

Azad Engineering Limited

| Issue Detail | |
|------------------|----------------------|
| Price Band (Rs.) | Rs.499 – Rs.524 |
| Face Value (Rs.) | 2.00 |
| Issue Size (Rs.) | 740 Cr. |
| Issue Type | Book Built Issue IPO |
| Lot Size | 28 Shares |
| Issue Opens | December 20, 2023 |
| Issue Closes | December 22, 2023 |
| Listing on | BSE & NSE |

| Indicative Timeline | On or before |
|------------------------------------|-------------------|
| Finalization of Basis of Allotment | December 26, 2023 |
| Unblocking of Funds | December 27, 2023 |
| Credit of shares to Demat Account | December 27, 2023 |
| Listing on exchange | December 28, 2023 |

| Other Detail | |
|----------------------------|---|
| Book Running Lead Managers | Axis Capital Limited, ICICI Securities Limited, SBI Capital Markets Limited and Anand Rathi Securities Limited. |
| Registrar | Kfin Technologies Limited |

| IPO Shareholding (%) | | |
|----------------------|----------------|----------------|
| Category | Pre-Issue | Post-Issue |
| Promoters | 78.61% | 65.90% |
| Public | 21.39% | 34.10% |
| Total | 100.00% | 100.00% |

| Distribution Team |
|---|
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Company Background

Azad Engineering Limited (AEL) was incorporated on September 19, 1983 engaged in manufacturing 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. 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 has 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.

Issue Details

The issue size is Rs.740 Cr. which comprises of Fresh Issue of upto Rs.240 Cr. and Offer for Sale of Equity Shares upto Rs.500 Cr.

Issue Objectives

The Net Proceeds of the Fresh Issue are proposed to be utilized in the following manner:

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

IPO Share Issue Structure

| Category | Allocation | Number of Shares | Value at upper price band (Rs. in Cr.) |
|---------------------|-------------|--------------------|--|
| QIB (Institutional) | 50% | 70,22,901 | 368.00 |
| Non Institutional | 15% | 21,06,870 | 110.40 |
| Retail | 35% | 49,16,031 | 257.60 |
| Employee | | 76,336 | 4.00 |
| Total | 100% | 1,41,22,138 | 740.00 |

Source: Company RHP, ACMIIL Research

Outlook

Azad Engineering Limited (AEL) is one of the key manufacturers of qualified product lines supplying to global OEMs primarily engaged in highly regulated industries, including energy, aerospace and defence and oil and gas industries and company is also having a long-standing and deep customer relationships with its customers witnessing a positive outlook for the future. At the upper price band of Rs.524/-, stock has valued at PE multiple of 292.73 of its FY23 Diluted EPS.

Company Overview

Azad Engineering Limited (AEL) is a key manufacturer 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 mission and life-critical components. 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. Company’s 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. AEL’s vision is to revolutionize the global precision manufacturing industry and disrupt the industries in which they operate with cutting-edge technology while contributing towards India’s evolving manufacturing ecosystem.

The Company’s products 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) Defence and civil aircrafts and spaceships.

The demand for such precision, forged and machined components is driven by requirements relating to energy turbines (industrial, gas, nuclear and coal), aircrafts (commercial and military), amongst others. 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 Company.

The Company has in-house capabilities and proficiency in engineering, design, tooling, material development coupled with a range of finishing and assembly operations focused on continuous improvements to their manufacturing and quality processes. They believe its process design capabilities and several years of experience of manufacturing life and mission critical portions of turbine engines enable them to develop high quality and cost-effective solutions for the demanding applications of global OEMs, which differentiates them from global competitors. AEL is a technology-driven and innovative company with manufacturing facilities and high-quality products meeting global standards.

Business Operations

The Company is engaged in the manufacturing of complex and highly engineered precision forged and machined components that are mission and life-critical and assemblies with close tolerances (in microns) to serve projects through advanced manufacturing facilities, which include:

- a. Precision forging and precision machining;
- b. Assembly and testing (non-destructive and destructive);
- c. Special processes and specialized fabrication; and
- d. Quality clinic

Some of the components being manufactured by company has been indigenously developed for onward usage by their customers in the field of energy (including natural gas, nuclear (clean energy), thermal energy), aerospace and defence and oil and gas industries in India and globally.

Product Offerings

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.

Company’s aerospace and defence products include airfoils/ blades and components for engines, auxiliary power units (“APUs”), hydraulics, actuating systems, flight controls, fuel and inerting sections of commercial and defence aircrafts and spacecrafts, among other defence systems and various critical components for missiles. The Company 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.

For 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 Company’s diversified product ranges across energy, aerospace and defence, and oil and gas industries. The products that it manufactures are highly engineered, complex, mission and life critical high precision forged and machined components, which it believes, makes them stand out as a strategic partner to OEMs in the industries in which they operate.

Competitive Strengths

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

Key Business Strategies

- Leveraging industry-leading capabilities by continuing to diversify their customer base and increase penetration and wallet share with existing customers by entering into new component lines.
- 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.
- Strengthening its core capabilities across focus industries.
- Further reduce operating costs, improve operating efficiencies and deploy new technologies.

Financial Snapshot (Consolidated)

| Particulars (Rs. in Mn.) | FY21 | FY22 | FY23 | September 30, 2023 |
|--------------------------|----------|----------|----------|--------------------|
| Revenue from operations | 1,227.21 | 1,944.67 | 2,516.75 | 1,587.47 |
| EBITDA | 281.54 | 622.68 | 722.78 | 525.29 |
| EBITDA Margin (%) | 22.94 | 32.02 | 28.72 | 33.09 |
| PAT | 115 | 294.57 | 84.73 | 268.89 |
| PAT Margin (%) | 9.37 | 15.15 | 3.37 | 16.94 |
| ROCE (%) | 12.09 | 16.95 | 12.99 | 9.63* |

Note: *Not annualized

Source: Company RHP, ACMIIL Research

Comparison with Peers

| Name of Company | Total income, for Fiscal 2023 (Rs. in Mn.) | Diluted EPS (Rs.) | PE | RONW (%) |
|--|---|-------------------|---------------|-------------|
| Azad Engineering Limited | 2,615.21 | 1.79 | 292.73 | 4.23 |
| MTAR Technologies Limited | 5,932.28 | 33.62 | 67.85 | 16.72 |
| Paras Defence and Space Technologies Limited | 2,306.50 | 9.25 | 77.5 | 8.69 |
| Dynamatic Technologies Limited | 13,255.30 | 67.32 | 88.73 | 7.93 |
| Triveni Turbine Limited | 12,901.73 | 5.97 | 75.64 | 25.47 |

Source: Company RHP, ACMIIL Research

Risks and concerns

- AEL's business is dependent on the sale of their 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 their business, results of operations, financial condition, cash flows and future prospects.
- The Company is highly dependent on Hyderabad, Telangana facilities for the entire portion of their revenue from operations. Any disruption, breakdown or shutdown of Hyderabad facility may adversely affect their business and financials.

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| Market Pulse | Master trades High & Medium Risk |
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| Budget Report | Stock Basket |
| Weekly Derivatives Synopsis | Mutual fund model portfolios |
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| Rollover Analysis (Monthly) | |

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