

xRecommendation	Subscribe
Price Band	Rs.499-524
Bidding Date	20 th December–22 th December
Book Running Lead Manager	Axis Capital Limited , ICICI Securities, SBI Capital Markets, Anand Rathi Advisors.
Registrar	KFin Technologies Limited
Sector	Capital Goods

Minimum Retail Application- Detail At Cut off Price

Number of Shares	28
Minimum Application Money	14672
Payment Mode	ASBA

Consolidated Financials (Rs Cr)	FY22	FY23
Total Income	194	252
EBITDA	62	72
Adj PAT	29	8

Valuations (H1FY24 Ann.)	Upper Band
Market Cap (Rs Cr)	3098
Adj EPS	9.1
PE	57.6
EV/ EBITDA	32.3
Enterprise Value (Rs Cr)	3345

Post Issue Shareholding Pattern	
Promoters	78.6%
Public	21.4%

Offer structure for different categories	
QIB (Including Mutual Fund)	50%
Non-Institutional	15%
Retail	35%
Post Issue Equity (Rs Cr)	11.82
Issue Size (Rs Cr)	740
Face Value (Rs)	2

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BACKGROUND

Azad Engineering is a manufacturer of complex, highly engineered precision forged and machined components that are mission and life-critical. The company supplies its products to OEMs in the aerospace, defense, energy and oil & gas industries. The company's customer base includes renowned global OEMs like General Electric, Honeywell International Inc., Mitsubishi Heavy Industries, Ltd., Siemens Energy and others.

Objects and Details of the Issue:

Total issue size is Rs. 740 Cr comprising of Rs. 240 Cr from Fresh Issue and Rs. 500 Cr from Offer For Sale.

Net Proceeds from the Fresh Issue shall be utilized towards:

- Purchase of equipment, plant and machinery worth Rs. 60 Cr.
- Prepayment of outstanding borrowings worth Rs. 138 Cr.

Investment Rationale:

- Significant entry barrier due to the lengthy qualification process for components due to their criticality.
- Large capacity expansion indicates strong growth is likely to continue

Valuation and Recommendation:-

Having done the hard-work for development and registration (qualification gained for 1400 components already) with global OEMs over last 15 years, Azad is now ripe for scaling up its revenue. Since the industry has high entry barriers in terms of gestation period as well as manufacturing capabilities, competitive intensity is low which is evident from the company's Gross and EBITDA margins. Upon comparing with other similar Cap Goods players, we observe that Azad has delivered superior growth with similar return ratios while its valuation is broadly at par with the peer group. Based on stronger track record and superior outlook on growth, we expect Azad to trade at a premium to peers and thus we recommend to Subscribe to the IPO.

Financials (Rs Cr)	FY21	FY22	FY23	H1FY24 Annualised
Net Revenues	123	194	252	317
Growth	1%	58%	29%	NA
Adj. EBITDA	28	62	72	105
Adj. EBITDA Margins	23%	32%	29%	33%
Adj. PBT	16	40	13	63
Adj. PAT	12	29	8	54
Adj. EPS	1.9	5.0	1.4	9.1
ROCE	12%	17%	13%	19%
EV/Sales	26	17	13	11
EV/EBITDA	112	53	46	32
P/E	269	105	366	58

Source: NBRR

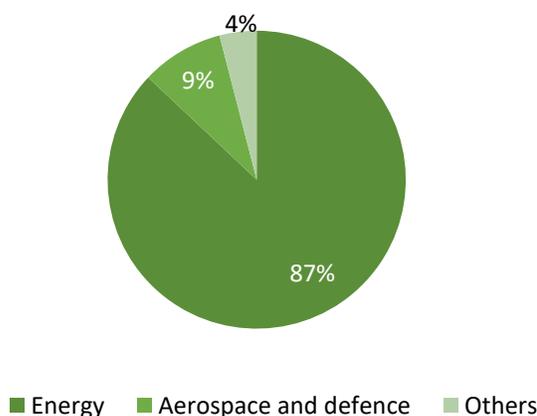
Company Background

Azad has been in operations for 15 years and has substantial experience as a tier 1 supplier of high precision forged and machined components in the energy, aerospace and defence industries. The components manufactured by it are critical for the functioning of energy applications and plane travel. 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. Further, it has two manufacturing facilities in the pipeline at Tuniki Bollaram village in Siddipet district, Telangana and Mangampet village, Sangareddy district, Telangana, with a total manufacturing area of 94,898 square metres and 74,866 square metres, respectively.

Product Portfolio

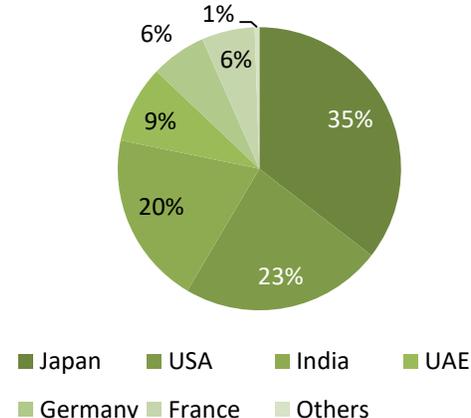
Application	Product Category	Product Sold
Natural Gas Turbine	Turbine Airfoil Assembly	Stator/Rotor/Compressor Airfoils; other Parts
Nuclear Power Turbine	Turbine Airfoil Assembly	Fixed airfoil/blade; Last Stage Airfoil/Blade- Rotary & welding chamfers; Last Stage Airfoil/Blade-Stationary
Thermal Power Turbine	Turbine Airfoil Assembly	Fixed airfoil/blade; Moving Airfoil/Blade; Last Stage Airfoil
Actuator Systems In Aircraft	Actuator Systems In Aircraft	Cover Actuator; Housing Actuator; Cover Housing Actuator; Guide Poppet
Military Jet/Commercial Aircraft Engine	Aero Engine Assembly	Airfoils; Impeller; Blisk; Unison Ring; Arm Levers
Auxillary Power Unit	APU system in aircraft	Housing Fan; Housing Compressor; Housing Mount; Housing Support Spring; Body Assembly
APUs And Aero Engines	Air Generation and Valve Assembly in Aircraft Engine	Body Valve; Plate Butterfly; Seal Shaft; Bearing Rod; piston plate; sealing ring
Missile System	Airframe and booster	Aft end skirt; fore end skirt; BB2KP Base; B1 Igniter body 1; B1 Igniter body 2
Oil and Gas	Up & Mid-stream- Sub systems	Slips; Flex Shaft; Drill Bits; Hatch Cover; Frame; Bonnet

Revenue mix by industry (FY23)



Source: Company, NBRR

Revenue mix by geography (FY23)



Source: Company, NBRR

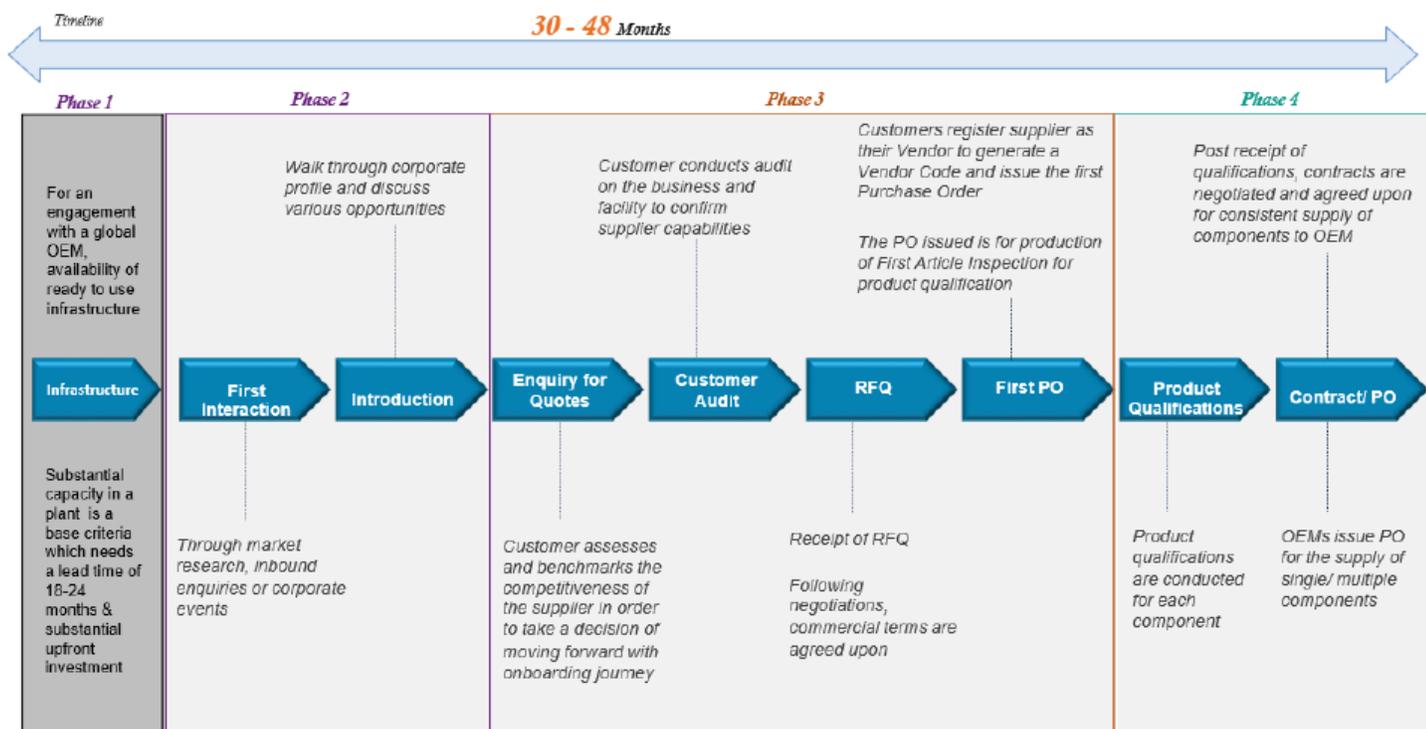
Investment Rationale

Significant entry barrier due to the lengthy qualification process for components due to their criticality

The qualification process for a new vendor is stringent and includes multiple steps; this entire process is time intensive and often takes two & a half to four years for a vendor to qualify as a supplier. Once a contract is awarded by an OEM to a supplier for a critical component, the OEM and the supplier typically spend significant amount of time and capital on design, manufacturing, first article inspection (“FAI”) i.e., qualification prior to signing of contracts and testing and certifications for product specific equipment. Any new supplier is required to undergo the same process. OEMs are reluctant to switch suppliers as there are high switching costs unless the current suppliers are unable to meet the requirements on quality, cost and delivery.

Considering that the costs are very high in the energy, aerospace and defence industries given the stringent quality checks and certifications that are required to qualify as a supplier, there are significant entry barriers, which makes finding a manufacturing partner a lengthy process of many years for OEMs. Based on this, Azad believes that it would ideally take 15 years for a new player in its industry to reach the position Azad currently occupies in the market.

Customer on-boarding process of global OEMs in energy, aerospace and defence

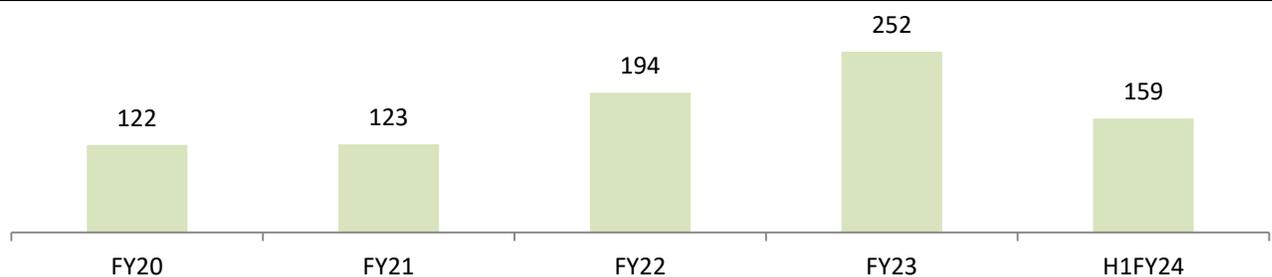


Source: Company

Large capacity expansion indicates strong growth is likely to continue

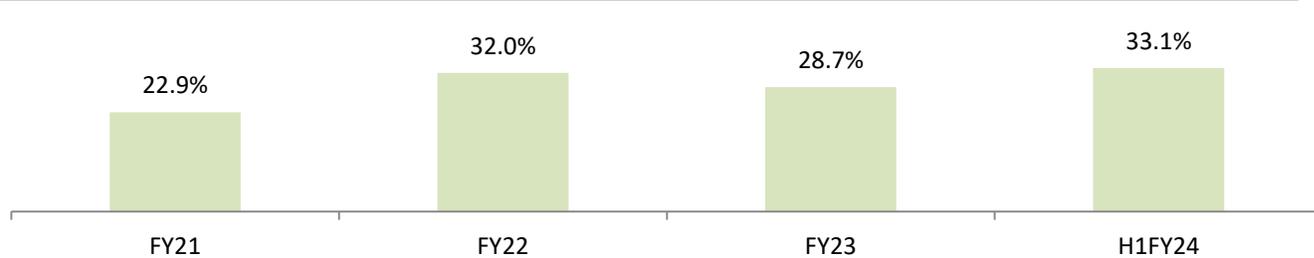
Robust product portfolio and continuous product development has enabled the company to grow at a fast pace in the past. Having developed and registered 1,400 components as a qualified supplier with global OEMs over last 15 years, Azad shall now look towards scaling up its business. Azad has two manufacturing facilities in the pipeline at (a) Tuniki Bollaram village in Siddipet district, Telangana and (b) Mangampet village, Sangareddy district, Telangana, with total manufacturing area of 94,898 square metres and 74,866 square metres, respectively. Based on manufacturing area, the company’s capacity shall increase by 8.5x from the current level of 20,000 square meters.

Revenue (FY20-23 CAGR of 23%)



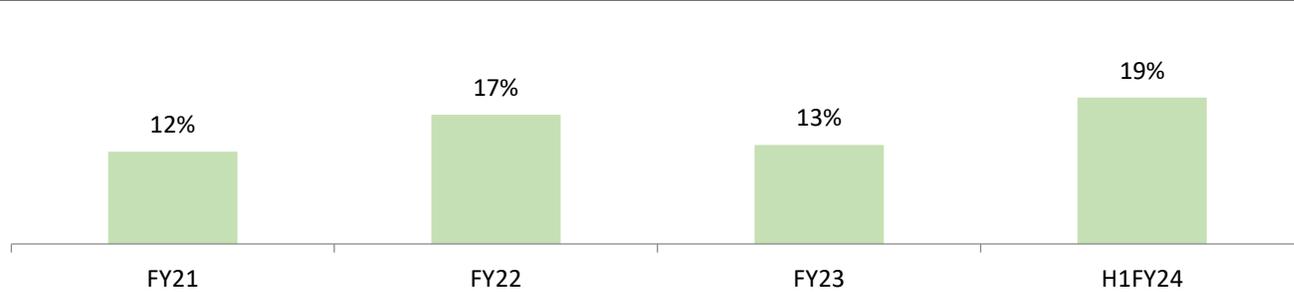
Source: Company, NBRR

EBITDA Margin



Source: Company, NBRR

ROCE



Source: Company, NBRR

Concerns

Customer concentration risk

The largest customer contributes 21% to the revenue and the top 3 customers contribute 47% to the revenue. Any change in the business dynamics or sourcing policy of these top 3 customers could have an adverse impact on Azad.

Dependence on energy sector

Azad derives 87% of its revenue from the energy sector which is characterized by rapidly changing technology, evolving industry standards and demands for features, and continual product innovation. These conditions may also result in significant competition and short product life cycles. This can impact the company's business.

Valuation and Recommendation

Azad is well placed to capitalize on its positioning as a reliable vendor for global OEMs in energy, aerospace and defence industries. Having done the hard-work for development and registration (qualification gained for 1400 components already) with global OEMs over last 15 years, Azad is now ripe for scaling up its revenue. Azad is expanding its manufacturing area by 8.5x which points to strong growth going ahead. Since the industry has high entry barriers in terms of gestation period as well as manufacturing capabilities, competitive intensity is low which is evident from the company's Gross and EBITDA margins. Although there is no direct comparable peer for Azad, upon comparing Azad with companies in similar industries having similar global clientele, we observe that Azad has delivered superior growth with similar return ratios while its valuation is broadly at par with the peer group. Based on stronger track record and superior outlook on growth as well as return ratios, we expect Azad to trade at a premium to peers and thus we recommend to Subscribe to the IPO.

Listed Comparable Peers

H1FY24 Annualised Figures	Dynamic Technologies	Triveni Turbine	Average	Azad Engineering
Revenue H1 Annualised	1,428	1,528	1,478	317
CAGR (FY20-23)	2%	15%	9%	27%
Gross Margin	46.8%	50.0%	48.4%	87.5%
EBITDA Margin	10.6%	19.0%	14.8%	33.1%
Asset Turns (x)	1.2	1.7	1.4	0.6
ROE	11%	28%	19%	23%
ROCE	11%	37%	24%	19%
EV/Sales	2.5	8.3	5.4	10.8
EV/EBITDA	23.3	43.7	33.5	32.3
P/E	48.4	51.5	49.9	57.6

Source: NBRR

Financials

P&L (Rs. Cr)	FY21	FY22	FY23	H1FY24	H1FY24 Ann.
Net Revenue	123	194	252	159	317
% Growth	1%	58%	29%	-	26%
Raw Materials	14	21	30	20	40
% of Revenues	11.3%	10.7%	12.0%	12.5%	12.5%
Employee Cost	33	46	59	34	68
% of Revenues	26.6%	23.8%	23.5%	21.3%	21.3%
Other expenses	48	65	90	53	105
% of Revenues	39.2%	33.5%	35.8%	33.1%	33.1%
EBITDA	28	62	72	53	105
EBITDA Margin	22.9%	32.0%	28.7%	33.1%	33.1%
Depreciation	9	13	17	10	20
Other Income	2	5	10	11	22
Interest	5	14	52	22	44
PBT	16	40	13	32	63
Tax	5	11	5	5	9
Tax rate	29%	27%	36%	15%	15%
PAT	12	29	8	27	54
% Growth	-45%	156%	-71%	-	535%
EPS (Post Issue)	1.9	5.0	1.4	4.5	9.1

Return Ratios	FY21	FY22	FY23	H1FY24	H1FY24 Ann.
ROE (%)	13%	25%	4%	23%	23%
ROCE (%)	12%	17%	13%	19%	19%

Turnover Ratios	FY21	FY22	FY23	H1FY24	H1FY24 Ann.
Debtors Days	156	140	172	153	-
Inventory Days	102	108	125	121	-
Creditor Days	111	80	69	48	-
Asset Turnover (0.7	0.6	0.5	0.6	-

Valuation Ratios	FY21	FY22	FY23	H1FY24	H1FY24 Ann.
Price/Earnings (269.3	105.2	365.6	-	57.6
EV/EBITDA (x)	112.5	52.6	46.5	-	32.3
EV/Sales (x)	25.8	16.9	13.3	-	10.8
Price/BV (x)	57.7	43.7	25.7	-	22.7

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY21	FY22	FY23	H1FY24
Share Capital	2	2	2	10
Reserve & Surplus	89	118	202	221
Networth	91	120	204	231
Total Loans & Lease Liab.	88	197	301	327
Other non-curr liab.	11	14	16	16
Trade payable	37	43	48	42
Other Current Liab	29	31	21	21
Total Current Liab.	66	73	68	63
Total Equity & Liab.	256	404	589	637
Fixed Assets	121	168	255	262
Inventory	34	57	86	106
Other non Curr. assets	9	69	51	57
Cash	2	4	19	20
Bank Balance	15	13	33	14
Debtors	53	75	119	133
Other Current assets	22	18	26	44
Total Assets	256	404	589	637
Cash Flow (Rs. Cr)	FY21	FY22	FY23	H1FY24
PBT	16	40	13	32
Provisions & Others	13	25	67	22
Op. profit before WC	29	66	80	54
Change in WC	(17)	(40)	(81)	(55)
Less: Tax	(7)	(5)	(10)	(7)
CF from operations	5	21	(10)	(9)
Addition to assets	(20)	(117)	(84)	(17)
Term deposit with banks,	(15)	2	(20)	31
Interest Received	1	1	3	0
CF from Investing	(35)	(114)	(101)	14
Proceeds from issue of ec	-	-	57	-
Proceeds from borrowing	29	109	121	17
Interest Paid	(5)	(14)	(52)	(22)
CF from Financing	24	96	126	(5)
Net Change in cash	(6)	3	15	1
Cash at beginning	8	2	4	19
Cash at end	2	4	19	20

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