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IPO note:
Azad Engineering Limited-SUBSCRIBE

Azad Engineering Limited, has been in operations for 15 years and it has substantial experience as a tier 1 supplier of high precision forged and machined components in the energy, aerospace and defense industries supplying products to 15 countries such as USA, China, Europe, Middle East, and Japan. It manufactures complex and highly engineered precision forged and machined components that are mission and life-critical and hence, some of their products have a “zero parts per million” defects requirement. It is qualified and established supplier to global OEMs operating in highly regulated industries and are one of the preferred suppliers of these OEMs, which is evident from the consistent awards, repeat orders and recognition received from these customers.

The company has a product basket of ~1400 qualified parts and components which 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) defense and civil aircrafts and spaceships. The demand for these products is driven by the orders for these components in either new energy turbine (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. 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 them.

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. In aerospace and defense segment, products include airfoils/ blades and components for engines, auxiliary power units (“APUs”), hydraulics, actuating systems, flight controls, fuel and inerting sections of commercial and defense aircrafts and spacecrafts, among other defense systems and various critical components for missiles. It has 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. The oil and gas industry, company manufactures 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.

The qualification process imposed by OEMs is characterized by a significant entry barrier due to a lengthy and stringent qualification process. The vendors are required to go through separate qualification processes for each component that it supplies. The qualification process for a new vendor is stringent and includes multiple steps (such as assessment and audit of technical capabilities of the vendor, vendor registration, evaluation and test of the product qualifications). This entire process is time intensive and often takes up to 30-48 months to qualify as a supplier during which the vendor is evaluated by the OEM. The vendors also need to institute quality and tracking procedures for all products that are supplied which demands a higher order quality control.

Their customers include global OEMs across the energy, aerospace and defense, and oil and gas industries and include General Electric, Honeywell International Inc., Mitsubishi Heavy Industries, Ltd., Siemens Energy, Eaton Aerospace and MAN Energy Solutions SE. Azad is the supplier to five of the key manufacturers in the turbine manufacturing industry and to key OEMs that control ~70% of the gas turbine market share.

Azad Engineering Limited has four manufacturing facilities in Hyderabad spread across ~20,000 sq. mts, with installed capacity 642,310 hours per annum and a capacity utilization of 90%. It also has 2 facilities in pipeline with total area ~170,000 sq. mts.

Investment Rationale and Recommendation: -

At the upper price band of Rs. 524 the issue is priced at P/E multiple of 52.66x its H1FY24 post IPO annualized adjusted EPS of Rs. 9.95 and 68.49x its FY23 post IPO EPS of Rs. 7.65. We recommend investors to “SUBSCRIBE” to the issue for the following reasons: -

1) One of the key manufacturers of qualified product lines supplying to global OEMs primarily engaged in highly regulated industries, including energy, aerospace and defense and oil and gas industries, manufacturing highly engineered, complex and mission and life-critical components.

Type of Issue	Fresh issue of up to 45,80,151 equity shares aggregating up to Rs. 240 crores Offer for sale of up to 95,41,957 equity shares aggregating up to Rs. 500 Crores
Issue size	Rs. 740 Crores
Price Band	Rs. 499- Rs. 524 (Fv- Rs. 2)
Bid lot/ Bid Size	28 shares/ Rs. 14,672
Issue structure	QIB-50% HNI-35% Retail-15%
Post issue equity shares	5,91,12,993 equity shares
Promoters and Promoter Group Public	Pre-Issue-78.61% Post Issue-65.09% Pre-Issue-21.39% Post Issue- 34.10%
Post issue implied market cap	Rs. 3097.52 Crores at upper price band
BRLMs	Axis Capital Limited, ICICI Securities Limited, SBI Capital Markets Limited, Anand Rathi Advisors Limited
Registrar to the issue	KFin Technologies Limited

Financial Summary (Restated Consolidated) (₹Crore)

Particulars	H1FY24	FY23	FY22	FY21
Revenue from operations	158.74	251.67	194.46	122.72
Gross Profit	138.84	221.52	173.70	108.91
Gross Profit Margin (%)	87.47%	88.02%	89.32%	88.75%
EBIDTA	52.52	72.27	62.26	28.15
EBIDTA Margin (%)	33.09%	28.72%	32.02%	22.94%
Adjusted EBIDTA	52.92	79.54	63.16	37.09
Adjusted EBIDTA Margin (%)	33.34%	31.61%	32.48%	30.22%
Profit Before Tax	31.61	13.15	40.13	16.23
Profit for the year/period	26.88	8.47	29.45	11.50
Profit Margin (%)	16.94%	3.37%	15.15%	9.37%
Basic EPS	5.43 [^]	1.79	6.49	2.53
Adjusted Profit for the Year/Period	29.43	45.25	33.17	20.43
Adjusted Profit Margin (%)	18.43%	17.3%	16.65%	16.34%
Adjusted Basic EPS	5.93 [^]	9.13	6.69	4.12
Borrowings	324.93	300.60	197.18	87.13
ROCE(%)	9.63% [^]	12.99%	16.95%	12.09%
Adjusted ROCE (%)	10.81%	22.05%	28.31%	-*
Asset Turnover Ratio	0.26	0.51	0.59	-*
Trade Receivable Days (in days)	145.26	140.17	119.38	-*
Trade Payable Days (in days)	51.57	65.32	74.94	-*
Inventory Days (in days)	110.51	104.01	86.02	-*
Cash Conversion Cycle	204.2	178.86	130.46	-*



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2) Supplying components to five of the key manufacturers in the turbine manufacturing industry and in FY23 it supplied to customers who controlled approximately 70% of the gas turbine market.

3) Well-diversified customer base spread across various geographies.

4) Operating in industry with high barriers to entry as there is a stringent qualification processes taking up to 30-48 months for onboarding a new vendor.

5) Company had an addressable market size of Rs. 1,28,000 crores in 2022 which is expected to grow at a CAGR of 7% between 2022-2027 reaching Rs. 1,81,000 in 2027.

6) It has entered into a long-term supply agreement with the global OEM.

7) Supplier to six of the key manufacturers in aerospace and defense industry with a scope to deepen their presence into other areas of engine & operational systems.

8) Company is in discussion for supplying of components for new engine platforms to various aircraft manufacturers which will open more growth opportunities if the discussions have a favorable output.

9) It has a manufacturing cost advantage which results in high margins while retaining their competitive lead.

Source: Red Herring Prospectus (RHP),[^] not annualized, *Not included as the comparative period figures under Ind AS for Financial Year 2020/ as on March 31, 2020 are not available. Adjusted EBITDA is calculated as EBITDA plus fire incident, fire restoration cost, fire insurance – premium, ECL, foreign currency, professional and consultancy charges towards Hamuel litigation and COVID loss, Adjusted profit for the year/ period is calculated as Adjusted EBITDA minus depreciation minus interest minus tax expense plus other income plus interest from OCD/CCD and redemption from OCD/CCD.

Objects of the issue

Offer for Sale

Offer for sale of up to 95,41,957 equity shares aggregating up to Rs. 500 Crores

Name of the selling Shareholder	Type	No. of Shares offered in IPO at upper price band	WEIGHTED AVERAGE COST OF ACQUISITION PER EQUITY SHARE (IN ₹)
Rakesh Chopdar	Promoter Selling Shareholder	Up to 39,11,259 Equity Shares aggregating up to Rs. 204.95 Crores	0.34
Piramal Structured Credit Opportunities Fund	Investor Selling Shareholder	Up to 49,78,053 Equity Shares aggregating up to Rs. 260.85 Crores	321.41
DMI Finance Private Limited	Other Selling Shareholder	Up to 6,52,290 Equity Shares aggregating up to Rs. 34.18 Crores	267.03

Source: Red Herring Prospectus (RHP)

Fresh issue of up to 45,80,151 equity shares aggregating up to Rs. 240 crores

The Net Proceeds of the Fresh Issue, i.e., gross proceeds of the Fresh Issue less Company's share of the Offer related expenses 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 their borrowings availed by the Company
3. General corporate purposes.

Utilization of Fresh Issue

Proposed Deployment of Net Proceeds			
Particulars	Amount to be funded from the Net Proceeds	Estimate deployment of the Net Proceeds in Fiscals	
		2024	2025
Funding capital expenditure of the company	60.395	36.019	24.376
Repayment/Prepayment, in part or full, of certain of the borrowings availed by company	138.188	82.913	55.275

Source: Red Herring Prospectus (RHP)



Shareholding pattern

Name of Promoters	Pre - Offer Equity Share capital		Post - Offer Equity Share capital	
	No. of Equity Shares	% of total shareholding	No. of Equity Shares	% of total shareholding
Promoter and Promoter Group	42,867,570	78.61%	3,89,56,025	65.90%
Public	11,665,272	21.39%	2,01,56,968	34.10%
Total	5,45,32,842	100%	5,91,12,993	100%

Source: Red Herring Prospectus (RHP)

Fund Raising History and Reconciliation of Financial matrix

The company had raised the CCD from Piramal Structured Credit Opportunities Fund in August 2022. The investment amount was Rs. 160 Crores and company had issued 1,600 fully paid –up CCD. The CCD carried the coupon of 10% per annum payable monthly, which was supposed to increase to 14% post expiry of 36 months, and then an increase of 2% at the beginning of each calendar quarter up to 20% till conversion of the CCDs. On December 11, 2023 the CCD were converted 4,978,062 equity shares (ratio of 3,111.29 equity shares for every 1 CCD held.)

DMI Finance private Limited had subscribed to Rs 18 Crores of CCDs and Rs. 42 Crores of OCDs issued in Jul'21/Aug'21 and had a coupon rate of 10% (to be increased by 2% every quarter after 36 months' subject to a maximum of 20%) and 14% p.a., respectively, for a tenure of 7 years (OCD redemption had a principal moratorium of 36 months.) On October 13, 2022 DMI Finance Private Limited's CCDs were converted to 43,488 equity shares.

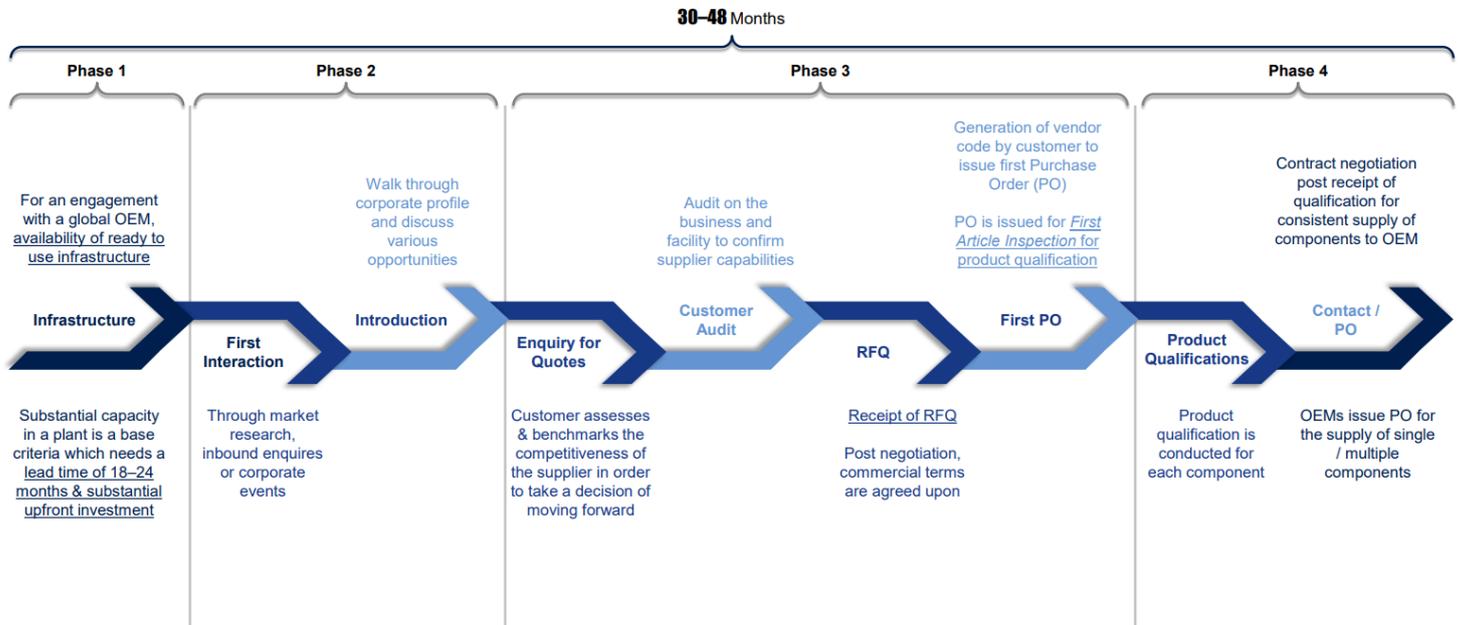
Particulars (in Rs. Crores unless stated otherwise)	Six months ended September 30*, 2023	As/at for the Fiscal ended March 31,		
		2023	2022	2021
Profit/(loss) before tax	31.61	13.15	40.13	16.23
Other income	10.78	9.84	4.79	2.30
Finance costs	21.86	52.38	13.61	5.35
Depreciation and amortisation expense	9.84	16.58	13.31	8.87
EBITDA	52.52	72.27	62.26	28.15
Adjusted EBITDA				
Loss due to fire		3.17		
Fire Restoration Cost		2.60		
Fire Insurance - Premium		0.51		
Provision for credit impaired trade	0.39			
Receivable		0.47	0.23	0.78
Loss on foreign exchange transactions and translations other than those considered as finance cost (net)			0.15	
Professional & Consultancy Charges		0.48	0.50	2.16
Covid Loss				5.98
Adjusted EBITDA	52.92	79.54	63.16	37.09
Adjusted EBITDA %	33.34%	31.61%	32.48%	30.22%
(-) Depreciation	9.84	16.58	13.31	8.87
Adjusted EBIT	43.08	62.96	49.85	28.21

Source: Red Herring Prospectus (RHP)

Particulars (in Rs. Crores unless stated otherwise)	Six months ended September 30 *, 2023	As/on Financial Year		
		2023	2022	2021
Adjusted EBITDA	52.925	79.54	63.165	37.09
(-) depreciation , interest and tax	36.428	73.65	37.607	18.963
(+) other income	0.98	9.846	4.796	2.309
(+) Interest on Optionally & Compulsorily Convertible Debentures	11.962	14.86	2.823	
(+) Premium on redemption of Debentures		14.65		
Adjusted PAT	29.439	45.25	33.177	20.436
Adjusted PAT %	18.43	17.3	16.65	16.34

Source: Red Herring Prospectus (RHP)

Vendor Onboarding Process



Source: Red Herring Prospectus (RHP)

Product Portfolio

Azad Engineering Limited has diversified product ranges across energy, aerospace and defence, and oil and gas industries. The products that they manufacture are highly engineered, complex, mission and life critical high precision forged and machined components, which makes it stand out as a strategic partner to OEMs in the industries in which they operate. As of September 30, 2023, it has approximately 45 qualified manufacturing processes and 1,400 qualified parts and components.

Industry and Product Particulars	Six months period ended September 30, 2023		Financial Year 2023		Financial year 2022		Financial year 2021	
	Revenue from purchases orders (in Rs. crores)	% of revenue from operations (%)	Revenue from purchases orders(in Rs. crores)	% of revenue from operations (%)	Revenue from purchases orders(in Rs. crores)	% of revenue from operations (%)	Revenue from purchases orders(in Rs. crores)	% of revenue from operations (%)
Energy	140.88	88.75	219.04	87.03	165.07	84.88	110.54	90.08
Airfoil/ blade	114.29	72.00	198.02	76.68	145.82	74.98	96.21	78.40
Non airfoil	26.59	16.75	21.02	8.35	19.25	9.90	14.33	11.67



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Aerospace and defence	13.69	8.62	22.53	8.95	20.28	10.43	7.59	6.18
Air generation system	5.11	3.22	3.44	1.37	8.78	4.52	1.73	1.41
Hydraulic system	3.50	2.21	7.54	2.99	2.18	1.12	0.29	0.23
APU/engine	0.73	0.46	1.95	0.77	1.24	0.64	1.88	1.53
Airfoil/ blade	0.76	0.48	1.32	0.52	1.78	0.91	1.40	1.14
Engine	1.03	0.65	1.97	0.78	1.39	0.71	0.35	0.28
Generator	1.46	0.92	1.85	0.74	0.45	0.23	0.24	0.19
Engineering charges	-	-	0.00	0.00	3.04	1.56	0.00	0.00
Propulsion system	0.41	0.26	1.91	0.76	0.01	0.01	0.00	0.00
Structural joints	0.01	0.01	0.28	0.11	0.17	0.09	0.70	0.57
Missiles	0.07	0.04	0.43	0.17	0.32	0.17	0.29	0.23
Others	0.61	0.38	1.85	0.74	0.92	0.47	0.73	0.59
Oil and gas	-	-	0.05	0.02	0.00	0.00	0.03	0.02
Drilling services	-	-	0.05	0.02	0.00	0.00	0.03	0.02
Scrap	3.51	2.21	9.69	3.85	7.84	4.03	2.64	2.15
Others	0.67	0.42	0.37	0.15	1.28	0.66	1.93	1.57
Total	158.75	100.00	251.68	100.00	194.47	100.00	122.72	100.00

Source: Red Herring Prospectus (RHP)

Geographical Breakup and Customer Concentration

Country	Revenue from operations (in Rs. crores)							
	Rs. crores	%						
	Six months ended September 30, 2023		Fiscal 2023		Fiscal 2022		Fiscal 2021	
Japan	33.03	20.81	89.26	35.47	65.23	33.54	41.33	33.68
USA	55.66	35.07	57.90	23.01	46.67	24	31.27	25.48
India *	16.75	10.56	49.69	19.75	43.22	22.23	21.98	17.92
UAE	17.38	10.95	22.26	8.84	16.99	8.74	8.96	7.3
Germany	3.47	2.19	15.89	6.32	6.62	3.41	8.79	7.17
Switzerland	0.08	0.05	0.09	0.04	1.62	0.84	4.17	3.41
UK	3.88	2.45	1.18	0.47	3.55	1.83	3.53	2.88
Hungary	0.86	0.54	0.05	0.02	1.28	0.66	1.16	0.95
France	20.56	12.96	15.28	6.07	8.41	4.32	0.70	0.57
Italy	-	-	-	-	-	-	0.42	0.35
Sweden	-	-	-	-	-	-	0.36	0.29
South Africa	-	-	-	-	0.41	0.21	-	-
Poland	6.76	4.26	-	-	0.41	0.22	-	-
Saudi Arabia	-	-	0.01	0	-	-	-	-
Singapore	0.27	0.17	0.02	0.01	-	-	-	-
Total	158.74	100	251.67	100	194.46	100	122.72	100

Source: Red Herring Prospectus (RHP)



	Six months Period ended September 30,2023	Fiscal 2023	Fiscal 2022	Fiscal 2021
Outside India	142.38	202.31	151.82	100.73
Outside India (%)	89.69	80.38	78.07	82.08

Source: Red Herring Prospectus (RHP)

Industry	Revenue from operations (in Rs. crores)		Revenue from operations (in Rs. crores)		Revenue from operations (in Rs. crores)		Revenue from operation (in Rs. crores)	
		%		%		%		%
	Six months September ended 30 , 2023		Fiscal 2023		Fiscal 2022		Fiscal 2021	
Customer 1	33.036	20.81	82.956	32.96	5.442	2.8	-	-
Customer 2	17.386	10.95	22.242	8.84	16.997	8.74	8.96	7.3
Customer 3	-	-	6.305	2.51	42.385	21.8	8.908	7.26
Customer 4	24.361	15.35	-	-	17.328	8.91	14.418	11.75
Customer 5	-	-	-	-	17.406	8.95	32.428	26.42
Customer 6	3.474	2.19	15.898	6.32	6.627	3.41	8.793	7.16
Customer 7	6.862	4.32	11.133	4.42	7.326	3.77	7.218	5.88
Customer 8	6.202	3.91	7.65	3.04	10.716	5.51	3.758	3.06
Customer 9	13.667	8.61	7.793	3.10	5.332	2.74	-	-
Customer 10	1.095	0.69	9.038	3.59	12.49	6.42	3.439	2.8
Total	106.083	66.83	163.015	64.78	142.049	73.05	87.922	71.63

Source: Red Herring Prospectus (RHP)

Particulars	As at and for the six months period ended September 30, 2023	As at and for the Financial year ended March 31, 2022	As at and for the Financial Year ended March 31, 2022	As at and for the Financial Year ended March, 2021
Customers concentration (Top 5) (in %)	60.84	63.11	54.82	59.9
Customer concentration (Top 10) (in %)	79.71	79.76	73.64	81.47

Source: Red Herring Prospectus (RHP)

Industry Peer Comparison (in Rs. Crores unless stated otherwise)

Particulars	Azad Engineering Limited	MTAR Technologies Limited	Paras Defence and Space Technologies Limited	Dynamic Technologies Limited	Triveni Turbine Limited
Revenue from Operations	251.675	573.751	222.426	1315.77	1247.55
Revenue from Operation growth%	29.42	78.18	21.84	4.98	46.39
Revenue from Customers outside India	202.308	450.628	35.157	1007.21	543.613
Gross Profit	221.524	304.241	117.063	684.75	600.412
Gross Margin%	88.02	53.03	52.63	52.04	48.13
EBITDA	72.278	153.974	56.75	181.26	276.40
EBITDA Growth %	16.08	63.06	9.44	7.11	43.88
EBITDA Margin%	28.72	26.84	25.51	13.78	22.2



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Profit after tax for the period/year	8.473	103.419	35.94	42.79	192.88
Profit Margin%	3.37	18.03	16.16	3.25	15.46
Return on capital employed%	12.99	17.72	12.24	11.76	31.24

Source: Red Herring Prospectus (RHP)

Competitive Strengths

- 1) 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.
- 2) Supplying to OEMs with high global market penetration.
- 3) Long-standing and deep customer relationships.
- 4) Advanced manufacturing facilities with a diverse range of products and solutions with focus on innovation and cost competitiveness.
- 5) Consistent track record of financial performance.
- 6) Experienced Promoter and management team backed by marquee investors.

Source: Red Herring Prospectus (RHP)

Growth Strategies

- 1) Leveraging the industry-leading capabilities by continuing to diversify customer base and increase penetration and wallet share with existing customers by entering into new component lines.
- 2) Augment their manufacturing capabilities, including by way of inorganic acquisitions, to better serve customers and to build scale, while delivering state of the art execution.
- 3) Further reduce operating costs, improve operating efficiencies and deploy new technologies.
- 4) Strengthening their core capabilities across their focus industries

Source: Red Herring Prospectus (RHP)

Key Risks

- 1) Customer Concentration
Their business is dependent on the sale of products to key customers. The loss of any of their key customers or loss of revenue from sales to customers could have a material adverse effect on the business, results of operations, financial condition, cash flows and future prospects.
- 2) Any failure to compete effectively in the highly competitive global industry of high precision and mission critical components manufacturing could have a material adverse effect on the business, results of operations, financial condition, cash flows and future prospects.
- 3) It depends on third party suppliers for raw materials, plant, machinery and components, which are on a purchase order basis. Such suppliers may not perform, or be able to perform their obligations in a timely manner, or at all and any delay, shortage, interruption, reduction in the supply of or volatility in the prices of raw materials, plant, machinery and components on which it relies may have a material adverse effect on the business, results of operations, financial condition, cash flows and future prospects.
- 4) The global nature of their operations exposes it to numerous risks that could materially adversely affect the business, results of operations, financial condition, cash flows and future prospects.
- 5) The markets in which company's customers compete are characterized by sectors specific to the industries which it caters to, and their customer's rapidly changing preferences and other related factors including lower manufacturing costs. Accordingly, Azad Engineering Limited may be affected by any disruptions in the industry which can adversely impact the business, financial condition, results of operations, cash flows and prospects.

Source: Red Herring Prospectus (RHP)


Disclosure under SEBI Research Analyst Regulations 2014:

Sr.no.	Particulars	Yes/No
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