

Rating: Subscribe For long term

Issue Offer

Fresh Issue of 8,034,286 equity shares upto INR 140.6cr and OFS of 1,724,571 shares by Promoters group taking the total issue size at INR 170.78cr

Issue Summary

Price Band (INR)	165-175
Face Value (INR)	10
Implied Market Cap (INR Cr)	683
Market Lot	85
Issue Opens on	Sep,21, 2021
Issue Close on	Sep,23, 2021
No. of share pre-issue	30,965,775
No. of share post issue	39,000,061
Listing	NSE / BSE

Issue Break-up (%)

QIB Portion	50
NIB Portion	15
Retail Portion	35

Book Running Lead Managers

Anand Rathi Advisors

Registrar

Link Intime India Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	79.40%	59.71%
Public & Others	20.60%	40.29%

Objects of the issue

- Fund capital expenditure requirements..
- Funding incremental working capital requirements.
- Repayment or prepayment of all or a portion of certain borrowings/outstanding loan facilities availed by the company.
- General corporate purposes.

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Balasubramanian A

Paras Defence and Space Technologies Ltd (Paras Defence) was incorporated in June, 2009. Paras Defence has primarily engaged in designing, developing, manufacturing and testing of a variety of defence and space engineering products & solutions. The company caters into 5 major product category offerings – 1) Defence & Space Optics, 2) Heavy Engineering, 3) Defence Electronics, 4) Electro Magnetic Pulse (EMP) protection solution, 5) Niche Technologies. Its only Indian company having designing capability for space optics and opto-mechanical assemblies. It's a leading optics provider for Indian defence and space programs. The company employed 341 workforces as on June, 2021.

Key Highlights:

Wide range of products and solutions for both defence and space applications:

Paras Defence has offering 34 different categories of products & solutions with multiple variations in each category. The wide range of offerings helps to catering specific customer needs and service core strategic sectors such as defence & space in India. The company has the ability to provide solutions such as designing, developing, manufacturing and testing which increases their capability to meet specific requirements of customers.

One of the few players in high precision optics manufacturing for space and defence application in India:

Paras Defence is one of the few manufacturers for high precision optics in India, it has comprehensive in-house capabilities of designing, developing and manufacturing optics for space & defence application in India.

Strong R&D capabilities with a focus on innovation: Paras Defence places strong emphasis on R&D which has helped to develop wide range of products & solutions across defence & space sectors.

Well positioned to benefit from the Government's initiatives: Paras Defence has R&D centre at Nerul recognized by DSIR and falls within category of IDDM, the highest priority of categorization under Defence Acquisition Procedure (DAP), most of the products & components are designed, developed and manufactured by the company in India. DAP focuses on boosting indigenous production and turning India into a global manufacturing hub of weapons and military platforms. This procedure has been aligned with the vision of the Government's Initiatives.

Strong relationships with a diverse customer base: Paras Defence has diversified customer base which ranges from Govt & Govt organizations involved in defence & space research to various undertakings. They focused providing high quality products and solutions which are designed, developed, manufactured to meet the specific requirements of customers at competitive pricing. They are committed to enhancing customer satisfaction by continually improving the effectiveness of quality management system to drive organizational performance.

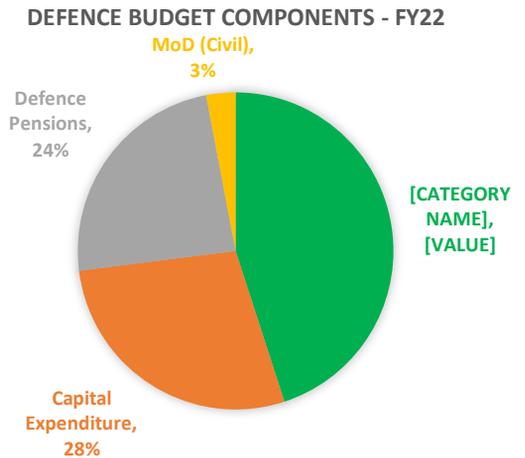
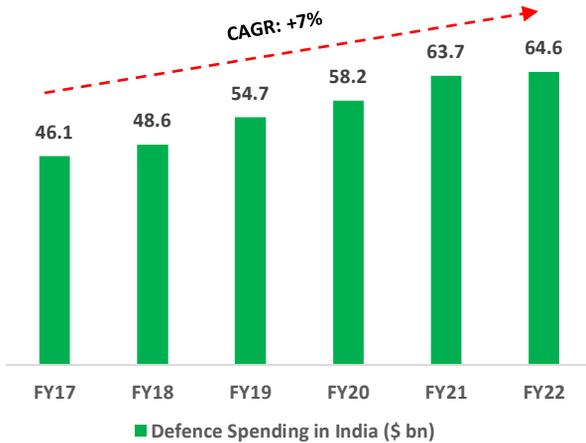
Valuation and View:

At the upper band of INR 175, the issue is valued at 31x its FY21 EPS of INR 5.6. We believe Paras Defence is a robust business model with Wide range of portfolio of products and services, one of the key player for high precision optics manufacturing, strong R&D capabilities, strong relationship with customers, benefits from Govt initiatives, better position in competition, paying off debts, experienced management team, continues expansion and increasing presence in international markets would lead the profitability and margin levels in going forward. We are recommending "Subscribe for long term" for this issue

Industry Overview

Global Defence Industry: Global defence spending increased 2.6% to 1.98 trillion dollars during the period of 2019-2020. The five largest spenders, accounts for 62% of total global defence spend, those are 1) United States (US), 2) China, 3) India, 4) Saudi Arabia and 5) Russia. Rise in geopolitical disputes is the major reason fueling this increase in spending. for example, The on-going flare up between the US and China.

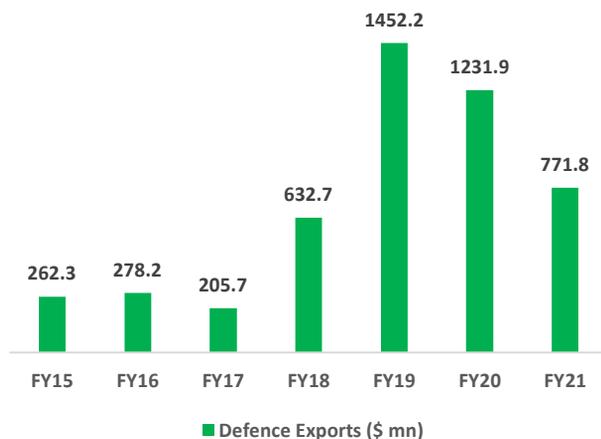
Indian Defence Industry: The Indian Defence spending grew at a 7% CAGR to \$64.6 billions during the period of FY17-FY22. The growth of spending majorly driven by geopolitical risks and modernisation program.



Source: Frost & Sullivan, RHP, Arihant Capital Research

India shares its land borders with 7 other countries and borders are bounded by the Arabian Sea to the west and the Bay of Bengal to the east. Territorial issues and a history of conflict spanning six wars have made India’s borders with Pakistan & China some of the most dangerous flashpoints in existence currently. The presence of such adversaries underscores the mandate for India to build up a credible, technology-driven military deterrence on both fronts. The modernisation program will be given priority in the next decade due to increased geo-political uncertainty. Terrorism is a key driver of Indian armed forces mobilization.

Indian Defence Exports: Indian defence exports crossed the \$1 billion in FY19. In FY21, exports witnessed decline, largely attributable to supply chain and manufacturing disruptions which have eased now. Exports stand more diversified both in terms of product and markets. The majority of the exports are driven by the private sector and the Government is creating enablers for Indian companies to improve exports.



Source: Frost & Sullivan, RHP, Arihant Capital Research

Business Overview:

Paras Defence and Space Technologies Ltd (Paras Defence) primarily engaged in designing, developing, manufacturing and testing of a variety of defence and space engineering products and solutions.

The company caters into 5 major product category offerings

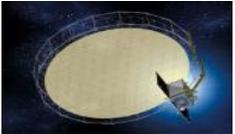
- 1) Defence & Space Optics
- 2) Heavy Engineering
- 3) Defence Electronics
- 4) Electro Magnetic Pulse (EMP) protection solution
- 5) Niche Technologies.

Paras defence is the only Indian company having designing capability for space optics and opto-mechanical assemblies. It's a leading optics provider for Indian defence and space programs. Their defence electronics operations include providing a wide array of high performance computing and electronic systems for defence applications, including sub systems for border defence, missiles, tanks and naval applications. They believe that their domain expertise in electronics for defence applications has allowed to contribute to some of the most prestigious defence programmes of the country. Their EMP protection solutions include designing, developing, manufacturing and commissioning various solutions for EMP Protection. The company have the ability to undertake and deliver customized turnkey projects in the defence segment, especially in the defence electronics and EMP protection segments. They are one of the few companies with specialized technology capabilities such as manufacturing EMP protection and the Company is expected to be an integral stakeholder in a majority of future sourcing of defence & space optics and EMP protection solution. Paras Defence has two manufacturing facilities in Maharashtra, located in Thane & Navi Mumbai and currently in process of expanding its Nerul manufacturing facility in Navi Mumbai. The company employed 341 workforces as on June, 2021.

Product	Product Details	
Defence and Space Optics		
Infrared lenses	<p>Infrared lenses for thermal imaging systems and night vision cameras: These are the optical components for thermal imaging cameras or night vision devices which are extensively used by the armed forces and border security personnel for all EO/IR (electro optics and infrared) systems used by armed forces.</p>	
Diffractive gratings	<p>Diffractive gratings for space cameras: This is an essential optical element in hyper-spectral camera used in space applications like earth observation etc.</p>	
Large size optics	<p>Large size optics for space imaging systems: These are large size mirrors used in space telescopes where the size of optics ranges from 0.5 meter to 1.2 meters diameter used for various imaging applications in earth-observation satellites.</p>	
Gyroscope components	<p>Gyroscope components for ring laser and other gyroscope systems: These are ultra-high precision components in a gyroscope which directly influence the positional accuracy of the gyroscope which in turn increases the accuracy of the inertial navigation system used in various applications such as Space, Avionics etc.</p>	
Defence Electronics		
Rugged control system	<p>Rugged control system for land and naval defence applications: These are ruggedised computing sub systems designed for automating mission critical functions such as fire control, command control, target tracking etc. These are fully custom developed systems and meet the harshest environmental conditions and yet deliver dependable performance.</p>	
Naval and shelter	<p>Naval and shelter mounted command and control systems: These are human – machine interface systems which are command and control systems with multiples display and high-end computing which are used for application such as radar data processing and fire control.</p>	
Rugged communication systems	<p>Rugged communication systems for land and naval defence applications: These are high-performance commercially-off-the-shelf communication sub-systems, which are ruggedised into military grade systems to work in harsh environments.</p>	
Non-contact proximity sensor	<p>Non-contact proximity sensor for naval applications: This is a non-contact electro-mechanical device which offers accurate proximity sensing under the most severe underwater conditions like high pressure and salinity.</p>	

Source: RHP, Company Reports, Arihant Capital Research

Business Overview:

Product	Product Details	
Heavy Engineering for Defence		
Titanium structures and assemblies	<p>Titanium structures and assemblies for naval applications: These are mechanical assemblies which are manufactured using titanium metal and are used for various applications such as transducer hardware for naval ships and submarines.</p>	
Large and heavy dynamic structures	<p>Large and heavy dynamic structures with built-in automation for strategic applications for various defence and non-defence applications: These are heavy-duty test rigs used for various applications such as simulating underwater conditions and testing transducer performance.</p>	
Indigenously designed flow-forming machines	<p>Indigenously designed flow-forming machines for various applications: These are indigenously designed and manufactured flow-forming machines that are used for manufacturing motor tubes for defence and space applications.</p>	
Racks, cabinets and consoles	<p>Racks, cabinets and consoles for various land and naval defence applications: These are custom built heavy-duty mechanical racks and cabinets for rugged applications and military use.</p>	
Turnkey EMP shielding	<p>Turnkey EMP shielding of a site or control rooms or data centers or command centers: We provide shielding for strategic areas and rooms like data centers, control rooms and command centers which provide protection against electro-magnetic pulses.</p>	
EMP racks and cabinets	<p>EMP racks and cabinets: These are certified racks and cabinets with EMP protection and used for high end strategic applications.</p>	
High performance EMP filters	<p>High performance EMP filters for power and data: These are a wide range of filters used for protection of data and power lines within a rack or shelter or room against electro-magnetic pulses or interference.</p>	
Niche Technologies		
Large deployable antennas	<p>Large deployable antennas for space applications: These are the deployable space antennas with diameter of up to 18 metres when opened. These are launched in folded condition and have mechanisms to open up into its desired shape after it has reached its expected altitude in LEO or GEO orbits. These are mostly used for Earth observation and communication applications.</p>	
CFRP	<p>Carbon fiber reinforced polymer (“CFRP”) structures for space applications: These are the high strength light weight structures made up of carbon fiber for space applications. These structures are used for mounting critical systems such as cameras, optics, etc. for the satellite or space mission.</p>	
Avionic suites	<p>Avionic suites for commercial and military avionic applications: These are the complete avionics suites or glass cockpits including auto-pilot system in an aircraft cockpit. These are the human machine interface i.e. displays, controls, communications, sensors etc. which help the pilots to control the aircraft.</p>	
Military winches	<p>Military winches for land, naval and avionic applications: These are heavy duty computerised lifting systems used to pull or push heavy structures or systems or antennas, etc. on a military platform such as naval ship or submarine, armoured vehicle/tank, and helicopter/airplane.</p>	
Turret stabilization	<p>Turret stabilization for tank and infantry vehicle applications: This is a turnkey system which helps to stabilise the turret of a tank or an infantry vehicle. This product helps to compensate movement of the vehicle in all the three dimensions and allows the turret to lock onto the target without any influence of the external conditions.</p>	
Capsule size drones	<p>Capsule size drones for defence and HLS applications: These are small sized, lightweight and low cost drones which have surveillance capabilities and can be launched from a 40mm handheld launcher.</p>	
CubeSats	<p>CubeSats for various space applications for communication, imaging etc: These are miniature satellites used in Low Earth Orbits and are used for various applications such as remote sensing, communication etc.</p>	

Source: RHP, Arihant Capital Research
 for more products, refer RHP

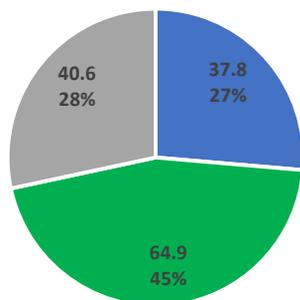
Business Overview:

Revenue from Operations			
Particulars (INR cr)	FY19	FY20	FY21
Sale of Products	149.9	142.0	141.9
Sale of Services	4.5	5.1	1.5
Total Revenue from Operations	154.4	147.1	143.3

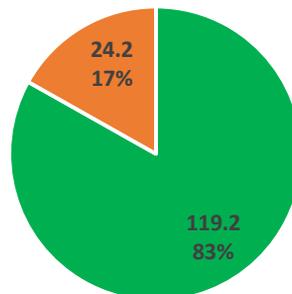
Revenue - Products & Service wise						
Particulars (INR cr)	FY19	%	FY20	%	FY21	%
Heavy Engineering	60.1	38.9%	64.1	43.6%	37.8	26.4%
Defence Electronics	46.9	30.4%	31.8	21.6%	64.9	45.3%
Defence & Space Optics	47.4	30.7%	51.1	34.8%	40.6	28.3%
Total	154.4		147.0		143.3	

Revenue - Geographical wise						
Particulars (INR cr)	FY19	%	FY20	%	FY21	%
India	139.1	90.1%	128.7	87.5%	119.2	83.1%
Outside India	15.4	9.9%	18.4	12.5%	24.2	16.9%
Total	154.4		147.0		143.3	

Products & Service wise Revenue - FY21 (INR cr)



Geography wise Revenue - FY21 (INR cr)



■ Heavy Engineering ■ Defence Electronics ■ Defence & Space Optics

■ India ■ Outside India

Order Book		
Particulars	Number of orders	Value (INR cr)
Defence and Space Optics	37	202.6
Defence Electronics	49	70.6
Heavy Engineering	34	31.8
Total Order Book		305.0

Source: RHP, Arianth Capital Research

Paras Defence Key Strengths

Wide range of products and solutions for both defence and space applications: Paras Defence has offering 34 different categories of products & solutions with multiple variations in each category. The wide range of offerings helps to catering specific customer needs and service core strategic sectors such as defence & space in India. The company has the ability to provide solutions such as designing, developing, manufacturing and testing which increases their capability to meet specific requirements of customers.

In the space sector, The company established heritage in the earth observation domain by supporting government organizations involved in space research across multiple missions. The company's involvement in various space exploration missions has helped to develop a strong foothold in the Indian space industry by the supplier of optics & opto-mechanical assemblies for these space exploration missions.

The wide range of products & solutions catering to specific customer needs enables to successfully service core strategic sectors in India. This allows customers to source most of their requirements from a single vendor (Paras Defence) and enables to expand business from existing customers base, as well as newer larger base of potential customers.

One of the few players in high precision optics manufacturing for space and defence application in India: Paras Defence is one of the few manufacturers for high precision optics in India, it has comprehensive in-house capabilities of designing, developing and manufacturing optics for space & defence application in India. The manufacturing facility at Nerul, Navi Mumbai has uniquely positioned to cater demand for optics for space & defence application. It houses equipment and machinery, inter alia, nano technology, machining, grinding, polishing, turning and testing setup for measuring the performance parameters of the optical components.

In-house facilities include single point diamond turning machines, grinding & polishing machines for precision optics and large size space optics, optical thin film coatings with fully equipped metrology with contact and non-contact measurements. The company positioned themselves to cater demand from Govt space organisation for optics in earth observation and space exploration missions. They are sole supplier of diffractive gratings used in hyper-spectral imagers and infrared lenses.

The company is specialized in large-sized optical mirror. Paras Defence is the only Indian company with the design capabilities for space-optics and opto-mechanical assemblies, enables to become key participant for all exploratory and observatory missions involving large space telescopes.

Strong R&D capabilities with a focus on innovation: Paras Defences places strong emphasis on R&D which has helped to develop wide range of products & solutions across defence & space sectors. The company invested in precision manufacturing infrastructure and human resource in dedicated R&D centres located at Nerul in Navi Mumbai, Maharashtra, and Bengaluru, Karnataka. The R&D team comprises of 31 engineers and officers as on June-2021. They successfully developed and delivered remotely controlled surveillance and defence systems recently which will enhance defence capabilities. They developed robust design and technological capabilities, which allows to develop new and cutting-edge products & solutions, undertake process innovation and improve existing portfolio.

It has also facilitated in developing technology for future requirements and building a product pipeline such as multi-spectral aerospace cameras, hyper-spectral space cameras, arinc-818 based display etc. It further helps expanding their role in core sectors of defence & space. The company believes R&D will be a crucial strength in remaining competitive in the years to come. The company also partnership with some of the leading and proven overseas technology companies around the world.

Partners	Exclusive Partnership for India:	Term
Holland Shielding Systems BV Netherlands	For EMP Protection Solutions	5 years from January 20, 2017 with auto renewable
HPS, Gmbh	For Large deployable antennas for space applications.	2 years from April 30, 2019 and further renewed till April 26, 2023
Invent, Gmbh	To manufacture CFRP structures and systems for space applications.	2 years from June 13, 2019 and further renewed till June 14, 2023
Kley, France	For manufacturing of military winches for Naval, Avionic and Armoured Vehicle Platforms.	1 year from April 8, 2019 with auto-renewal
Spear UAV, Israel ((through their subsidiary, Paras Aerospace Pvt Ltd)	Non-binding intent to collaborate for requirements of loitering munition drones	-
ISISpace	Partnership to build platforms, sub-systems, mission, etc. for CubeSats (miniaturised satellites) offering various solutions for agriculture, disaster management, earth observation etc.	3 years from September 2, 2020

Source: RHP, Company Reports, Aриhant Capital Research

Paras Defence Key Strengths

Well positioned to benefit from the Government’s “Atmanirbhar Bharat” and “Make in India” initiatives: Paras Defence R&D centre at Nerul recognized by Department of Scientific and Industrial Research (DSIR) and falls within category of Indigenously Designed Developed and Manufactured (IDDM), the highest priority of categorization under Defence Acquisition Procedure (DAP), most of the products & components are designed, developed and manufactured by the company in India. DAP focuses on boosting indigenous production and turning India into a global manufacturing hub of weapons and military platforms. This procedure has been aligned with the vision of the Government’s Initiatives.

India is witnessing path-breaking reforms in the defence sector. Defence Acquisition Procedure (DAP) has come into effect from October 1, 2020, which is announced by Ministry of Defence (MoD). This procedure focuses on turning India into a global manufacturing hub of weapons & military platforms and significantly boosting indigenous production. This procedure has being empower Indian defence industry through ‘Make in India’ projects and aligned with the vision of the Government’s Aatmanirbhar Bharat (self-reliant India).The company believe that this policy will provide a significant boost to domain expertise, R&D, manufacturing capabilities and they are poised to take full benefit of the same.

In line with the Atmanirbhar Bharat and Make in India initiatives of the Government, The company collaborate with technology companies to boost indigenous manufacturing. Paras Defence manufacturing partners are international associates including Kley, Holland Shielding Systems B.V, Netherlands, HPS, GmbH and Invent, France, GmbH. Through this partnerships, they have successfully indigenised certain equipment’s such as EMP filters and military winch systems. Paras Defence has enhanced capabilities and know-how have enabled to develop a variety of products such as EMP racks, IR optics, diffractive gratings, command and control system etc.

Strong relationships with a diverse customer base: Paras Defence has diversified customer base which ranges from govt & govt organizations involved in defence & space research to various undertakings. They are focused to providing high quality products and solutions which are designed, developed, manufactured to meet the specific requirements of customers at competitive pricing. They are committed to enhancing customer satisfaction by continually improving the effectiveness of quality management system to drive organizational performance.

The company has committed to enhancing customer satisfaction by continually improving the effectiveness of Quality Management System (QMS) to drive organisational performance. They are continuously working on innovations and offering value added, technologically advanced products & solutions to customers. They also increased presence in India across multiple cities, Singapore for marketing to serve better to customers throughout the project life cycle including after sale services.

Revenue from Customers % wise			
Customer Name	FY19	FY20	FY21
Bharat Electronics Limited (BEL)	18.2%	15.5%	16.1%
Hindustan Aeronautics Limited (HAL)	0.1%	0.0%	0.2%
Bharat Dynamics Limited (BDL)	0.1%	-	0.3%
Hindustan Shipyard Limited (HSL)	0.3%	0.1%	-
Electronic Corporation of India Limited (ECIL)	4.2%	1.8%	0.0%
Tata Consultancy Services Limited (TCS)	0.0%	2.0%	0.1%
Economic Explosives Limited	1.2%	1.1%	1.0%
Alpha Design Technologies Private Limited	0.3%	0.3%	-
Astra-Rafael Comsys Private Limited	-	0.2%	0.2%
Advanced Mechanical and Optical Systems S.A.(AMOS)	0.8%	0.3%	-
Tae Young Optics Co Ltd	0.4%	-	-
Green Optics Co. Ltd.	-	10.5%	1.5%

Domestic Customers	Foreign Customers
Electronic Corporation of India Ltd (ECIL)	Advanced Mechanical and Optical Systems (AMOS), Belgium
Astra- Rafael Comsys Pvt Ltd	Green Optics (South Korea)
Solar Industries India Ltd	Tae Young Optics Company Limited (South Korea)
Bharat Dynamics Ltd (BDL)	Chaban (Israel)
Alpha Design Technologies Ltd	
Hindustan Aeronautics Ltd (HAL)	
Hindustan Shipyard Ltd (HSL)	
Bharat Electronics Ltd (BEL)	
Tata Consultancy Services Ltd (TCS)	

Source: RHP, Company Reports, Aриhant Capital Research

Paras Defence Key Strategies

Expansion of the production capacity: Paras Defence have two manufacturing facilities located at Nerul in Navi Mumbai, Ambernath in Thane. They are in preliminary stages of augmenting both manufacturing facilities by expanding its production capacity and installing new equipment's through net Proceeds and internal accruals. They believe investment in infrastructure will enable them to cater growing demand from customers, enhance space optics product portfolio and offer flow formed tubes for space applications, which is expected to result in an increase in profits and revenues.

Manufacturing Facilities					
Year of commissioning	Location	Work undertaken	Leased/owned	Land Area (sq. feet)	Constructed Area (sq. feet)
2009	Ambernath (Thane)	All mechanical activities in the Company	Long term lease (95 years from May 1, 2008)	232,167	25,428
2005	Nerul (Navi Mumbai)	All optics activities in the Company and Defence electronics and EMP Solutions activities including all integration activities.	Long term lease (95 years from Sep'1, 1974)	43,593	20,820

Source: RHP, Company Reports, Arihant Capital Research

Strengthen the foothold in India's expanding market: They are believing overall growth is expected in India's economy, defence and space sector, also strengthen foothold in Indian market by increase market penetration and continuing to focus on competitive strengths. They believed to enhancing existing capabilities and indigenising advance foreign technologies, expand market share by focusing on increasing products and solutions portfolio. They also capture an increased market share by expanding presence in India across various cities from the perspective of marketing and after sales services.

Continue to focus on R&D: They are focused on R&D has been critical to the growth of business and has improved ability to cater to specific requirements of customers, they are continuously investing in technology, equipment and skilled employees and using it to improve customers' experience. They have a setup R&D centres at Nerul, Navi Mumbai and Bengaluru employing 31 engineers and officers, to undertake experiment new designs, technologies & equipment through research and development.

Their focus on innovation & development will be crucial to remaining competitive. They also intend to increase product centric R&D by exploring opportunities in designing, engineering, manufacturing products such as Unmanned Aerial Vehicles (UAV), multi & hyper spectral cameras for drones and space, cubesats and anti-drone systems.

Diversify the products and solutions range, with focus on growth by expansion into opportunistic areas: They intended to diversify products and solutions portfolio through R&D and partnering with overseas technology companies with specialized technologies in the field of defence and space sector in order to grow the business. The diversification allow them to offer a wider range of products and solutions in response to customers' needs and thereby strengthen relationship with customers across a range of product segment. They believe that expanding the range of products and solutions will enable them to further diversify offerings and increase revenues.

The company has exclusively partnered with ISISpace for manufacturing cubesats in India, which allowed them to bring proven technologies in cubesats to India, under 'Make in India' guidelines and serve many applications which require a viable platform in space, such as earth observation, communication, data relay, image capture, processing for varied application, disaster management and agriculture. They also partnered with other technology companies such as HPS, Invent, GmbH for CFRP structures for space and Kley, GmbH for Large Deployable Antennas for space, France for military winches which will further broaden product portfolio.

Paras Aerospace Private Ltd (subsidiary) aims to offer Unmanned Aerial Vehicle (UAV) integration solutions, UAV services for a wide range of applications such as power transmission, agriculture, mining, construction and oil & gas, The flagship product of Paras Aerospace Private Ltd will be a Cloud based No Permission, No Takeoff (NPNT) Solution (offered as software-as-a-service) and Indigenous Multispectral Camera for various applications including agriculture. Paras Anti-drone Technologies (subsidiary) aims to be one of the first indigenous anti-drone technology development company in India. The subsidiary collaborating with leading UAV anti-drone technology firms to further develop its expertise in designing customer-specific modules.

Paras Defence Key Strategies

Increasing the reach in the international market: They are primarily cater to the requirements of the Indian market, ~83% of business accounts from domestic markets as on FY21. They are strongly positioned for providing products and solutions to international customers through extensive experience and proven track record. They will continue to focus on existing markets such as South Korea and Israel also intend to provide products and solutions to markets in the Europe and US. They have recently received manufacturing orders from the US for Infrared (IR) Lens and UAE for Electro-Mechanical Masts.

One of the customer has made an application for receiving the DSP-05 license from the Department of State, US to enable the export of certain commodities by paras defence. Paras Defence has recently received first optics order from US. US is the biggest optics market in the world, they believe that obtaining DSP-05 license by the customer will further increase exports to the US.

Key Risks

- Paras Defence is largely dependent on contracts from the Government of India (GOI) and associated entities. A decline or reprioritisation of the Indian defence or space budget, termination of existing contracts, reduction in orders, delay of existing/anticipated contracts/programmes or any adverse change in the GoI's defence or space related policies will have a adverse impact on the business.
- Paras Defence has executed various agreements with third parties, including in relation to securing contracts and manufacturing of products, any termination of agreements, it may adversely affect the business.
- Paras Defence has fixed price contracts, any delays in delivery or failures to meet contract specifications results cost overruns, which may have an adverse effect on business.
- Paras Defence have significant working capital requirements. The working capital requirements for FY19, FY20, FY21 were INR 913.30 million, INR 1,319.95 million, INR 1,617.09 million which is equivalent to 59.15%, 89.77% and 112.82% of revenue from operations for the respective fiscal years. The working capital days for FY20, FY21 were 277 days, 374 days respectively. In FY21, the company took more than a year to turn working capital into sales revenue in the business. If the company experience insufficient cash flows from operations or are unable to borrow to meet working capital requirements, it may adversely affect the business.

Competitive Comparison

Company Name	Defence Electronics Capabilities							Defence Optics			
	Control System	Specialised Computers	Displays	MIL Spec Racks	Software	Integration	Sensors	Lenses	Speciali-zed Lenses	Optical Elements	Precision Engineering
Paras Defence	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Data Patterns	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Mistral Solutions	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
CoreEL Technologies	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Ophir Optronics Solutions Ltd (Israel)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
QiOptiq	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
ISP Optics (USA)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
Veero Metals	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
HYT Engineering	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
ETS-Lindgren (USA)	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓

✓High Level Capability; ✓Mid Level Capability; ✓No Capability

Source: RHP, Arihant Capital Research

Company Name	EMP Hardening			Heavy Engineering Capabilities				
	Customised EMP Protection Projects	EMP Shielded Control Centers	EMP Filters/Arrestors	Titanium & Special Metal Mfg & Engineering Flow	Flow Formed Tubes	Cooling Assemblies	Heavy Structures	Special Purpose Machines
Paras Defence	✓	✓	✓	✓	✓	✓	✓	✓
Data Patterns	✓	✓	✓	✓	✓	✓	✓	✓
Mistral Solutions	✓	✓	✓	✓	✓	✓	✓	✓
CoreEL Technologies	✓	✓	✓	✓	✓	✓	✓	✓
Ophir Optronics Solutions Ltd (Israel)	✓	✓	✓	✓	✓	✓	✓	✓
QiOptiq	✓	✓	✓	✓	✓	✓	✓	✓
ISP Optics (USA)	✓	✓	✓	✓	✓	✓	✓	✓
Veero Metals	✓	✓	✓	✓	✓	✓	✓	✓
HYT Engineering	✓	✓	✓	✓	✓	✓	✓	✓
ETS-Lindgren (USA)	✓	✓	✓	✓	✓	✓	✓	✓

✓High Level Capability; ✓Mid Level Capability; ✓No Capability

Source: RHP, Arihant Capital Research

Management

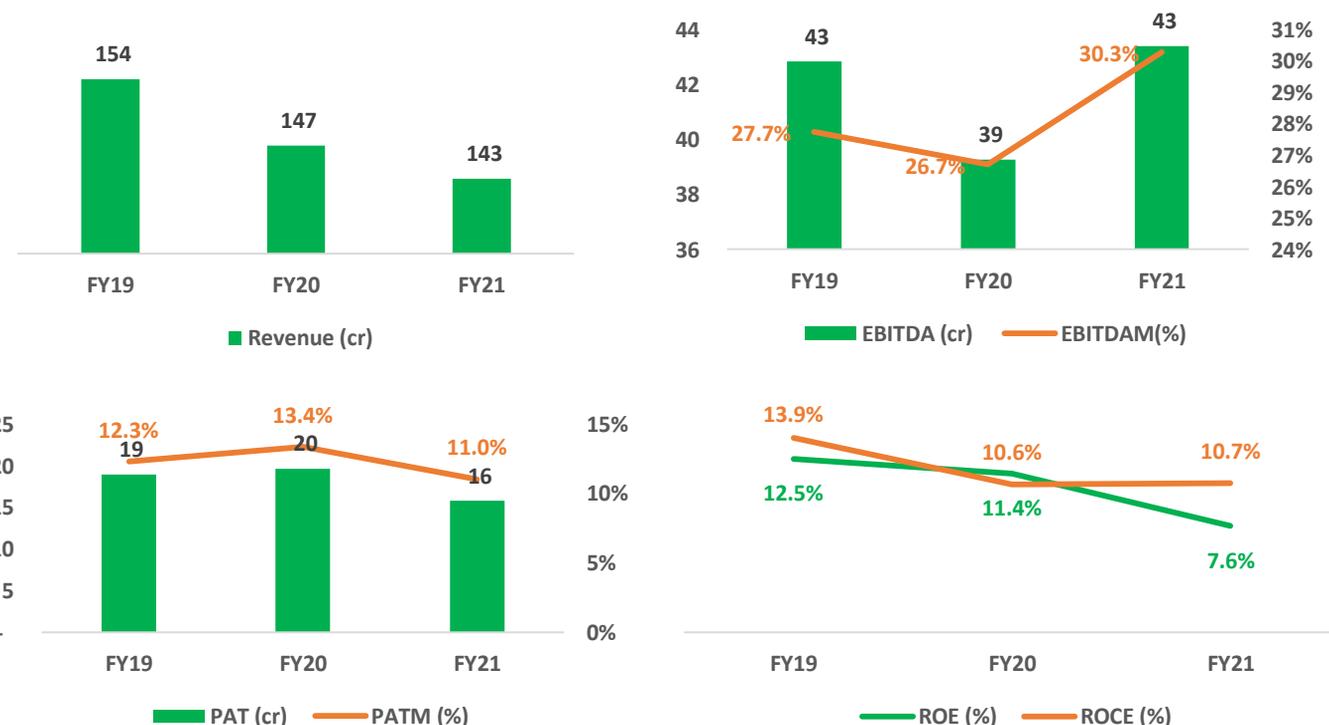
Key Person	Description
Mr Sharad Virji Shah	Mr Sharad Virji Shah is the Chairman and Non-Executive Director of our Company. Being our Promoter, he has been associated with our Company since our incorporation. He has completed his education up to secondary school certificate level. He had established our predecessor, M/s. Paras Engineering Co. concern in 1979. He has worked in different areas of engineering and manufacturing and has played a major role in leadership of our Company.
Mr Munjal Sharad Shah	Mr Munjal Sharad Shah is the Managing Director of our Company. Being our Promoter, he has been associated with our Company since our incorporation. He has completed his education up to higher secondary certificate level. He has over 23 years of experience in the areas of flow forming, special purpose machines and equipment, turnkey mechanical units, titanium structures, among others primarily for defence applications and has played a major role in leadership of our Company.
Mr Amit Navin Mahajan	Mr Amit Navin Mahajan is the Director – Technical and R&D of the company. He has over 18 years of work experience in defence electronics and systems.
Mr Harsh Dharendra Bhansali	Mr Harsh Dharendra Bhansali is the Chief Financial Officer of the company. He has over 15 years of work experience in finance and accounts.

Financial Performance

Particulars (in INR cr.)	FY19	FY20	FY21
Revenue	154	147	143
EBITDA	43	39	43
EBITDAM(%)	27.7%	26.7%	30.3%
PAT	19	20	16
PATM (%)	12.3%	13.4%	11.0%
EPS (as reported)	6.8	6.9	5.6
Net Worth	152	173	207
Total Debt	87	106	109
Total Assets	330	342	363
ROE (%)	12.5%	11.4%	7.6%
ROCE (%)	13.9%	10.6%	10.7%

Source: RHP, Arianth Capital Research

Charts



Source: RHP, Arianth Capital Research

Arihant Research Desk

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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