



## IPO Report

19<sup>th</sup> Dec'23

### Snapshot

Azad Engineering Ltd is one of the key manufacturers of company's 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. Company manufacture complex and highly engineered precision forged and machined components that are mission and life-critical and hence, some of company's products have a "zero parts per million" defects requirement. As of September 30, 2023, company generated a revenue of ₹1,142.92 million from sale of airfoils/ blades for the energy industry, which comprised of 72.00% of company's revenue from operations. Company compete with manufacturers from China, Europe, USA and Japan.

### VALUATION

Company is bringing the issue at price band of Rs 499-524 per share at p/e multiple of 58x on post issue annualized H1FY24 PAT basis.

Company is preferred name in the manufacturing of highly engineered, complex, and mission and life- critical high precision components for global OEMs growing competition from China and Eastern Europe. Company's supplying to OEMs with high global market penetration has long-standing and deep customer relationships with advanced manufacturing facilities with a diverse range of products and solutions with focus on innovation and cost competitiveness and consistent track record of financial performance.. Hence ,looking after all above we recommend "Subscribe" on issue.

<b>Price Band (Rs./Share)</b>	<b>499-524</b>
<b>Opening date of the issue</b>	<b>20<sup>th</sup> Dec '2023</b>
<b>Closing Date of the issue</b>	<b>22<sup>nd</sup> Dec '2023</b>
<b>No of shares pre issue</b>	54,532,842 Eq Shares
<b>Issue Size</b>	Rs 740 Cr
<b>Fresh issue</b>	Rs 500 Cr
<b>Offer For Sale</b>	Rs 240 Cr
<b>Face Value (Rs/ share)</b>	Rs 2/share
<b>Bid Lot</b>	28
<b>Employee Reservation</b>	Rs 4 Cr

### BIDDING DETAILS

<b>QIBs (Including Anchor)</b>	50% of the offer (Approx 7022886 Eq Shares)
<b>Non-Institutional</b>	15% of the offer (Approx 2106866 Eq Shares)
<b>Retail</b>	35 % of the offer ( Approx 4916021 Eq Shares)
<b>Employee</b>	Rs 4 Cr
<b>Lead managers</b>	Axis Capital, ICICI Securities, SBI Capital Markets, Anand Rathi Advisor
<b>Registrar to the issue</b>	KFin Technologies Ltd

## WHAT WE LIKE

***Engineered for success and a preferred name in the manufacturing of highly engineered, complex and mission and lifecritical high precision components for global OEMs despite growing competition from China, Europe, USA and Japan***

Company is one of the key manufacturers of qualified product lines supplying to global OEMs primarily engaged in highly regulated industries, including energy, aerospace and defence and oil and gas industries, manufacturing highly engineered, complex and mission and life-critical components. Company's customers include global OEMs across energy, aerospace and defence, and oil and gas industries such as General Electric, Honeywell International Inc., Mitsubishi Heavy Industries, Ltd., Siemens Energy, Eaton Aerospace and MAN Energy Solutions SE.

***Consistent track record of financial performance***

Company have demonstrated consistent growth in terms of revenues and profitability. Company's total revenue from operations increased by 105.08% from ₹ 1,227.21 million in Fiscal 2021 to ₹ 2,516.75 million in Fiscal 2023 and was ₹ 1,587.47 million in the six months ended September 30, 2023.

***Experienced Promoter and management team backed by marquee investors***

Company is led by its Promoter Rakesh Chopdar who has helped expand company's operations within India and globally and has been associated with company as a director since 2003. Rakesh Chopdar has more than two decades of experience in engineering and manufacturing activities. Company is also backed by Piramal Structured Credit Opportunities Fund, DMI Finance Private Limited and other investors.



## COMPANY BACKGROUND

Company's components have been supplied to countries such as USA, China, Europe, Middle East, and Japan since its inception. Accordingly, company is a key link in the global supply chain for OEMs. Company increased revenue from ₹1,240.00 million in Financial Year 2020 to ₹2,516.75 million in Financial Year 2023 (CAGR of 27% between Financial Years 2020 and 2023) with an adjusted EBITDA margin of 31.61% in Financial Year 2023. Company is one of the fastest growing manufacturers (in terms of revenue growth for the period between Financial Years 2020 – 2023) with one of the highest EBITDA margins among the key players for machined components for the key industries serviced by it. Company's vision is to revolutionize the global precision manufacturing industry and disrupt the industries in which company operate in with cutting-edge technology while contributing towards India's evolving manufacturing ecosystem. Company's 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 company. In the energy industry, company produces high-precision rotating and stationary 3D airfoils/ blades, special machined parts and combustion component assemblies for land-based turbines with applications in industrial and energy plants using different fuel types such as nuclear, hydrogen, natural gas and thermal. Company's aerospace and defence products include airfoils/ blades and components for engines, auxiliary power units ("APUs"), hydraulics, actuating systems, flight controls, fuel and inerting sections of commercial and defence aircrafts and spacecrafts, among other defence systems and various critical components for missiles. Company have supplied critical components to major commercial aircraft manufacturers such as B737, B737 Max, B747, B777, B777X, A320, A350, A355, A350 XWB, Gulfstream G550 and are currently in discussions for supply of components for new engine platforms to various kinds of aircraft manufacturers. For the oil and gas industry, company manufacture components of drilling rigs such as drill bits and other critical components that are used in drilling equipment and are part of exploration and production phase.

Company has been in operations for 15 years and have substantial experience as a tier 1 supplier of high precision forged and machined components in the energy and aerospace and defence industries with sales in 15 countries in the period between March 31, 2021 and September 30, 2023 in the industries in which company operate. The demand for these products is driven by the orders for these components in either new energy turbines (industrial and gas, nuclear and coal energy plants), or the service market. The demand for both in turn is driven by energy consumption and growth in energy demand.

Among the addressable markets for company, the overall global energy turbine components market for application in industrial and energy generation in Financial Year 2022 was Rs 283.25 billion and is expected to be Rs 282.70 billion by Financial Year. There is a high variation in expected CAGR between gas, nuclear and coal turbines with highest CAGR expected for components of nuclear turbines (+8% CAGR by Financial Year 2027) followed by gas turbine (+1% CAGR by Financial Year 2027). In Financial Year 2023, company have supplied to customers which control approximately 70% of the gas turbine market (based technology ownership and number of units ordered in first half of Fiscal 2022) globally. Company supply components to five of the key manufacturers in the turbine manufacturing industry. Further, the market for aerospace and defence components was the largest at Rs 990 billion in Financial Year 2022 and is expected to go up to Rs 1,530 billion by Financial Year 2027 with the highest CAGR of +9% by 2027. Company supply components to six of the key manufacturers in the aerospace and defence industries. The overall addressable market across energy and aerospace and defence components for company is expected to grow at +7% CAGR from Rs 1,280 billion in Financial Year 2022 to Rs 1,810 billion in Financial Year 2027. Additionally, the addressable market for oilfield drilling components is expected to grow at +4% CAGR by Financial Year 2027.

Company have 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. Further, company have two manufacturing facilities in the pipeline at (a) Tuniki Bollaram village in Siddipet district, Telangana and (b) Mangampet village, Sangareddy district, Telangana, with a total manufacturing area of 94,898.78 square metres and 74,866.84 square metres, respectively. The construction and development of these proposed manufacturing facilities are intended to be funded from company's internal accruals. Company's upcoming manufacturing facility at Tuniki Bollaram village in Siddipet district, Telangana is proposed to have dedicated and exclusive manufacturing setups for its customers. Company plan to initially introduce this exclusive manufacturing setup for 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 company's long-standing customers.



## INVESTMENT RATIONALE

<p><i>Supplying to OEMs with high global market penetration</i></p>	<p>Based on company's deep market knowledge and continuing interactions with its long-standing customers, which gives company expansive insight into multiple industries, company serve as a critical source supplier for global OEMs. The global energy consumption has increased from 406 exajoules ("EJ") in 2017 to 449 EJ in Financial Year 2022 with annualized growth rate of 2% from Financial Years 2017-2022. Industrial energy consumption has increased from 143 gigawatt ("GW") in 2010 to 167 GW in Financial Year 2021. Out of this industrial energy consumption, more than three-fourths of the market is consumed for non-power end use applications. Global electricity consumption increased from 77 EJ in Financial Year 2017 to 92 EJ in Financial Year 2022. Global capacity for energy generation stood at 8,185 GW in Financial Year 2021. Out of this, the global capacity for gas energy generation was 1,850 GW, 390 GW capacity for nuclear energy generation and 2,184 GW capacity for coal energy generation in Financial Year 2021 . The overall global energy turbine components market for application in industrial and energy generation in Financial Year 2022 was Rs 283.25 billion and is expected to be Rs 282.70 billion by Financial Year 2027 . There is a high variation in expected CAGR between gas, nuclear and coal turbines with highest CAGR expected for components of nuclear turbines (+8% CAGR by Financial Year 2027) followed by gas turbine (+1% CAGR by Financial Year 2027) . The steam turbine manufacturing market is concentrated with top five players contributing to more than 60% of the market based on orders as of September 30, 2023, and the gas turbine manufacturing market is highly concentrated with top five players contributing to more than 80% of the market.</p>
<p><i>Long-standing and deep customer relationships</i></p>	<p>Company has existing relationships with both Indian and global OEMs. Company's long-standing customer base comprises leading product OEM companies, key strategic and globally preferred partners such as General Electric and Mitsubishi Heavy Industries, Ltd., with whom company have an average relationship of over 10 years. Further, company's integrated manufacturing and supply chain solutions together with its scale of operations, technical know-how, value added design and engineering expertise, allows company to cater to several Indian and global OEMs.</p>
<p><i>Advanced manufacturing facilities with a diverse range of products and solutions with focus on innovation and cost competitiveness</i></p>	<p>As of September 30, 2023, company have four manufacturing facilities in Hyderabad, Telangana in India which are spread across approximately 20,000 square metres and have a combined annual installed capacity of 642,310 hours per annum, annual actual production of 578,316 hours per annum and capacity utilization of 90 % per annum. Company propose to fund capital expenditure requirements of Company through the Net Proceeds towards the purchase of plant and machinery for its existing manufacturing facilities.</p>



## OBJECTS OF OFFER

### Offer for Sale

Each of the Selling Shareholders will be entitled to their respective portion of the proceeds from the Offer for Sale in proportion of the Equity Shares offered by the respective Selling Shareholders as part of the Offer for Sale after deducting their proportion of Offer related expenses and relevant taxes thereon.

### Fresh Issue

The Net Proceeds of the Fresh Issue are proposed to be utilized in the following manner:

1. Funding capital expenditure of Company; 2. Repayment/prepayment, in part or full, of certain of company's borrowings availed by Company; and 3. General corporate purposes.

## RISKS

Company's business is dependent on the sale of company's products to key customers. The loss of any of company's key customers or loss of revenue from sales to its customers could have a material adverse effect on company's business, results of operations, financial condition, cash flows and future prospects.

Source:RHP

## INDUSTRY OVERVIEW

### India's defence industry

India ranks third in the world in terms of defence expenditure. The country's need for extensive capabilities in defence sector arises primarily from having two neighboring countries Pakistan and China with nuclear capabilities and with whom India shares land boundary and has historically had border conflicts. India's military expenditure as a share of GDP has been consistently around 2.5% over the last 5 years. India's per capita spending on defence is about US\$58, which is the lowest among the top defence spending nations, but the per capita spending increased at a rate of 3.4% from 2018 to 2022. As per SIPRI estimates, Indian government allocates about 8.3% of its total spending towards military expenditure.

Indian Government's Union Budget of FY24 allocated INR 5,93,538 Cr towards Ministry of Defence (MoD). The MoD budget in India is split across defence services, MoD civil services and pensions. Defence services expenditure is the largest segment accounting for 73% allocation of the annual defence budget in FY24.

Defence services allocation is split into revenue and capital outlay in the budget. Capital outlay constitutes of the total capital expenditure by the defence ministry to procure arms, missiles, vehicles, equipment etc. and other capital expense such as buying land, construction expenses etc. It also includes expenditure for modernization and upgradation of equipment and technology to meet changing demands, upgrades in technology and to ensure the forces are ready for war at any notice. Defence purchases and upgrades happen in a planned and phased manner spearheaded by the Defence Acquisition Council.


**Consolidated Financials**

(Rs in Mn)

Financials	FY21	FY22	FY23	H1FY24
Total Revenue (A)	1227.21	1944.67	2516.75	1587.47
Total Expenditure (B)	945.67	1321.99	1793.97	1062.18
EBIDTA	281.54	622.68	722.78	525.29
EBIDTA Margin	22.94	32.02	28.72	33.09
Other Income	23.09	47.96	98.46	107.88
Depreciation	88.73	133.14	165.83	98.43
EBIT	215.90	537.50	655.41	534.74
Interest	53.54	136.16	523.82	218.60
PBT	162.36	401.34	131.59	316.14
Extraordinary Items	0.00	0.00	0.00	0.00
PBT	162.36	401.34	131.59	316.14
Share of profit in associate	0.00	0.00	0.00	0.00
PBT	162.36	401.34	131.59	316.14
Tax	47.36	106.77	46.86	47.25
PAT	115.00	294.57	84.73	268.89
NPM	9.37	15.15	3.37	16.94
ROE %	12.65	25.37	4.23	11.86
EPS	2.53	6.49	1.79	5.43
Eq Cap	15.13	15.13	16.52	99.11
Net Worth	908.92	1,200.07	2,039.88	2,305.39

(Source: RHP)

**Peer Comparison**

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>Azad Engineering Limited</i>	2	N.A	2615.21	1.79	42.30	4.23
<b>Peers</b>						
MTAR Technologies Limited	10	67.85	5932.28	33.62	201.13	16.72
Paras Defence and Space Technologies Limited	10	77.50	2306.50	9.25	10.60	8.69
Dynumatic Technologies Limited	10	88.73	13255.30	67.32	79.47	7.93
Triveni Turbine Limited	1	75.64	12901.73	5.97	23.83	25.47

(Source: RHP)



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