



SMC Ranking

★ ★ ☆ ☆ ☆ (2/5)

Issue Highlights

Industry	Auto ancillary
Offer for sale (Shares)	9,541,985
Fresh Issue (Shares)	4,580,153
Net Offer to the Public	14,122,138
Issue Size (Rs. Cr.)	704-740
Price Band (Rs.)	499-524
Offer Date	20-Dec-23
Close Date	22-Dec-23
Face Value	2
Lot Size	28

Issue Composition

	In shares
Total Issue for Sale	14,122,138
QIB	7,061,069
NIB	2,118,321
Retail	4,942,748

Shareholding Pattern (%)

Particulars	Pre-issue	Post-issue
Promoters & promoters group	78.61%	65.90%
QIB	13.07%	14.48%
NIB	8.32%	11.26%
Retail	0.00%	8.36%
Total	100.00%	100.00%

*calculated on the upper price band

Objects of the Issue

The objectives of the Offer are to

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

Book Running Lead Manager

- Axis Capital Limited
- ICICI Securities Limited
- SBI Capital Markets Limited
- Anand Rathi Advisors Limited

Name of the registrar

- KFin Technologies Limited

About the company

Azad Engineering Limited is a manufacturer of aerospace components and turbines. The company supplies its products to original equipment manufacturers (OEMs) in the aerospace, defense, energy and oil and gas industries. Azad Engineering's products are highly engineered, complex, mission critical and vital. As of September 30, 2023, the company generated revenue of Rs. 114.29 crore from the sale of blades for the energy industry. The company's customer base includes the USA, China, Europe, the Middle East and Japan. The company has four manufacturing facilities in Hyderabad, Telangana, India. These facilities are capable of producing high precision forged and machined components and have a total production area of around 20,000 square meters. The company is also planning to set up two more manufacturing units at Tuniki Bollaram village in Siddipet district, Telangana and Mangampet village in Sangareddy district, Telangana. These plants will have a total production area of 94,898.78 and 74,866.84 square meters respectively. Azad Engineering is headquartered in Hyderabad, Telangana, India, and employs 201-500 people.

Strength

Engineered for success and a preferred name in the manufacturing of highly engineered, complex and mission and life- critical high precision components for global OEMs despite growing competition from China, Europe, USA and Japan: The company is one of the key manufacturers of its 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 component. Despite competition from manufacturers in China, Europe, USA and Japan, it believes that it has differentiated its offerings, distinguished itself and been successful in being the preferred partner to its customers. It believes it has a significant manufacturing cost advantage which results in superior margins while staying competitive. Further, it has leveraged its experience, and its unwavering commitment to quality and continuous pursuit of innovation, also distinguish it from competitors. The company has developed manufacturing capability to deliver solutions which have helped clients and has supplied to both Indian and global OEMs, many of which are leaders in their respective industries.

Supplying to OEMs with high global market penetration: Based on its deep market knowledge and continuing interactions with its long-standing customers, which gives it expansive insight into multiple industries, it believes that it serves as a critical source supplier for global OEMs. In Financial Year 2023, it has supplied to customers which control approximately 70% of the gas turbine market (based on technology ownership and number of units ordered in first half of Fiscal 2022) globally (Source: EY Report) and continue to supply to customers in this industry. In defence segment as well, the world spent US\$ 2,148 billion on military expenditure in Financial Year 2022 which is about 2.1% of the global GDP. The 'Make in India', Defence Acquisition Procedure 2020 and Atma Nirbhar policies together have promoted the participation of Indian conglomerates and private players in partnerships with global manufactures in the Indian defence manufacturing space, which it is primed to capitalise on. It supplies components to six of the key manufacturers in the aerospace and defence industries

Long-standing and deep customer relationships: The company has existing relationships with both Indian and global OEMs. Its 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 it has an

average relationship of over 10 years. Further, its integrated manufacturing and supply chain solutions together with its scale of operations, technical know-how, value added design and engineering expertise, allows it to cater to several Indian and global OEMs. It has a well-diversified customer base spread across various geographies. It has a broad customer base globally including in the USA, Europe, Japan, Middle East, United Kingdom and China. For the six months period ended September 30, 2023 and Fiscal 2023, Fiscal 2022 and Fiscal 2021, (a) contribution to revenue from operations from its top five customers was Rs.96.34 crore, Rs. 158.82 crore, Rs.106.61 crore and Rs. 73.51 crore, respectively and (b) constituted 60.69%, 63.11%, 54.82% and 59.90%, respectively, of its total revenue from operations. In the six months ended September 30, 2023 and Fiscals 2023, 2022 and 2021 it has a diversified customer base with its top 10 customers accounting for 79.71% and 79.76%, 73.64% and 81.47%, respectively of its revenue from operations.

Advanced manufacturing facilities with a diverse range of products and solutions with focus on innovation and cost competitiveness: As of September 30, 2023, it has four manufacturing facilities in Hyderabad, Telangana in India which are spread across approximately 20,000 square metres and has 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. It proposes to fund capital expenditure requirements of the Company through the Net Proceeds towards the purchase of plant and machinery for its existing manufacturing facilities

Consistent track record of financial performance: The company has demonstrated consistent growth in terms of revenues and profitability. Its total revenue from operations increased by 105.08% from Rs. 122.72 crore in Fiscal 2021 to Rs. 251.68 crore in Fiscal 2023 and was Rs. 158.75 crore in the six months ended September 30, 2023. It has had strong return ratios in the six months period ended September 30, 2023 and the Financial Years ended March 31, 2023, March 31, 2022 and March 31, 2021 (a) with a low debt to equity ratio of 1.41, and 1.47, 1.64, 0.97, respectively and (b) Net debt/ Adjusted EBITDA ratio was 5.48 and 3.11, 2.16 and 1.75, respectively.

Strategy

Leverage industry-leading capabilities: The company intends to continue to expand its customer base by leveraging its relationship with its existing customers in India and globally, while simultaneously pursuing opportunities to develop new relationships. It aims to continue to maintain its strong track-record of repeat orders from its existing customers as well as expand and strengthen its relationships as part of its organic growth efforts. It intends to focus on leveraging its relationships with its customers to improve its existing products and also increase the number of products that it currently manufactures for each customer.

Augment manufacturing capabilities: As of September 30, 2023, Azad Engineering has four manufacturing facilities in Hyderabad, Telangana in India which are spread across approximately 20,000 square metres and has 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. Azad Engineering proposes to fund capital expenditure requirements of the Company through the Net Proceeds towards the purchase of plant and machinery for its existing manufacturing facilities. Further, it has two manufacturing facilities in the pipeline at (a) Tuniki Bollaram village in Siddipet district, Telangana and (b) Mangampet village, Sangareddy district, Telangana, which is near Hyderabad, Telangana, with a total manufacturing area of 94,898.78 square metres and 74,866.84 square metres, respectively

Strengthening core capabilities across focus industries: Azad Engineering intends to continue to strengthen its capabilities across the focus industries by continuing to strengthen and expand its existing relationships with its current customers and by acquiring more strategic customers across its focus industries. High domestic volumes and consumption, and higher outsourcing volumes will influence domestic manufacturers for OEMs to bring in the component ecosystem locally and enhance local capabilities of component sourcing, thus making the ecosystem stronger and closer.

Further reduce operating costs, improve operating efficiencies and deploy new technologies: The company aims to offer quality products at optimal prices to its customers and believe this will enable it to maintain long-term relationship with customers. It believes that its innovation, research

and development capabilities and fast supply chain lead-time are key factors that distinguish it from its competitors both in India and globally. It undertakes automation of its manufacturing processes by implementing manufacturing execution systems to increase the overall production efficiency and shorten the time to produce with enhanced quality along with reducing downtime and idle time. Azad Engineering intends to continue enhancing operational efficiencies, and exploit economies of scale, by better absorbing its fixed costs, while also reducing other operating costs to strengthen its competitive position.

Risk factor

- The business is dependent on the sale of its products to key customers.
- The company is highly dependent on its Hyderabad, Telangana facilities for the entire portion of its revenue from operations.
- It depends on third party suppliers for raw materials, plant, machinery and components, which are on a purchase order basis.
- It has had negative cash flows in prior periods and may continue to have negative cash flows in the future.

Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
MTAR Technologies Limited	675.97	103.32	33.59	66.80	10.44	214.87	10	2243.70	6901.53
Paras Defence and Space Technologies Ltd	235.61	35.95	9.22	80.85	7.52	99.14	10	745.40	2907.06
Dynamatic Technologies Limited	1394.50	78.04	91.61	48.63	5.15	865.28	10	4454.95	3025.55
Triveni Turbine Limited	1459.73	233.06	7.33	56.66	14.88	27.91	1	415.30	13201.43
Azad Engineering Limited**	251.68	8.47	1.43	365.58	6.58	79.60	2	524.00	3097.52

*Peer comparisons are based on TTM

**Azad Engineering financials are based on FY23.

Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.524, the stock is priced at pre issue P/E of 337.25x on FY-2023 EPS of Rs.1.55. Post issue, the stock is priced at a P/E of 365.58x on its EPS of Rs.1.43. Looking at the P/B ratio at Rs.524, pre issue, book value of Rs. 42.28 of P/Bvx 12.39x. Post issue, book value of Rs. 79.60 of P/Bvx 6.58x.

Considering the P/E valuation, on the lower end of the price band of Rs.499, the stock is priced at pre issue P/E of 321.16x on FY-2023 EPS of Rs. 1.55. Post issue, the stock is priced at a P/E of 348.13x on its EPS of Rs. 1.43. Looking at the P/B ratio at Rs.499, pre issue, book value of Rs. 42.28 of P/Bvx 11.80x. Post issue, book value of Rs. 79.60 of P/Bvx 6.27x.

Industry Outlook

India has the potential to become one of the largest manufacturing hubs in the world. It has a large population base with growing income, considerably younger proportion of workforce and business friendly sector policies which provide the opportunity to become a global manufacturer. The World Economic Forum in 2021, identified that India's manufacturing sector can contribute to over US\$ 500 billion to the economy in 2030. Large corporations throughout the world are working on implementing a "China plus one" strategy, in which they explore possibilities for suppliers outside of China to diversify their supply chains and avoid disruptions caused by the COVID-19 outbreak or geopolitical conflicts. As a result, India now has the opportunity to exploit its industrial strengths and become a global manufacturing hub. India's recent success in the service sector, as well as repeating that success in the manufacturing sector, is critical for the country to create more employment and achieve balanced and sustainable growth.

Outlook

The company is a niche player in its segment and enjoys virtual monopoly. Specializing in the fabrication of intricate and precisely engineered forged and machined components, the company focuses on items vital to missions and life, resulting in some products carrying a stringent “zero parts per million” defects requirement. On the flip side, the company is highly dependent on its Hyderabad, Telangana facilities for the entire portion of its revenue from operations. A long term investor may opt the issue.

An Indicative timetable in respect of the Issue is set out below:

EVENT	INDICATIVE DATE (On or about)
BID/ISSUE OPENS ON	20-December-23
BID/ISSUE CLOSSES ON	22-December-23
Finalisation of Basis of Allotment with the Designated Stock Exchange	26-December-23
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	27-December-23
Credit of Equity Shares to demat accounts of Allottees	27-December-23
Commencement of trading of the Equity Shares on the Stock Exchanges	28-December-23

Annexure

Consolidated Financials

Profit & Loss

Rs. in Cr.

Particulars	Period ended 30-Sep-23 (6 Months)	Period ended 31-Mar-23 (12 Months)	Period ended 31-Mar-22 (12 Months)
Revenue from operations	158.75	251.68	194.47
Total expenditure	106.22	179.40	132.20
Operating Profit	52.53	72.28	62.27
OPM%	3.31	2.87	3.20
Other Income	10.79	9.85	4.80
PBDIT	63.32	82.12	67.06
Depreciation	9.84	16.58	13.31
PBIT	53.47	65.54	53.75
Interest	21.86	52.38	13.62
Profit before tax	31.61	13.16	40.13
Tax	4.73	4.69	10.68
PAT	26.89	8.47	29.46

Balance sheet is on next page

Balance Sheet

Rs. in Cr.

Particulars	As on 30-Sep-23	As on 31-Mar-23	As on 31-Mar-22
Non-current assets			
Property, plant and equipment	214.93	216.65	144.40
Right-of-use assets	2.88	-	-
Capital work-in-progress	44.47	37.99	23.66
Intangible assets			
Intangible assets under development			
Investment in Joint Venture			
Financial Assets			
Other Financial Assets	2.07	3.37	3.12
Non current tax assets (net)			
Other Non-Current Assets	54.52	47.57	65.48
Total non-current assets	318.87	305.58	236.65
Current assets			
Inventories	105.66	86.06	57.38
Financial Assets			
Invesments			
Trade Receivables	133.36	118.66	74.63
Cash and Cash Equivalents	20.18	19.41	4.43
Bank Balances other than cash and cash equivalents as above	14.48	33.33	13.25
Loans			
Other financial assets	3.11	0.09	-
Current tax assets			
Other Current Assets	40.98	26.08	17.99
Total current assets	317.76	283.63	167.67
Assets held for sale			
Total Assets	636.63	589.21	404.32
Non-current liabilities			
Financial liabilities			
Borrowings	213.71	220.86	122.55
Lease liabilities	2.05	-	-
Provisions	3.21	2.56	2.25
Deferred tax liabilities (net)	12.81	13.59	11.63
Total non-current liabilities	231.77	237.01	136.44
Current liabilities			
Financial Liabilities			
Borrowings	111.22	79.74	74.63
Lease liabilities	0.27	-	-
Trades Payable - MSME	2.49	2.53	3.25
Trade Payables - other than MSME	39.45	45.00	39.30
Other financial liabilities	14.05	12.34	15.81
Other current liabilities	3.28	3.86	5.40
Provision	2.95	2.24	1.08
Current tax liabilities (net)	0.61	2.49	8.42
Total current liabilities	174.32	148.21	147.88
Total	406.09	385.22	284.31
Net worth represented by:			
Equity Share Capital	9.91	1.65	1.51
Other equity	220.63	202.34	118.49
Net Worth	230.54	203.99	120.01

RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

E-mail: researchfeedback@smcindiaonline.com



Corporate Office:
11/6B, Shanti Chamber,
Pusa Road, New Delhi - 110005
Tel: +91-11-30111000
www.smcindiaonline.com

Mumbai Office:
Lotus Corporate Park, A Wing 401/402,
4th Floor, Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341600, Fax: 91-22-28805606

Kolkata Office:
18, Rabindra Sarani,
Poddar Court, Gate No.-4, 5th Floor, Kolkata-700001
Tel: 91-33-39847000, Fax: 91-33-39847004

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