



IPO Report

SUBSCRIBE

20th Sept 21

Snapshot

Paras Defence & Space Technologies Ltd (PDSTL) 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.

VALUATION

Company is bringing the issue at price band of Rs 165-175 per share at p/e multiple of 34x on FY21 PAT basis.

Company has wide range of products & solutions for both defence and space applications. Company being one of the few players in high precision optics manufacturing for space and defence application in India has strong R&D capabilities with focus on innovation & is well positioned to benefit from the Government's "Atmanirbhar Bharat" and "Make in India" initiatives. Also company's strong order book gives good revenue visibility going forward.

Hence, looking after all, we recommend "Subscribe" on issue for listing gain as well as long term.

Price Band (Rs./Share)	165-175
Opening date of the issue	21st September 2021
Closing Date of the issue	23rd September 2021
No of shares pre issue	30,965,775 Eq Shares
Issue size (Rs. Cr)	Rs 169-171 Cr
Offer For Sale (No)	1724490 Eq Shares
Fresh Issue	Rs 140.60 Cr
Face Value (Rs/ share)	10/share
Bid Lot	85

BIDDING DETAILS

QIBs (Including Anchor)	50% of the offer (Approx 4879387 Shares)
Non-Institutional	15% of the offer (Approx. 1463817 shares)
Retail	35% of the offer (Approx. 3415572 Shares)
Lead managers	Anand Rathi Advisors Ltd
Registrar to the issue	Link Intime India Private Limited. Ltd.

WHAT WE LIKE

Strong Order Book

PDSTL's current order book as of June 30, 2021 is ₹3,049.92million. Company's consolidated total income was ₹1,446.07 million, ₹1,490.51 million and ₹1,571.69 million for the fiscal years ended March 31, 2021, March 31, 2020 and March 31, 2019, respectively & its consolidated profit after tax was ₹157.86 million, ₹196.57 million and ₹189.70 million for the fiscal years ended March 31, 2021, March 31, 2020 and March 2019, respectively.

One of the few players in high precision optics manufacturing for space and defence application in India

With strong experience in working with Government space organizations on critical space missions and being the sole Indian supplier of diffractive gratings used in hyper-spectral imagers and infrared lenses, company have established itself well in the Indian space market. Company also specialise in large-sized optical mirror and is the only Indian company with the design capabilities for space-optics and opto-mechanical assemblies. This positions company as one of the key participant of value for all exploratory and observatory missions involving large space telescopes.

Strong relationships with a diverse customer base

Company have a diversified customer base which ranges from Government arms and government organizations involved in defence and space research, to various defence public sector undertakings such as Bharat Dynamics Limited, Bharat Electronics Limited and Hindustan Aeronautics Limited, to various private entities such as Tata Consultancy Services, Astra-Rafael Comsys Pvt. Ltd., Solar Industries India Limited, Alpha Design Technologies Private Limited, etc. Company also service international customers including Advanced Mechanical and Optical Systems (AMOS), Belgium, Chaban (Israel), Tae Young Optics Company Limited (South Korea), and Green Optics (South Korea).



COMPANY BACKGROUND

PDSTL 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. Company is also the sole Indian supplier of critical imaging components such as large size optics and diffractive gratings for space applications in India .

Company have five principal categories of product offerings: defence and space optics, defence electronics, EMP protection, heavy engineering for defence and niche technologies. Its defence and space optics operations include manufacturing high precision optics for defence and space applications such as thermal imaging and space imaging systems. Company is one of the leading providers of optics for various Indian defence and space programmes, and the only Indian company with the design capability for space-optics and opto-mechanical assemblies.

Company have diversified its products and solutions mainly due to research and development (“R&D”) and technological capabilities. Company’s R&D capabilities include product design, product engineering, product simulation, prototyping and testing. Company’s R&D activities are mainly undertaken at its centres at Nerul in Navi Mumbai, Maharashtra and Bengaluru, Karnataka. Company’s R&D centre at Nerul is recognised by and registered with DSIR. Its research activities are focused on creating new products and solutions which are customised to meet customer expectations and end-user preferences and also improving its production processes and improving the quality of its existing products. With company’s R&D capabilities, company is currently developing several new products and solutions, such as hyper spectral space camera, ARINC-818 based avionic display, naval periscopes and optical solar reflectors.

The percentage-wise revenue derived from company’s customers for the fiscal years ended March 31, 2021, March 31, 2020 and March 31, 2019 is as follows:

Customer Name	Revenue (%) in		
	Fiscal 2021	Fiscal 2020	Fiscal 2019
Bharat Electronics Ltd (BEL)	16.09	15.48	18.18
Hindustan Aeronautics Ltd(HAL)	0.15	0.04	0.13
Bharat Dynamics Ltd (BDL)	0.34	---	0.14
Hindustan Shipyard Ltd (HSL)	--	0.06	0.31
Electronic Corporation of India Ltd (ECIL)	0.01	1.79	4.15
Tata Consultancy Services (TCS)	0.05	1.97	0.02
Economic Explosives Ltd	1.02	1.05	1.18
Alpha Design Technologies Private Ltd	---	0.30	0.31
Astral –Rafael Comsys Private Ltd	0.19	0.24	--
Advances Mechanical & Optical System S.A (AMOS)	--0.28	0.28	0.78
Tae Young Optics Co Ltd	--	--	0.35
Green Optics Co Ltd	1.45	10.48	---

Source :RHP



INVESTMENT RATIONALE

<p><i>Company offer a wide range of products and solutions for both defence and space applications</i></p>	<p>PDSTL offer a wide range of products and solutions for defence as well as space applications. As of June 30, 2021 company have a range of 34 different categories of products and solutions, with multiple variations in each category. Company’s horizontal integration makes it well positioned to undertake turnkey projects in the defence sector while also being capable of supporting major tier 1 Indian defence suppliers. As one of the few companies with specialized technology capabilities such as EMP protection solutions, company is likely to be an integral stakeholder in a majority of future programmes involving local sourcing of defense and space optics and EMP protection solutions . Company’s capability in four major segments of the Indian defence sector, makes it desirable partners for foreign original equipment manufacturers which are looking for collaboration in India.</p>
<p><i>Strong R&D capabilities with a focus on innovation</i></p>	<p>PDSTL place strong emphasis on R&D which has helped company develop a wide range of products and solutions in the defence and space sector. Company have invested in precision manufacturing infrastructure and human resource in its dedicated R&D centres located at Nerul in Navi Mumbai, Maharashtra, and Bengaluru, Karnataka. Company’s R&D centre at Nerul is recognised by and registered with DSIR. As of June 30, 2021, company have employed 31 engineers and officers at its R&D centres. Company’s partnership with some of the leading and proven overseas technology companies around the world, also provides an added impetus to R&D. Company have had several significant achievements in R&D. As, company have successfully developed and delivered remotely controlled surveillance and defence systems recently which will enhance its defence capabilities.</p>
<p><i>Strong relationships with diverse customer base</i></p>	<p>Company have a diversified customer base which ranges from Government arms and government organizations involved in defence and space research, to various defence public sector undertakings such as Bharat Dynamics Limited, Bharat Electronics Limited and Hindustan Aeronautics Limited, to various private entities such as Tata Consultancy Services, Astra-Rafael Comsys Pvt. Ltd., Solar Industries India Limited, Alpha Design Technologies Private Limited, etc. Company also service international customers including Advanced Mechanical and Optical Systems (AMOS), Belgium, Chaban (Israel), Tae Young Optics Company Limited (South Korea), and Green Optics (South Korea).</p>



OTHER INFORMATION

Head office & manufacturing unit at Nerul, Navi Mumbai



Manufacturing unit at Ambernath, Thane



OBJECTS OF ISSUE

The Offer comprises of a Fresh Issue and an Offer for Sale.

Offer for Sale

The Selling Shareholders will be entitled to the proceeds of the Offer for Sale after deducting their proportion of Offer related expenses and relevant taxes thereon. Company will not receive any proceeds from the Offer for Sale.

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

1. Purchase of machinery and equipment;
2. Funding incremental working capital requirements of company;
3. Repayment or prepayment of all or a portion of certain borrowings/outstanding loan facilities availed by company; and
4. General corporate purposes.

RISKS

PDSTL's business is largely dependent on contracts from the Government of India ("GoI") 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 GoI's defence or space related policies will have a material adverse impact on company's business.

Source:RHP



INDUSTRY OVERVIEW

Domestic demand for Indian space players

ISRO has been involved in technology transfer such as computerized systems, electro-optical systems, and ground-based technology for satellite systems since 1980s to private industries and state-owned enterprises. Initial engagement of these private establishments was limited to component or system-level manufacturing. However, with the capability advancement of the private firms and time constraints, ISRO has outsourced the development of 2 complete navigation satellites to a consortium of companies led by Alpha Design Technologies Private Limited. In addition, ISRO will be outsourcing satellite manufacturing for serial production through contract manufacturing. This will increase the opportunity of subsystem manufacturers to be system integrators and component manufacturers to expand their role to subsystem manufacturers. In-line with this trend, the Company is working to expand its role to complete subsystem manufacturer from being a component manufacturer i.e. complete EO payload manufacturing from being a supplier for gratings, lenses and supporting structural components. The Company has also partnered with ISISpace for manufacturing cubesats in India. Since cubesats represent a significant portion of the small-satellite market, a presence in cubesat manufacturing indicates that the company is not only integrated with the traditional space market but also the NewSpace market.

ISRO will also outsource the production of PSLVs and SSLVs through the Government Owned Company Operated (GOCO) model. Technology transfer will be done by ISRO's commercial arm NSIL. This will increase the opportunities for launch vehicle component manufacturers, system manufacturers, and system integrators within the country. This will also open the scope for international manufacturers to set up facilities in India.

There has been a drastic shift from the space industry driven by ISRO to preparing a level playing ground for the private players in the industry with NSIL acting as a technology transfer organization, and InSpace being a nodal agency for these players to access ISRO facilities and obtain permits/ licenses for operations. COVID-19 situation and the Atmanirbhar Bharat initiative has been a key driver for this shift. The Indian government has relaxed tax policy for domestic satellite operators if they opt for domestic launch services. This is one of the key steps taken by the government to promote growth of domestic space ecosystem. With recent announcements of space policy change, framework is being built to attract international players to set up facilities in India.

Increased reliance on the geospatial services by multiple industries due to reduction in satellite imagery cost and high accuracy has in-turn attracted multiple satellite operators and manufacturers in the industry to launch satellite constellations. This in-turn trickles as demand for the component manufacturers like the company for their optical imaging systems and diffractive gratings used in hyperspectral imaging systems. Hyperspectral cameras are used as part of payload system increasingly on EO satellites. Diffractive gratings are essential elements of hyperspectral cameras and the Company is the sole Indian supplier of diffractive gratings with surface roughness up to <5nm along with infrared lenses for near, middle and far-infrared range. In addition, the Company has built capability in opto-mechanical assemblies for space and defence applications (precision optics assembled with precision mechanics to form an array of optical lenses).

Global increase in demand for satellite manufacturing due to increase in number of planned LEO constellations with decrease in cost of satellite manufacturing has domestically increased the commercial opportunities for domestic players. New entrants are taking up the role of complete satellite manufacturers, contract manufacturers for serial production. This has increased the opportunity for both system and component manufacturers. Thus, existing system and component manufacturers and system manufacturers need to build their serial production capability to cater to this demand. In addition, the domestic industry participants can partner with international stakeholders leveraging their existing technical and manufacturing capabilities and ability to offer products at lower unit cost. In addition, domestic private participants are planning satellite constellations which will further increase demand in the industry. For example, domestic participants such as Pixxel are launching EO constellations. More participants will enter the market to address the demand, and internal reliance on these participants will increase (due to the Atmanirbhar Bharat initiative) if they meet the quality requirements. Domestic commercial participants are already responding to the demand from mega constellations. The consequence will be an increase in launch services demand, requiring launch service providers to operate across multiple spaceports

The launch services market has new private participants such as Agnikul Cosmos, Skyroot Aerospace, and Bellatrix, developing their own launch vehicles. With the surge in launch demand for small satellites, these participants have an opportunity to address the global demand and expand. COVID-19 has been a catalyst for these participants in terms of partnerships with international participants. For instance, Agnikul Cosmos partnered with Alaska Aerospace for flight testing and launches from a pacific launch complex. Private space participants are closer to realizing successful test launches. For example, Skyroot Aerospace successfully tested its 3D-printed cryogenic engine. As per recent announcements, such participants will be able to access existing launch facilities or build a launch facility of their own.

Future Outlook for Domestic Players

Domestic commercial participants are agile in their approach by addressing the emerging market demand. Once the National Space Policy and the Space Activities Bill are passed, a regulatory framework will be established for operation within the Indian space market. This will attract new participants, increasing local competition. However, the companies with an established launch history will have a competitive edge. With multiple international players willing to enter Indian market and open to partnerships, the domestic space private space ecosystem will flourish in medium-term.



(Rs in Mn)

Financials	FY21	FY20	FY19
Total Income	1433.30	1470.43	1543.99
Total Expenditure	999.32	1077.73	1115.66
EBIDTA	433.98	392.70	428.33
EBIDTA Margin	30.28	26.71	27.74
Other Income	12.77	20.08	27.70
Depreciation	96.54	97.13	94.06
EBIT	350.21	315.65	361.97
Interest	124.10	97.73	93.86
PBT	226.11	217.92	268.11
Tax	68.25	21.35	78.41
PAT	157.86	196.57	189.70
NPM	11.01	13.37	12.29
ROE %	7.64	14.17	15.93
EPS	5.10	6.92	6.74
Eq Cap	298.53	284.12	56.82
Net Worth	2,067.04	1,726.22	1,523.66

Source :RHP



PEERS ANALYSIS

Indian Defence Components market

Competitive market

The defence components and engineering products considered here form the foundation of military sub systems and platforms. Set out below, are the major companies that produce the aforementioned products for the Indian market. Except for three, the remaining are Indian companies

Company Name	Defence Electronics Capabilities						
	Control Systems	Specialized Computers	Displays	MIL Spec Racks	Software	Integration	Sensors
Paras Defence	High	High	High	High	High	High	High
Data Patterns	High	High	High	High	Mid	High	Mid
Mistral Solutions	High	High	High	High	High	High	High
CoreEL Technologies	High	High	High	High	High	High	High
Ophir Optronics Solutions Ltd. (Israel)	High	High	High	High	High	High	High
QiOptiq	High	High	High	High	High	High	High
ISP Optics (USA)	High	High	High	High	High	High	High
Veero Metals	High	High	High	High	High	High	High
HYT Engineering	High	High	High	High	High	High	High
ETS – Lindgren (USA)	High	High	High	High	High	High	High

Company Name	Defence Optics			
	Lenses	Specialized Lenses	Optical Elements	Precision Engineering
Paras Defence	High	High	High	High
Data Patterns	High	High	Mid	High
Mistral Solutions	High	High	High	High
CoreEL Technologies	High	High	High	High
Ophir Optronics Solutions Ltd. (Israel)	High	High	High	Mid
QiOptiq	High	High	High	Mid
ISP Optics (USA)	High	High	High	Mid
Veero Metals	High	High	High	High
HYT Engineering	High	High	High	High
ETS – Lindgren (USA)	High	High	High	High

Company Name	EMP Hardening		
	Customised EMP Protection Projects	EMP Shielded Control Centers	EMP Filters/ Arrestors
Paras Defence	High	High	High
Data Patterns	High	High	High
Mistral Solutions	High	High	High
CoreEL Technologies	High	High	High
Ophir Optronics Solutions Ltd. (Israel)	High	High	High
QiOptiq	High	High	High
ISP Optics (USA)	High	High	High
Veero Metals	High	High	High
HYT Engineering	High	High	High
ETS – Lindgren (USA)	Mid	High	High

Company Name	Heavy Engineering Capabilities				
	Titanium and Special Metal Manufacture and Engineering	Flow Formed Tubes	Cooling Assemblies	Heavy Structures	Special Purpose Macines
Paras Defence	High	High	High	High	High
Data Patterns	High	High	High	High	High
Mistral Solutions	High	High	High	High	High
CoreEL Technologies	High	High	High	High	High
Ophir Optronics Solutions Ltd. (Israel)	High	High	High	High	High
QiOptiq	High	High	High	High	High
ISP Optics (USA)	High	High	High	High	High
Veero Metals	High	Mid	High	High	Mid
HYT Engineering	Mid	Mid	Mid	High	High
ETS – Lindgren (USA)	High	High	High	High	High

Legend	
High Level Capability	Green
Mid Level Capability	Yellow
No Capability	Red



DISCLAIMER

HEM Securities Limited (“Research Entity or HSL”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services, merchant banking services, Portfolio Management Services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.

HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company(ies), mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.