

## Azad Engineering: Calibrated Growth Despite Large Backlog

February 16, 2026 | CMP: INR 1,579 | Target Price: INR 1,900

BUY

Expected Share Price Return: 20.3% | Dividend Yield: 0.0% | Potential Upside: 20.3% | Sector View: Positive

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

Company Info	
BB Code	AZAD IN EQUITY
Face Value (INR)	2.0
52-wk High/Low (INR)	1,899/1,159
Mkt Cap (Bn)	INR 102/ \$1.1
Shares o/s (Mn)	64.6
3M Avg. Daily Volume	1,39,155

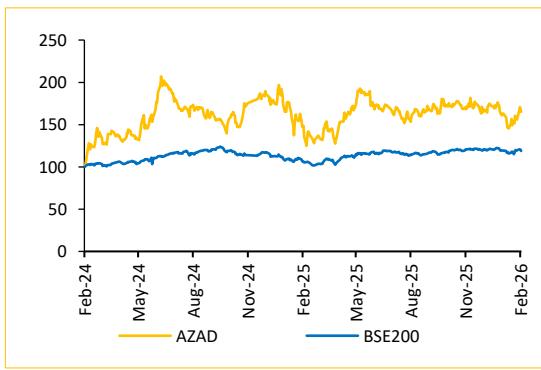
Change in CIE Estimates		FY26E			FY27E		
INR Mn	New	Old	Dev. (%)	New	Old	Dev. (%)	
Revenue	6,257	6,257	0.0	8,446	8,446	0.0	
EBITDA	2,221	2,221	0.0	3,007	3,015	(0.3)	
EBITDAM%	35.5	35.5	-	35.4	35.7	(30)bps	
PAT	1,267	1,284	(1.3)	1,857	1,827	1.6	
EPS	19.6	19.9	(1.3)	28.7	28.3	1.6	

Actual vs CIE Estimates		Q3FY26A CIE Estimates			Dev. %
INR Mn		New	Old	Dev. (%)	
Revenue		1,669	1,722	(3.1)	
EBITDA		622	578	7.7	
EBITDAM %		39.2	36.2	300bps	
PAT		347	354	(1.8)	

Key Financials					
INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Revenue	3,408	4,574	6,257	8,446	11,403
YoY Growth (%)	35.4	34.2	36.8	35.0	35.0
EBITDA	1,166	1,613	2,221	3,007	4,071
EBITDAM (%)	34.2	35.3	35.5	35.6	35.7
Adj. PAT	586	865	1,267	1,857	2,720
EPS	11.2	13.4	19.6	28.7	42.1
ROE %	9.1	6.2	8.3	10.9	13.8
ROCE %	18.1	8.4	11.0	13.9	17.2
PE(x)	159.3	117.9	80.5	50.3	34.3
Price/BV (x)	14.5	7.3	6.7	5.5	4.7

Shareholding Pattern (%)			
	Dec-25	Sep-25	Jun-25
Promoters	55.84	55.42	55.42
FII	15.33	15.76	16.16
DII	10.73	9.84	8.91
Public	18.08	18.99	19.53

Relative Performance (%)			
YTD	24M	12M	6M
BSE200	17.9	11.5	3.6
AZAD	61.1	11.2	3.9



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## Calibrated Growth Despite Large Backlog

AZAD delivered a strong operational quarter, marked by meaningful margin expansion and continued execution discipline. The company is steadily **scaling up its global top-tier OEM relationships**, reinforcing its positioning in high-precision aerospace and turbine supply chains. Visibility is exceptionally strong owing to a **robust order book of ~INR 65 Bn (~14.2x FY25 revenue)**. As programmes move from qualification in FY26 to anticipated peak utilisation by FY28, we expect volume-led operating leverage to structurally lift earnings.

We believe that AZAD stands to benefit from global aerospace and energy capex cycles in the next few years. Its **85–95% export exposure** positions it favourably amid **deepening India-US and India-EU industrial cooperation**. Additionally, **easing of tariffs on critical raw materials** should **support cost-efficiency**. The upcoming delivery of India's first indigenous jet engine platform provides optionality.

That said, the management continues to guide for a **measured ~35% topline growth** trajectory despite **having a large backlog**, indicating **calibrated scaling up rather than aggressive ramp-up**. In view of moderated near-term growth expectation, We trim our target multiple to **45x** (earlier 50x). Following the recent correction, we upgrade the stock to **BUY** (from ADD) with a **TP of INR 1,900**, valuing it at **45x FY28E EPS**.

## Healthy Q3 show; marginally missed estimates

- Revenue for Q3FY26 up by 31.7% YoY and up by 9.0% QoQ at INR 1,587 Mn (vs CIE est. INR 1,595 Mn)
- EBITDA for Q3FY26 up by 45.3% YoY and up 18.4% QoQ at INR 622 Mn (vs CIE est. INR 578 Mn). EBITDA margin stood at 39.2%, which is an improvement of 366 bps YoY (vs CIE est. of 36.2%)
- PAT for Q3FY26 up by 46.4% YoY and up 6.5% QoQ at INR 347 Mn (vs CIE est. INR 354 Mn). PAT margin improved by 219 bps YoY, reaching 21.9% (vs CIE est. 22.2%)

Particulars	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)
Revenue	1,587	1,205	31.7	1,456	9.0
Material Exp	131	163	(19.6)	172	(23.7)
Gross Profit	1,456	1,042	39.8	1,284	13.4
Employee Exp	342	248	37.9	337	1.6
Other Exp	492	365	34.6	422	16.5
<b>EBITDA</b>	<b>622</b>	<b>428</b>	<b>45.3</b>	<b>525</b>	<b>18.4</b>
Other Income	81	51	60.4	122	(33.6)
Depreciation	142	74	91.4	117	22.2
EBIT	561	405	38.7	531	5.6
Interest Cost	83	64	30.0	67	24.3
PBT	478	340	40.3	464	2.9
Tax	131	103	26.5	138	(5.5)
RPAT	347	237	46.4	326	6.5
<b>Adj EPS (INR)</b>	<b>5.4</b>	<b>4.0</b>	<b>34.0</b>	<b>5.0</b>	<b>6.5</b>

Margin Analysis	Q3FY26	Q3FY25	YoY (bps)	Q2FY26	QoQ (bps)
Gross Margin (%)	91.7	86.5	527.3	88.2	353.6
Employee Exp. % of Sales	21.6	20.6	95.9	23.1	(156.6)
Other Op. Exp % of Sales	31.0	30.3	65.6	29.0	198.6
<b>EBITDA Margin (%)</b>	<b>39.2</b>	<b>35.5</b>	<b>365.8</b>	<b>36.1</b>	<b>311.6</b>
Tax Rate (%)	27.3	30.3	(298.6)	29.8	(243.1)
APAT Margin (%)	21.9	19.7	218.6	22.4	(51.9)

Source: AZAD, Choice Institutional Equities

## Management Call – Highlights

### Order Book & Strategic Positioning

- Order book stands at INR 6,500 Cr, providing a clear multi-year revenue visibility
- Expanding aerospace footprint with contract progression for Safran and Pratt & Whitney; Rolls-Royce supplies to commence in FY27
- Positioned as a critical 'global supplier' rather than offset partner
- Leverages status as the only qualified partner in India for specific gas turbine OEMs
- Global OEMs experiencing constantly increasing order backlogs driven by data centre power demands. As OEMs' sole qualified partner in India, Azad is the direct beneficiary
- Since AZAD supplies essential products with a long qualification cycle, it makes substitution of suppliers impractical

*Maintain conservative revenue growth guidance of 25% annually and EBITDA margin guidance of 30–35%*

*Jet engine (defence/drones), being developed by AZAD, is ~75% complete; delivery is expected in a few months*

*Operational roadmap projects stable operating levels by FY27, with maximum utilisation commencing in FY28*

*Operating leverage benefits expected to materialise from FY27 as capacity utilisation improves and fixed cost absorption increases*

### Capacity Expansion & Utilisation Roadmap

- Capitalised INR 250 Cr in plant and machinery for GE, Mitsubishi and Siemens facilities during 9M FY26
- FY26 designated as stabilisation year – focussed on customer audits, facility validation and product qualification
- Operational roadmap projects stable operating levels by FY27, with maximum utilisation commencing in FY28
- Capacity expansion is non-speculative; infrastructure is built in accordance with firm contracts and long-cycle programmes
- Building capabilities across the turbine spectrum: Compressor aerofoils to combustion parts for land, sea and air applications (gas, steam, nuclear)

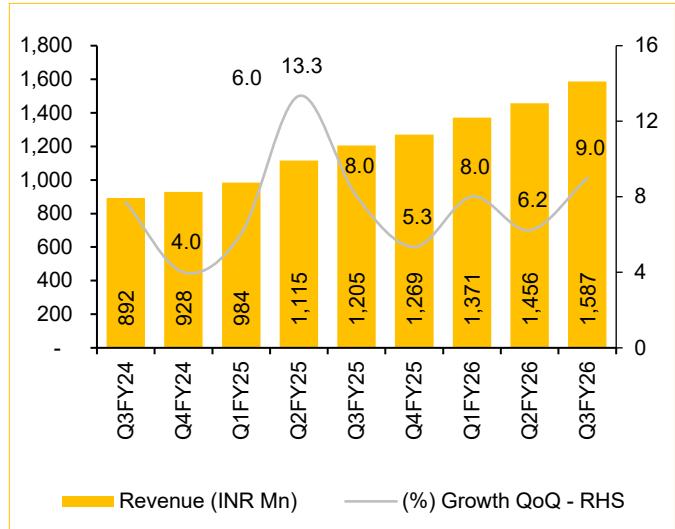
### Product Development & Market Opportunities

- India's first fully indigenous jet engine (defence/drones), being developed by AZAD, is ~75% complete; delivery is expected in a few months
- Aggressively building new capabilities in combustion and compressor aerofoils across land, sea and air turbines

### Financial Outlook & Operational Efficiency

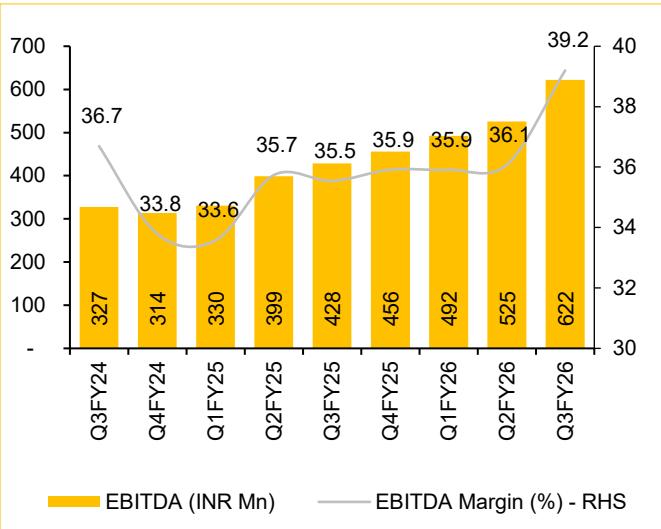
- Maintain conservative revenue growth guidance of 25% annually, backed by secured demand and plant readiness
- Long-term sustainable EBITDA margin guided at 30–35%; explicitly not chasing scale at the expense of margin
- Operating leverage benefits expected to materialise from FY27 as capacity utilisation improves and fixed cost absorption increases
- Domestic sourcing improvements targeting enhanced agility, reduced lead times and working capital optimisation while maintaining OEM compliance
- Targeting working capital cycle reduction to 140–150 days in H2 (down from 190–200 in H1) via supply chain optimisation
- Scaling up human capital so as to support growth; aiming to hire ~1,000 skilled workers in the next few months

## Revenue climbed up 31.7% on a YoY basis



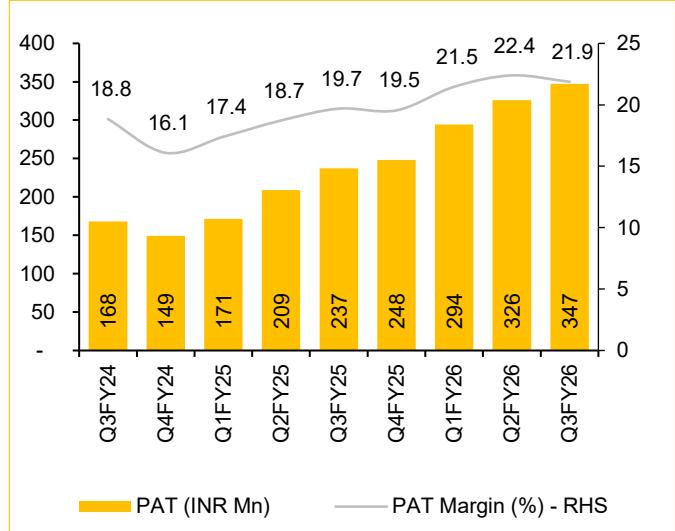
Source: AZAD, Choice Institutional Equities

## EBITDAM improved 366 bps on a YoY basis



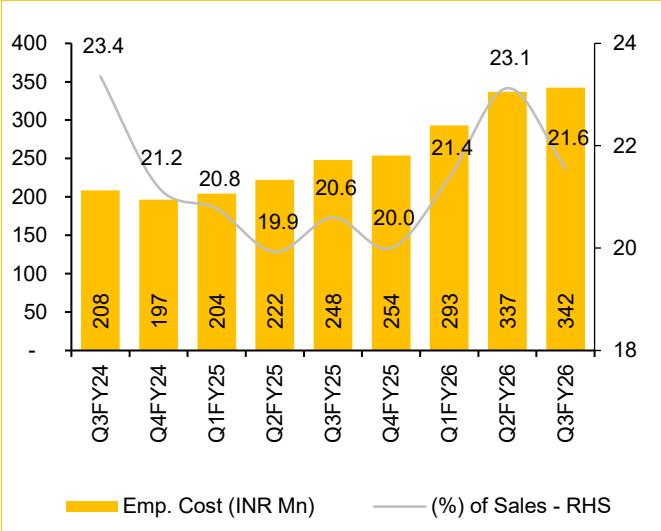
Source: AZAD, Choice Institutional Equities

## Healthy PAT growth of 46.4% on a YoY basis



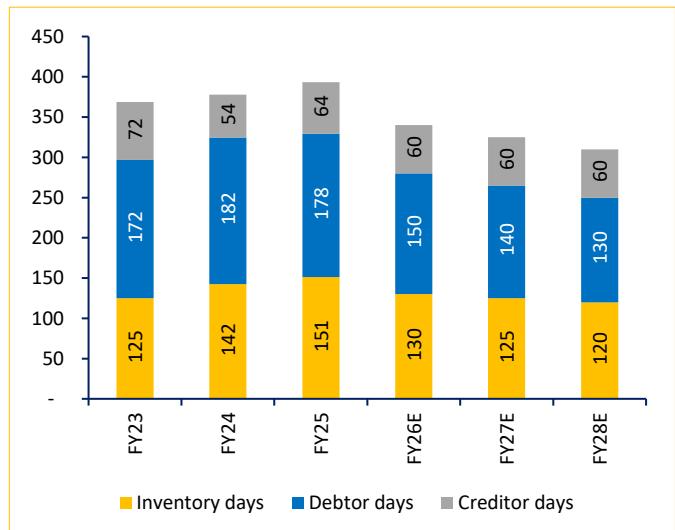
Source: AZAD, Choice Institutional Equities

## Employee cost trend



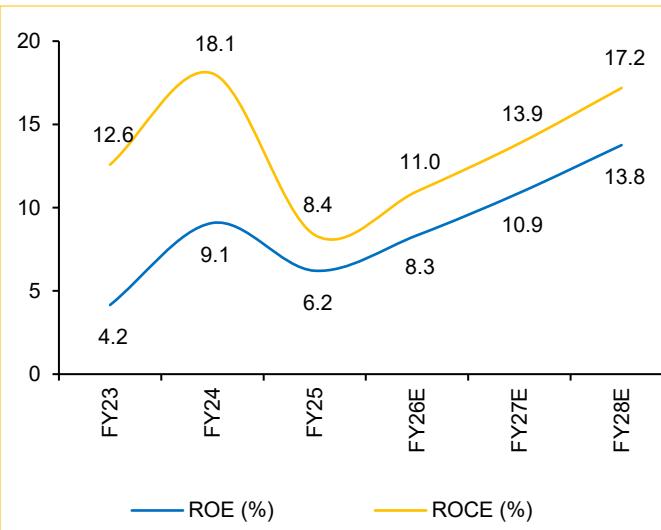
Source: AZAD, Choice Institutional Equities

## Working capital cycle



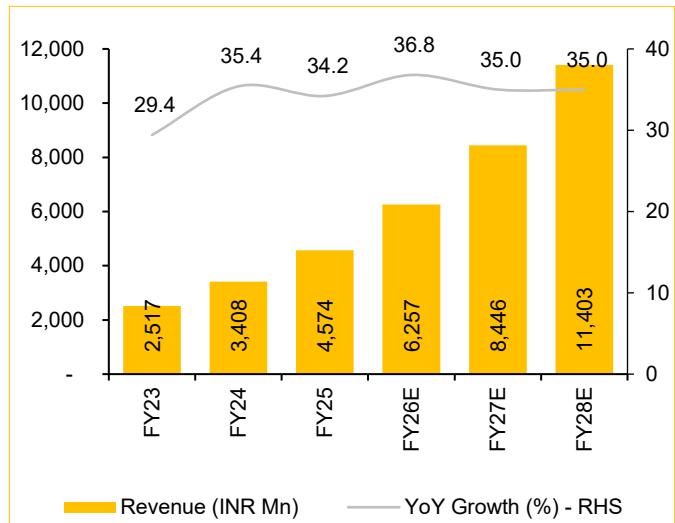
Source: AZAD, Choice Institutional Equities

## ROE & ROCE trend



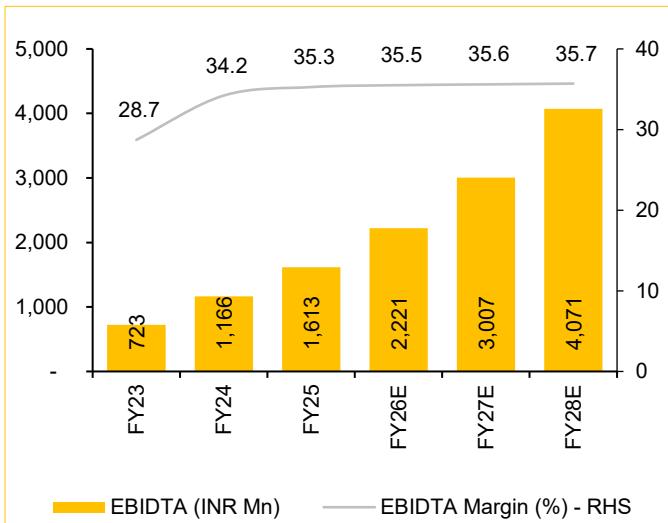
Source: AZAD, Choice Institutional Equities

## Revenue expected to expand 35.6% CAGR over FY25–28E



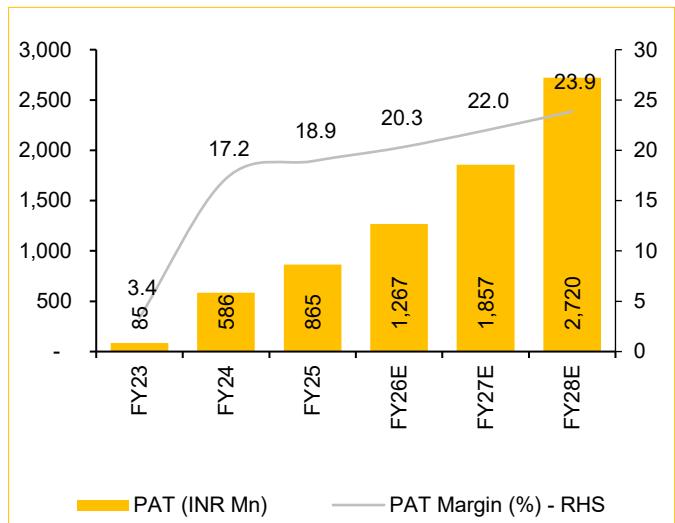
Source: AZAD, Choice Institutional Equities

## EBITDA margin anticipated to remain stable



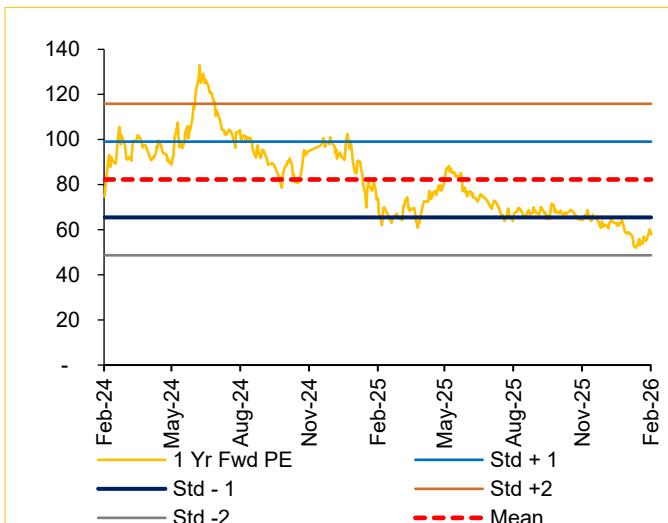
Source: AZAD, Choice Institutional Equities

## PAT growth expected to remain robust



Source: AZAD, Choice Institutional Equities

## One-year forward PE band



Source: AZAD, Choice Institutional Equities

## Income Statement (Consolidated - INR Mn)

Particular	FY24	FY25	FY26E	FY27E	FY28E
Revenue	3,408	4,574	6,257	8,446	11,403
Gross Profit	2,947	3,937	5,399	7,298	9,863
<b>EBITDA</b>	<b>1,166</b>	<b>1,613</b>	<b>2,221</b>	<b>3,007</b>	<b>4,071</b>
Other Income	320	106	371	556	834
Depreciation	205	295	507	638	754
<b>EBIT</b>	<b>1,281</b>	<b>1,424</b>	<b>2,085</b>	<b>2,925</b>	<b>4,151</b>
Interest Expense	473	184	300	310	320
PBT	808	1,240	1,785	2,615	3,831
Reported PAT	586	865	1,267	1,857	2,720
<b>EPS</b>	<b>9.9</b>	<b>13.4</b>	<b>19.6</b>	<b>28.7</b>	<b>42.1</b>

Ratio Analysis	FY24	FY25	FY26E	FY27E	FY28E
<b>Growth Ratios</b>					
Revenue (%)	35.4	34.2	36.8	35.0	35.0
EBITDA (%)	61.3	38.4	37.7	35.4	35.4
PAT (%)	591.4	47.7	46.4	46.5	46.5
<b>Margin Ratios</b>					
EBITDA Margin (%)	34.2	35.3	35.5	35.6	35.7
PAT Margin (%)	17.2	18.9	20.3	22.0	23.9
<b>Performance Ratios</b>					
ROE (%)	9.1	6.2	8.3	10.9	13.8
ROCE (%)	18.1	8.4	11.0	13.9	17.2
<b>Turnover Ratio (Days)</b>					
Inventory	142	151	130	125	120
Debtors	182	178	150	140	130
Payables	54	64	60	60	60
Cash Conversion Cycle (Days)	271	265	220	205	190
<b>Financial Stability Ratios</b>					
Net Debt to Equity (x)	-0.03	-0.33	-0.21	-0.13	-0.08
Net Debt to EBITDA (x)	-0.19	-2.81	-1.41	-0.76	-0.41
Interest Cover (x)	2.03	7.17	5.71	7.64	10.37
<b>Valuation Metrics</b>					
Fully Diluted Shares (Mn)	59.1	64.6	64.6	59.1	59.1
Price (INR)	1,579	1,579	1,579	1,579	1,579
Market Cap (INR Bn)	93.3	102.0	102.0	93.3	93.3
PE (x)	159.3	117.9	80.5	50.3	34.3
EV (INR Bn)	93.1	97.4	98.8	91.1	91.7
EV/EBITDA (x)	79.9	60.4	44.5	30.3	22.5
Book Value (INR/Share)	109.1	215.7	235.3	288.5	334.5
Price to BV (x)	14.5	7.3	6.7	5.5	4.7

Source: AZAD, Choice Institutional Equities

## Balance Sheet (Consolidated - INR Mn)

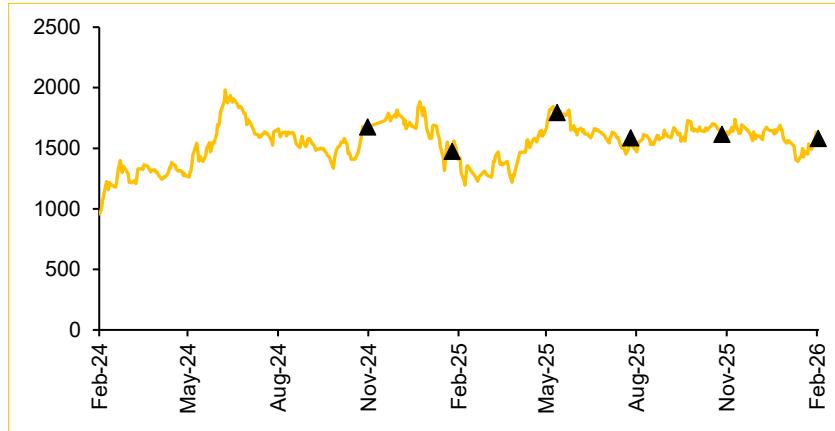
Particular	FY24	FY25	FY26E	FY27E	FY28E
Net Worth	6,451	13,930	15,197	17,054	19,774
Total Debt	372	2,436	3,000	3,100	3,200
Other Long-term Liabilities	267	667	790	954	1,175
Trade Payables	500	801	1,028	1,388	1,874
Other Current Liabilities	382	773	632	851	1,147
<b>Total Net Worth &amp; Liabilities</b>	<b>7,971</b>	<b>18,607</b>	<b>20,647</b>	<b>23,347</b>	<b>27,170</b>
Net Fixed Assets	2,545	4,360	5,853	7,215	8,462
Capital Work in Progress	454	798	938	1,267	1,710
Other Non-current Assets	754	1,479	1,877	2,112	2,851
Inventories	1,330	1,893	2,228	2,893	3,749
Trade Receivables	1,700	2,235	2,571	3,240	4,061
Cash & Bank Balance	589	6,970	6,141	5,385	4,865
Other Current Assets	599	872	1,038	1,236	1,472
<b>Total Assets</b>	<b>7,971</b>	<b>18,607</b>	<b>20,647</b>	<b>23,347</b>	<b>27,170</b>
Capital Employed	7,089	17,033	18,987	21,108	24,149
Invested Capital	6,133	8,669	11,056	13,719	17,009
Net Debt	-218	-4,534	-3,141	-2,285	-1,665

Particulars	FY24	FY25	FY26E	FY27E	FY28E
Cash Flows from Operations	-69.5	536.7	1,445.3	2,017.1	2,883.6
Cash Flows from Investing	-552.6	-9,177.1	-2,538.8	-2,563.1	-3,183.5
Cash Flows from Financing	709.9	8,766.9	264.2	-210.0	-220.0

DuPont Analysis	FY24	FY25	FY26E	FY27E	FY28E
Tax Burden	72.5%	69.8%	71.0%	71.0%	71.0%
Interest Burden	63.1%	87.1%	85.6%	89.4%	92.3%
EBIT Margin	37.6%	31.1%	33.3%	34.6%	36.4%
Asset Turnover	0.43	0.25	0.30	0.36	0.42
Equity Multiplier	1.24	1.34	1.36	1.37	1.37
<b>ROE</b>	<b>9.1%</b>	<b>6.2%</b>	<b>8.3%</b>	<b>10.9%</b>	<b>13.8%</b>

Source: AZAD, Choice Institutional Equities

## Historical Price Chart: Azad Engineering Limited (AZAD)



Date	Rating	Target Price
Nov 12, 2024	BUY	2,120
Feb 10, 2025	BUY	2,150
May 27, 2025	REDUCE	1,864
Aug 06, 2025	BUY	1,900
Nov 03, 2025	ADD	1,900
Feb 16, 2026	BUY	1,900

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#### Large Cap\*

BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months

#### Mid & Small Cap\*

BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months

#### Other Ratings

NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change

#### Sector View

POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

\*Large Cap: More Than INR 20,000 Cr Market Cap

\*Mid & Small Cap: Less Than INR 20,000 Cr Market Cap

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