

23 May 2024

India | Equity Research | Q4FY24 results review

## Azad Engineering

Defence

### Inflection point in sight

Azad Engineering's (Azad) Q4FY24 performance was robust. Key points: 1) Gross margin was slightly down at 83% due to higher material consumption on account of product/revenue mix changes. 2) EBITDA margin was robust at 33.8% (within guidance). 3) Working capital days increased slightly YoY due to higher revenue and increased traction in the Aerospace & Defence (A&D) segment. 4) Order book at Mar'24-end is more than INR 30bn. 5) Non-recurring finance cost, pertaining to high cost CCDs, likely to normalise from Q1FY25. We believe that Azad's earnings growth will likely be higher FY26 onwards when its new facility is commissioned. Taking cognizance of lower interest cost, we raise our FY25E/26E EPS by 8.5%/10%, resulting in revised TP of INR 1,750 (earlier INR 1,600). Maintain BUY on Azad.

### Good performance, in line with guidance

Azad's Q4FY24 performance was in-line with management's guidance. Key points: 1) Segmental revenue mix: A&D – 16.7% (Q4FY23: 9.3%); and Energy & Others – 79.8% (Q4FY23: 81.1%). A&D revenue is up 88% YoY vs. Power, where revenue grew a mere 3% YoY. 2) Geographical revenue mix: Exports – 83.1%; domestic – 16.9%. 3) Material consumption (% of revenue) increased in Q4FY24 owing to the change in product/revenue mix. 4) EBITDA margin at 33.8% was well within the 33–35% guidance. 5) Share of Oil & Gas in revenue was 5% of overall in Q4FY24. 6) Recurring finance cost reduced significantly and will further normalise in Q1FY25. Management expects revenue to grow 25–30% YoY and EBITDA margin to remain within 33–35% for FY25.

### Recent high profile order wins likely to maintain growth

Azad's order book increased to INR 30bn at end-Mar'24 compared to INR 20bn six months ago. The company has secured the following orders since Jan'24: 1) A seven-year contract with Rolls Royce to supply critical engine parts for their defence division. 2) A five-year agreement with Baker Hughes for the supply of high-complex and critical components for the Oil & Gas sector; 3) A five-year supply agreement with Baker Hughes to supply medium-high complex machined components for oil field services. 4) A seven-year contract worth USD 35mn with GE Vernova's steam power business for the supply of high-complex rotating aerofoils for nuclear, industrial and thermal power industry.

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	2,517	3,408	4,658	6,011
EBITDA	723	1,166	1,635	2,121
EBITDA Margin (%)	28.7	34.2	35.1	35.3
Net Profit	85	586	992	1,299
EPS (INR)	1.4	9.9	16.8	22.0
EPS % Chg YoY	(71.2)	591.4	69.4	30.9
P/E (x)	1,023.2	148.0	87.4	66.7
EV/EBITDA (x)	109.6	65.6	47.3	36.4
RoCE (%)	10.8	13.9	14.3	14.8
RoE (%)	6.1	18.1	18.9	17.3

#### Amit Dixit

amit.dixit@icicisecurities.com  
+91 22 6807 7289

#### Mohit Lohia

mohit.lohia@icicisecurities.com

#### Prithish Urumkar

Prithish.urumkar@icicisecurities.com

#### Market Data

Market Cap (INR)	87bn
Market Cap (USD)	1,041mn
Bloomberg Code	AZAD IN Equity
Reuters Code	AZAD.BO
52-week Range (INR)	1,544 /642
Free Float (%)	24.0
ADTV-3M (mn) (USD)	4.0

Price Performance (%)	3m	6m	12m
Absolute	20.6	-	-
Relative to Sensex	19.2	-	-

Earnings Revisions (%)	FY25E	FY26E
Revenue	-	-
EBITDA	-	0.2
EPS	8.5	10.0

#### Previous Reports

07-03-2024: [Company Update](#)

08-02-2024: [Q3FY24 results review](#)

### Outlook: Growth levers intact; maintain BUY

In our view, Azad's journey has just commenced with its hard work with part-by-part qualifications now fructifying into orders. Management has maintained its revenue guidance of 25–30% and EBITDA margin guidance of 33–35% for FY25. In our view, the incremental revenue from newly commissioned 95,000m<sup>2</sup> facility is likely to result in even higher revenue growth from FY26.

With favourable sectoral tailwinds and a large addressable market, we believe that strong growth is likely to continue for several years. Taking cognizance of lower sustainable interest costs, we raise our FY25E/26E EPS by 8.5%/10%. Our revised TP works out to INR 1,750 (earlier INR 1,600) on an unchanged 80x FY26E EPS. Maintain BUY.

### Exhibit 1: Earnings Revision

(INR mn)	FY25E			FY26E		
	New	Old	% Chg	New	Old	% Chg
Sales	4,658	4,658	0.0	6,011	6,011	0.0
EBITDA	1,635	1,635	0.0	2,121	2,118	0.2
PAT	992	915	8.5	1,299	1,181	10.0

Source: I-Sec research

### Key Risks

- Delay in approvals from OEMs
- Product concentration around air foils
- Slowdown in aerospace sector might result in lower revenue growth

### Q4FY24 Conference call: Takeaways

- The FY24 guidance for 25–20% growth trajectory has been achieved. Management has guided for an identical growth rate of 25–30% in FY25 as well.
- Management guided YoY segment-wise revenue growth in FY25 –
  - Energy: 20-25%; Aerospace: 35-40%; Oil & Gas: 2–3x (oil & gas constituted 5% of the top line in Q4FY24).
- Revenue/EBITDA growth YoY seems optically lower at 9.3%/2.9% mainly due to higher base. In Q4FY23, certain deliveries of earlier quarters spilled over. On normalised Q4FY23 revenue of INR 710mn, revenue growth in Q4FY24 would have been 31% YoY.
- Management expects the next level of growth to commence from FY26 with incremental revenue coming from its new facility.
- The prestigious contract from Rolls Royce for defence and aircraft engines gets the company a foot in the door, which also has the potential to be scalable. The initial contract is for two engines and there is a lot of space to grow further.
- Order book is at more than INR 30bn (spread over 3, 5 and 7 years), as on end-Mar'24, compared to INR 18–20bn six months ago.
- Margin improvement ahead is likely to come from acquisition of stake in companies with special processes. For instance, the recently incorporated Azad-VTC is into integrated coating and special process.
- Management guided EBITDA margin in FY25 is expected at 33–35% in FY25.

- Finance cost is expected to reduce significantly in Q1FY25; margins is expected to improve from Q2FY25, according to management guidance
- FY25 capex is expected at INR 1.25bn as equipment are specialised.
- Current capacity utilisation is at 80–85%.
- The company is working to indigenise sourcing raw material.
- Management guidance for sustained long term WC days is reduction to 140–150.

## Exhibit 2: Azad's Q4FY24 performance review

(INR mn)	Q4FY24	Q4FY23	% Chg YoY	Q3FY24	% Chg QoQ	FY24	FY23	% Chg YoY
<b>Net sales</b>	<b>928</b>	<b>849</b>	9.3	<b>892</b>	4.0	<b>3,408</b>	<b>2,517</b>	35.4
Gross Margin	770	743	3.6	789	(2.4)	2,947	2,215	33.1
Gross Margin (%)	83.0%	87.5%		88.4%		86.5%	88.0%	
Employee cost	197	173	13.5	208	(5.7)	742.7	592.7	25.3
Other expenditure	260	265	(1.9)	253	2.7	1,039.0	899.8	15.5
<b>EBITDA</b>	<b>314</b>	<b>305</b>	2.9	<b>327</b>	(4.2)	<b>1,166</b>	<b>723</b>	61.3
Margin (%)	33.8%	35.9%		36.7%		34.2%	28.7%	
Other Income	28	50	(44.6)	184	(85.0)	320	98	224.9
Depreciation	55	41	31.8	52	4.5	205	166	23.8
EBIT	287	313	(8.5)	460	(37.6)	1,281	655	95.4
Interest	60	112	(45.9)	194	(68.9)	473	524	(9.8)
<b>PBT</b>	<b>226</b>	<b>202</b>		<b>266</b>		<b>808</b>	<b>132</b>	
Tax expense:	77	53	45.1	98	(21.3)	222	47	373.9
<b>PAT</b>	<b>149</b>	<b>149</b>	0.4	<b>168</b>	(11.2)	<b>586</b>	<b>85</b>	591.4

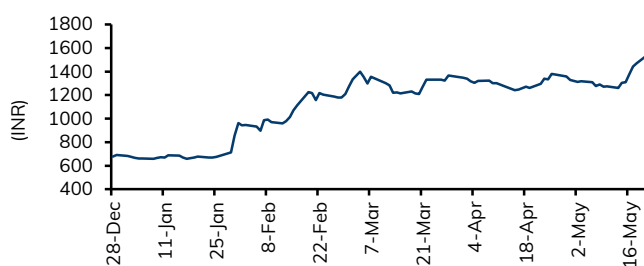
Source: Company data, I-Sec research

## Exhibit 3: Shareholding pattern

%	Dec'23	Mar'24
Promoters	65.9	65.9
Institutional investors	10.4	12.0
MFs and others	4.9	4.3
Insurance / Bank	0.8	0.7
FIIIs	4.7	7.0
Others	23.7	22.1

Source: Bloomberg

## Exhibit 4: Price chart



Source: Bloomberg

## Financial Summary

### Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>2,517</b>	<b>3,408</b>	<b>4,658</b>	<b>6,011</b>
Operating Expenses	1,492	1,782	2,223	2,808
<b>EBITDA</b>	<b>723</b>	<b>1,166</b>	<b>1,635</b>	<b>2,121</b>
EBITDA Margin (%)	28.7	34.2	35.1	35.3
Depreciation & Amortization	166	205	258	316
EBIT	557	961	1,377	1,806
Interest expenditure	-	-	-	-
Other Non-operating Income	98	320	99	133
<b>Recurring PBT</b>	<b>132</b>	<b>808</b>	<b>1,369</b>	<b>1,792</b>
<b>Profit / (Loss) from Associates</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Less: Taxes	47	222	376	493
PAT	85	586	992	1,299
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>85</b>	<b>586</b>	<b>992</b>	<b>1,299</b>
<b>Net Income (Adjusted)</b>	<b>85</b>	<b>586</b>	<b>992</b>	<b>1,299</b>

Source Company data, I-Sec research

### Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	2,836	4,217	5,792	6,703
of which cash & cash eqv.	527	589	1,100	1,478
Total Current Liabilities & Provisions	660	854	1,039	1,237
<b>Net Current Assets</b>	<b>2,177</b>	<b>3,363</b>	<b>4,753</b>	<b>5,466</b>
Investments	-	-	-	-
Net Fixed Assets	2,167	2,545	3,801	4,854
ROU Assets	-	27	27	27
Capital Work-in-Progress	380	454	-	-
Total Intangible Assets	-	-	-	-
Other assets	509	727	727	727
Deferred Tax Assets	-	-	-	-
<b>Total Assets</b>	<b>5,232</b>	<b>7,117</b>	<b>9,308</b>	<b>11,074</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>3,006</b>	<b>372</b>	<b>1,710</b>	<b>2,057</b>
<b>Deferred Tax Liability</b>	<b>161</b>	<b>239</b>	<b>239</b>	<b>239</b>
provisions	26	36	36	36
other Liabilities	-	-	-	-
Equity Share Capital	17	118	118	118
Reserves & Surplus	2,023	6,332	7,185	8,604
<b>Total Net Worth</b>	<b>2,040</b>	<b>6,451</b>	<b>7,303</b>	<b>8,722</b>
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>5,232</b>	<b>7,117</b>	<b>9,308</b>	<b>11,074</b>

Source Company data, I-Sec research

### Exhibit 7: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>(102)</b>	<b>(70)</b>	<b>380</b>	<b>1,294</b>
Working Capital Changes	(810)	(1,488)	(879)	(335)
Capital Commitments	(856)	(753)	(1,200)	(1,249)
<b>Free Cashflow</b>	<b>(958)</b>	<b>(823)</b>	<b>(820)</b>	<b>45</b>
<b>Other investing cashflow</b>	<b>(155)</b>	<b>201</b>	<b>99</b>	<b>133</b>
Cashflow from Investing Activities	(1,012)	(553)	(1,101)	(1,116)
Issue of Share Capital	573	2,400	-	-
Interest Cost	(524)	(473)	(107)	(147)
Inc (Dec) in Borrowings	1,214	(1,215)	1,339	347
Dividend paid	-	-	-	-
Others	-	-	-	-
Cash flow from Financing Activities	1,263	710	1,232	200
<b>Chg. in Cash &amp; Bank balance</b>	<b>150</b>	<b>88</b>	<b>511</b>	<b>378</b>
Closing cash & balance	194	282	793	1,170

Source Company data, I-Sec research

### Exhibit 8: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	1.4	9.9	16.8	22.0
Adjusted EPS (Diluted)	1.4	9.9	16.8	22.0
Cash EPS	4.2	13.4	21.2	27.3
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	34.5	109.1	123.6	147.6
Dividend Payout (%)	-	-	-	-
<b>Growth (%)</b>				
Net Sales	29.4	35.4	36.7	29.0
EBITDA	16.1	61.3	40.3	29.7
EPS (INR)	(71.2)	591.4	69.4	30.9
<b>Valuation Ratios (x)</b>				
P/E	1,023.2	148.0	87.4	66.7
P/CEPS	346.0	109.6	69.3	53.7
P/BV	42.5	13.4	11.9	9.9
EV / EBITDA	109.6	65.6	47.3	36.4
Dividend Yield (%)	-	-	-	-
<b>Operating Ratios</b>				
Gross Profit Margins (%)	88.0	86.5	82.8	82.0
EBITDA Margins (%)	28.7	34.2	35.1	35.3
Effective Tax Rate (%)	35.6	27.5	27.5	27.5
Net Profit Margins (%)	3.4	17.2	21.3	21.6
Net Debt / Equity (x)	1.2	0.0	0.1	0.1
Net Debt / EBITDA (x)	3.4	(0.2)	0.4	0.3
Fixed Asset Turnover (x)	-	-	-	-
Inventory Turnover Days	166	185	175	155
Receivables Days	228	236	249	205
Payables Days	91	70	71	69
<b>Profitability Ratios</b>				
RoCE (%)	10.8	13.9	14.3	14.8
RoE (%)	6.1	18.1	18.9	17.3
RoIC (%)	11.8	15.2	16.0	16.8

Source Company data, I-Sec research

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet\_babbar@icicisecuritiesinc.com, Rishi\_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)  
**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

#### ANALYST CERTIFICATION

I/We, Amit Dixit, PGDM, B.Tech; Mohit Lohia, CA; Pritish Urumkar, MBATech (Finance); authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

#### Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager, Research Analyst and Alternative Investment Fund. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities AIF Trust's SEBI Registration number is IN/AIF3/23-24/1292 ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com).

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit [icidirect.com](http://icidirect.com) to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

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 ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

---

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : [complianceofficer@icicisecurities.com](mailto:complianceofficer@icicisecurities.com)

For any queries or grievances: [Mr. Prabodh Avadhoot](#) Email address: [headservicequality@icicidirect.com](mailto:headservicequality@icicidirect.com) Contact Number: 18601231122

---