

Azad Engineering Ltd.

February 06, 2025

BUY

CMP: INR 1,473 | Target Price: INR 2,150 | Potential Upside: 46.0%

| | |
|--------------------------|---|
| Change in Estimates | ✓ |
| Change in Target Price | ✓ |
| Change in Recommendation | ✗ |

| | |
|----------------------|------------------|
| Company Info | |
| BB Code | AZAD IN EQUITY |
| Face Value (INR) | 2.0 |
| 52 W High/Low (INR) | 2,080/890 |
| Mkt Cap (Bn) | INR 87.1/\$ 0.99 |
| Shares o/s (Mn) | 11.8 |
| 3M Avg. Daily Volume | 2,24,145 |

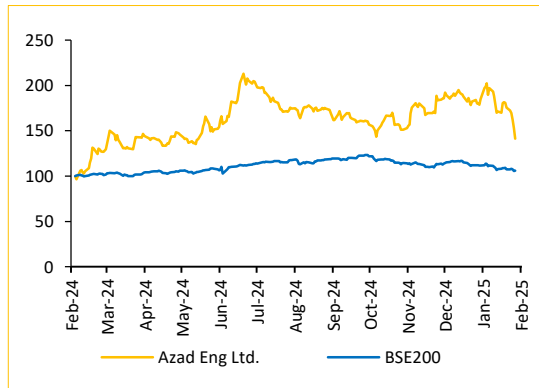
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|----------------------------------|------------|------------|-----------------|------------|---------------------|
| Change in CEBPL Estimates | | | | | |
| | FY26E | | | FY27E | |
| INR Mn | New | Old | Dev. (%) | New | Old Dev. (%) |
| Revenue | 6,671 | 6,522 | 2.3 | 10,006 | 10,436 (4.1) |
| EBITDA | 2,268 | 2,152 | 5.4 | 3,702 | 3,653 1.4 |
| EBITDAM % | 34.0 | 33.0 | 100bps | 37.0 | 35.0 200bps |
| PAT | 1,407 | 1,329 | 5.9 | 2,313 | 2,279 1.5 |
| EPS | 23.8 | 22.5 | 5.9 | 39.1 | 38.5 1.5 |

| | | | |
|----------------------------|----------------|-----------------------|---------------|
| Actual vs Consensus | | | |
| INR Mn | Q3FY25A | Consensus Est. | Dev. % |
| Revenue | 1,205 | 1,160 | 3.9 |
| EBITDA | 428 | 410 | 4.4 |
| EBITDAM % | 35.5 | 35.3 | 20bps |
| PAT | 237 | 222 | 6.8 |

| | | | | | |
|-----------------------|-------------|-------------|--------------|--------------|--------------|
| Key Financials | | | | | |
| INR Mn | FY23 | FY24 | FY25E | FY26E | FY27E |
| Revenue | 2,517 | 3,408 | 4,600 | 6,671 | 10,006 |
| YoY Growth (%) | 29.4 | 35.4 | 35.0 | 45.0 | 50.0 |
| EBITDA | 723 | 1,166 | 1,518 | 2,268 | 3,702 |
| EBITDAM (%) | 28.7 | 34.2 | 33.0 | 34.0 | 37.0 |
| Adjusted PAT | 85 | 586 | 1,015 | 1,407 | 2,313 |
| EPS | 1.8 | 11.2 | 17.2 | 23.8 | 39.1 |
| ROE % | 4.2 | 9.1 | 13.6 | 15.9 | 20.7 |
| ROCE % | 11.0 | 14.1 | 14.7 | 17.5 | 24.3 |
| PE(x) | 29 | 148.6 | 85.8 | 61.9 | 37.7 |
| Price to BV (x) | 1.2 | 13.5 | 11.7 | 9.8 | 7.8 |

| | | | |
|---------------------------------|---------------|---------------|---------------|
| Shareholding Pattern (%) | | | |
| | Dec-24 | Sep-24 | Jun-24 |
| Promoters | 65.90 | 65.90 | 65.90 |
| Fills | 9.98 | 9.74 | 9.69 |
| DlIs | 6.57 | 5.74 | 3.44 |
| Public | 17.56 | 18.61 | 20.98 |

| | | | |
|---------------------------------|------------|-----------|-----------|
| Relative Performance (%) | | | |
| YTD | 12M | 6M | 3M |
| BSE 200 | 9.8 | (3.3) | (3.3) |
| Azad Engg Ltd. | 58.2 | (5.4) | (9.8) |



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Strong Q3: Beats consensus estimates on all fronts.

- Revenue for Q3FY25 came at INR 1,205 Mn (vs CEBPL Est. INR 1,147 Mn), up 35.0% YoY and up 8.0% QoQ, led by robust order execution.
- EBIDTA for Q3FY25 up 30.8% YoY and up 7.4% QoQ to stand at INR 428 Mn (vs. CEBPL Est. INR 384 Mn); the margin came at 35.5%, contracting 115 bps YoY (vs. CEBPL est. of 33.5% YoY).
- PAT for Q3FY25 increased significantly by 41.1% to INR 237 Mn (vs. CEBPL Est. INR 231 Mn). PAT margins came in at 19.7%, improved by 85 bps (vs. CEBPL est. 20.1%).

Robust Revenue Growth Driven by Phase-1 Plant Expansion : We anticipate AEL's revenue to grow at a robust 43.2% CAGR over FY24-27E, driven by the commissioning of Phase-1 of the new plant starting from Q1FY26, which is expected to significantly broaden revenue streams. Additionally, we expect AEL's EBITDA margin to improve from 28.7% in FY23 to 36.0% by FY27, driven by enhanced operational efficiency by adding Hi-Tech machines like: 5-Axis CNC milling, Ultra precision turning and grinding machines, Precision forgings with Shot peening using 7-axis Robotic machines, Special processes for metal joining, heat treatment and painting & coating. This improvement in operational efficiency is projected to result in a substantial increase in EPS, from INR 11.2 in FY24 to INR 39.1 in FY27E.

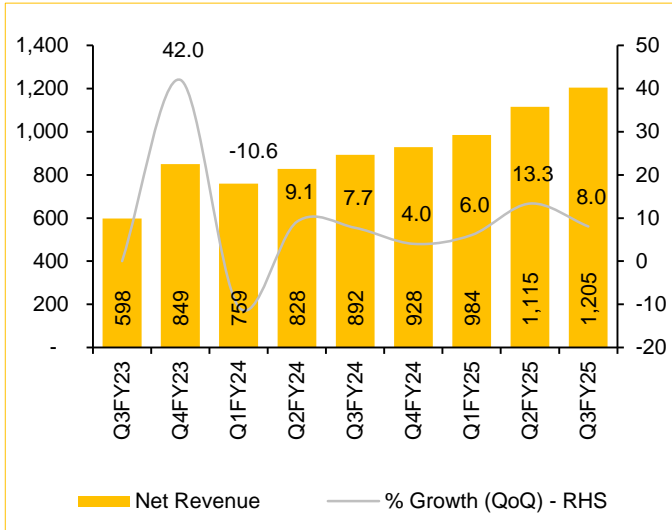
A strong order book of INR 5,542 Cr. (~13x TTM Sales) provides revenue visibility over the next few years: AEL is poised for significant growth. Our estimates suggest that the company's order book stands INR ~5,542 crores, approximately 13x its TTM revenue. In the last quarter alone, the company secured new orders worth approximately INR 2,250 crores. This robust order book not only signals strong future revenue potential but also underscores the company's solid market position and earnings visibility in the domestic & export market. Some notable clients (industry leaders) are Rolls-Royce, Baker Hughes, GE Vernova's steam power business, Siemens Energy, Honeywell, GE Aviation, and Rafael.

View & Valuation: We remain positive on AEL, led by 1) capacity expansion at 10x the current level (from 20,000 Sq.mts to 2,00,000 Sq.mts) to cater to future demand, 2) focusing on margin improvement through acquiring hi-tech machinery & operational efficiency, 3) an impressive clientele base, and 4) an upcoming robust opportunity in civilian & defence aircraft. We expect Azad Engineering to register a healthy revenue/EBIDTA/PAT growth of 43/47/58% CAGR over FY24-27E. We are maintaining our recommendation to "BUY" and revising our target price to INR 2,150, which implies a valuation of 55x FY27E EPS.

| | | | | | |
|----------------------|---------------|---------------|----------------|---------------|----------------|
| Particulars | Q3FY25 | Q3FY24 | YoY (%) | Q2FY25 | QoQ (%) |
| Net Sales (incl OI) | 1,205 | 892 | 35.0 | 1,115 | 8.0 |
| Material Exp | 163 | 103 | 57.8 | 158 | 2.9 |
| Gross Profit | 1,042 | 789 | 32.1 | 957 | 8.9 |
| Employee Exp | 248 | 208 | 19.1 | 222 | 11.7 |
| Other Exp | 365 | 253 | 44.3 | 336 | 8.7 |
| EBITDA | 428 | 327 | 30.8 | 399 | 7.4 |
| Depreciation | 74 | 52 | 42.4 | 68 | 9.9 |
| EBIT | 354 | 275 | 28.6 | 331 | 6.9 |
| Other Income | 51 | 184 | (72.5) | 15 | 232.0 |
| Interest Cost | 64 | 194 | (66.9) | 49 | 31.7 |
| PBT | 340 | 266 | 28.0 | 298 | 14.4 |
| EO Items | - | - | - | - | - |
| Tax | 103 | 98 | 5.5 | 89 | 16.4 |
| RPAT | 237 | 168 | 41.1 | 209 | 13.6 |
| APAT | 237 | 168 | 41.1 | 209 | 13.6 |
| Adj EPS (INR) | 4.0 | 3.4 | 19.1 | 3.5 | 13.6 |

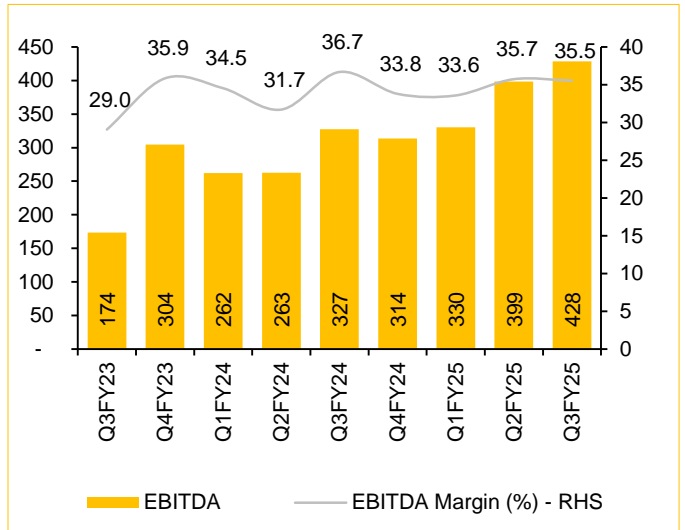
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|--------------------------|---------------|---------------|------------------|---------------|------------------|
| Margin Analysis | Q3FY25 | Q3FY24 | YoY (bps) | Q2FY25 | QoQ (bps) |
| Gross Margin (%) | 86.5 | 88.4 | (195.3) | 85.8 | 67.2 |
| Emp. % of Sales | 20.6 | 23.4 | (275.5) | 19.9 | 67.4 |
| Other % of Sales | 30.3 | 28.4 | 195.4 | 30.1 | 19.4 |
| EBITDA Margin (%) | 35.54 | 36.7 | (115.1) | 35.7 | (19.6) |
| Tax Rate (%) | 30.3 | 36.8 | (646.8) | 29.8 | 50.9 |
| APAT Margin (%) | 19.7 | 18.8 | 85.3 | 18.7 | 96.5 |

Exhibit 1: Net Revenue jumped by 35.0% YoY basis



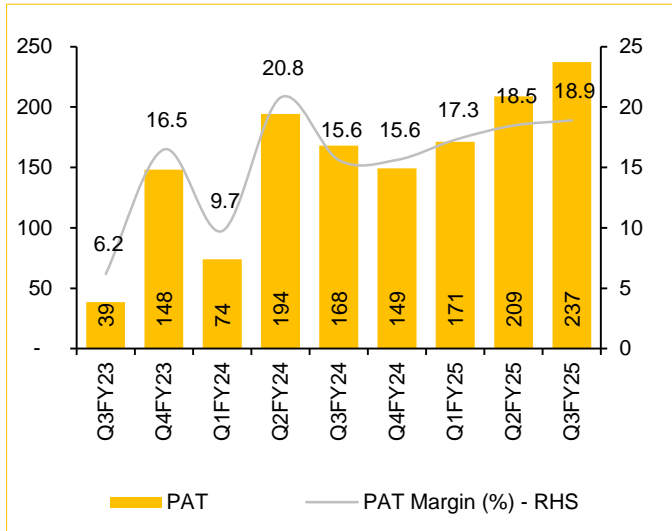
Source: Company, CEBPL

Exhibit 2: EBITDAM remains flat on sequential basis



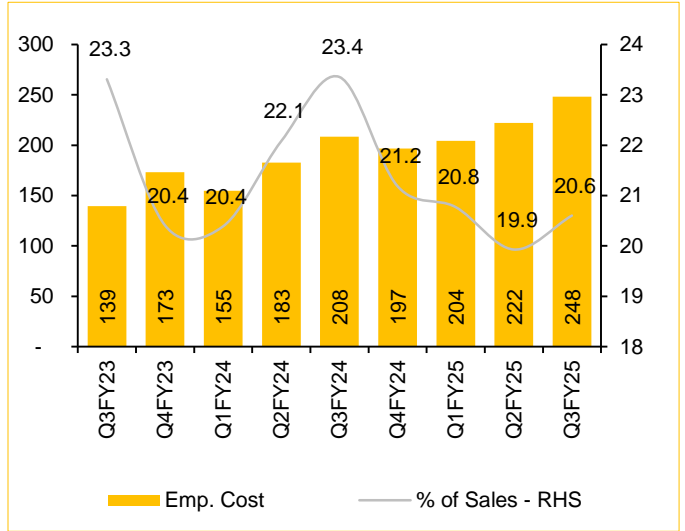
Source: Company, CEBPL

Exhibit 3: Healthy PAT growth of 41.1% YoY



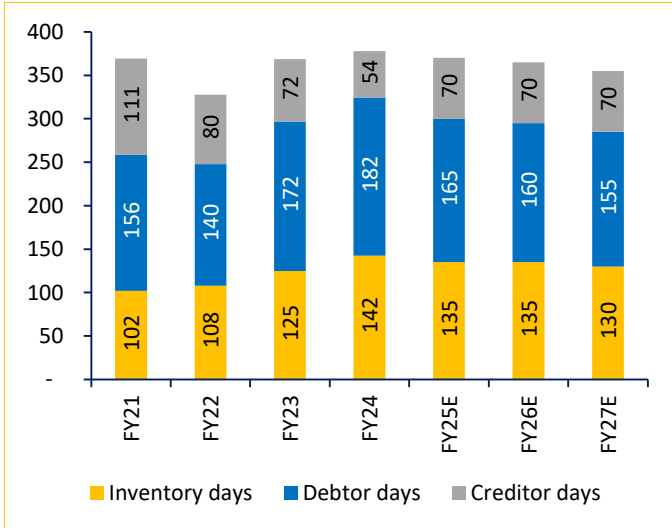
Source: Company, CEBPL

Exhibit 4: Optimized employee costs drive margin growth



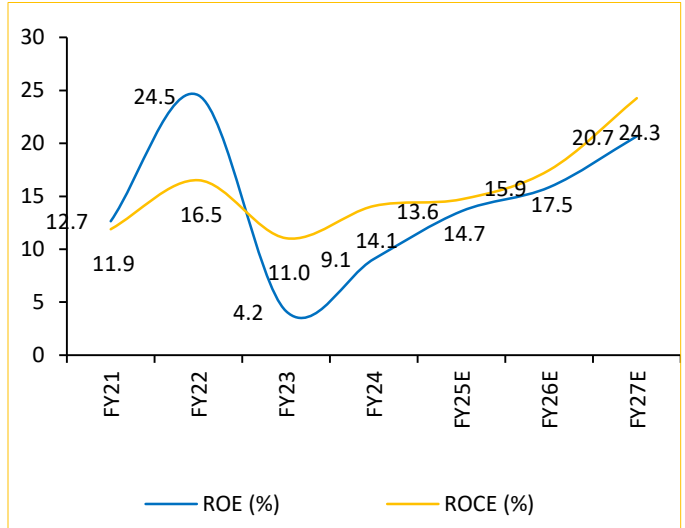
Source: Company, CEBPL

Exhibit 5: Working capital cycle



Source: Company, CEBPL

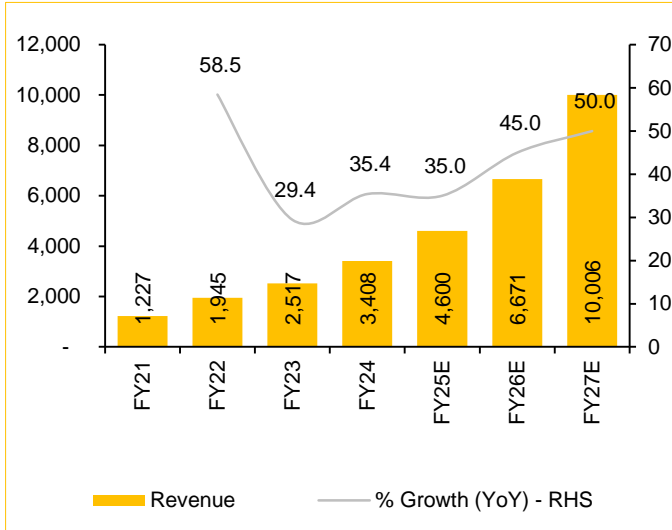
Exhibit 6: ROE & ROCE



Source: Company, CEBPL

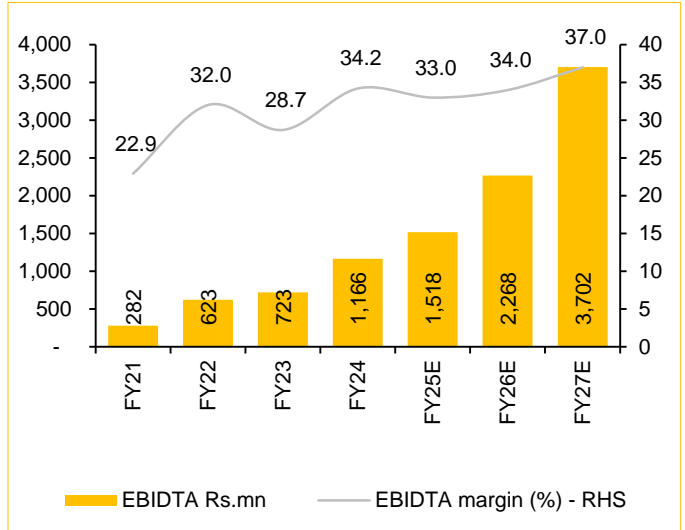
*All figures are in INR Million

Exhibit 7: Revenue expected to grow 43.2% CAGR FY24-27



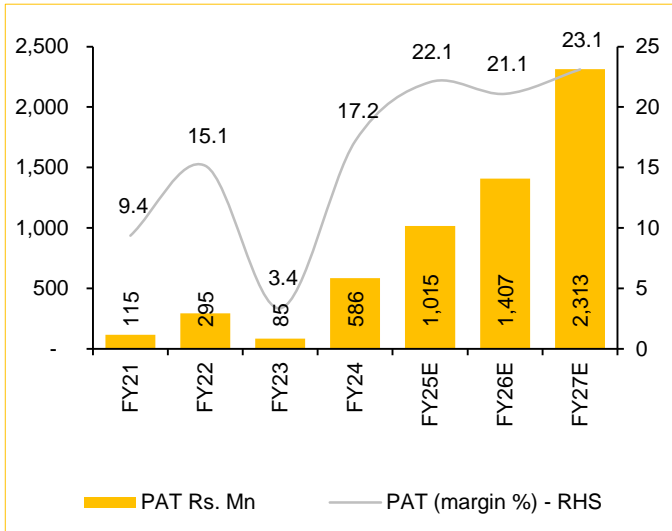
Source: Company, CEBPL

Exhibit 8: Improved EBITDA Margins led by better mix



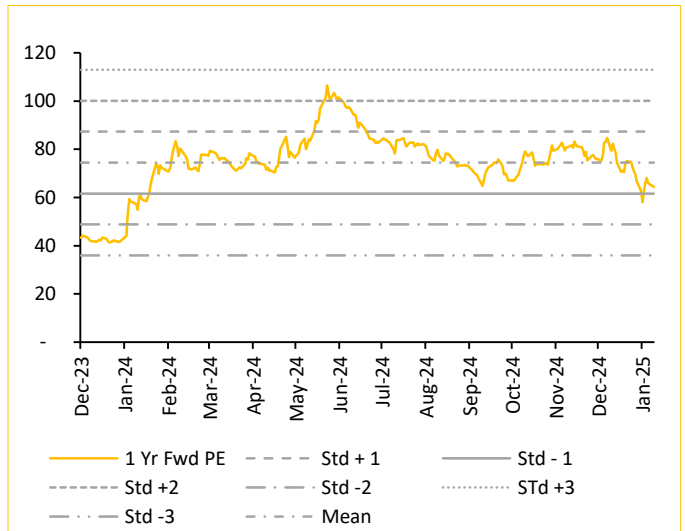
Source: Company, CEBPL

Exhibit 9: PAT growth remains robust



Source: Company, CEBPL

Exhibit 10: One year forward PE band



Source: Company, CEBPL

*All figures are in INR Million

Income statement (Consolidated in INR Mn)

| Particular | FY23 | FY24 | FY25E | FY26E | FY27E |
|-------------------|--------------|--------------|--------------|--------------|---------------|
| Revenue | 2,517 | 3,408 | 4,600 | 6,671 | 10,006 |
| Gross profit | 2,215 | 2,947 | 4,002 | 5,803 | 8,755 |
| EBITDA | 723 | 1,166 | 1,518 | 2,268 | 3,702 |
| Depreciation | 166 | 205 | 331 | 491 | 611 |
| EBIT | 557 | 961 | 1,187 | 1,777 | 3,091 |
| Interest expense | 524 | 473 | 78 | 130 | 155 |
| Other Income | 98 | 320 | 384 | 422 | 465 |
| Reported PAT | 85 | 586 | 1,015 | 1,407 | 2,313 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| EPS | 51.3 | 9.9 | 17.2 | 23.8 | 39.1 |

Source: Company, CEBPL

Balance sheet (Consolidated in INR Mn)

| Balance Sheet | FY23 | FY24 | FY25E | FY26E | FY27E |
|--|--------------|--------------|--------------|---------------|---------------|
| Net worth | 2,040 | 6,451 | 7,466 | 8,873 | 11,186 |
| Deferred tax | - | - | - | - | - |
| Total debt | 3,006 | 372 | 600 | 1,300 | 1,550 |
| Other liabilities & provisions | 162 | 267 | 290 | 315 | 343 |
| Total Net Worth & liabilities | 5,207 | 7,089 | 8,356 | 10,488 | 13,079 |
| Net Fixed Assets | 2,167 | 2,545 | 3,214 | 4,724 | 5,613 |
| Capital Work in progress | 380 | 454 | 800 | 800 | 800 |
| Investments | - | - | - | - | - |
| Cash & bank balance | 527 | 589 | 1,132 | 549 | 635 |
| Loans & Advances & other assets | 509 | 754 | 981 | 1,422 | 2,134 |
| Net Current Assets | 2,152 | 3,335 | 3,361 | 3,542 | 4,533 |
| Total Assets | 5,207 | 7,089 | 8,356 | 10,488 | 13,079 |
| Capital Employed | 5,046 | 6,822 | 8,066 | 10,173 | 12,736 |
| Invested Capital | 4,519 | 6,233 | 6,934 | 9,625 | 12,101 |
| Net Debt | 2,479 | (218) | (532) | 751 | 915 |
| FCFF | (940) | (728) | 236 | (1,134) | 238 |

Source: Company, CEBPL

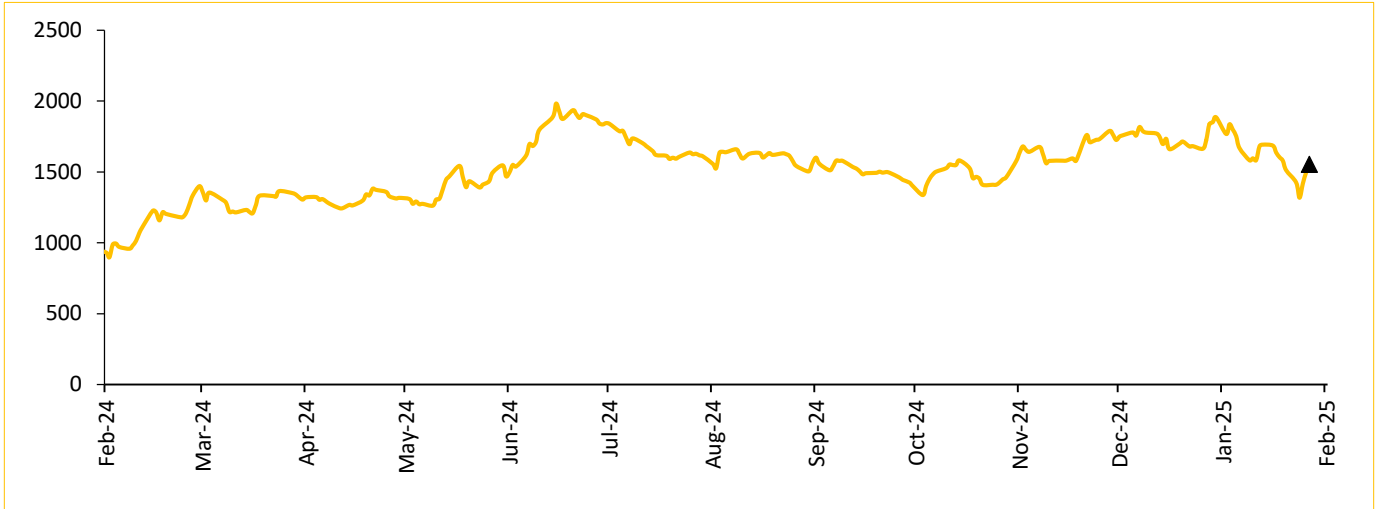
Cash Flow Statement (Consolidated in INR Mn.)

| Cash Flows | FY23 | FY24 | FY25E | FY26E | FY27E |
|------------|---------|-------|---------|---------|---------|
| CFO | (102) | (69) | 1,581 | 866 | 1,738 |
| Capex | (837) | (659) | (1,346) | (2,000) | (1,500) |
| CFI | (940) | (728) | 236 | (1,134) | 238 |
| CFF | (1,012) | (567) | (1,189) | (2,019) | (1,747) |

| Ratio Analysis | FY23 | FY24 | FY25E | FY26E | FY27E |
|---------------------------------------|--------|---------|---------|---------|---------|
| Growth Ratios (%) | | | | | |
| Revenue | 29.4 | 35.4 | 35.0 | 45.0 | 50.0 |
| EBITDA | 16.1 | 61.3 | 30.2 | 49.4 | 63.2 |
| PAT | (71.2) | 591.4 | 73.3 | 38.6 | 64.3 |
| Margin ratios (%) | | | | | |
| EBITDA | 28.7 | 34.2 | 33.0 | 34.0 | 37.0 |
| PAT | 3.4 | 17.2 | 22.1 | 21.1 | 23.1 |
| Performance Ratios (%) | | | | | |
| OCF/EBITDA (X) | (0.1) | (0.1) | 1.0 | 0.4 | 0.5 |
| OCF/IC | (2.3) | (1.1) | 22.8 | 9.0 | 14.4 |
| ROE | 4.2 | 9.1 | 13.6 | 15.9 | 20.7 |
| ROCE | 11.0 | 14.1 | 14.7 | 17.5 | 24.3 |
| Turnover Ratios (Days) | | | | | |
| Inventory (days) | 125 | 142 | 135 | 135 | 130 |
| Debtors (days) | 172 | 182 | 165 | 160 | 155 |
| Other Current Assets (days) | 38 | 64 | 68 | 63 | 51 |
| Payables (days) | 72 | 54 | 70 | 70 | 70 |
| Other Current Liab & Provns (days) | 28 | 41 | 121 | 124 | 124 |
| Cash Conversion Cycle (days) | 236 | 294 | 177 | 164 | 142 |
| Financial Stability ratios (x) | | | | | |
| Net Debt/Equity | 1.2 | (0.0) | (0.1) | 0.1 | 0.1 |
| Net Debt/EBITDA | 3.4 | (0.2) | (0.4) | 0.3 | 0.2 |
| Interest Coverage | 1.1 | 2.0 | 15.2 | 13.7 | 19.9 |
| Valuation metrics | | | | | |
| Fully diluted shares (Mn) | 2 | 59 | 59 | 59 | 59 |
| Price (INR) | 1,473 | 1,473.0 | 1,473.0 | 1,473.0 | 1,473.0 |
| Market Cap (INR Mn) | 2,433 | 87,073 | 87,073 | 87,073 | 87,073 |
| PE(x) | 29 | 148.6 | 85.8 | 61.9 | 37.7 |
| P/BV | 1.2 | 13.5 | 11.7 | 9.8 | 7.8 |
| EV/EBITDA | 7 | 74 | 57 | 39 | 24 |

Source: Company, CEBPL

Historical Price Chart: Azad Engineering Limited



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| | |
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