

The Issue	
Type of Issue	Rs. Mn
Fresh Issue	2,400
Offer for Sale	5,000
<b>Total</b>	<b>7,400</b>
<b>Post issue mkt cap *</b>	<b>30,975</b>
Lot size	28 shares

\*At Upper Price Band

Issue Break-Up	
Reservation for	% of Issue
QIB	50%
NII	35%
Retail	15%
<b>Total</b>	<b>100%</b>

Indicative Offer Timeline	Indicative Date
Bid/Offer Opening Date	20 Dec, 2023
Bid/Offer Closing Date	22 Dec, 2023
Finalization of the Basis of Allotment	26 Dec, 2023
Credit of shares	27 Dec, 2023
Listing Date	28 Dec, 2023

Use of Proceeds	Rs in Mn
Repayment/Pre-payment of borrowings	<b>1,382</b>
Funding Capex	<b>604</b>

<b>Manager</b>	ICICI Securities, Axis Capital, SBI Capital Markets, Anand Rathi Securities
<b>Registrar</b>	KFin Technologies

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## High entry barrier products with global scale...

### Company Overview:

- ⇒ Azad Engineering Ltd is one of the key manufacturers of our qualified product lines in the aerospace and defence, energy and oil and gas industries, manufacturing highly engineered, complex and mission and life-critical components.
- ⇒ Their products include 3D rotating airfoil portions of turbine engines and other critical products for defence and civil aircrafts, spaceships, defence missiles, nuclear power, hydrogen, gas power, oil and thermal power.
- ⇒ They operate in the energy, aerospace and defence, and oil and gas industries and work with global original equipment manufacturers (“OEMs”) operating in such industries. They have sales in more than 16 countries.
- ⇒ The company has over 15 years of experience as a tier I supplier of high-precision precision forged and machined components in the industry in which they operate.
- ⇒ The demand for these products is driven by the requirement of these components pertaining to military aircrafts, commercial aircrafts, spaceships, gas, hydrogen, nuclear and thermal turbine engines and oil and gas components.
- ⇒ Company derived 87% of its FY23 revenue from Energy vertical followed by 9% from Aerospace & defence. Exports contributed ~80% of FY23 revenue.
- ⇒ As of September 30, 2023, the company has 4 manufacturing facilities in Hyderabad, with an installed capacity of 642,310 hours p.a. These facilities are operating at capacity utilization of 90%.

**Valuation and Outlook:** At the upper price band, the IPO is reasonably priced at an annualized **P/E of 57.6x** on FY24E EPS (post-issue), which is at par with peers valuation on FY24E EPS basis. Over FY21-23, Azad Engineering’s Revenue/EBITDA has grown at a CAGR of 43.2% and 60.2% respectively. However, PAT registered a de-growth of 14% CAGR due to high interest cost (**21% of FY23 revenue**). Of the fresh issue proceeds, Rs 1,382mn would be utilized for debt repayment which amounts to Rs 1540mn as on H1FY24. This will ultimately ease pressure on PAT margins. Further, we believe the company’s future growth depends on its ability to (1) Expand customer base as well increase wallet share (**currently, <1%**) from existing customers (2) operationalization of two upcoming manufacturing facilities (3) optimization of operational expense to improve margins and (4) timely execution of Order backlog (**~Rs 20bn**). We assign a **“Subscribe”** rating to the stock.

## Azad Engineering Limited

### Azad Engineering Limited

Financial summary (Rs. Mn)	FY21	FY22	FY23	H1FY24
Revenue	1,227	1,945	2,517	1,587
EBITDA	282	623	723	525
EBITDA margin (%)	22.9%	32.0%	28.7%	33.1%
Adj. PAT	115	295	85	269
Adj. PAT margin (%)	9.4%	15.1%	3.4%	16.9%
Annualized PE (Post issue) - FY24	57.6x			

### Key Risks:

**Client Concentration risk:** As on September 30, 2023, Top 5 and 10 customers contribute 61% and 80% respectively to the revenue. Any adverse impact on business of any one of these clients could materially impact the results of operations, profitability and cash flows.

**Business Risk:** The market in which the company operates is characterized by rapidly changing technology, evolving industry standards and demands for features and continual product innovation. A negative impact on industries in which they or their customers operate can impact their business.

**Counterparty Credit Risk:** The company's trade receivables accounts for 40-42% of revenue. Any delay or inability from the company's customer could have an adverse effect on company's business, result of operations, financial conditions, cash flows and future growth.

### Pre-issue and post-issue holding structure

Shareholding pattern	Pre-issue	Post-issue*
	Holding (%)	Holding (%)
Promoter & Promoter Group	78.6%	56.4%
Public	21.4%	43.6%
Total	100.0%	100.0%

\* At upper price band

### Selling Shareholders

Selling Shareholders	No of shares	% of Total size
<b>Promoters &amp; Promoter Group</b>		
Rakesh Chopdar	39,11,546	6.62%
Piramal Structured Credit Opportunities Fund	49,78,073	8.42%
DMI Finance Pvt Ltd	6,52,366	1.10%
<b>Total</b>	<b>95,41,985</b>	<b>16.14%</b>

### Customer Revenue Contribution

Year	Top 5 Customers	Top 10 Customers
FY21	60%	81%
FY22	55%	74%
FY23	63%	80%
H1FY24	61%	80%

## Azad Engineering Limited

### Competitive Strengths:

**Preferred Strategic Partner of global OEMs:** The company is a tier 1 supplier of highly complex forged and machined projects and life critical components in the energy, aerospace and defence industries. They ensure strict adherence to the specifications provided by their customers, industry standards and utilizes advanced technology in order manufacturing process to provide quality and reliable products. Further, supplier switch in the industry by customers is often associated with extensive time and capital consuming. Through adherence to stringent product quality which are competitively priced and maintaining long-term relationships with customers, the company has earned the right of being preferred strategic and growth partners for major global OEMs.

**Supplying to Major global OEMs:** In FY23, they have supplied to customers who controls approximately 70% of the gas turbine market globally. They also supply to 5 key turbine manufacturers in the industry. Further, they also supply to 6 key manufacturers in the aerospace and defence industries.

**Long-Standing and deep customer relationships:** The company has maintained long-standing relationships both with Indian and global OEMs. They have a broad customer base globally including in the USA, Europe, Japan, Middle East, United Kingdom and China. In FY23, exports contributed ~80% of overall revenue. domain expertise in various aspects such as precision engineering, research and development, as well as adoption of technologically advanced and cost-competitive manufacturing processes has aided in repeat orders from customers as well as maintain long-term relationship with them.

**Advanced manufacturing facilities with focus on innovation and cost competitiveness:** The company's manufacturing processes are subject to regular inspections conducted by their customers. Further, its manufacturing facilities are equipped with sophisticated equipment and machinery including robotics equipment to produce high quality products, minimize the number of employees required to operate them and thereby reduce costs. The also undertake automation to increase the overall production efficiency and shorten the time to produce with enhanced quality along with reducing downtime and idle time.

### Business Strategies:

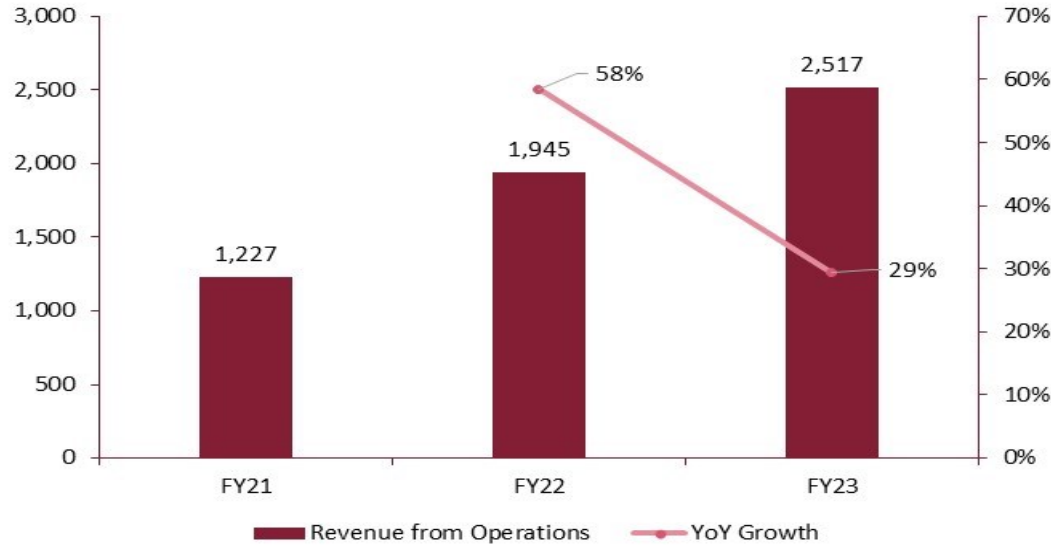
**Diversify customer base and increase revenue from existing customer base:** The company is in the process for qualifying for parts and components for the combustor section of a land-based turbine. Additionally, they are also exploring opportunities to manufacture other parts and components for aircraft engines. Through these efforts they intend to widen customer base. Also, they are looking to capitalize on supplier consolidation program by existing customer as part of their cost optimization program.

**Augment manufacturing capabilities:** As of September 30, 2023, the company is operating with 4 manufacturing facilities with an installed capacity of 6,42,310 hours p.a. These facilities are running at a 90% capacity utilization. Further, they have 2 additional capacity lined up to be commissioned which would undertake production of critical and complex components such as airfoils/ blades and other special machined parts for gas and thermal turbines for one of its customer. Going ahead they intend to set up more dedicated and exclusive manufacturing units. Also, they are exploring in-organic acquisitions to enhance production units and provide value-added services to their clients.

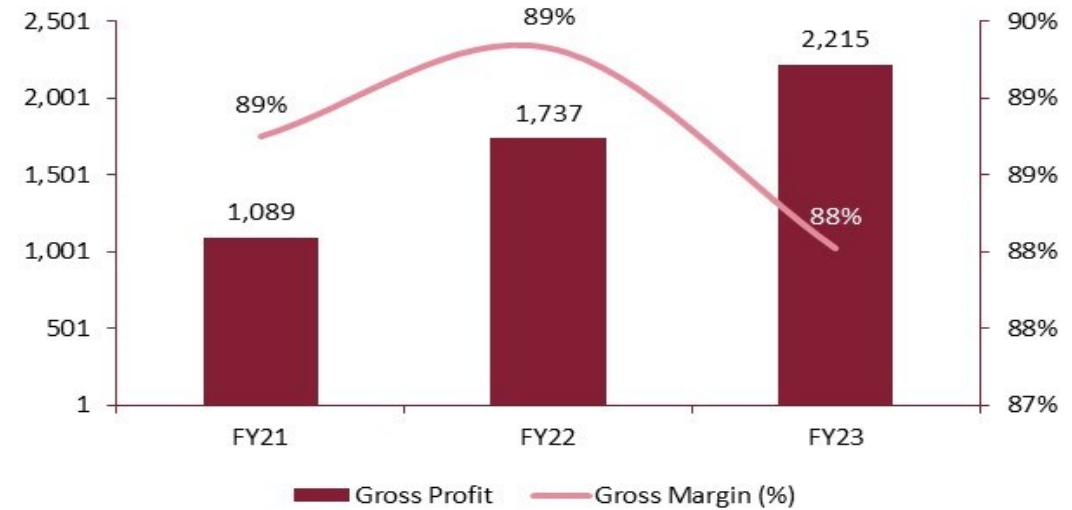
**Further reduce operating cost, improve efficiency and deploy new technologies:** The company aims to offer quality products at a competitive prices. To do so they are adopting automation in manufacturing process, augmenting R&D capabilities and improving efficiency in supply chain. This will enable the company to scale its production and better absorb fixed cost which would lead to reduced operating cost and enhanced competitive position.

# Azad Engineering Limited

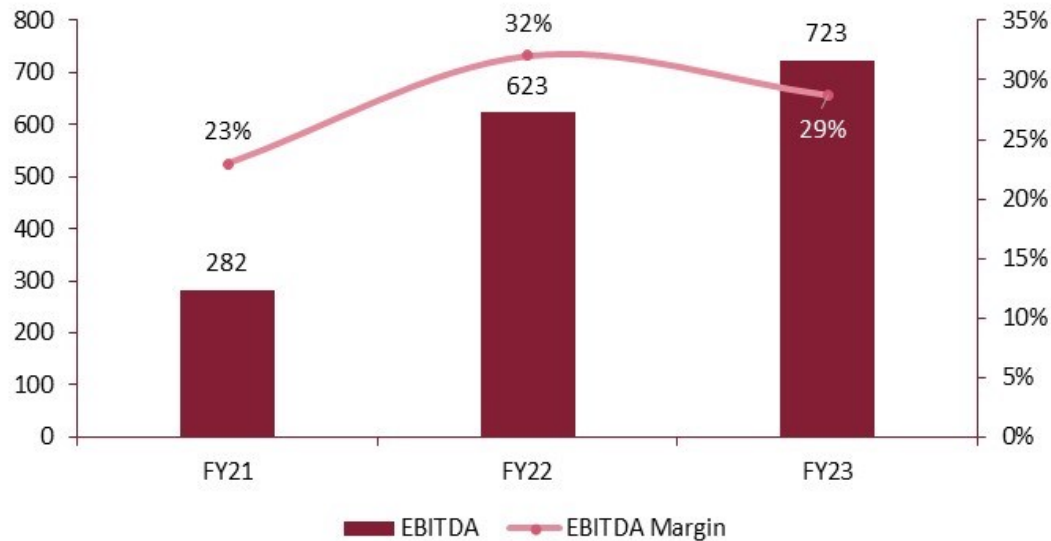
**Revenue from operations (Rs. Mn)**



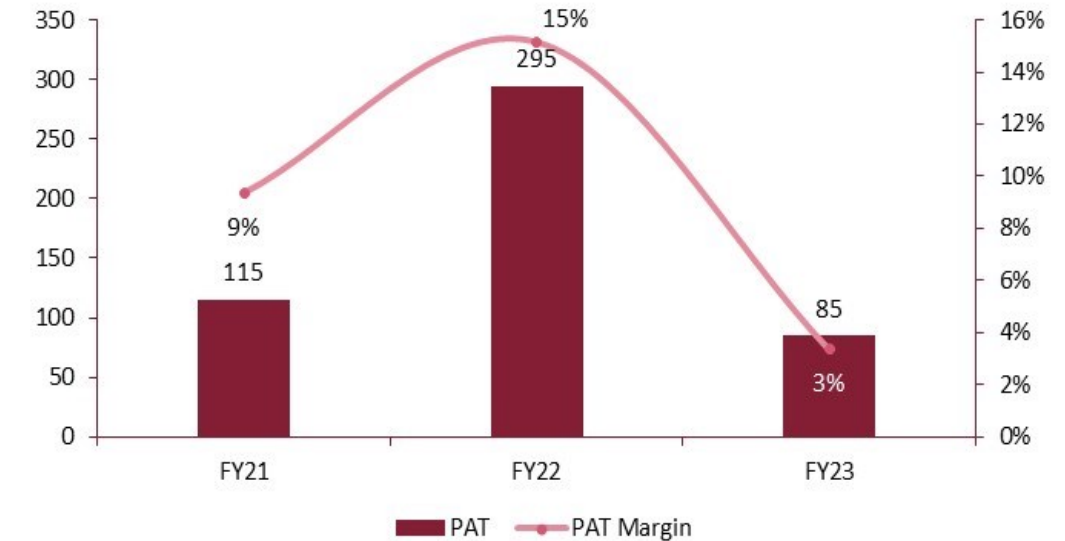
**Gross Profit (Rs. Mn) and GM (%)**



**EBITDA (Rs. Mn) and OPM (%)**



**PAT (Rs. Mn) and PAT Margin (%)**

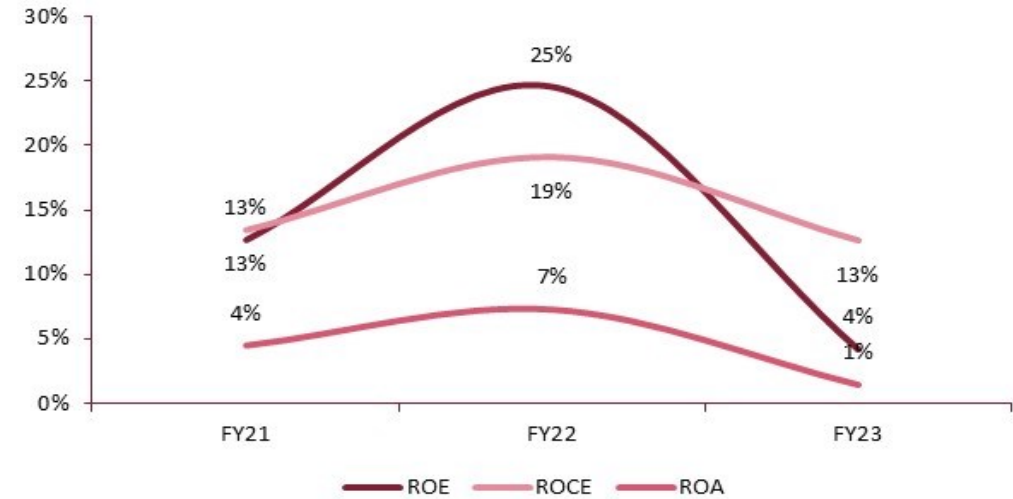


## Azad Engineering Limited

Revenue mix (Domestic vs Exports)



Return Ratios



## Peer Comparison

Particulars	FY21-23			FY23			H1FY24 Annualized		
	Revenue CAGR	EBITDA CAGR	PAT CAGR	ROE	ROCE	ROA	EV/EBITDA	EV/Sales	PE(x)
Azad Engineering*	43.2%	60.2%	-14.2%	4.2%	12.6%	1.4%	31.1	10.3	57.6
Listed Peers									
Dynamatic Technologies	8.5%	20.4%	NA	9.2%	10.0%	2.8%	13.3	2.5	48.4
Triveni Turbine	33.2%	25.6%	37.6%	21.5%	28.7%	12.9%	38.1	8.3	51.5
Average							25.7	5.4	50.0

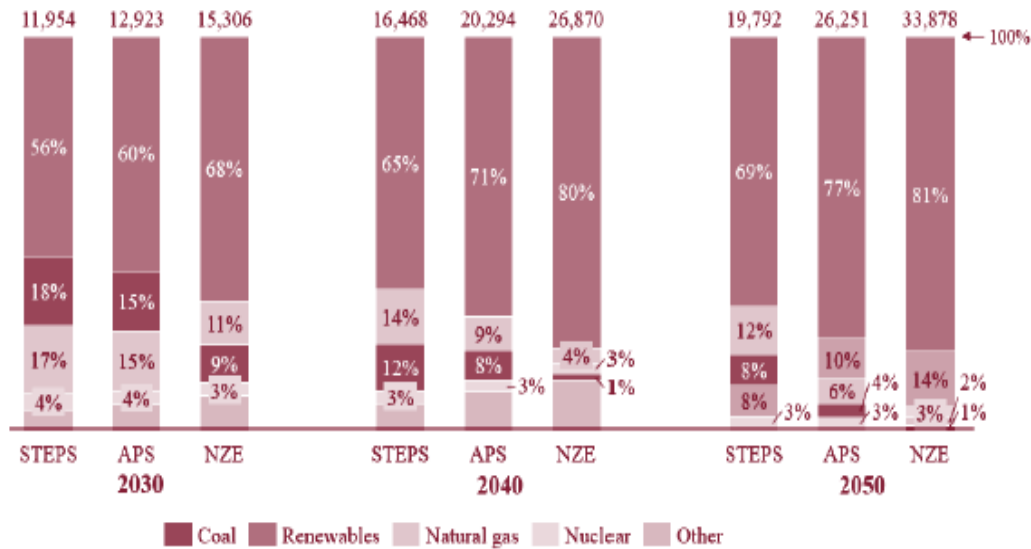
## Azad Engineering Limited

### Revenue Mix by Industry and Product

Industry and Product Particulars	FY21		FY22		FY23		H1FY24	
	RFO	% of Revenue	RFO	% of Revenue	RFO	% of Revenue	RFO	% of Revenue
<b>Energy</b>	<b>1,105</b>	<b>90.1%</b>	<b>1,651</b>	<b>84.9%</b>	<b>2,190</b>	<b>87.0%</b>	<b>1,409</b>	<b>88.8%</b>
Airfoil/ blade	962	78.4%	1,458	75.0%	1,980	78.7%	1,143	72.0%
Non-airfoil	143	11.7%	192	9.9%	210	8.4%	266	16.8%
<b>Aerospace and defence</b>	<b>76</b>	<b>6.2%</b>	<b>203</b>	<b>10.4%</b>	<b>225</b>	<b>9.0%</b>	<b>137</b>	<b>8.6%</b>
Air generation system	17	1.4%	88	4.5%	34	1.4%	51	3.2%
Hydraulic system	3	0.2%	22	1.1%	75	3.0%	35	2.2%
APU/ engine	19	1.5%	12	0.6%	19	0.8%	7	0.5%
Airfoil/ blade	14	1.1%	18	0.9%	13	0.5%	8	0.5%
Engine	3	0.3%	14	0.7%	20	0.8%	10	0.7%
Generator	2	0.2%	5	0.2%	19	0.7%	15	0.9%
Engineering charges	0	0.0%	30	1.6%	0	0.0%	0	0.0%
Propulsion system	0	0.0%	0	0.0%	19	0.8%	4	0.3%
Structural joints	7	0.6%	2	0.1%	3	0.1%	0	0.0%
Missile	3	0.2%	3	0.2%	4	0.2%	1	0.0%
Others	7	0.6%	9	0.5%	19	0.7%	6	0.4%
<b>Oil and gas</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>	<b>0</b>	<b>0.0%</b>
Drilling services	0	0.0%	0	0.0%	0	0.0%	0	0.0%
<b>Scrap</b>	<b>26</b>	<b>2.2%</b>	<b>78</b>	<b>4.0%</b>	<b>97</b>	<b>3.9%</b>	<b>35</b>	<b>2.2%</b>
<b>Others</b>	<b>19</b>	<b>1.6%</b>	<b>13</b>	<b>0.7%</b>	<b>4</b>	<b>0.2%</b>	<b>7</b>	<b>0.4%</b>
<b>Total</b>	<b>1,227</b>	<b>100.0%</b>	<b>1,945</b>	<b>100.0%</b>	<b>2,517</b>	<b>100.0%</b>	<b>1,587</b>	<b>100.0%</b>

## Industry Outlook

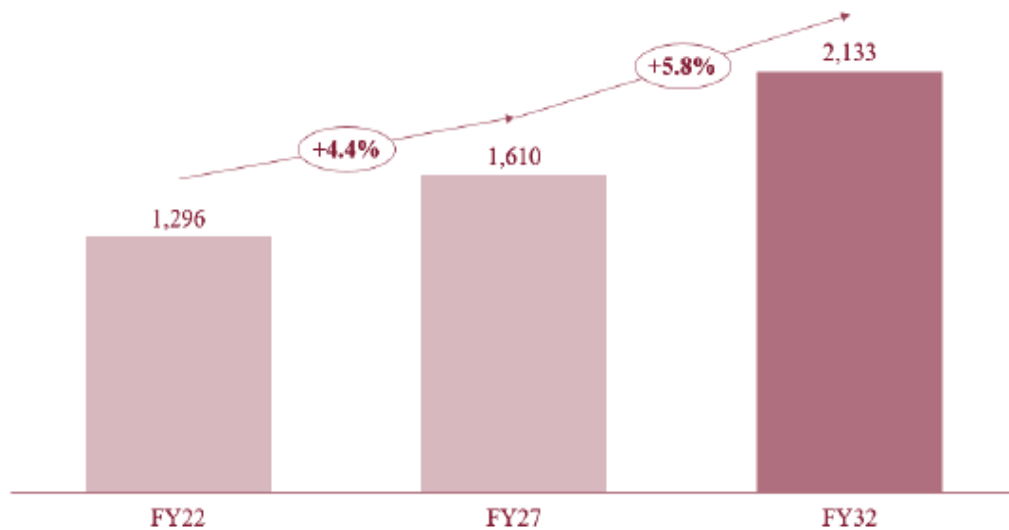
### Global power generation capacity outlook scenarios - split by fuels (GW)



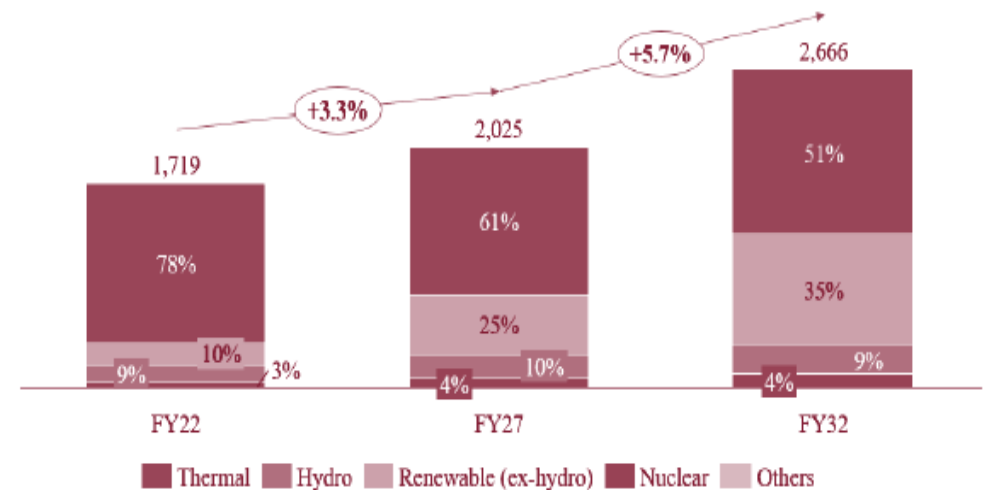
### India's per capita power consumption (MWh) trend



### India's power consumption outlook (TWh)

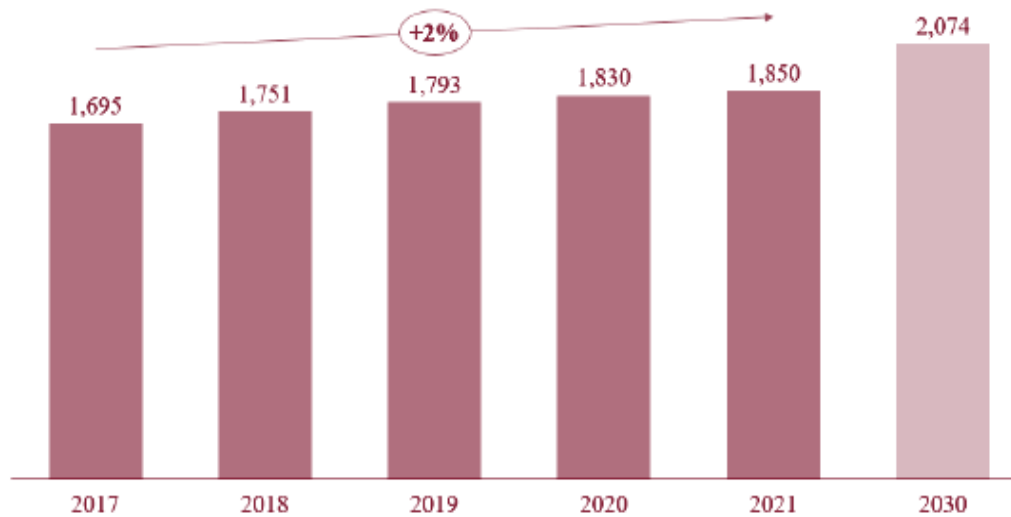


### India's power generation outlook (TWh) - split by fuel

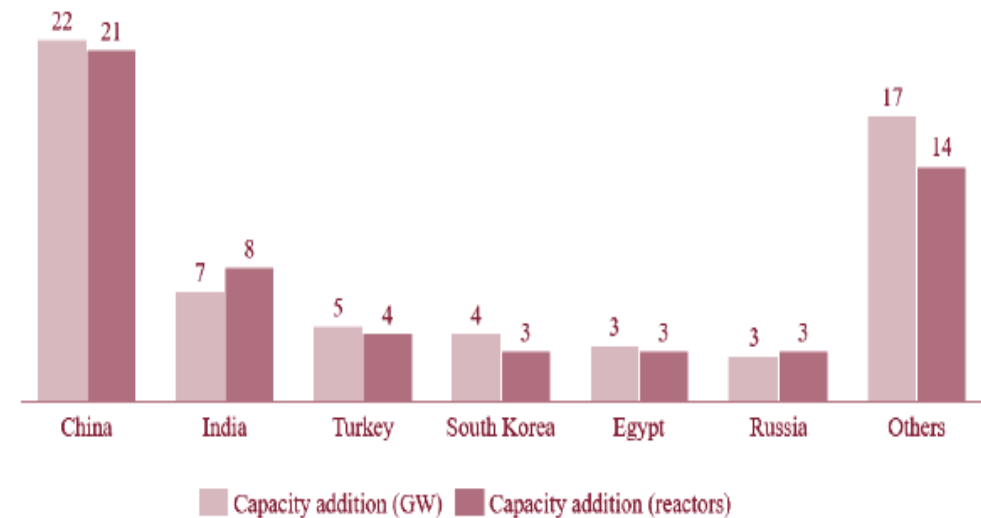


## Industry Outlook

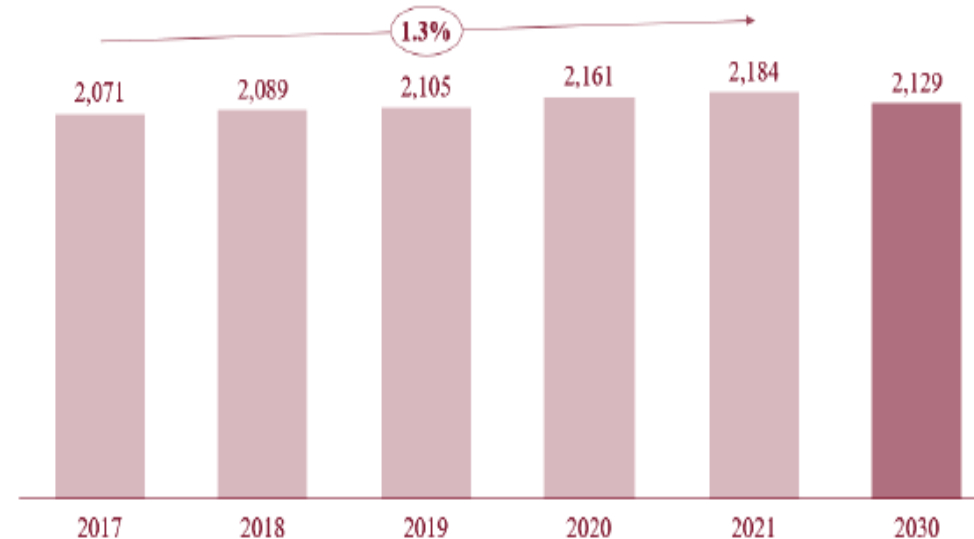
**Global Gas power generation capacity GW**



**Nuclear Capacity (GW) additions under development**



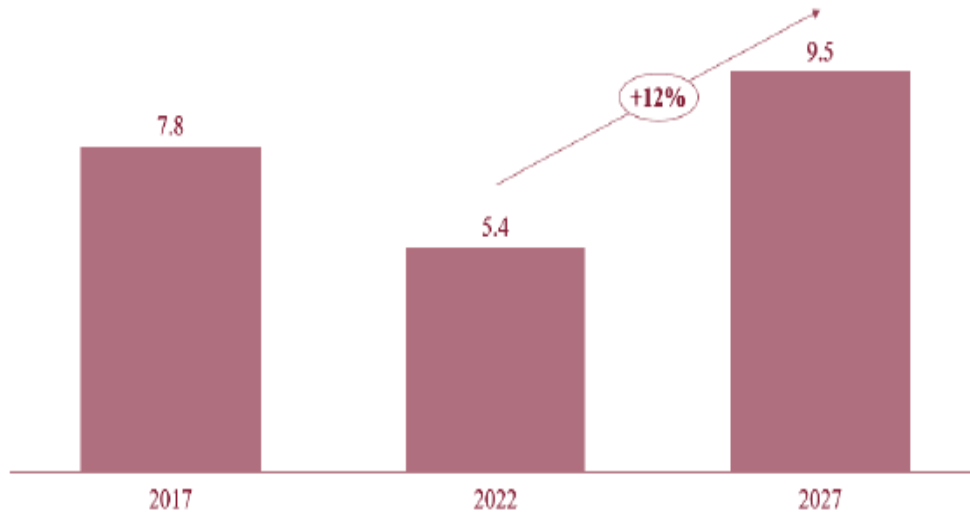
**Global coal-fired power capacity (GW)**



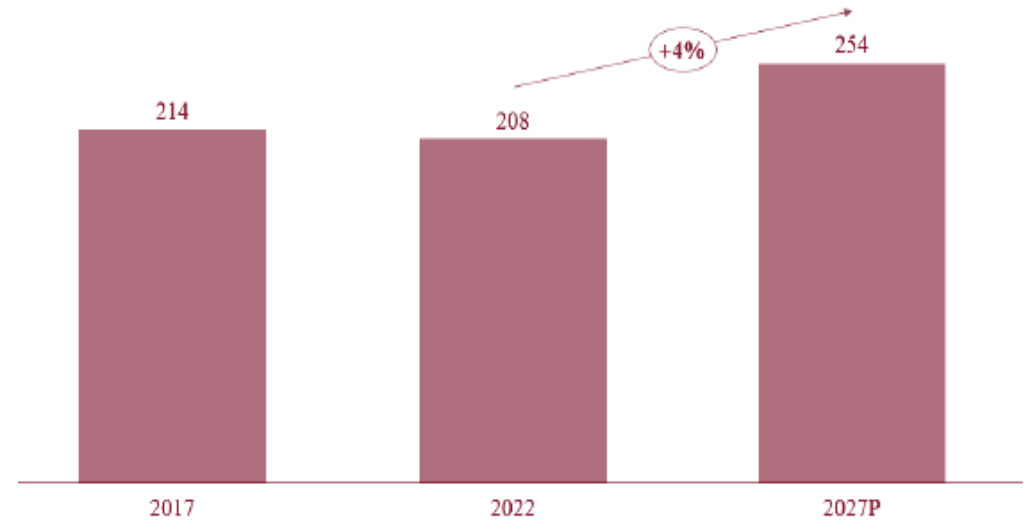


## Industry Outlook

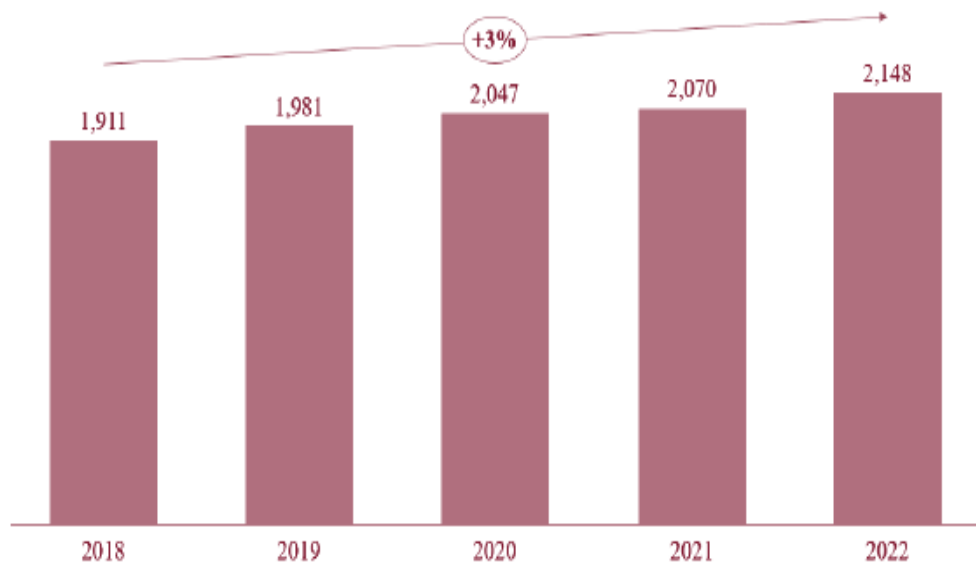
**Global Revenue Passenger Kilometer (Bn)**



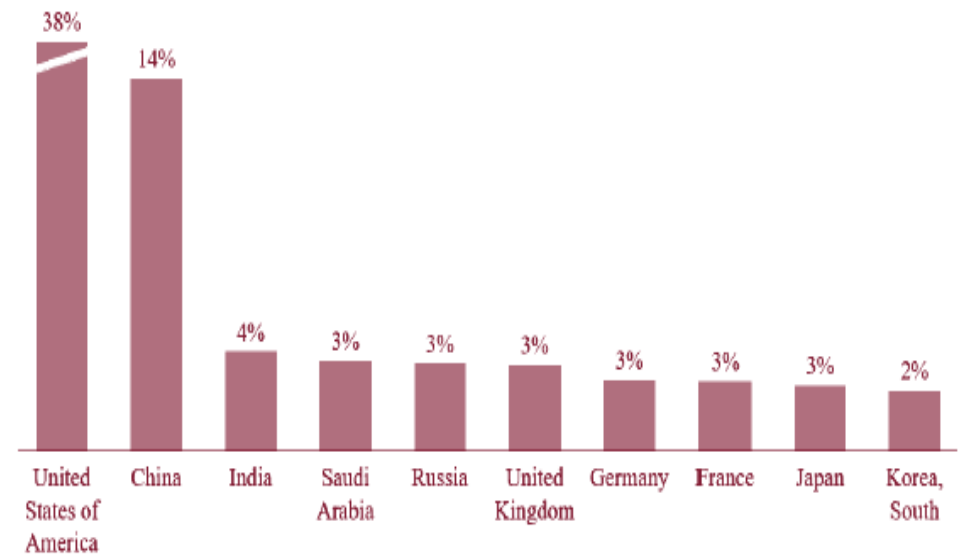
**Global Air Freight traffic (Bn-ton)**



**Global military expenditure (\$Bn)**



**Top Countries by value share of military expenditure in 2022**



## INDSEC Rating Distribution

**BUY :** Expected total return of over 15% within the next 12-18 months.

**HOLD :** Expected total return between 0% to 15% within the next 12-18 months.

**SELL :** Expected total return is negative within the next 12-18 months.

**NEUTRAL:** No investment opinion, stock under review.

**Note:** Considering the current pandemic situation, the duration for the price target may vary depending on how the macro scenario plays out. Therefore, the duration which has been mentioned as a period of 12-18 months for upside/downside target may be higher for certain companies.

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### DISCLOSURE

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