

Azad Engineering Ltd

Precision redefined for innovating excellence globally



Subscribe

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Azad engineering Ltd (AEL) stands as a pivotal global manufacturer across the energy, aerospace and defence, and oil and gas sectors, specializing in highly engineered, mission-critical components. Their forte lies in precision forged and machined components meeting 'zero defects' standards, serving esteemed global OEMs.

Operating in 15 countries, AEL caters to global OEMs such as General Electric, Honeywell, Mitsubishi Heavy Industries, and Siemens Energy. Notably, revenue from airfoils/blades in the energy sector constitutes 72.0% of their total operations revenue.

AEL manufactures critical components for energy turbines, aircraft engines, and drilling rigs. Their specialized airfoils/blades and aerospace components serve commercial and military aircraft, contributing to major aircraft platforms like B737, B777, and A350.

A significant 89.7% of AEL's revenue comes from exports to global OEMs, cementing their global reach and long-term contracts. Their commitment to global standards and quality is supported by substantial experience in high precision manufacturing.

AEL leverages in-house engineering, design, and material development, coupled with continuous process improvements. Their focus on high-quality, cost-effective solutions differentiates them from global competitors.

Qualifying as a supplier involves stringent processes with significant entry barriers, demanding extensive evaluation and adherence to quality control standards, underscoring AEL's established presence and expertise in the industry.

With a robust foothold in critical sectors and a commitment to innovation, precision, and global standards, AEL aims to continue revolutionizing precision manufacturing while contributing to India's evolving manufacturing landscape.

Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	PAT	EBITDA (%)	PAT (%)	Adj EPS (INR)	BVPS (INR)	RoE (%)	RoIC (%)	P/E (X)	EV/Sales (X)	EV/EBITDA (X)
FY21	122.7	28.2	11.5	22.9	9.4	1.9	15.4	12.7	11.9	269.3	25.8	112.5
FY22	194.5	62.3	29.5	32.0	15.1	5.0	20.3	24.5	16.3	105.2	16.9	52.6
FY23	251.7	72.3	8.5	28.7	3.4	1.4	34.5	4.2	12.3	365.6	13.3	46.3

Industry	Capital Goods
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Issue Details

Listing	BSE & NSE
Open Date	20 th Dec 2023
Close Date	22 nd Dec 2023
Price Band	INR 499-524
Face Value	INR 02
Market Lot	28 shares
Minimum Lot	1 Lot

Issue Structure

Offer for Sale	67.57%
Fresh Issue	32.43%
Issue Size (Amt)	INR 740 cr
Issue Size (Shares)	1,41,22,137
QIB Share (%)	≤ 50%
Non-Inst Share (%)	≥ 15%
Retail Share (%)	≥ 35%
Pre issue sh (nos)	5,45,32,842
Post issue sh (nos)	5,91,12,995
Post issue M Cap	INR 8,007 cr

Shareholding (%)	Pre (%)	Post (%)
Promoter & group	78.61	56.38
Public	21.39	43.62
TOTAL	100.00	100.00

Growth Strategies

AEL aims to leverage its industry-leading capabilities by diversifying its customer base and increasing penetration.

AEL intends to diversify its customer base, expand global relationships, and introduce new product lines. It aims to qualify for manufacturing land-based turbine components and explore aircraft engine parts for growth opportunities. Focused on consolidating customer supplier bases, AEL seeks to optimize supply chains and increase value share in programs. Prioritizing innovation and international sales, AEL aims for higher margins and sustained growth within existing markets.

Augment the manufacturing capabilities, including by way of inorganic acquisitions, to better serve the customers.

AEL plans to augment existing manufacturing capabilities and potentially acquire facilities to serve customers better. With four facilities in Hyderabad and two new ones underway in Telangana, the company aims to introduce specialized setups for specific clients, like Mitsubishi Heavy Industries. Leveraging expertise in complex precision manufacturing, they seek to diversify product categories, cross-sell to existing customers, and produce high-volume, lower-complexity items for increased revenue and profitability.

Strengthening core capabilities across focus industries

AEL aims to fortify industry capabilities by strengthening current client ties and securing strategic partnerships. Government initiatives like 'Atma Nirbhar Bharat' and 'Make in India' are fostering economic growth, emphasizing quality standards and boosting domestic production. AEL anticipates leveraging global trends to enhance its core capabilities, attract global investments, and capitalize on the evolving product designs and complexities within India's market.

Further reduce operating costs, improve operating efficiencies and deploy new technologies.

AEL aims to offer quality products at competitive prices, fostering long-term customer relationships. Their innovation, swift supply chain, and automation differentiate them in global markets. Leveraging operational efficiencies and scale, they aim to spread fixed costs effectively while focusing on technological advancements to manage rising labor expenses.

Key Risks & Concerns

- AEL faces a significant dependency on the sale of its products to key customers. The potential loss of any of these crucial clients or a decline in revenue from sales could profoundly impact on the company. Revenue concentration from top 5 customers amounts to 60.8% for H1FY24.
- The company relies heavily on third-party suppliers for the procurement of raw materials, plants, machinery, and components, primarily through purchase orders. However, there exists a risk wherein these suppliers might not fulfill their obligations promptly or even at all.
- AEL is subject to stringent quality requirements, necessitating substantial expenses to maintain the desired product quality standards.
- AEL, given its global operations constituting about 90% of revenues in H1FY24, faces exposure to a wide array of risks that hold the potential to materially impact its business, financial condition, results of operations, cash flows, and future prospects.

Offer Details

AEL's proposed OFS size is INR 500 cr which would reduce promoter and promoter group shareholding from 78.6% (pre-issue) to 56.4% (post-issue). The size of fresh issue is INR 740 cr and this object of the issue are as follows:

- funding capital expenditure
- repayment/prepayment, in part or full of certain of its borrowings and
- general corporate purposes.

Issue Structure and Offer Details

The proposed total issue size of AEL is INR 740 cr (INR 500 cr OFS and INR 240 cr fresh issue) and the price band for the issue is in the range of INR 499 – 524 and the bid lot is 28 shares and multiples thereof.

Issue Structure	
Investor Category	Allocation
QIB	Not more than 50% of the Offer
NIB	Not less than 15% of the Offer
Retail	Not less than 35% of the Offer

Number of shares based on a higher price band of INR 524

Source: Company Reports

Details of the selling shareholders		
Promoter Selling shares	Amount offered	No of shares
Rakesh Chopdar	Not more than INR 205 Cr	39,12,214
Piramal Structured Credit Opportunities Fund	Not more than INR 261 Cr	49,80,916
DMI Finance Private Limited	Not more than INR 34 Cr	6,48,855
<i>The amount is based on a higher price band of INR 524</i>		
<i>Source: Company Reports</i>		

AEL financial summary and analysis

Fig in INR Cr (unless specified)	FY21	FY22	FY23	Fig in INR Cr (unless specified)	FY21	FY22	FY23
Income Statement				Per share data & Yields			
Revenue	122.7	194.5	251.7	Adjusted EPS (INR)	1.9	5.0	1.4
<i>YoY Growth (%)</i>		<i>58.5</i>	<i>29.4</i>	Adjusted Cash EPS (INR)	3.4	7.2	4.2
Raw Material Cost	13.8	20.8	30.2	Adjusted BVPS (INR)	15.4	20.3	34.5
<i>RM Cost to Sales (%)</i>	<i>11.3</i>	<i>10.7</i>	<i>12.0</i>	Adjusted CFO per share (INR)	0.8	3.5	(1.7)
Employee Cost	32.6	46.3	59.3	CFO Yield (%)	0.2	0.7	(0.3)
<i>Employee Cost to Sales (%)</i>	<i>26.6</i>	<i>23.8</i>	<i>23.5</i>	Adjusted FCF per share (INR)	(3.3)	(18.2)	(16.8)
Other Expenses	48.2	65.2	90.0	FCF Yield (%)	(0.6)	(3.5)	(3.2)
<i>Other Exp to Sales (%)</i>	<i>39.2</i>	<i>33.5</i>	<i>35.8</i>	Solvency Ratio (X)			
EBITDA	28.2	62.3	72.3	Total Debt to Equity	1.0	1.6	1.5
<i>Margin (%)</i>	<i>22.9</i>	<i>32.0</i>	<i>28.7</i>	Net Debt to Equity	0.8	1.5	1.2
<i>YoY Growth (%)</i>		<i>121.2</i>	<i>16.1</i>	Net Debt to EBITDA	2.5	2.9	3.4
Depreciation & Amortization	8.9	13.3	16.6	Return Ratios (%)			
EBIT	19.3	49.0	55.7	Return on Equity	12.7	24.5	4.2
<i>Margin (%)</i>	<i>15.7</i>	<i>25.2</i>	<i>22.1</i>	Return on Capital Employed	7.6	11.3	7.1
<i>YoY Growth (%)</i>		<i>153.9</i>	<i>13.8</i>	Return on Invested Capital	11.9	16.3	12.3
Other Income	2.3	4.8	9.8	Working Capital Ratios			
Finance Cost	5.4	13.6	52.4	Payable Days (Nos)	111	80	69
Interest Coverage (X)	3.6	3.6	1.1	Inventory Days (Nos)	102	108	125
Exceptional Item	0.0	0.0	0.0	Receivable Days (Nos)	156	140	172
PBT	16.2	40.1	13.2	Net Working Capital Days (Nos)	147	168	228
<i>Margin (%)</i>	<i>13.2</i>	<i>20.6</i>	<i>5.2</i>	Net Working Capital to Sales (%)	40.4	46.0	62.5
<i>YoY Growth (%)</i>		<i>147.2</i>	<i>(67.2)</i>	Valuation (X)			
Tax Expense	4.7	10.7	4.7	P/E	269.3	105.2	365.6
<i>Tax Rate (%)</i>	<i>29.2</i>	<i>26.6</i>	<i>35.6</i>	P/BV	34.1	25.8	15.2
PAT	11.5	29.5	8.5	EV/EBITDA	112.5	52.6	46.3
<i>Margin (%)</i>	<i>9.4</i>	<i>15.1</i>	<i>3.4</i>	EV/Sales	25.8	16.9	13.3
<i>YoY Growth (%)</i>		<i>156.1</i>	<i>(71.2)</i>	Cash Flow Statement			
Min Int/Sh of Assoc	0.0	0.0	0.0	PBT	16.2	40.1	13.2
Net Profit	11.5	29.5	8.5	Adjustments	14.8	31.4	49.0
<i>Margin (%)</i>	<i>9.4</i>	<i>15.1</i>	<i>3.4</i>	Change in Working Capital	(21.6)	(39.9)	(67.7)
<i>YoY Growth (%)</i>		<i>156.1</i>	<i>(71.2)</i>	Less: Tax Paid	(4.7)	(10.7)	(4.7)
Balance Sheet				Cash Flow from Operations	4.8	20.9	(10.2)
Share Capital	1.5	1.5	1.7	Net Capital Expenditure	(20.4)	(117.1)	(83.7)
Total Reserves	89.4	118.5	202.3	Change in Investments	(14.3)	2.9	(17.4)
Shareholders Fund	90.9	120.0	204.0	Cash Flow from Investing	(34.7)	(114.2)	(101.2)
Long Term Borrowings	41.5	122.6	220.9	Change in Borrowings	29.0	109.5	121.4
Deferred Tax Assets / Liabilities	9.8	11.6	13.6	Less: Finance Cost	(5.4)	(13.6)	(52.4)
Other Long Term Liabilities	0.0	0.0	0.0	Proceeds from Equity	0.0	0.0	57.3
Long Term Trade Payables	0.0	0.0	0.0	Buyback of Shares	0.0	0.0	0.0
Long Term Provisions	1.4	2.3	2.6	Dividend Paid	0.0	0.0	0.0
Total Liabilities	143.5	256.4	441.0	Cash flow from Financing	23.6	95.9	126.3
Net Block	121.1	144.4	216.7	Net Cash Flow	(6.3)	2.7	15.0
Capital Work in Progress	0.0	23.7	38.0	Forex Effect	0.0	0.0	0.0
Intangible assets under developmen	0.0	0.0	0.0	Opening Balance of Cash	8.1	1.8	4.4
Non Current Investments	0.0	0.0	0.0	Closing Balance of Cash	1.8	4.4	19.4
Long Term Loans & Advances	1.9	59.8	42.3				
Other Non Current Assets	7.1	8.8	8.7				
Net Current Assets	13.5	19.8	135.4				
Total Assets	143.5	256.4	441.0				

Source: Ventura Research

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