

Azad Engineering Limited

Company Overview:

Azad Engineering Limited is one of the key manufacturers of the qualified product lines supplying to global original equipment manufacturers (OEMs) in the energy, aerospace and defence, and oil and gas industries, manufacturing highly engineered, complex and mission and life-critical components. The company manufactures complex and highly engineered precision forged and machined components that are mission and life-critical and hence, some of the products has a zero parts per million defects requirement. The company compete with manufacturers from China, Europe, USA and Japan.

Key Highlights:

1. Robust product portfolio: The company products include 3D rotating airfoil/ blade portions of turbine engines and other critical components for (a) gas, nuclear and thermal turbines used in industrial applications or energy generation, and (b) defence and civil aircrafts and spaceships. The demand for such precision, forged and machined components is driven by requirements relating to energy turbines (industrial, gas, nuclear and coal), aircrafts (commercial and military), amongst others. Airfoils/ blades are one of the most critical 3D rotating and stationary parts of a turbine in the compression section. To sustain the high pressure, airfoils/ blades are made up of exotic/ super alloys and manufactured with a unique process designed by the Company.

2. Advanced manufacturing facility: The company has four advanced manufacturing facilities in Hyderabad, Telangana, India, capable of producing high precision forged and machined components with a total manufacturing area of approximately 20,000 square metres. The company also has two manufacturing facilities in the pipeline at (a) Tuniki Bollaram village in Siddipet district, Telangana and (b) Mangampet village in Sangareddy district, Telangana with a total manufacturing area of 94,898.8 square metres and 74,866.8 square metres, respectively. The upcoming manufacturing facility at Tuniki Bollaram village in Siddipet district, Telangana is proposed to have dedicated and exclusive manufacturing for the production of critical and complex components such as airfoils/ blades and other special machined parts for gas and thermal turbines for Mitsubishi Heavy Industries Ltd., one of the long-standing customers.

3. Long-standing relationship with customers: The company has a well-diversified customer base spread across various geographies such as USA, Europe, Japan, Middle East, United Kingdom and China. The company has existing relationships with both Indian and global OEMs. The company's long-standing customer base comprises of leading product OEM companies, key strategic and globally preferred partners such as General Electric and Mitsubishi Heavy Industries Ltd., with whom they have an average relationship of over 10 years.

Valuation: The company is valued at FY23 P/E multiple of 387.2x and 68.6x reported PAT and adjusted PAT respectively, at the upper price band on post-issue capital. The company is a preferred manufacturer of mission & life-critical components serving highly regulated industries with significant entry barriers. It supplies to OEMs with high global market penetration and has long-standing and deep customer relationships. The revenues grew at a CAGR of 43% between FY21-FY23 achieving an adj. RoCE of ~21.2%. It commands an industry leading adjusted EBITDA margin of ~31.6% as of FY23.

Issue Details

Date of Opening	20 th December 23
Date of Closing	22 nd December 23
Price Band (Rs)	499 - 524
OFS (Rs cr)	500
Fresh Issue (Rs cr)	240
Issue Size (Rs cr)	740
No. of shares	1,48,29,659 – 1,41,22,137
Face Value (Rs)	2.0
Post Issue Market Cap (Rs cr)	2,961 – 3,097
BRLMs	Axis Capital, ICICI Securities, SBI Capital Markets, Anand Rathi Advisors
Registrar	KFin Technologies Limited
Bid Lot	28 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%
Employee Reservation	76,335 equity shares aggregating up to Rs 4 cr

Objects of Issue

	Estimated utilization from net proceeds (Rs cr)
Funding capital expenditure of the Company	60.4
Repayment/prepayment, in part or full, of certain borrowings availed by the company	138.2
General corporate purposes [^]	-
Total proceeds from fresh issue	-

[^] To be finalized upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC. The amount utilized for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern

Pre-Issue	No. of Shares	%
Promoter & Promoter Group	4,28,67,570	78.6
Public & Others	1,16,65,272	21.4
Total	5,45,32,842	100.0

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	3,87,60,055	65.3
Public & Others	2,05,82,406	34.7
Total	5,93,42,461	100.0

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	3,89,56,024	65.9
Public & Others	2,01,56,970	34.1
Total	5,91,12,995	100.0

Source: RHP, SSL Research

Key Financials

	FY21	FY22	FY23	1HFY24
Revenue from operations (Rs cr)	123	194	252	159
Reported EBITDA (Rs cr)	28	62	72	53
Reported Profit (Rs cr)	12	29	8	27
Reported EBITDA Margin (%)	22.9	32.0	28.7	33.1
Reported PAT Margin (%)	9.4	15.1	3.4	16.9
Reported EPS (Rs)	2.3	5.9	1.7	5.4*
ROE (%)	12.7	24.5	4.2	11.7*
ROCE (%)	12.1	16.9	13.9	9.6*
Debt / Equity (x)	1.0	1.64	1.32	1.41*

* Not Annualized

Source: RHP, SSL Research

Risk Factors

- **Customer concentration risk:** The company derives a significant portion of its revenue accounting for 59.9%, 54.8%, 63.1% and 60.8% of its FY21, FY22, FY23 and 1HFY24 revenue respectively from its top 5 customers. The loss of any of these customers could have a material adverse effect on the business, financial condition, results of operations and cash flows.
- **Raw material sourcing risk:** The company depends on third party suppliers for raw materials, plant, machinery and components, which are on a purchase order basis. The company ordered 63.2%, 61.4%, 66.8% and 83.2% of its raw materials in FY21, FY22, FY23 and 1HFY24 respectively from its top 5 suppliers. Further, the company does not have any exclusive suppliers, and the suppliers could engage with competitors and prioritize supplies of other customers, which could adversely impact the company's ability to procure a sufficient quantity of raw materials, plant, machinery and components at competitive rates.
- **Export risk:** The company generated 82.1%, 78.1%, 80.4% and 89.7% of its FY21, FY22, FY23 and 1HFY24 revenue respectively from outside India. As a result, the company is subject to several complex and regulatory requirements. The concentration of revenue from other countries could adversely affect business, results of operations, financial condition, cash flows and future prospects in case of risks that are specific to each country where the company's customers operate.
- **Competition:** The company faces significant competitive pressures in the business. Any inability to compete effectively would have a material adverse effect on the business, prospects, operations and financial results.

Growth Strategy

- **Strengthen core capabilities:** Continue to strengthen core capabilities across focus industries by expanding existing relationship with customers and acquiring new and more strategic customers across focus industries.
- **Increase penetration and market share:** Increase penetration and market share by leveraging relationship with existing customers and continue to maintain strong record of repeat orders from existing and new customers.
- **Augment manufacturing capabilities:** Continue to augment manufacturing capabilities by organic and inorganic acquisitions and better serve customers, while building scale and delivering state of the art execution.
- **Improve operating efficiencies:** Offer quality products at optimal prices and deploy new technologies to reduce operating costs and improve operative efficiencies.

Revenue from operations – Product-wise/Geography

Industry and Product Particulars	FY21		FY22		FY23		1HFY23	
	Revenue from purchase (Rs cr)	% of revenue from operations (%)	Revenue from purchase (Rs cr)	% of revenue from operation (%)	Revenue from purchase (Rs cr)	% of revenue from operation s (%)	Revenue from purchase (Rs cr)	% of revenue from operation s (%)
Energy	110.5	90.1	165.1	84.9	219.0	87.0	140.9	88.8
Airfoil/ blade	96.2	78.4	145.8	75.0	198.0	78.7	114.3	72.0
Non-airfoil	14.3	11.7	19.2	9.9	21.0	8.4	26.6	16.8
Aerospace and defence	7.6	6.2	20.3	10.4	22.5	9.0	13.7	8.6
Air generation system	1.7	1.4	8.8	4.5	3.4	1.4	5.1	3.2
Hydraulic system	0.3	0.2	2.2	1.1	7.5	3.0	3.5	2.2
APU/ engine	1.9	1.5	1.2	0.6	1.9	0.8	0.7	0.5
Airfoil/ blade	1.4	1.1	1.8	0.9	1.3	0.5	0.8	0.5
Engine	0.3	0.3	1.4	0.7	2.0	0.8	1.0	0.7
Generator	0.2	0.2	0.5	0.2	1.9	0.7	1.5	0.9
Engineering charges	0.0	0.0	3.0	1.6	0.0	0.0	0.0	0.0
Propulsion system	0.0	0.0	0.0	0.0	1.9	0.8	0.4	0.3
Structural joints	0.7	0.6	0.2	0.1	0.3	0.1	0.0	0.0
Missile	0.3	0.2	0.3	0.2	0.4	0.2	0.1	0.0
Others	0.7	0.6	0.9	0.5	1.9	0.7	0.6	0.4
Oil and gas	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Drilling services	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Scrap	2.6	2.2	7.8	4.0	9.7	3.9	3.5	2.2
Others	1.9	1.6	1.3	0.7	0.4	0.2	0.7	0.4
Total	122.7	100.0	194.5	100.0	251.7	100.0	158.7	100.0

Country	FY21		FY22		FY23		1HFY23	
	Revenue from operations (Rs cr)	%	Revenue from operations (Rs cr)	%	Revenue from operations (Rs cr)	%	Revenue from operations (Rs cr)	%
Japan	41.3	33.7	65.2	33.5	89.3	35.5	33.0	20.8
USA	31.3	25.5	46.7	24.0	57.9	23.0	55.7	35.1
India*	22.0	17.9	43.2	22.2	49.7	19.8	16.8	10.6
UAE	9.0	7.3	17.0	8.7	22.3	8.8	17.4	11.0
Germany	8.8	7.2	6.6	3.4	15.9	6.3	3.5	2.2
Switzerland	4.2	3.4	1.6	0.8	0.1	0.0	0.1	0.1
UK	3.5	2.9	3.6	1.8	1.2	0.5	3.9	2.5
Hungary	1.2	1.0	1.3	0.7	0.1	0.0	0.9	0.5
France	0.7	0.6	8.4	4.3	15.3	6.1	20.6	13.0
Italy	0.4	0.4	-	-	-	-	-	-
Sweden	0.4	0.3	-	-	-	-	-	-
South Africa	-	-	0.4	0.2	-	-	-	-
Poland	-	-	0.4	0.2	-	-	6.8	4.3
Saudi Arabia	-	-	-	-	0.0	0.0	-	-
Singapore	-	-	-	-	0.0	0.0	0.3	0.2

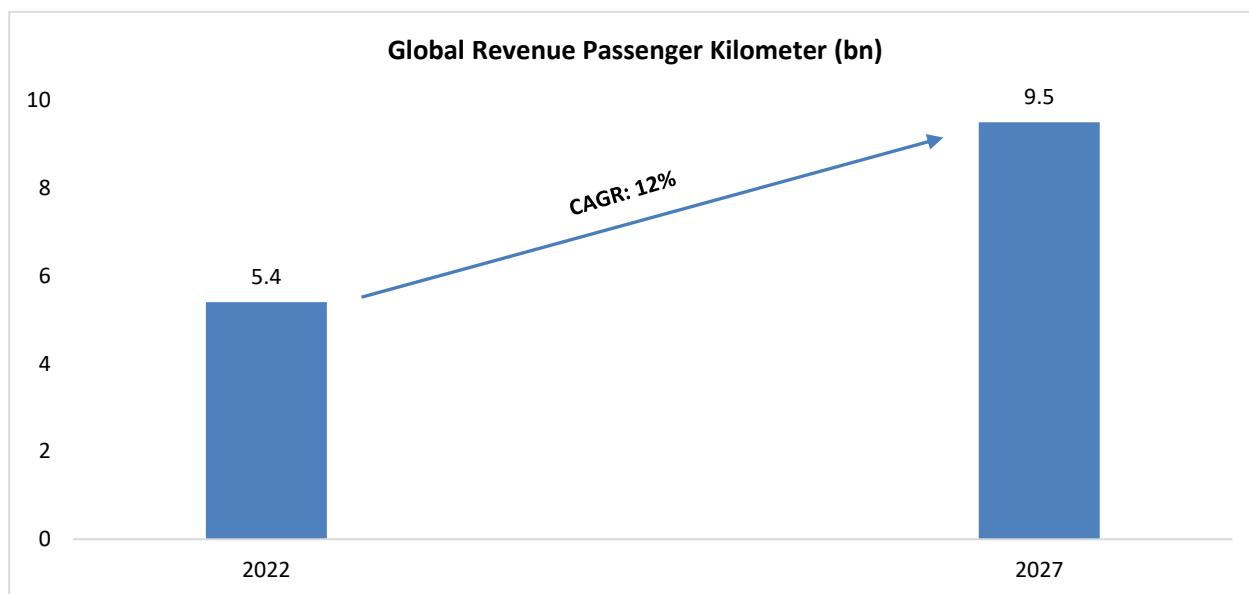
*Includes export incentives

Source: RHP, SSL Research

Industry Overview – Aerospace and Defense Market

Global Air Passenger Traffic Market

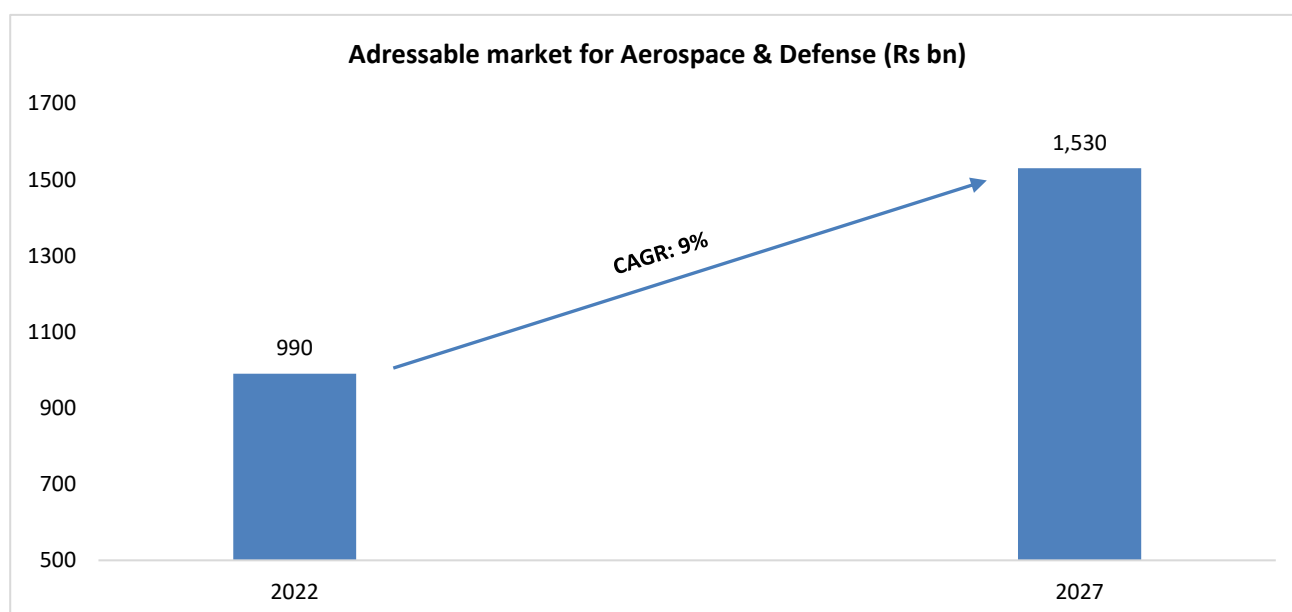
The commercial aircraft industry was facing significant headwinds post the Covid-9 pandemic, recovered in CY22 and CY23. The outlook for global air traffic is positive with Revenue Passenger Kilometer (RPK) expected to increase to 9.5 bn by CY27, growing at a CAGR of 12%.



Source: RHP, SSL Research

Global Addressable Aerospace and Defense Market

The global addressable aerospace and defense components market is valued at Rs 990 bn in CY22 and is expected to grow at a CAGR of 9% to reach Rs 1,530 bn by CY27. As of CY23, GE Aerospace is the player with the largest addressable market size, followed by The Boeing Company & Honeywell International Inc.



Source: RHP, SSL Research

Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY21	FY22	FY23
Revenue from Operations	123	194	252
YoY growth (%)	-	-	29.4
Cost Of Revenues (incl Stock Adj)	14	21	30
Gross Profit	109	174	222
Gross margins (%)	88.7	89.3	88.0
Employee Cost	33	46	59
Other Operating Expenses	48	65	90
Reported EBITDA	28	62	72
Adjusted EBITDA	37	63	80
Reported EBITDA margins (%)	22.9	32.0	28.7
Other Income	2	5	10
Net Interest Exp.	5	14	52
Depreciation	9	13	17
Exceptional Items	0	0	0
PBT	16	40	13
Tax	5	11	5
Reported PAT	12	29	8
Adjusted PAT	20	33	45
Reported PAT margin (%)	9.4	15.1	3.4
Reported EPS	2.3	5.9	1.7

BALANCE SHEET			
(Rs cr)	FY21	FY22	FY23
Assets			
Net Block	121	144	217
Capital WIP	0	24	38
Other Non current Assets	9	69	51
Current Assets			
Inventories	34	57	86
Trade receivables	53	75	119
Cash and Bank Balances	17	18	53
Other Current Assets	22	18	26
Total Current Assets	126	168	284
Current Liabilities & Provisions			
Trade payables	37	43	48
Other current liabilities	28	30	19
Short-term provisions	1	1	2
Total Current Liabilities	66	73	68
Net Current Assets	60	94	215
Total Assets	190	331	521
Liabilities			
Share Capital	2	2	2
Reserves and Surplus	89	118	202
Total Shareholders Funds	91	120	204
Total Debt	88	197	301
Long Term Provisions	1	2	3
Net Deferred Tax Liability	10	12	14
Total Liabilities	190	331	521

Cash Flow (Rs cr)	FY21	FY22	FY23
Cash flow from Operating Activities	4	21	-10
Cash flow from Investing Activities	-35	-114	-101
Cash flow from Financing Activities	24	96	126
Free Cash Flow	-16	-96	-96

RATIOS			
	FY21	FY22	FY23
Profitability			
Return on Assets (%)	4.5	7.3	1.4
Return on Capital (%)	12.1	16.9	13.9
Return on Equity (%)	12.7	24.5	4.2
Margin Analysis			
Gross Margin (%)	88.7	89.3	88.0
EBITDA Margin (%)	22.9	32.0	28.7
Net Income Margin (%)	9.4	15.1	3.4
Short-Term Liquidity			
Current Ratio (x)	1.1	1.1	1.9
Quick Ratio (x)	0.8	0.7	1.3
Avg. Days Sales Outstanding (x)	156	140	172
Avg. Days Inventory Outstanding (x)	102	108	125
Avg. Days Payables	111	80	69
Fixed asset turnover (x)	1.0	1.3	1.2
Debt-service coverage (x)	0.3	0.3	0.2
Long-Term Solvency			
Total Debt / Equity (x)	1.0	1.6	1.3
Interest Coverage Ratio (x)	4.0	3.9	1.3
Valuation Ratios			
EV/EBITDA (x)	94.7	44.6	38.9
P/E (x)	225.8	88.2	306.5
P/B (x)	28.6	21.6	12.7

Source: RHP, SSL Research

Peer Comparison

	Azad Engineering Limited	MTAR Technologies Ltd.	Paras Defence and Space Technologies Ltd.	Dynamatic Technologies Ltd	Triveni Turbines Ltd
CMP	524.0	2,243.7	745.4	4,455.0	415.3
Sales (Rs cr)	251.7	573.0	214.0	1,316.0	1,248.0
EBITDA (Rs cr)	72.3	154.0	56.0	184.0	235.0
Adjusted EBITDA (Rs cr)	80.0	-	-	-	-
Net Profit (Rs cr)	8.5	104.0	36.0	43.0	193.0
Adjusted PAT (Rs cr)	45.0	-	-	-	-
Market Cap (Rs cr)	3,097.5	6,901.5	2,907.1	3,025.6	13,201.4
Enterprise Value (Rs cr)	3,313.2	7,135.5	2,919.4	3,466.6	12,844.4
EBITDA Margin (%)	28.7	26.9	26.2	14.0	18.8
Net Margin (%)	3.4	18.2	16.8	3.3	15.5
P/E(x): Based on the Reported PAT	365.6	66.4	80.8	70.4	68.4
P/E (x): Based on Adjusted PAT	68.6	-	-	-	-
EV/EBITDA	45.8	46.3	52.1	18.8	54.7
RoE (%)	4.2	17.9	9.1	9.2	21.5
RoCE (%)	13.9	22.2	13.2	10.4	28.7

The data is based on FY23 financial data.

For Azad Engineering Limited the Market cap, PE(x), and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

CMP as on 15th December'23.

Source: RHP, SSL Research

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