

Equipment | India

IPO | 19 December 2023

A Global OEM Supplier

Azad Engineering Limited



About the Company

Azad Engineering Limited (AEL) is one of the key manufacturers of qualified product lines supplying to global original equipment manufacturers ("OEMs") in the energy, aerospace and defence, and oil and gas industries, manufacturing highly engineered, complex and that are mission and life-critical components and hence, some of our products have a "zero parts per million" defects requirement competing with manufacturers from China, Europe, USA and Japan. AEL have four advanced manufacturing facilities in Hyderabad, Telangana, India, capable of producing high precision forged and machined components and two large manufacturing facilities in the pipeline.

Diversified Product Categories for global OEMs

AEL diversified product ranges across energy, aerospace and defence, and oil and gas industries manufacturing critical high precision forged and machined components which we believe, makes us stand out as a strategic partner to OEMs in the industries in which we operate. As of Sep'23 it has approximately 45 qualified manufacturing processes and 1,400 qualified parts and components. AEL revenues are 80% exports in 15 countries and the customers include global OEMs across the energy, aerospace and defence, and oil and gas industries such as General Electric, Honeywell International Inc., Mitsubishi Heavy Industries, Ltd., Siemens Energy, Eaton Aerospace and MAN Energy Solutions SE to name a few.

High Barriers to Entry for new players

AEL is the preferred manufacturer of mission & life-critical components serving highly regulated industries with significant entry barriers as there is a stringent qualification processes taking up to 30-48 months for on boarding a new vendor high precision parts with "zero parts per million" defects requirement. AEL has demonstrated efficiency pursuant to machining time reduction and adherence to strict quality, resulting in competitive strength against manufacturers and exhibiting process design capabilities & cost competitiveness resulting in winning contracts.

Consistent Growth Drivers

Azad Engineering Ltd. provides components to the aviation sector such as engine airfoils and other precision, forged and machined components. The outlook for global air traffic is positive with Revenue Passenger Kilometer (RPK) expected to increase to 9.5 Bn by 2027 growing at a CAGR of 12%. The rise in global military expenditure was driven by the Russian - Ukraine conflict and rise in defence spending with focus on modernization and advanced aircrafts, whereby the TAM for aerospace and defence is expected to grow by 9% CAGR till FY27.

Financials in Brief

On the financial front, the company reported a turnover of Rs 123 Crs, Rs 194 Crs and Rs 252 Crs for FY21, FY22 and FY23 respectively, on a consolidated basis. It posted adjusted net profit of Rs 20.4 Crs, Rs33.1 Crs and Rs 45.2 Crs respectively for the aforementioned period. The customers have stringent certification requirements and engage products in rigorous testing and quality checks which also builds customer loyalty due to which customer stickiness can be high. AEL long-term relationships and ongoing active engagements with customers also allow us to plan our capital expenditure, enhance our ability to benefit from increasing economies of scale with stronger purchasing power for raw materials and a lower cost base.

Our View

AEL is strengthening its core capabilities across the focus industries leverage industry-leading capabilities by continuing to diversify the customer base and increase penetration and wallet share with existing customers by entering into new component lines. AEL would continue to augment manufacturing capabilities by organic and inorganic acquisitions, building scale and delivering state of the art execution with its multifold facilities coming up over the next few years which will increase its revenues base, reduce operating costs, and improve operating efficiencies deploying new technologies offering quality products at optimal prices. **AEL is one of the fastest growing manufacturers with one of the highest EBITDA margins among the key players, backed by marquee investors, unique business model, strong TAM in various segments over the next few years, consistent track record of financial performance suggests a SUBSCRIBE rating for the long term.**

IPO Details

Price Band (Rs)	499-524
Face Value (Rs)	2
Issue Open/Closing Date	20-Dec-23/22-Dec-23
Fresh Issues (Crs)	240
OFS (Crs)	500
Total Issue (Crs)	740
Minimum Bid Qty. (Nos)	28
QIB / HNI / Retail	50%/15%/35%
Implied Market Cap (Rs Crs)*	3,098

*At higher band

Object of the Issue

- ▶ Funding capital expenditure of the Company.
- ▶ Repayment of certain borrowings.
- ▶ General Corporate purposes.

Strengths

- ▶ Preferred name in the manufacturing of highly-engineered, complex and mission & life critical components.
- ▶ Advanced manufacturing facilities with a diverse range of products and solutions.
- ▶ Supplying to highly regulated industries having significant entry barriers.
- ▶ Experienced Promoter and management team backed by marquee investors.

Key Risk

- ▶ Raw material sourcing risk and customer concentration risk.
- ▶ Global nature of our operations exposes us to numerous risks.

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	78.6	65.9
Others	21.4	34.1

Key Financials

(Rs Crs)	FY22(12)	FY23(12)	HIFY24(6)
Exports %	78%	80%	90%
Revenue	194	252	159
Adjusted EBITDA	63	80	53
EBITDA Margin (%)	32.5	31.6	33.3
Adjusted PAT	33	45	29
PAT Margin (%)	17.1	18.0	18.5
EPS (Rs)	6.5	1.8	5.4
RocE (%)	16.9	12.9	9.6
RoE (%)	24.5	4.2	11.7
Networth	118.9	202.5	221.1
Total Borrowings	197	301	325

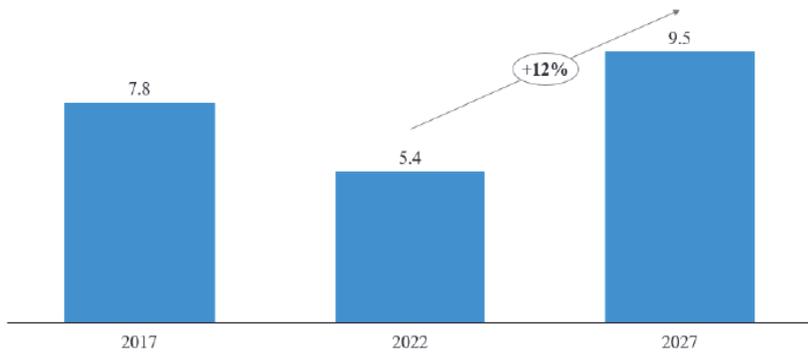
Source: RHP

Senior Research Analyst:
Vikas Jain

Contact : (022) 41681371

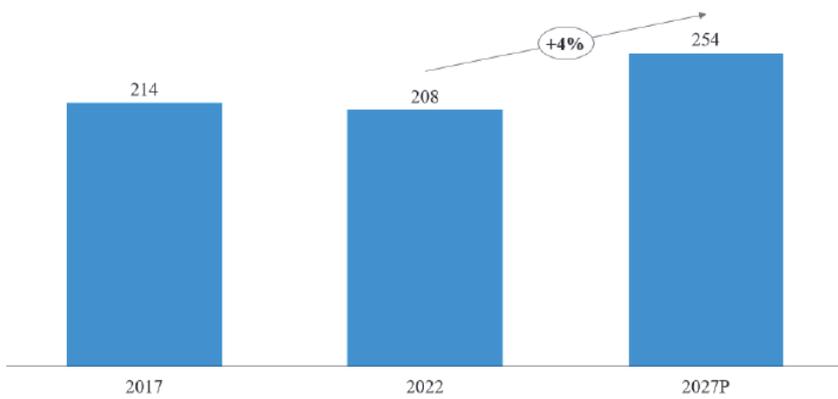
Email : vikas.i.jain@reliancecda.com

Exhibit 1: Global Revenue Passenger Kilometer (Bn) (2017-2027)



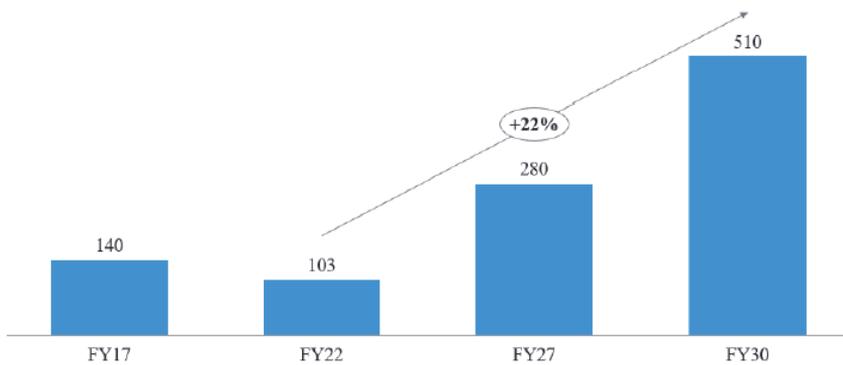
Source: RHP, IATA, World Air Traffic Forecast Boeing report 2022

Exhibit 2: Global air freight traffic (Bn-ton) (2017-2027)



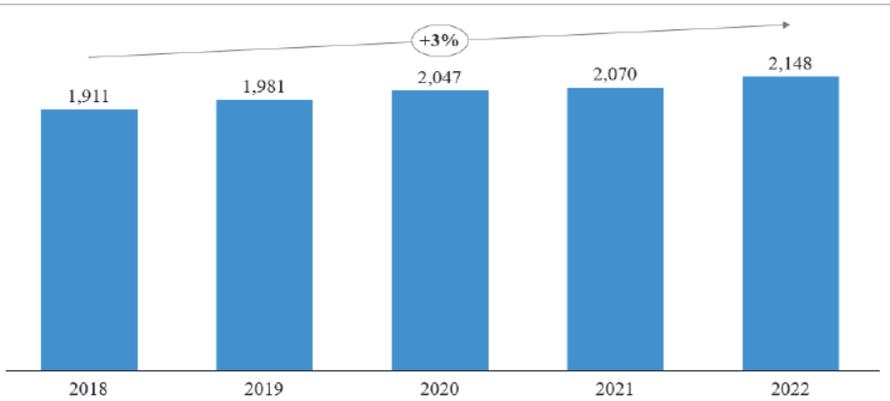
Source: RHP, World Bank Data- accessed July 2023, World Air Cargo Forecast – Boeing report 2022.

Exhibit 3: Indian air traffic (millions) (FY17-FY30)



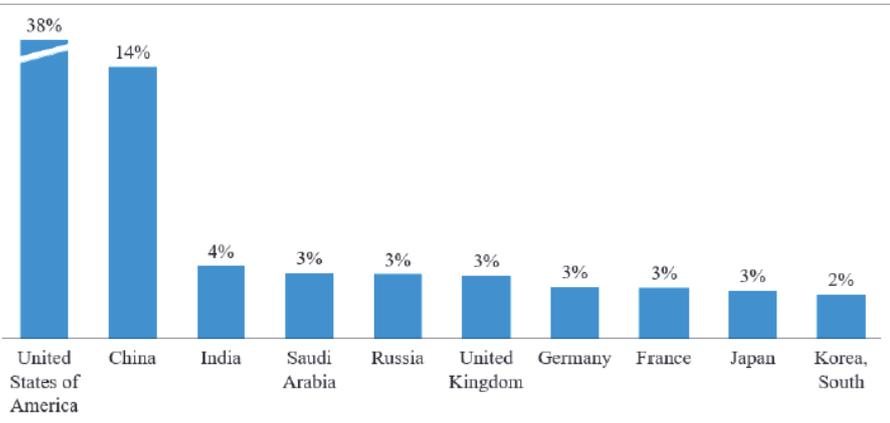
Source: RHP, World Bank Data, Economic Times – “India is flying high again: Domestic numbers touching pre-pandemic levels” dated May 2023

Exhibit 4: Global military expenditure (US\$ Bn) (2018-22)



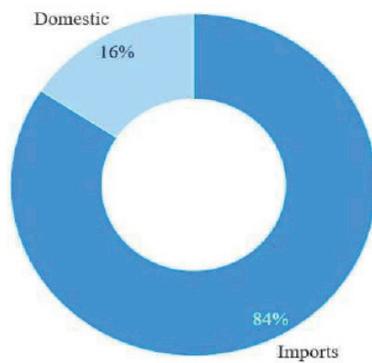
Source: RHP, SIPRI. Note: Includes SIPRI estimates of military spending for certain countries. All values at constant 2021 prices and exchange rates.

Exhibit 5: Top countries by value share of military expenditure in 2022



Source: RHP, SIPRI

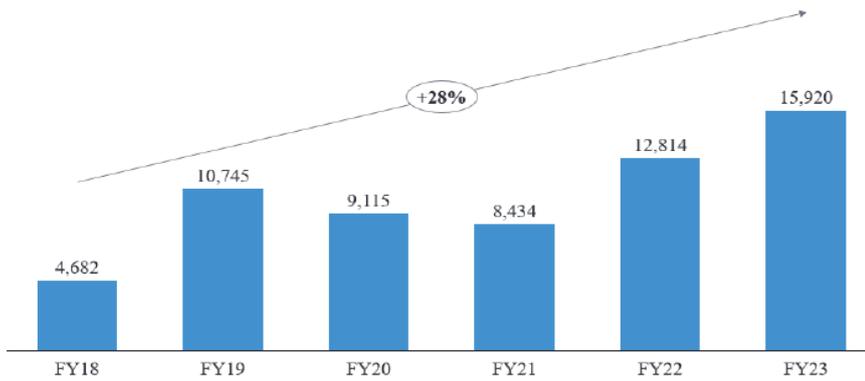
Exhibit 6: Share of major conventional arms procured between 2016-2020 as per origin



Source: RHP, SIPRI

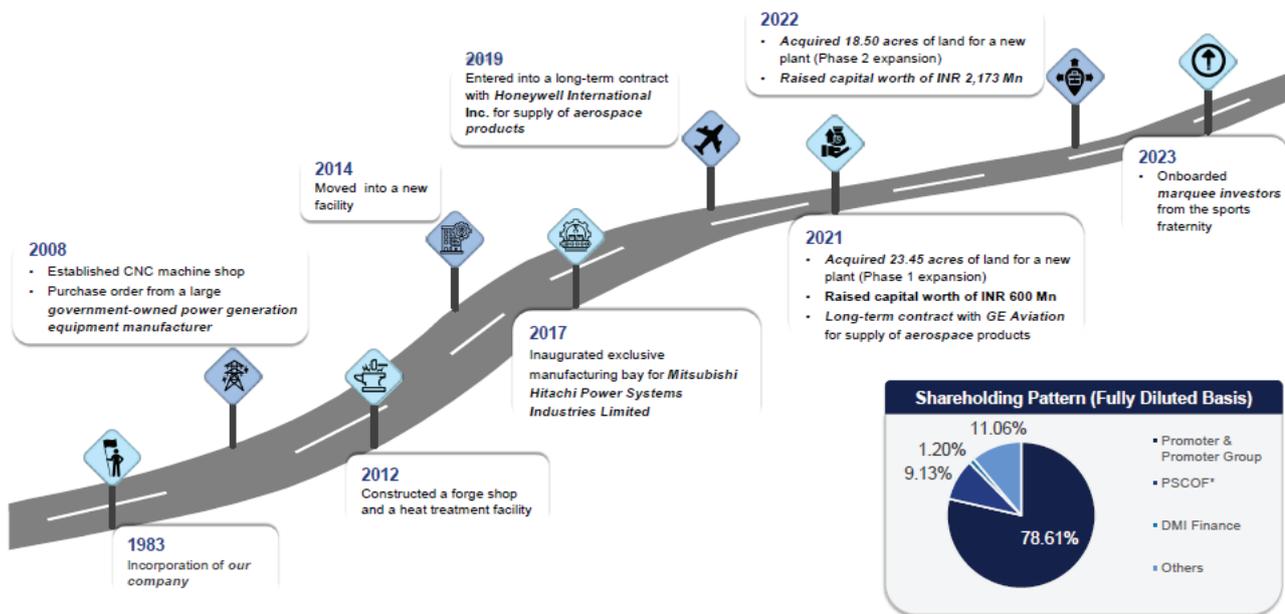
Note: Major arms as categorized by SIPRI include Aircrafts, armor, ships, missiles, air-defence systems etc. Arms produced completely in-house from design, development to manufacturing are considered domestic. Licensed production is included in imports.

Exhibit 7: Trends in value of Indian exports (INR Cr) (FY18-23)



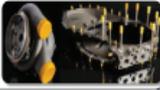
Source: RHP, Press release from Ministry of Defence in PIB, dated 01 April 2023

Exhibit 8: Our Journey



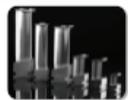
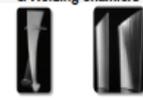
Source: RHP, Note: *PSCOF = Piramal Structured Credit Opportunities Fund;

Exhibit 9: Project and Life Critical Portfolio of Diversified Product (1/2)

Aerospace and Defence Industry		
Product Category	Products	End-Use Industry/Application
 Aero Engine Assembly  Auxiliary Power Unit ("APU")  Air Generation & Valve Assembly	Airfoils, Unison Rings, Arm, Levers  Body, Assembly  Housing, Compressor & Mount  Body, Valve  Plate Butterfly  Seal, Shaft & Bearing Rod  Piston Plate, Sealing Ring 	Business Jet Aircrafts  Commercial Aircrafts  Defence Aircrafts  Training Jet Aircrafts  Helicopters  Defence and Missile Manufacturing 
 Actuator & Hydraulic Systems  Airframes & Booster	Cover & Housing, Actuator  Guide, Poppet  Tees & Elbows  Nipples & Adaptors  Aft & Fore End Skirt  BB2KP Base  B1 Ignitor Body - 1 & 2 	

Source: RHP

Exhibit 10: Project and Life Critical Portfolio of Diversified Product (2/2)

Energy and Oil & Gas Industry		
Product Category	Products	End-Use Industry/Application
 Nuclear Power Turbine – Turbine Airfoil Assembly  Hydrogen / Natural Gas Turbine – Turbine Airfoil Assembly  Thermal Power Turbine – Turbine Airfoil Assembly  Oil & Gas – Up & Mid Stream Subsystems	Fixed Airfoil  Last Stage Airfoil – Rotary & Welding Chamfers  Last Stage Airfoil - Stationary  Stator & Rotor Airfoils  Compressor Airfoils  Hot Gas Parts  Fixed, Moving and Last Stage Airfoil/Blade  Slips  Drill Bits  Hatch Cover  Bonnet  Frame 	Electric Power Generation  Combined Heat & Power Plants  Renewable Energy Integration  Industrial Applications  Marine Propulsion  District Heating & Cooling  Waste-to-Energy  Desalination Plants  Discovery & Extraction of Fossil Fuels 

Source: RHP

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