, the board is responsible for protecting the financial interests of public shareholders. HAL has not responded to queries from *Business Standard*.

IN THE RED

(₹ crore)

	2016-17	2017-18	2018-19	2019-20*
Revenue from operations	18,554	18,624	19,894	20,500
Payments due (mostly IAF)	3,995	6,751	13,939	17,000
Bank balances	8,345	6,433	101	Negative
Borrowings	950	764	4,058	9,500
Cost of finance	10	28	170	Not known

*Estimations for year ending March 31, 2020
Source: HAL annual reports

India Inc's merger plans take a hit

Buyers may take advantage of the crisis and seek lower valuations

DEV CHATTERJEE
Mumbai, 16 March

The coronavirus pandemic has hit the merger and acquisition (M&A) plans of India Inc hard with the market crash taking a toll on the valuations of most companies.

The unprecedented global ban on flights and self-quarantine after foreign travel are prompting Indian companies to take big decisions on fundraising as well, say bankers.

Bankers said some big acquisition opportunities are coming up in India. These include sale of 50 per cent stake by the Centre in Bharat Petroleum Corporation (BPCL), 100 per cent sale in Air India and Reliance Industries (RIL's) stake sale in its refining and petrochem business to Saudi Aramco.

CORONAVIRUS PANDEMIC

"Considering that these are cross-border acquisitions with billions at stake, the corona pandemic has come at a wrong time and delayed the timelines," said a banker closely involved in BPCL's disinvestment process.

Apart from the big-ticket acqustions, there are several power projects which are being sold by Indian banks to buyers who, in turn, plan to raise funds from overseas. The initial share sale plans of several companies have been put on the backburner.

The bankers are also worried after two top officials of a conglomerate returned from London last week and had to be quarantined in accordance with the health ministry's guidelines.

M&As will also slow down as business disruption will lead to an adverse impact on the target company's financial position. "However, it would be helpful to check whether these are interim ones or more systemic long-term issues that may require sustained focus and redressal," said Rabindra Jhunjhunwala and Sameer Sah, partners at Khaitan and Company.

Valuations will be hit hard and corporates must be ready as the acquirer will now seek a better price. "Indian businesses, which are mainly family owned, must be ready for a lower valuation. Now, more than ever, it may be a good time to build faith and trust and try to complete the deal at a "fair" value," said Jhunjhunwala.

TOP M&As IN WORKS

- Sale of 20% stake in RIL's refining & petrochem business
- Demerger of Jio's tower/fibre assets
- Sale of 53% stake in BPCL by the Centre
- Sale of 100 % stake in Air India
- Sale of GVK's power project in Punjab to Deutsche Bank

New Creta gets 14K bookings in 2 weeks

S S Kim, MD & CEO of Hyundai Motor India, at the launch of the new Creta, in New Delhi, on Monday PHOTO: SANJAY SHARMA

T E NARASIMHAN
Chennai, 16 March

Hyundai Motor India (HMIL) on Monday launched the new Creta, which has received 14,000 bookings in just two weeks. Nearly 50 per cent customers have opted for the diesel variant.

The Korean auto major invested ₹1,000 crore in the new product, which is made in India and will serve both domestic and global markets. Shipments to other countries are expected to start after two months. Hyundai declined to share any sales target for the new Creta, considering that the economic situation will continue to be grim and also because of the coronavirus (COVID-19) outbreak.

SS Kim, managing director (MD) and chief executive officer (CEO), Hyundai Motor India, said since its launch in 2015, the Creta has become the benchmark SUV for the aspirational Indian buyer. Over the last five years, the firm got over 467,000 customers for the Creta in India and 193,000 cars were exported. "The Creta revolutionised the perception of SUV in India. Offering buyers a car that meets their aspirations & lifestyle needs, the Creta became a style icon," said Tarun Garg, director - sales, marketing and service - Hyundai Motor India.The Creta, which was officially launched on Monday, is a global model, created with an investment of more than ₹1,000 crore. "I am confident that we will once again create a new benchmark in the segment with the Creta, and make it the favourite SUV of our Indian buyers, said Kim

He said 2020 would be a crucial year for the auto industry. With new safety and emission norms, the auto industry will change the perspective of 'Made-in-India' cars.

"In the current challenging business environment, we want to enhance and offer unique buying experiences to our customers. At Hyundai, we are striving to further our customer engagement initiatives by implementing digital platforms such as 'click-to-buy' that offer a seamless customer purchase journey," said Kim.