

Indian Air Force

Basic Trainer Competition

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Basic Trainer Competition : Significant Offset opportunity for Indian players

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Aviotech Defense Advisory & Investments

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Investment Summary

- The Indian Air Force (IAF) is carrying forward the acquisition process for procuring 75 Nos. of basic jet trainer aircraft. The procurement process commenced in early 2010.
- 5 platforms namely the Hawker Beechcraft T-6C, the Pilatus PC-7 MkII, the Korean Aerospace Industries KT-1, EADS PZL-130 Orlik TC-II from Poland and Grob 120TP went for trials in November/December 2010.
- In early January 2011, there was news that the Grob 120TP and the EADS PZL Orlik TC-II had been eliminated from the competition leaving the other three contenders in fray for the commercial evaluation.
- The current fleet of Hindustan Aeronautics Limited (HAL) built HPT-32 type trainers for the IAF have been grounded since 2009 following a series of crashes.
- A contract win would have significant transformational effect on the Hawker Beechcraft 's presence in this high volume market segment.
- Other companies like Pratt and Whitney (Canada), Raytheon and Esterline could also enjoy significant earnings enhancement.

Background

- The Indian Ministry of Defence' initial request for proposal (RFP) in early 2010 called for 75 aircraft to be purchased "off-the-shelf", and another 106 to be built by HAL under a joint venture arrangement.
- Under current plans, the selected manufacturer will be required to deliver an initial batch of 12 aircraft within two years of a contract signature.
- The programme aims at replacement of the service's grounded Hindustan Aeronautics HPT-32 'Deepak' aircraft.
- 5 platforms namely the Hawker Beechcraft T-6C, the Pilatus PC-7 MkII, the Korean Aerospace Industries KT-1, EADS PZL-130 Orlik TC-II from Poland and Grob 120TP went for trials in November/December 2010.
- There are reports that in the donwselect (official announcement pending) following trials which were completed early January 2011, the Grob 120TP and the EADS PZL Orlik TC-II had failed to make the shortlist.

Programme Facts

Programme Administered by :

Indian Ministry of Defense

Applicable Procurement Guidelines :

Defence Procurement Procedures 2008

Program Quantum :

75 Aircraft

- This renders the competition limited to the the Hawker Beechcraft T-6C, Pilatus PC-7 MkII and the Korean Aerospace Industries KT-1.
- The competition will result in an earnings upside for the prime as well as key tier-1 companies. For example. incase of the Hawker Beechcraft T-6C winning the competition, a significant upside can be ascertained not only to Hawker Beechcraft but also to tier 1 companies like Pratt and Whitney, Raytheon and Esterline .

Program Timeline:

- RFP Issuance : Early 2010
- Expected Shortlist : Early 2011
- Expected Award of contract : Q3, CY 2011
- Expected Commencement of Supplies : 2012
- Aircraft to be delivered in the first 2 years of the contract : 12

IAF : Augmenting the Trainer aircraft numbers

Basic Trainers:
75 Nos. Competition Underway

Procurement of Advanced Trainers:
73 Nos.. Intermediate Jet Trainer by HAL (set for operational clearance by July 2011)

Procurement of Advanced Trainers:
57 Nos., BAE Hawk : Order awarded in July 2010 (40 units – Indian Air-force, 17 Units- Indian Navy)

- Under the Indian Ministry of Defense procurement procedures, OEMs which are awarded a contract are obligated towards the development of Indian aerospace and defence industrial base through procurement of defence goods and services from India as well as other direct and indirect investments in defence manufacturing and R&D infrastructure. The quantum of Offset obligation an OEM is required to fulfill commences at 30% of the contract value and may be higher in certain cases.
- The programme will offer significant upside to the principal offset beneficiaries of the programme. The key beneficiaries for the programme are expected to be among others, large Indian conglomerates Mahindra & Mahindra, Larsen and Toubro and Tata Group. Mahindra and Mahindra may supply parts of the landing gear and structural assemblies for control surfaces while Tata Technologies (a part of the Tata Group of companies) is expected to provide composite structures.
- The Offset effort is also anticipated to be supported by Pratt and Whitney which will may source engine components from a large number of Indian manufacturers with some capability in this segment like HAL, Tata Group, NAL, Mahindra & Mahindra, HALBIT, Axis Aerospace, Wipro, BHEL and Trusted Aerospace.

Pitfalls – What to watch out for

- The programme is anticipated to be awarded by Q3, 2011. A delay in the award of program can deflate the estimates for both the bidders as well as prime recipients of Offset work-share.

Performance of some of the companies mentioned in this report

EADS

Paris Stock Exchange, [EAD.PA] EUR 9th March 2011

Bid/Ask	20.39/20.40	Market Cap	16,680 MN	Relative P/E	2.36
52 wk High/Low	22.27/13.30	P/E (TTM)	30.03	Earnings	0.68

Raytheon

New York Stock Exchange, [RTN.US] USD 9th March 2011

Bid/Ask	52.02/53.12	Market Cap	18,888 MN	Relative P/E	0.62
52 wk High/Low	60.10/42.65	P/E (TTM)	9.565	Earnings	5.00

Esterline

New York Stock Exchange, [ESL.US] USD 9th March 2011

Bid/Ask	71.11/72.50	Market Cap	2,200 MN	Relative P/E	0.96
52 wk High/Low	73.49/43.58	P/E (TTM)	14.79	Earnings	4.81

Bharat Heavy Electricals Ltd.

Bombay Stock Exchange, [BHEL.IN] INR 9th March 2011

Bid/Ask	2,030.80/2,031.00	Market Cap	995,047 MN	Relative P/E	1.39
52 wk High/Low	2,695.00/1,960.00	P/E (TTM)	23.00	Earnings	88.39

Larsen & Tubro

Bombay Stock Exchange, [LT.IN] INR 9th March 2011

Bid/Ask	1,554.00/1,554.90	Market Cap	945,974 MN	Relative P/E	17.34
52 wk High/Low	2,212.70/1,461.00	P/E (TTM)	17.34	Earnings	89.61

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