

06 August 2025

India | Equity Research | Re-initiating Coverage

Azad Engineering

Defence

Maintains growth trajectory backed by strong orderbook

Azad Engineering's (Azad) Q1FY26 performance was 7% ahead of consensus estimates driven by better-than-expected margin profile. EBITDA jumped 49% YoY to INR 492mn (+8% QoQ) driven by strong revenue execution (+36.7% YoY) in a challenging environment. EBITDA margin jumped 230bps YoY to 35.9%. Key contributors for margin expansion include: 1) Exports contribution jumping to 92% of the revenue vs. 90.5% YoY and 2) energy, oil/gas business revenue jumped 41.7% YoY to INR 1.1bn, increasing contribution to 81.2% vs. 78.4% YoY. The company maintains its c.30% revenue growth and 33-35% margin guidance for the next few years backed by new capacity additions. We re-initiate coverage with **BUY** and target price of INR 1,882 (based on 50x P/E FY28E EPS).

Strong performance; guidance and orderbook largely intact

Azad's Q1FY26 performance was driven by higher-than-expected revenue and margin growth. Revenue of INR 1.37bn (+39%/8% YoY/QoQ) was uplifted by strong execution in the energy segment which reported 41.7% YoY growth in revenue. Aerospace and defence (A&D) segment grew 26.3% YoY to INR 230bn. Exports registered an impressive 39% YoY growth to INR 1.2bn, driving the entire topline with record contribution of 92% in sales. EBITDA jumped 49% YoY to INR 492mn (+8% QoQ) driven by better product mix and higher exports. EBITDA margin jumped 230bps YoY to 35.9%.

Despite the challenging environment, management continues to guide for 25-30% revenue growth in FY26 and 33-35% EBITDA margin. Orderbook remains in excess of INR 60bn comprising: 1) Energy – INR 34bn; A&D – INR 17bn and 3) oil/gas – INR 8.5bn. The strong orderbook gives visibility of over five years even assuming 30% revenue CAGR.

Capacity commission to improve execution

Azad's growth path hinges on timely commissioning and ramp up of upcoming capacities. In phase I, Azad is adding 94,899sqmt facility (two dedicated capacities cumulating 14,800sqmt already completed). This new capacity is expected to be tilted more towards A&D, contribution of which could improve, implying higher growth than energy. Near to medium term key monitorable will be execution of AGTE order received from GTRE.

Financial Summary

Y/E March (INR mn)	FY25A	FY26A	FY27E	FY28E
Net Revenue	4,574	6,011	7,961	10,549
EBITDA	1,613	2,121	2,865	3,927
EBITDA Margin (%)	35.3	35.3	36.0	37.2
Net Profit	865	1,298	1,730	2,431
EPS (INR)	14.6	20.1	26.8	37.6
EPS % Chg YoY	47.7	37.3	33.2	40.6
P/E (x)	106.5	77.6	58.2	41.4
EV/EBITDA (x)	47.3	46.4	34.6	25.2
RoCE (%)	11.5	11.3	13.6	17.2
RoE (%)	8.5	8.9	10.7	13.4

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Market Data

Market Cap (INR)	101bn
Market Cap (USD)	1,147mn
Bloomberg Code	AZAD IN Equity
Reuters Code	AZAD.BO
52-week Range (INR)	1,930 / 1,128
Free Float (%)	40.0
ADTV-3M (mn) (USD)	9.0

Price Performance (%)	3m	6m	12m
Absolute	(4.7)	5.8	0.0
Relative to Sensex	(4.6)	2.7	(2.4)

ESG Score	2023	2024	Change
ESG score	NA	46.7	NA
Environment	NA	19.6	NA
Social	NA	52.0	NA
Governance	NA	68.0	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Previous Reports

26-05-2025: [Q4FY25 results review](#)

13-11-2024: [Q2FY25 results review](#)

Outlook: Commissioning of facilities to enhance execution rate

Azad has showcased an impressive revenue CAGR of 39% over the past 5 years driven by building niche capabilities in critical components. The company hopes to replicate the same journey in expanding capacity by 8x in phases. The company already has an impressive orderbook of over INR 60bn, execution of which is the key to maintain its robust growth path. The timely completion of 95,000sqmt facility at Tuniki Bollaram may be the driving factor for increasing execution rate and in turn EPS growth.

We re-initiate coverage on the stock with **BUY** rating and target price of INR 1,882, based on 50x P/E FY28E EPS (giving higher multiple to reflect above-industry growth and capture part of unexecuted OB as well).

Key risks

- Delay in approvals from OEMs.
- Further escalation of tariff against India.
- Slowdown in energy/aerospace sector may result in lower revenue growth.

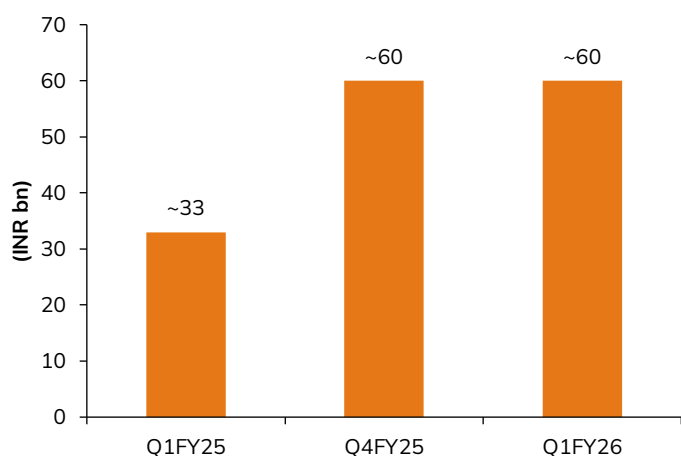
Q1FY26 concall: Takeaways

- **Current orderbook** stands at INR 60bn+, flattish QoQ. Energy – INR 34bn (~USD 400mn); aerospace & defence – ~INR 17bn (~USD 200mn); and oil & gas – ~INR 8.5bn (~USD 100bn).
- **Q1FY26 performance:** 1) Topline growth was also aided by contribution from GE SPS plant, which was operationalised in Q4FY25; 2) employee cost has increased with the onboarding of key personnel and 3) other income increase due to treasury income from unutilised QIP funds.
- **Guidance:** Topline growth of 25-30% in FY26. EBITDA margin guidance remains in the range of 33-35%.
- Managements expects depreciation of ~INR 480mn for FY26, with operationalisation of new plants.
- Management plans to add eight dedicated lean manufacturing facilities in next 12 to 18 months.
- **Capex:** Planned ~INR 4.5bn in capital expenditure in FY26/27.
- Credit rating (CARE) upgrade from “A-” to “A”.
- **Tariff impact:** Management expects no adverse impact on the products as they are 20-25% competitive from next competition (20-25% competitive than China; 30-35% competitive than EU and 40-45% competitive than Japan). As of now, execution for Q2 remains uninterrupted.
- Management is focused on delivering two engines to DRDO in FY26.
- Azad had qualified by EDF as a global supplier for two nuclear projects.

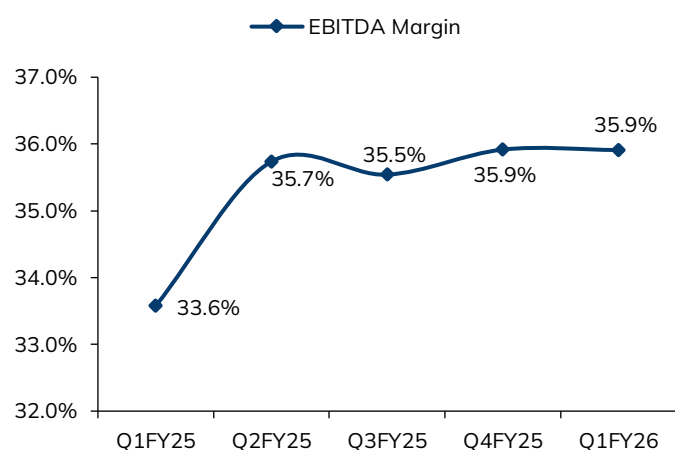
Exhibit 1: Azad Q1FY26 performance review

(INR mn)	Q1FY26	Q1FY25	% Chg YoY	Q4FY25	% Chg QoQ
Net sales	1,371	984	39.3	1,269	8.0
Gross Margin	1,203	831	44.8	1,107	8.7
Gross Margin (%)	87.8%	84.4%		87.2%	
Employee cost	293	204	43.4	254	15.5
Other expenditure	418	296	41.1	398	5.1
EBITDA	492	330	49.0	456	8.0
Margin (%)	35.9%	33.6%		35.9%	
Other Income	87	6	1,319.9	34	157.3
Depreciation	101	60	68.6	93	9.4
EBIT	478	276	72.9	397	20.4
Interest	59	33	80.1	38	54.7
PBT	419	244		359	
Tax expense:	124	72	71.9	111	12.3
PAT	294	171	71.9	248	18.6

Source: Company data, I-Sec research

Exhibit 2: Orderbook

Source: I-Sec research, Company data

Exhibit 3: EBITDA margin

Source: I-Sec research, Company data

Exhibit 4: Shareholding pattern

%	Dec'24	Mar'25	Jun'25
Promoters	65.9	60.3	55.4
Institutional investors	16.6	22.5	25.1
MFs and others	6.2	7.1	8.0
Insurance / Bank	0.3	1.0	1.0
FIIIs	10.1	14.4	16.2
Others	17.2	17.2	19.5

Source: Bloomberg, I-Sec research

Exhibit 5: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 6: Profit & Loss

(INR mn, year ending March)

	FY25A	FY26A	FY27E	FY28E
Net Sales	4,574	6,011	7,961	10,549
Operating Expenses	2,324	2,970	3,699	4,633
EBITDA	1,613	2,121	2,865	3,927
EBITDA Margin (%)	35.3	35.3	36.0	37.2
Depreciation & Amortization	295	388	474	546
EBIT	1,318	1,733	2,391	3,381
Interest expenditure	-	-	-	-
Other Non-operating Income	106	311	253	236
Recurring PBT	1,240	1,861	2,479	3,484
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	375	563	749	1,053
PAT	865	1,298	1,730	2,431
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	865	1,298	1,730	2,431
Net Income (Adjusted)	865	1,298	1,730	2,431

Source Company data, I-Sec research

Exhibit 7: Balance sheet

(INR mn, year ending March)

	FY25A	FY26A	FY27E	FY28E
Total Current Assets	11,971	11,482	11,552	12,809
of which cash & cash eqv.	6,970	5,190	4,218	3,941
Total Current Liabilities & Provisions	1,053	1,135	1,421	1,801
Net Current Assets	10,918	10,347	10,131	11,008
Investments	-	-	-	-
Net Fixed Assets	4,166	6,676	8,302	9,356
ROU Assets	-	-	-	-
Capital Work-in-Progress	798	-	-	-
Total Intangible Assets	193	193	193	193
Other assets	1,479	1,479	1,479	1,479
Deferred Tax Assets	-	-	-	-
Total Assets	17,554	18,696	20,105	22,036
Liabilities				
Borrowings	2,957	2,800	2,480	1,980
Deferred Tax Liability	274	274	274	274
provisions	46	46	46	46
other Liabilities	347	347	347	347
Equity Share Capital	129	129	129	129
Reserves & Surplus	13,801	15,100	16,829	19,260
Total Net Worth	13,930	15,229	16,958	19,389
Minority Interest	-	-	-	-
Total Liabilities	17,554	18,696	20,105	22,036

Source Company data, I-Sec research

Exhibit 8: Quarterly trend

(INR mn, year ending March)

	Sep-24	Dec-24	Mar-25	Jun-25
Net Sales	1,115	1,205	1,269	1,371
% growth (YOY)	34.7	35.0	36.8	39.3
EBITDA	399	428	456	492
Margin %	35.7	35.5	35.9	35.9
Other Income	15	51	34	87
Extraordinaries	-	-	-	-
Adjusted Net Profit	205	237	250	294

Source Company data, I-Sec research

Exhibit 9: Cashflow statement

(INR mn, year ending March)

	FY25A	FY26A	FY27E	FY28E
Operating Cashflow	338	661	1,613	1,956
Working Capital Changes	(1,070)	(1,210)	(756)	(1,154)
Capital Commitments	(2,259)	(2,100)	(2,100)	(1,600)
Free Cashflow	(1,922)	(1,439)	(487)	356
Other investing cashflow	(752)	-	-	-
Cashflow from Investing Activities	(3,012)	(2,100)	(2,100)	(1,600)
Issue of Share Capital	11	0	-	-
Interest Cost	(184)	(184)	(165)	(133)
Inc (Dec) in Borrowings	2,791	(157)	(320)	(500)
Dividend paid	-	-	-	-
Others	6,437	-	-	-
Cash flow from Financing Activities	9,055	(341)	(485)	(633)
Chg. in Cash & Bank balance	6,381	(1,780)	(972)	(277)
Closing cash & balance	6,970	5,190	4,218	3,941

Source Company data, I-Sec research

Exhibit 10: Key ratios

(Year ending March)

	FY25A	FY26A	FY27E	FY28E
Per Share Data (INR)				
Reported EPS	14.6	20.1	26.8	37.6
Adjusted EPS (Diluted)	14.6	20.1	26.8	37.6
Cash EPS	19.6	26.1	34.1	46.1
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	235.7	235.8	262.6	300.2
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	34.2	31.4	32.4	32.5
EBITDA	38.4	31.5	35.1	37.0
EPS (INR)	47.7	37.3	33.2	40.6
Valuation Ratios (x)				
P/E	106.5	77.6	58.2	41.4
P/CEPS	79.4	59.7	45.7	33.8
P/BV	6.6	6.6	5.9	5.2
EV / EBITDA	47.3	46.4	34.6	25.2
P / Sales	22.0	16.8	12.7	9.6
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	86.1	84.7	82.5	81.2
EBITDA Margins (%)	35.3	35.3	36.0	37.2
Effective Tax Rate (%)	30.2	30.2	30.2	30.2
Net Profit Margins (%)	18.9	21.6	21.7	23.0
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.3)	(0.2)	(0.1)	(0.1)
Net Debt / EBITDA (x)	(2.5)	(1.1)	(0.6)	(0.5)
Profitability Ratios				
RoCE (%)	11.5	11.3	13.6	17.2
RoE (%)	8.5	8.9	10.7	13.4
RoIC (%)	11.7	12.0	12.7	15.0
Fixed Asset Turnover (x)	-	-	-	-
Inventory Turnover Days	197	169	185	159
Receivables Days	233	255	197	198
Payables Days	84	69	69	69

Source Company data, I-Sec research

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