

# PARAS DEFENCE AND SPACE TECHNOLOGIES LIMITED

## IPO NOTE



# OVERVIEW

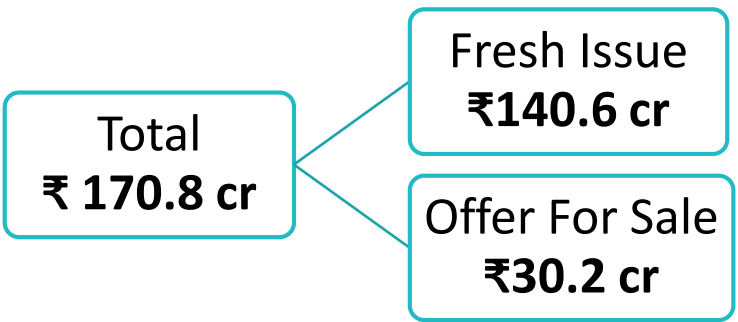
Incorporated in 2009, Paras Defence is an Indian private sector company engaged in designing, developing, manufacturing and testing of a wide range of **defence and space engineering products and solutions**. It is one of the leading **‘Indigenously Designed Developed and Manufactured’(IDDM)** category private sector companies in India, which caters to four major segments of Indian defence sector i.e. **defence and space optics, defence electronics, electro-magnetic pulse (“EMP”) protection solution and heavy engineering**. It is also the sole Indian supplier of **critical imaging components** such as large size optics and diffractive gratings for space applications in India. They are currently developing several new products, such as hyper spectral space camera, ARINC-818 based avionic display and naval periscopes, and multi and hyper spectral cameras for drones and space, Unmanned Aerial Vehicles, cubesats and anti-drone systems.

## FINANCIAL HIGHLIGHTS

Particulars	FY19	FY20	FY21
Revenue from Operations	154.4	147.0	143.3
EBITDA	42.8	39.3	43.4
Net Profit	19.0	19.7	15.8

₹ crore

## ISSUE SIZE



## ISSUE DETAILS

Issue Date	21 Sep'21 to 23 Sep'21
Price Band	₹165-₹175
Bid Lot	85 shares
Issue Size	₹170.8 cr
No. of Shares (Post Issue)	3.9 cr
Post-Issue Implied Market Cap*	₹683 cr
Price to Earnings Ratio (FY21)*	43.22X

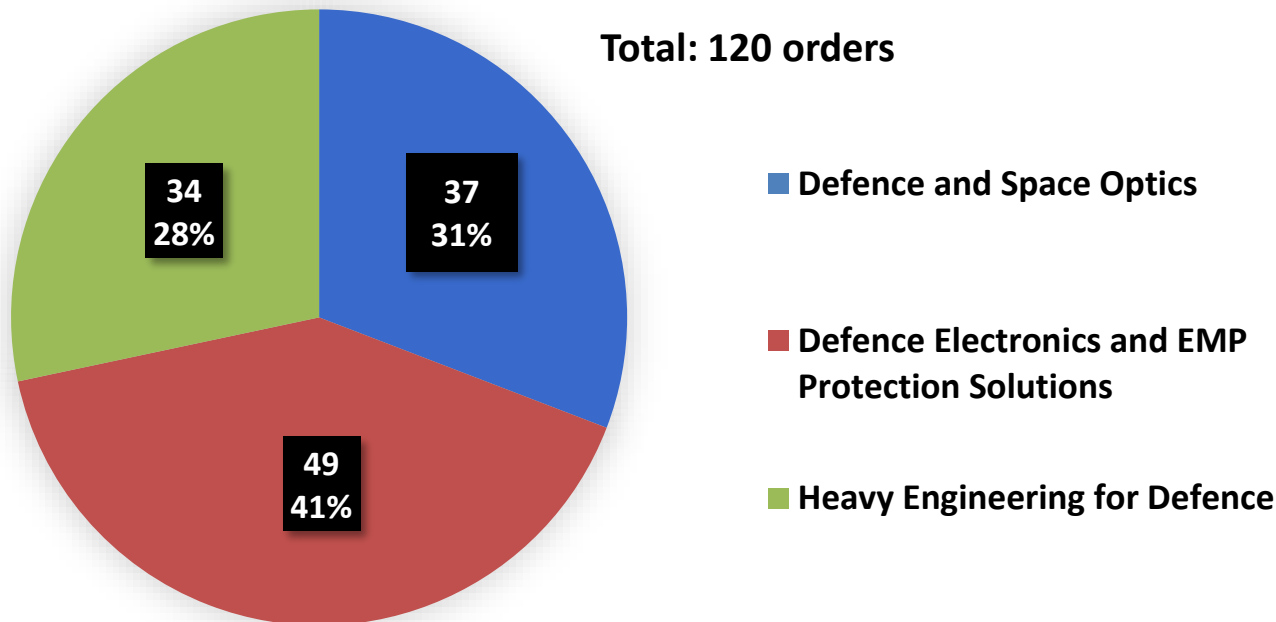
\* At upper price band

# ABOUT THE COMPANY

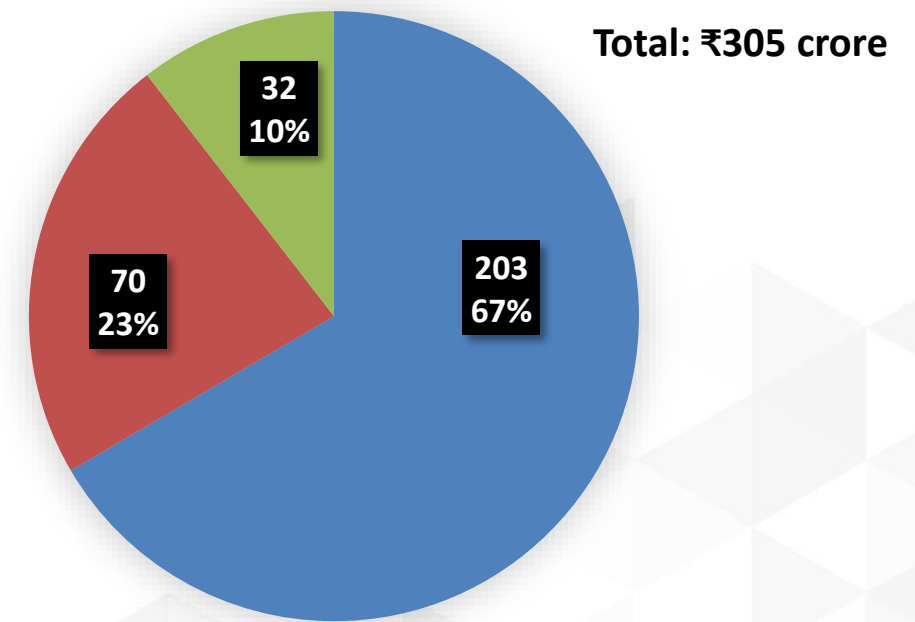
- **Defence and space optics** operations include manufacturing high precision optics for defence and space applications such as thermal imaging and space imaging systems.
- **Defence electronics** operations include providing a wide array of high performance computing and electronic systems for defence applications, including sub systems for border defence, missiles, tanks and naval applications.
- **EMP protection** solutions include designing, developing, manufacturing and commissioning various solutions for EMP Protection.
- **Heavy engineering for defence operations** involves providing heavy engineering products and solutions, such as components for rockets and missiles along with providing mechanical manufacturing support to other verticals of our business.

## ORDER BOOK, AS ON 30<sup>TH</sup> JUNE, 2021

### NUMBER OF ORDERS

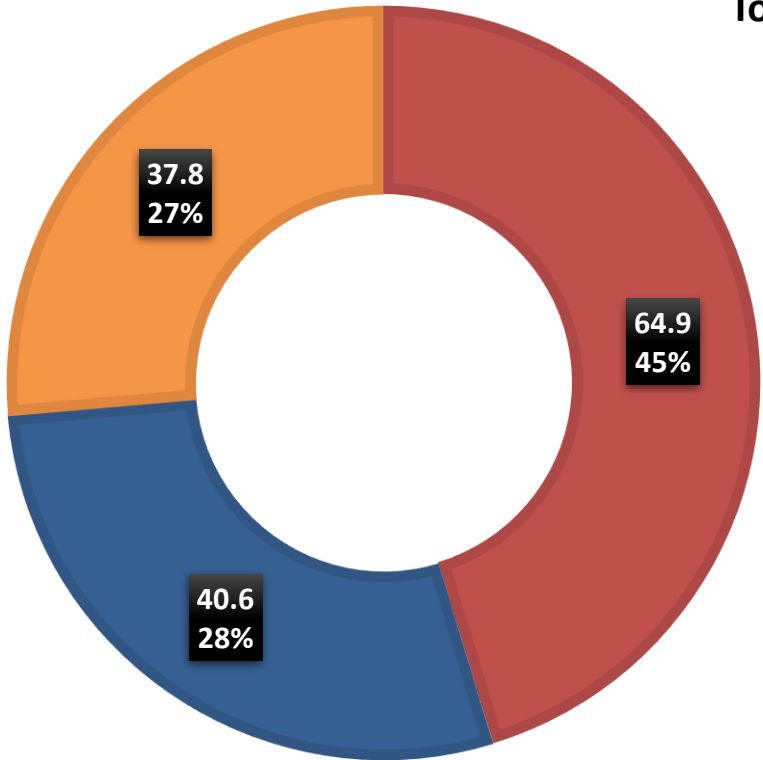


### VALUE OF ORDERS



# ABOUT THE COMPANY

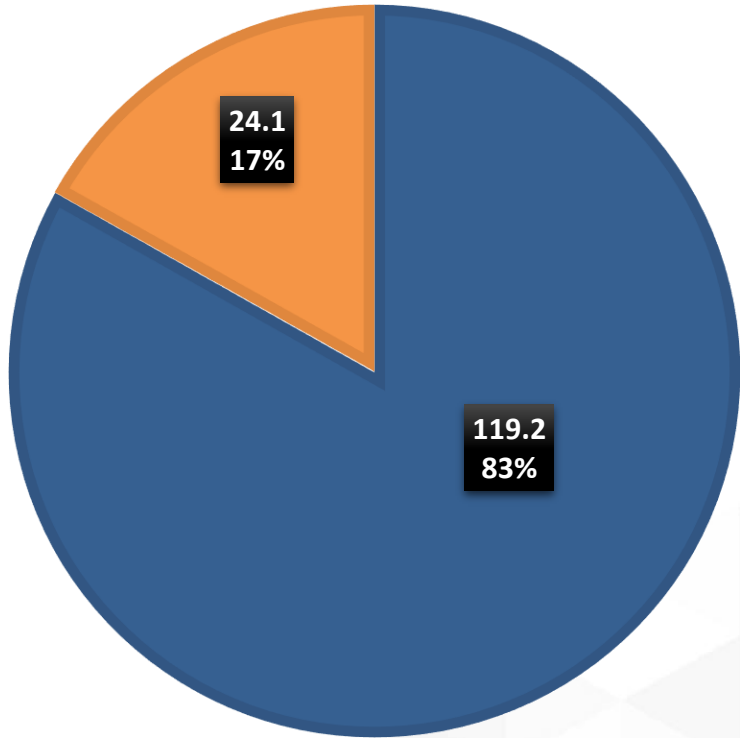
## REVENUE FROM OPERATIONS (FY21)



Total Revenue: ₹143.3 crore




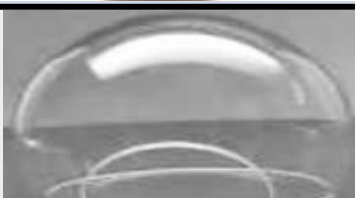

■ Defence & Space Optics ■ Defence Electronics ■ Heavy Engineering

## GEOGRAPHICAL REVENUE BREAKUP (FY21)



■ India ■ Outside India

# MAJOR PRODUCT PORTFOLIO – DEFENCE & SPACE OPTICS

Products	Design	Description
Infrared lenses for thermal imaging systems and night vision cameras		These are the optical components for thermal imaging cameras or night vision devices and border security personnel for all EO/IR (electro optics and infrared) systems used by armed forces.
Diffractive gratings for space cameras		This is an essential optical element in hyper-spectral camera used in space applications like earth observation etc.
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.
Optical domes for missile systems		These are the optical elements used for missiles which help the missiles to sight its targets efficiently.
Metal mirrors for astronomy and space research		These are mirrors made from Aluminium or similar metals and offer very high-reflective surface for large size long-range imaging systems such as telescopes.

# ABOUT THE COMPANY

- It has two **manufacturing facilities** in **Maharashtra**, located at Nerul in **Navi Mumbai** and Ambernath in **Thane**. **Nerul facility** is an advanced nano technology machining centre for producing high quality optics and ultra-precision components and is engaged in manufacturing of optics, design, development, manufacturing and integration of electronics and EMP protection products and solutions. **Ambernath facility** is engaged in manufacturing of heavy engineering products such as flow-formed motor tubes, vacuum brazed cold plates, titanium structures and assemblies, large and heavy dynamic structures with built-in automation for strategic applications, indigenously designed and manufactured flow-forming machines and mechanical racks, cabinets and consoles for various defence applications.
- The company derives most of its revenue under contracts from **Government arms and associated entities** such as defence public sector undertakings and government organizations involved in space research.
- **Customer base** includes Government arms and notable **Indian public and private sector companies** including Bharat Electronics Limited (BEL), Hindustan Aeronautics Limited (HAL), Bharat Dynamics Limited (BDL), Hindustan Shipyard Limited (HSL), Electronic Corporation of India Limited (ECIL), Tata Consultancy Services Limited (TCS), Solar Industries India Limited, Alpha Design Technologies Private Limited and Astra-Rafael Comsys Private Limited. Among these, **Bharat Electronics Limited** constitutes 16.1% of the total revenue of the company for FY21.
- Its **foreign customers** include Advanced Mechanical and Optical Systems (AMOS), Belgium, Tae Young Optics Company Limited (South Korea), and Green Optics (South Korea) etc. Among these, **Green Optics** constitutes 1.5% in FY21 which was 10.5% for FY20.
- Further, it **partners with international players** such as Holland Shielding Systems BV Netherlands, HPS, Gmbh and Invent, Gmbh to provide its customers in India with products and technologies for defence and space applications.

## OBJECTS OF THE OFFER

The Net Proceeds from the Fresh Issue are proposed to be utilised in the following manner:

- Purchase of machinery and equipments: It has placed orders for ₹6.7 crore for the purchase of new and upgraded machineries, it is yet to place orders for ₹27.9 crore.
- Funding incremental working capital requirements of the company
- Repayment or prepayment of all or a portion of certain borrowings/outstanding loan facilities availed by the company
- General corporate purposes

### EXPECTED DEPLOYMENT OF NET PROCEEDS

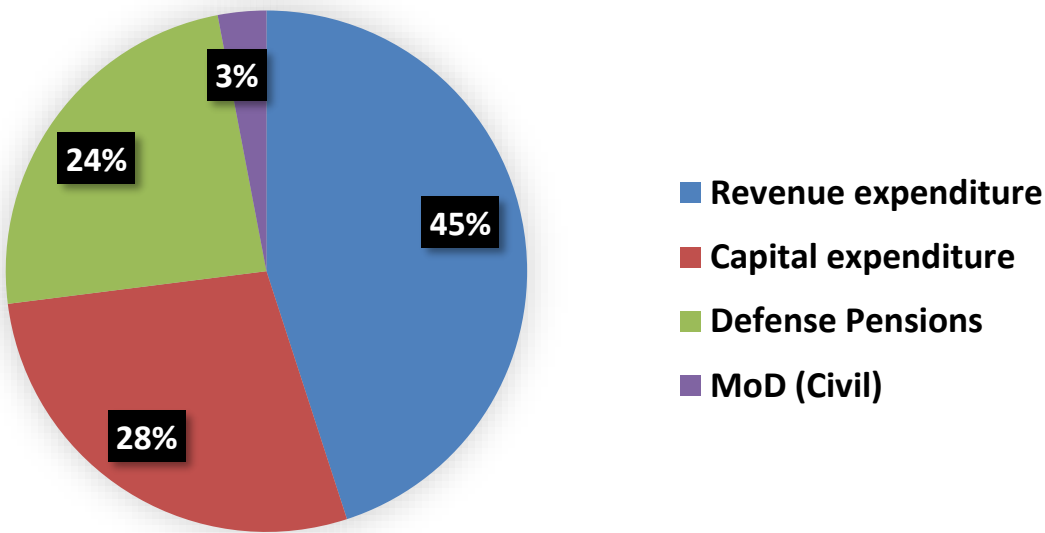
Particulars	Net Proceeds	Estimated	
		FY 2022	FY23
Purchase of machinery and equipments	34.7	34.7	-
Funding incremental working capital requirements of the company	60	24	36
Repayment of all or a portion of certain borrowings availed by the company	12	12	-
General corporate purposes	●	●	●

● To be determined

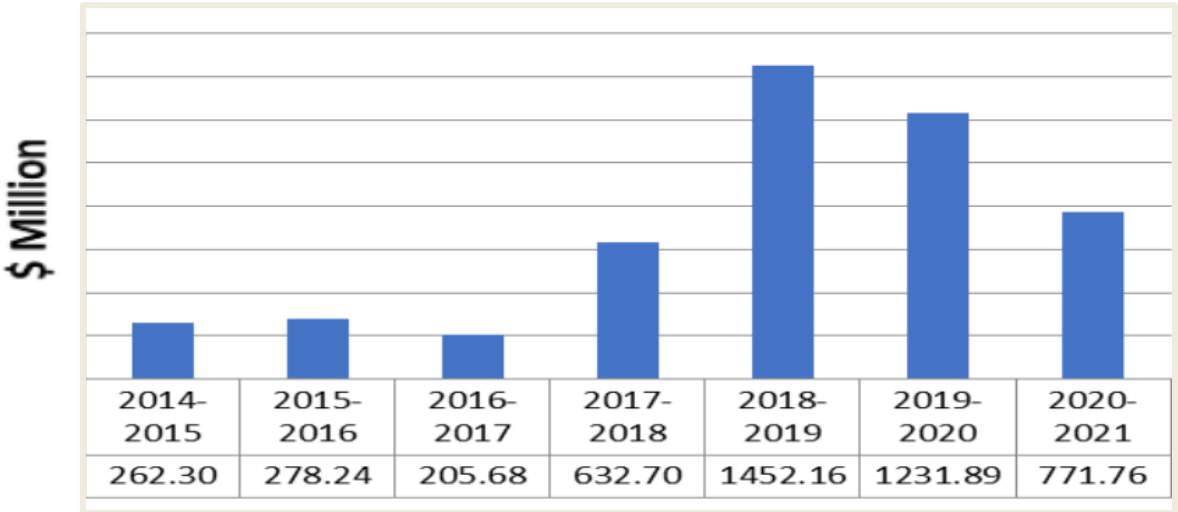
# SECTOR OUTLOOK

- **Global defence spending** touched \$1.98 trillion in 2020, which was an increase of 2.6% over such corresponding spending in 2019. The five largest spenders, accounting for 62% of the total global spend, were the United States, China, India, Saudi Arabia and Russia. Rise in geopolitical disputes, such as the ongoing flare up between the United States and China, was the major reason fuelling this increase in spending.
- In India, the **defence budget** has 4 main components: Ministry of Defence (Civil), Defence Services Revenue, Capital Outlay on Defence Services, and Defence Pensions, and not all of it is available to the defence industry participants.
- India's defence **exports and imports** used to be at two ends of a continuum with a massive trade deficit skewed against Indian indigenous production. The Stockholm International Peace Research Institute (SIPRI) Arms Transfer Database indicates that India remained the **largest importer of defence equipment** in the 2012-16 timeframe with its share in global arms imports dropping from 14% in 2011-2015 to 9% in 2016-2020, a drop of 33%. Compared to the above, India's arms exports contributed to only a small percentage of global arms trade during this time.

## DEFENCE BUDGET COMPONENTS – FY22

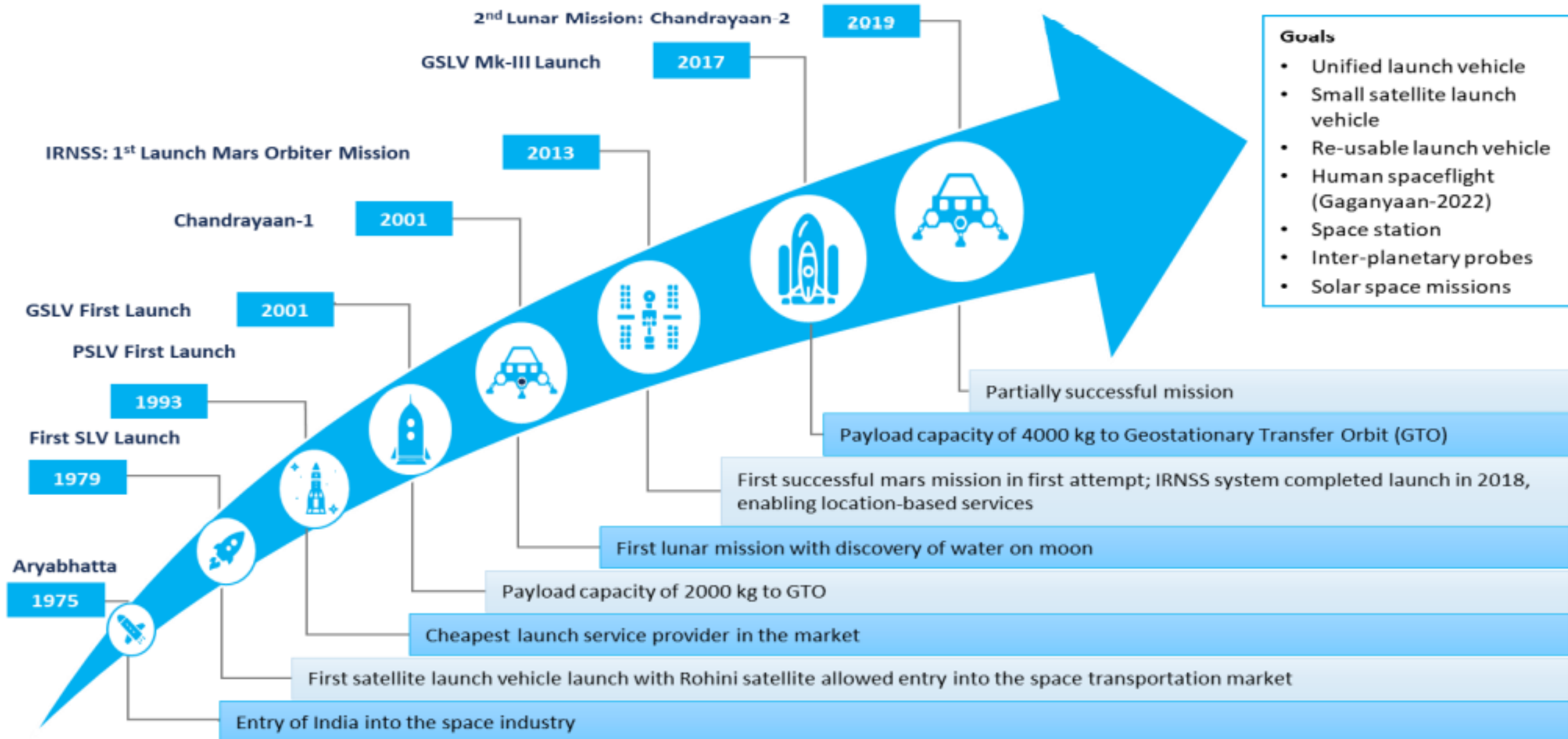


## DEFENCE EXPORT GROWTH



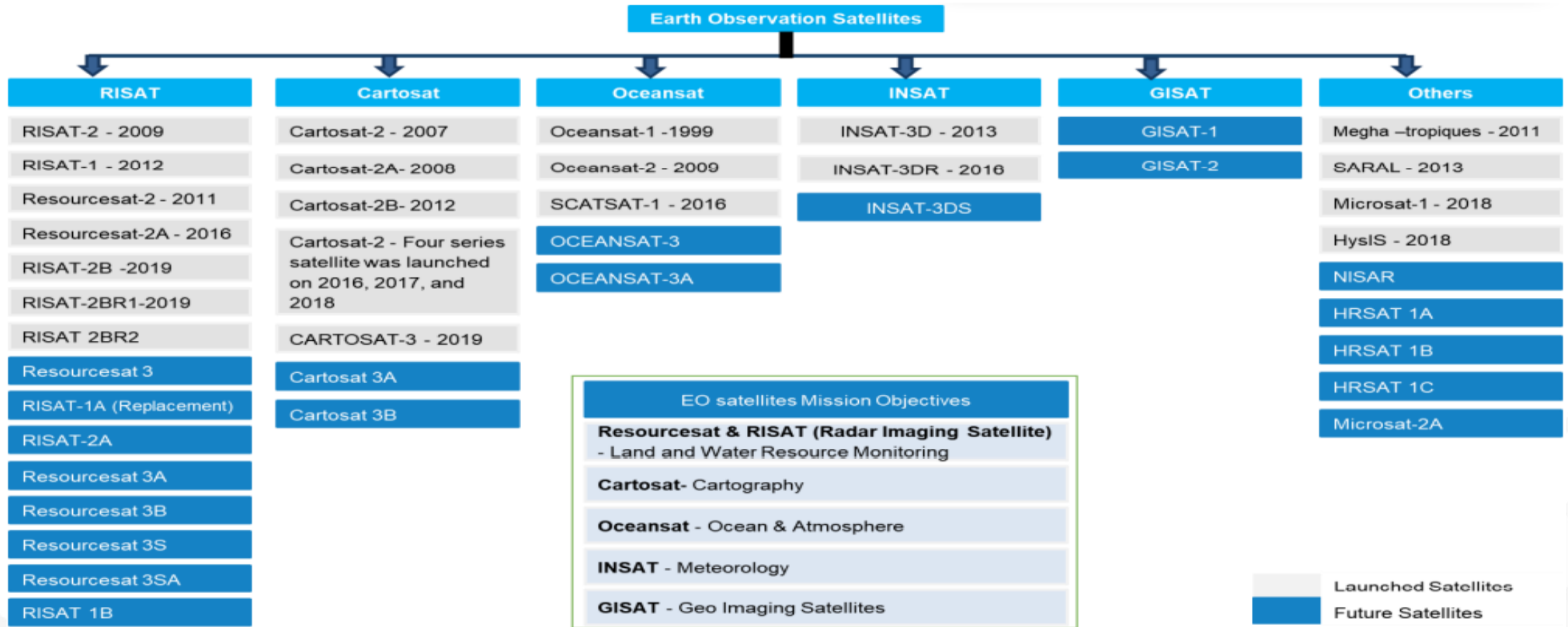


# SPACE INDUSTRY IN INDIA



# SPACE INDUSTRY IN INDIA

The 2021-22 timeline is dominated by Earth Observation missions indicating a significantly larger portion of investment going towards space imaging systems. ISRO is enabling private participant including startups to enter the satellite market by evolving regulatory framework. This is expected to expand the Indian space ecosystem, and companies like the Company will be a direct beneficiary of the same. Further, set out below, is a detailed capture of the key planned EO missions by ISRO:



# PROMOTER BACKGROUND AND SHAREHOLDING

The promoter and promoter group holding a total of 79.4% stake in the company, of which:

- **Munjal Sharad Shah (32%)**
- **Sharad Virji Shah (27.5%)**
- **Promoter Group (19.9%)**

The company has undertaken a pre-IPO placement of ₹34.4 crore for ~25 lakh shares in 4 tranches between August, 2020 and July, 2021 at ₹197, ₹125, ₹125 and ₹160.

Shareholding	Pre IPO	Post IPO
Promoter & Group	79.4%	59.7%
Public	20.6%	40.3%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Allocation of Offer	Share in Issue (₹ crore)	% of Issue
QIB	15.1	50%
Retail	10.6	35%
NIB	4.5	15%
<b>Total</b>	<b>30.2</b>	<b>100%</b>

Selling Shareholder	Share in Issue (₹ crore)	% of OFS Sold
Munjal Sharad Shah – Promoter	21.9	72.5%
Sharad Virji Shah – Promoter	0.9	3.0%
Ami Munjal Shah- Promoter Group	5.3	17.5%
Individual (Shilpa Amit Mahajan & Amit Mahajan)	2.1	7.0%
<b>Total</b>	<b>30.2</b>	<b>100%</b>

# RISK FACTORS

- Its business is largely dependent on contracts from **Government of India (“Gol”)** and associated entities including defence public sector undertakings and government organizations involved in space research. A decline or reprioritisation of the Indian defence or space budget, reduction in orders, termination of existing contracts, delay of existing or anticipated contracts or programmes or any adverse change in the Gol’s defence or space related policies will have a material adverse impact on its business. For FY21, revenue derived was ₹72.9 crore from Gol Entities, which is equivalent to 50.8% of sales. Further, as at 30<sup>th</sup> June, 2021, order book from the Gol Entities, was ₹130.6 crore.
- From time to time, the company enters into **contracts with third parties in India and outside India** for partnering in relation to development of certain products or sourcing components. For instance, it has entered into teaming agreements with companies such as HPS GmbH, Invent GmbH, and Kley France for securing contracts and manufacturing of products in accordance with the terms of such agreements. These agreements are typically short term and are entered for a period of one or two years. These agreements may or may not be renewed or extended at the end of their respective terms. A delay in or failure to do so may have an impact on its business, financial condition and results of operations.
- Revenue **from top five customers** for FY21 amounting to ₹85.5 crore, which constituted 59.63% of total consolidated revenue.
- It has sustained negative cash flows from operating activities due to working capital changes and from investing activities are majorly due to investment in PPE and CWIP.
- If it fails to keep its **technical knowledge and process know-how** confidential, it may suffer a loss of its competitive advantage.

# STATEMENT OF PROFIT AND LOSS

Particulars	Data for the period ended 31 <sup>st</sup> March		
	2019	2020	2021
<b>Revenue From Operations</b>	<b>154.4</b>	<b>147.0</b>	<b>143.3</b>
Other Income	2.8	2.0	1.3
<b>Total Income (I)</b>	<b>157.2</b>	<b>149.0</b>	<b>144.6</b>
Cost of Materials Consumed	95.5	74.0	59.9
Employee Benefit Expenses	9.0	11.0	11.7
Finance Costs	9.4	9.8	12.4
Depreciation and Amortization Expense	9.4	9.7	9.7
Other Expenses	7.1	22.8	28.0
<b>Total Expenses (II)</b>	<b>130.4</b>	<b>127.3</b>	<b>122.0</b>
<b>Profit Before Tax (III) = (I-II)</b>	<b>26.8</b>	<b>21.8</b>	<b>22.6</b>
Total Tax Expense (IV)	7.8	2.1	6.8
<b>Net Profit for the Period (III-IV)</b>	<b>19.0</b>	<b>19.7</b>	<b>15.8</b>

₹ crore

# STATEMENT OF ASSETS AND LIABILITIES

Particulars	Data as on 31 <sup>st</sup> March		
	2019	2020	2021
Property, plant and equipment	165.9	155.8	155.1
Other Non-Current Assets	6.4	8.7	5.6
Inventories	64.5	60.4	74.7
Trade Receivables	83.2	97.6	94.9
Cash, Bank & Cash Equivalents	1.9	4.4	8.3
Other Current Assets	7.9	15.5	24.2
<b>Total Assets</b>	<b>329.8</b>	<b>342.4</b>	<b>362.8</b>
Total Equity	152.4	172.6	206.7
Borrowings (Current)	37.9	60.2	68.0
Borrowings (Non-Current)	38.2	36.8	25.5
Other Non-Current Liabilities	29.5	24.9	24.4
Other Current Liabilities	71.8	47.9	38.2
<b>Total Liabilities and Equity</b>	<b>329.8</b>	<b>342.4</b>	<b>362.8</b>

# STATEMENT OF CASH FLOW

Particulars	Data for the period ended 31 <sup>st</sup> March		
	2019	2020	2021
Net cash generated from / (used in) operating activities (A)	(12.1)	(2.6)	4.3
Net cash generated from / (used in) investing activities (B)	(9.6)	(4.9)	(6.3)
Net cash generated from / (used in) financing activities (C)	21.4	8.6	5.4
Net increase / (decrease) in cash and cash equivalents (A+B+C)	(0.3)	1.1	3.4

₹ crore

# KEY METRICS

Particulars	Data as on 31 <sup>st</sup> March		
	2019	2020	2021
EPS (Diluted) (₹)	6.75	6.92	5.55
Net Worth (₹ crore)	119.1	138.7	172.4
Return on Net Worth (%)	15.9%	14.2%	9.1%
Net Asset Value per Equity Share (₹)	38.9	46.0	55.2
EBITDA (₹ crore)	42.8	39.3	43.4
EBITDA Margin (%)	27.7%	26.7%	30.3%
PAT Margin (%)	12.3%	13.4%	11.0%
Capital Expenditure (₹ crore)	9.7	4.4	5.3



# SWOT ANALYSIS

## Strengths

Specialized technology capabilities  
Less competition

## Opportunities

Expansion of production capacity  
Increased partnerships to diversify product base

## Threats

Knowledge Spillover

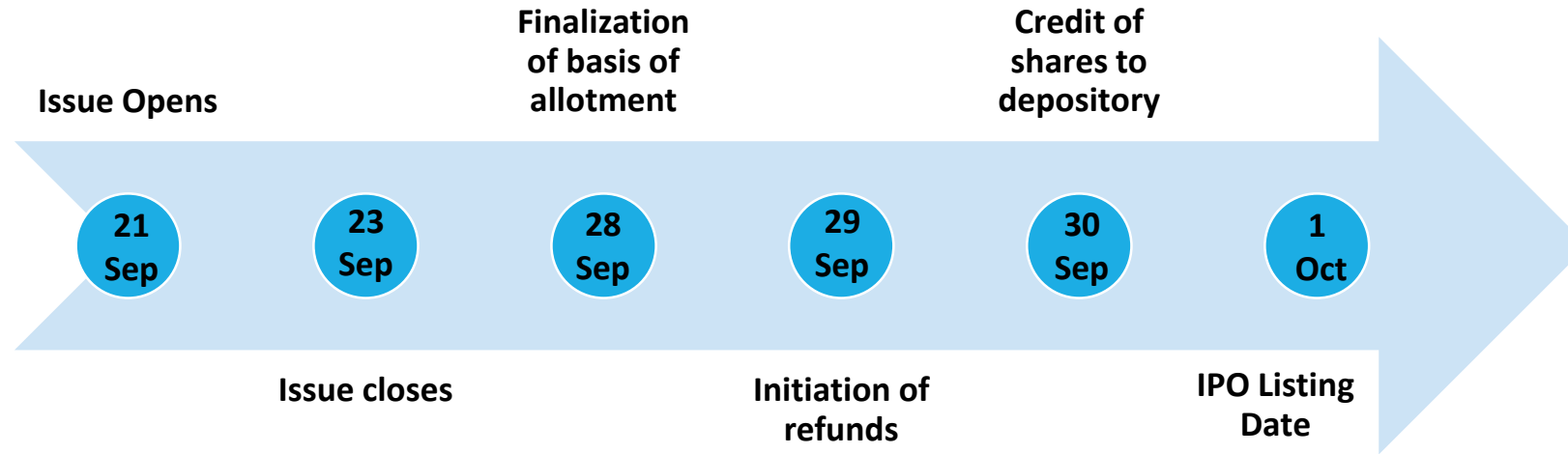
## Weakness

Dependence on Government entities

- Paras Defence is 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 and space optics and EMP protection solutions.
- It offers a wide range of products and solutions for defence as well as space applications. As of 30<sup>th</sup> June, 2021, it has a range of 34 different categories of products and solutions, with multiple variations in each category.
- It is one of the few players in high precision optics manufacturing for space and defence application in India. It also specialises in large-sized optical mirror and is the only Indian company with the design capabilities for space-optics and opto-mechanical assemblies.



# TIMELINES



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