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India | Equity Research | Company Update

Azad Engineering

Defense

A giant leap

Azad Engineering (Azad) has received a contract for end-to-end production of Advanced Turbo Gas Generator (ATGG) engines from GTRE. Key points: 1) Marks Azad's entry into propulsion systems besides enhancing its presence in the Indian defence ecosystem. 2) Showcases Azad's capability enhancement from components/sub-system supplier to solution provider. 3) Azad has been selected as a single-source Industry Partner (IP) to GTRE for ATGG engines. 4) The delivery of the first batch of fully-integrated ATGG engines will commence in early CY26. In our view, the foray into complete manufacturing of ATGG engines and being GTRE's single-source industry partner for the same marks a significant milestone in Azad's journey. Maintain **BUY** on Azad; TP unchanged at INR 1,750 based on 80x FY26E EPS.

Order for ATGG engine – a significant step forward

Azad has received a contract from GTRE for the end-to-end manufacturing, assembly, and integration of a complete assembled ATGG engine. Azad will be the single-source IP to GTRE for this engine and the first batch of fully-integrated ATGG engines are to be delivered by early-CY26. In our view, this development showcases Azad's evolution from component/sub-systems supplier to becoming a solutions provider, which will also likely deepen its presence in the domestic defence ecosystem. Currently, we have not considered the impact of this additional revenue stream in our FY26E numbers given the absence of details.

Collaboration with GTRE likely to have spillover effect

ATGG is a single-spool turbojet engine designed with advanced features. It incorporates a four-stage axial flow compressor, an annular combustor, a single-stage axial flow uncooled turbine, and a fixed exit area nozzle. Our channel checks indicate that the initial contract is likely to entail the delivery of 20 units of assembled ATGG engines along with necessary spares. In our view, Azad's presence in ATGG engines is significant, as these are likely to be used in propulsion system of UAVs, target drones and other aircraft. Hence, the enhancement in capability for a complete propulsion system now paves the way for Azad to play a more integral role in the Indian defence space. In our view, this milestone gives Azad a foot in the door in GTRE and potentially allow Azad to collaborate on more platforms now and in the future.

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)	972.1	140.6	83.0	63.4
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

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Market Data

Market Cap (INR)	82bn
Market Cap (USD)	990mn
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	15.8	0.0	0.0
Relative to Sensex	12.7	0.0	0.0

Previous Reports

23-05-2024: [Q4FY24 results review](#)

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

Outlook: Another feather in the cap; maintain BUY

In our view, the contract for end-to-end manufacturing, assembly and supply of ATGG engines not only adds one more revenue vertical for the company, but also can potentially enhance its presence in the domestic defence space. Furthermore, it showcases Azad's rapid evolution from being a component manufacturer to solution provider. In the longer term, the collaboration with GTRE could yield rich dividend for Azad owing to the government's focus on UAVs and drones where ATGGs are likely to be used. We maintain **BUY** on Azad with an unchanged TP of INR 1,750 based on 80x FY26E EPS.

Key Risks

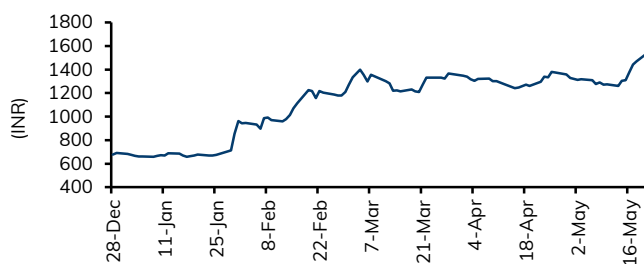
- Delay in approvals from OEMs
- Product concentration around air foils
- Slowdown in aerospace sector might result in lower revenue growth

Exhibit 1: 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 2: Price chart



Source: Bloomberg

Financial Summary

Exhibit 3: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	2,517	3,408	4,658	6,011
Operating Expenses	1,492	1,782	2,223	2,808
EBITDA	723	1,166	1,635	2,121
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	98	320	99	133
Income				
Recurring PBT	132	808	1,369	1,792
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	47	222	376	493
PAT	85	586	992	1,299
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	85	586	992	1,299
Net Income (Adjusted)	85	586	992	1,299

Source Company data, I-Sec research

Exhibit 4: 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
Net Current Assets	2,177	3,363	4,753	5,466
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	-	-	-	-
Total Assets	5,232	7,117	9,308	11,074
Liabilities				
Borrowings	3,006	372	1,710	2,057
Deferred Tax Liability	161	239	239	239
provisions	26	36	36	36
other Liabilities	-	-	-	-
Equity Share Capital	17	118	118	118
Reserves & Surplus	2,023	6,332	7,185	8,604
Total Net Worth	2,040	6,451	7,303	8,722
Minority Interest	-	-	-	-
Total Liabilities	5,232	7,117	9,308	11,074

Source Company data, I-Sec research

Exhibit 5: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	(102)	(70)	380	1,294
Working Capital Changes	(810)	(1,488)	(879)	(335)
Capital Commitments	(856)	(753)	(1,200)	(1,249)
Free Cashflow	(958)	(823)	(820)	45
Other investing cashflow	(155)	201	99	133
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
Chg. in Cash & Bank balance	150	88	511	378
Closing cash & balance	194	282	793	1,170

Source Company data, I-Sec research

Exhibit 6: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
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 (%)	-	-	-	-
Growth (%)				
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
Valuation Ratios (x)				
P/E	972.1	140.6	83.0	63.4
P/CEPS	328.7	104.1	65.9	51.0
P/BV	40.4	12.8	11.3	9.4
EV / EBITDA	109.6	65.6	47.3	36.4
Dividend Yield (%)	-	-	-	-
Operating Ratios				
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
Profitability Ratios				
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

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