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About the Company:

The company was incorporated as "Paras Flow Form Engineering Limited" on June 16, 2009. In December 2, 2015, name of the company was changed to "Paras Defence and Space Technologies Limited". They are an Indian private sector company engaged in designing, developing, manufacturing and testing of a wide range of defence and space engineering products and solutions. They are 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. (Source F&S Report) They are also the sole Indian supplier of critical imaging components such as large size optics and diffractive gratings for space applications in India (Source F&S Report). The goal is to become one of the leading global companies for optics for defence and space sector.

Issue details	
Price Band (Rs in per share)	165-175
Issue size (Rs in Crore)	169.05-170.78
Issue open date	21-09-2021
Issue close date	23-09-2021
Tentative date of Allotment	28-09-2021
Tentative date of Listing	01-10-2021
Offer for Sale (Shares in lakhs)	17.24
Total number of shares (lakhs)	102.46-97.59
No. of shares for QIBs (50%) (lakhs)	51.23-48.79
No. of shares for NII (15%) (lakhs)	15.37-14.64
No. of shares for retail investors (35%) (lakhs)	35.86-34.16
Minimum order quantity	85
Face value (in Rs)	10
Amount for retail investors (1 lot)	14025-14875
Maximum number of shares for Retail investors at lower Band	1190(14 Lots)
Maximum number of shares for Retail investors at upper band	1105(13 Lots)
Maximum amount for retail investors at lower Band- upper band (in Rs)	196350-193375
Exchanges to be listed on	BSE, NSE

Promoters

- Sharad Virji Shah
- Munjal Sharad Shah

Objective of the Offer

Fresh Issue	
Particulars	Amounts (Rs In Crores)
Purchase of machinery and equipment	34.66
Funding incremental working capital requirements of Company	60.00
Repayment of borrowings	120.00
General Corporate Purposes	[*]
Total Net proceeds	[*]

**Offer for Sale**

Particulars	Promotor/Individual	Equity Shares Selling
Sharad Virji Shah	Promoter	Up to 1,250,000
Munjal Sharad Shah	Promoter	Up to 50,000
Ami Munjal Shah	Individual	Up to 300,000
Shilpa Amit Mahajan	Individual	Up to 62,245
Amit Navin Mahajan	Individual	Up to 62,245

Financials**Brief Financials**

Particulars (Rs. Cr)	FY21	FY20	FY19
Share Capital	29.85	28.41	5.68
Net Worth	172.44	138.74	119.08
Revenue from Operation	143.33	147.04	154.40
PAT	15.79	19.66	18.97
Basic EPS(Rs)	5.55	6.92	6.75
Net Asset Value (Rs)	55.23	46.03	38.90
Total Borrowings	106.10	103.39	84.95
P/E #	31.53	NA	NA
P/B #	3.17	NA	NA

Source: RHP # Calculated at the upper price band

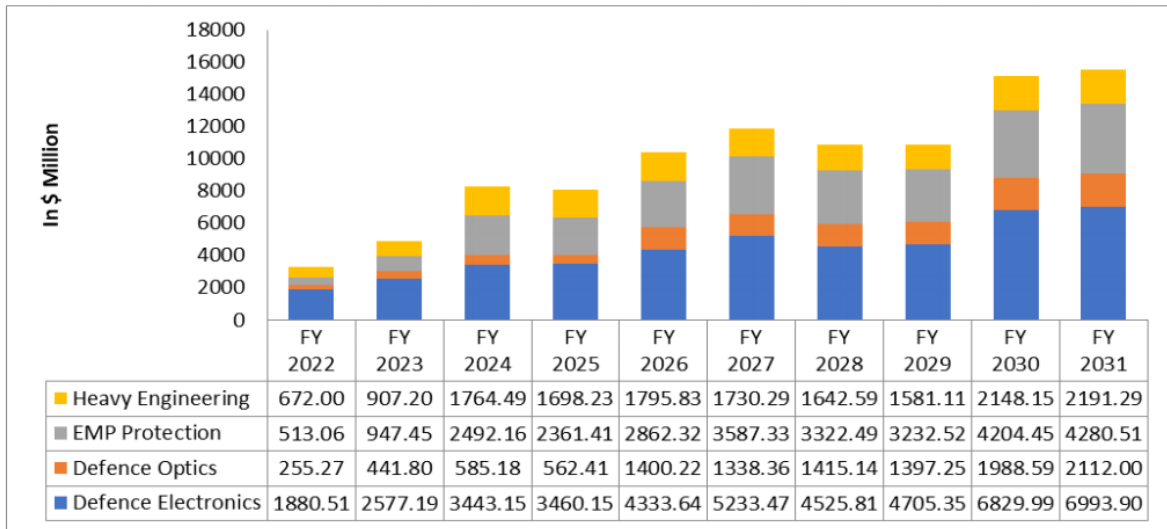
Industry Review:**Defense Industry:**

According to Frost & Sullivan, as modernization of the Indian Defence sector becomes more technology oriented, four major segments will become key contributors to most emerging programs, namely, Defence Electronics, Defence Optics, EMP Protection and Heavy Engineering. Frost & Sullivan defines the four segments as follows:

Segment	Brief
Defence Electronics	The segment includes all electronics that are used in air, naval and land platforms as well as in other C6ISR equipment like radios, displays etc.
Optics	The segment is made up of all types of Imaging Systems for Defence & Space such as Sights, Cameras, Devices, Telescopes etc. for Day/Night Vision, Thermal Imaging, EO applications.
EMP Protection	This segment consists of EMP protection equipment such as Faraday cages as well EMP hardened blast doors, wave guides for EM energy directionality etc.
Heavy Engineering	This segment consists of heavy engineering at a Tier 2 and Tier 3 equipment level. Note that this segment does not consider Tier 1 Heavy Engineering such as ship building, submarine building etc.

Source: CBSL, RHP

The Company has a presence in each of these segments. The Indian defence establishment will increasingly look at sourcing these segments from local suppliers because of the Atmanirbhar Bharat initiative, and increasing levels of well-established R&D, quality standards and manufacturing capabilities in these segments. Whilst currently, the outlays to these segments made to Indian companies are in the order of approximately \$ 3.21 billion, by 2031 the spending will increase to over approximately \$ 14.5 billion because of extensive fleet recapitalisation, C4ISR orientation and greater indigenous supply preferences. The cumulative market in the time frame 2022-2031 is expected to be approximately \$ 99.4 billion, as set out below.



Source: CBSL, RHP

The Defence Electronics segment will see extensive indigenization over the next decade. From both manufacturing and quality stand points, Indian Defence Electronics are becoming increasingly embedded into global defence supply chains. Currently, electronic components made in India are used in Israeli UAS and European combat aircraft. Defence Electronics make up 25 - 35% the cost of most platforms used by the Indian Armed Forces. Accordingly, platform recapitalisation programmes across all three forces such as new combat aircraft acquisition, submarine building and T-72 replacement will be key contributors to future market valuation of this product segment. Currently, over 60% of the electronic components used in Indian defence equipment are supplied by foreign OEM. However, with the recent increased impetus on indigenization, future contracts will see a greater proportion of Defence Electronics being sourced locally. The market for Defence Electronics will grow from approximately \$ 1.88 billion in FY 2022 to approximately \$ 6.99 billion in FY 2031. The cumulative market opportunity for this segment will be in the order of approximately \$ 43.98 billion, making this segment the largest amongst the four.

Space Industry:

ISRO’s spending pattern is evolving, with recent developments involving external agencies to conduct multiple programs and missions simultaneously. The recently announced Atmanirbhar Bharat initiative will have a distinct focus on domestic participants. As per Frost & Sullivan, the Geo Imaging Satellite (“GISAT”) program had requested a total of ₹ 942.70 million in capital expenditure for 2018–2021. This is in addition to ₹ 24.53 million for machinery and equipment and ₹ 33.36 million for contractual services for the same time period. The GISAT mission is focused on multi-spectral and hyper-spectral imaging capabilities comprising 2 satellites (as of 2021). Ongoing efforts will result in spending on space imaging capabilities, which will create opportunities for domestic participants specializing in space imaging systems and components. The ‘Atmanirbhar Bharat’ Agenda will drive procurement efforts to prioritize Indian participants over international ones. The latter will remain eligible for opportunities if they have partnership deals with the former.

ISRO’s efforts to enable domestic private participants to outsource space systems manufacturing, a strong focus on EO missions, and the Atmanirbhar Bharat initiative collectively contribute to a strong environment of growth opportunities for Indian participants, especially those in partnerships with international participants. With private operators entering the market, the demand for manufacturing across the satellite, subsystem, and component levels will grow, as the customer base will have participants other than ISRO investing in such capabilities. This will further drive the growth of the Indian space ecosystem, creating opportunities for international space market participants and investment groups, as technological and financial support from the global space value chain participants will be in demand.



Competitive Strengths

Wide range of products and solutions for both defence and space applications

They provide wide range of products and solutions catering to specific customer needs enable them to successfully service core strategic sectors in India such as defence and space in India. This allows customers to source most of their requirements from a single vendor and enables them to expand business from existing customer's base, as well as address a larger base of potential customers. The ability to provide end-to-end solutions to customers ranging from designing, developing, manufacturing and testing increases capability to meet specific and exclusive requirements of customers. Apart from the above, Company's horizontal integration makes them 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, They are likely to be an integral stakeholder in a majority of future programmes involving local sourcing of defense and space optics and EMP protection solutions (Source: F&S Report). They believe that capability in four major segments of the Indian defence sector, makes them desirable partners for foreign original equipment manufacturers which are looking for collaboration in India.

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

They are one of the few manufacturers in India with a comprehensive in-house capabilities of designing, developing and manufacturing optics for space and defence application in India. The manufacturing facility in Nerul, Navi Mumbai has uniquely positioned them to cater to the demand for optics for space and defence application. It houses equipment and machinery, inter alia, for nano technology, machining, grinding, polishing and turning coupled with a robust testing set up for measuring the performance parameters of the optical components.

Strong R&D capabilities with a focus on innovation

They place strong emphasis on R&D which has helped them develop a wide range of products and solutions in the defence and space sector. They have invested in precision manufacturing infrastructure and human resource in dedicated R&D centres located at Nerul in Navi Mumbai, Maharashtra, and Bengaluru, Karna taka. R&D centre at Nerul is recognised by and registered with DSIR. As of June 30, 2021, they have employed 31 engineers and officers at R&D centres. Partnership with some of the leading and proven overseas technology companies around the world, also provides an added impetus to R&D

It has also facilitated in developing technology for future requirements and building a product pipeline such as hyper-spectral space cameras, multi-spectral aerospace cameras, arinc-818 based display etc. It further helps them in expanding role in core sectors of defense and space. As an example, they are in process of expanding role in space sector from being a component manufacturer to complete subsystem manufacturer for a satellite

Positioned to benefit from the Government's "Atmanirbhar Bharat" and "Make in India" initiatives

India is witnessing path-breaking reforms in the defence sector. Recently, the MoD has announced the Defence Acquisition Procedure which has come into effect from October 1, 2020. This procedure focuses on significantly boosting indigenous production and turning India into a global manufacturing hub of weapons and military platforms. This procedure has been aligned with the vision of the Government's Aatmanirbhar Bharat (self-reliant India) initiative and to empower Indian defence industry through 'Make in India' projects. They believe that this policy will provide a significant boost to indigenous manufacturing companies like them and that with domain expertise, R&D and manufacturing capabilities, They are poised to take full benefit of the same.



Risk Factors

The loss, shutdown or slowdown of business operations may have a material adverse effect on business, results of operations and financial condition.

They have two manufacturing facilities in Maharashtra, located at Ambernath in Thane, Maharashtra and Nerul in Navi Mumbai, Maharashtra and R&D activities are mainly undertaken at centres at Nerul in Navi Mumbai, Maharashtra and Bengaluru, Karnataka. While Ambernath facility is engaged in manufacturing of heavy engineering products, Nerul facility is engaged in manufacturing of optics, manufacturing and integration of electronics and EMP protection products and solutions. They rely exclusively on each of two manufacturing facilities to earn revenues, pay operating expenses and service debt. Any significant interruption to, or loss or shutdown of, operations at any of manufacturing facilities or R&D centres would adversely affect business.

Business is largely dependent on contracts from the Government of India (“GoI”) and associated entities

For the Fiscals ended 2021, 2020 and 2019, They derived revenue of ₹728.64 million, ₹422.73 million, and ₹ 549.91 million, respectively, from sales made to the GoI Entities, which is equivalent to 50.84%, 28.75% and 35.62% of total consolidated sales for the respective. Fiscals. Further, as at June 30, 2021, order book from the GoI Entities, was ₹1,305.96 million. They expect to derive most of revenues under contracts with the GoI Entities. Further, contracts depend upon the continuing availability of budgets extended to the MoD and the DoS. A decline or reprioritisation of the Indian defence or space budget, changes in GoI Entities defence or space requirements and geo-political circumstances, reduction in orders, termination of existing contracts, delay of existing contracts or programmes will have a material adverse impact on business.

Executed various agreements with third parties, including in relation to securing contracts and manufacturing of products

From time to time, Company enters into contracts with third parties in India and outside India for partnering in relation to development of certain products or sourcing components. For instance, Company has entered into teaming agreements with companies such as HPS GmbH, Invent GmbH, and Kley France for securing contracts and manufacturing of products in accordance with the terms of such agreements. These agreements are typically short term and are entered for a period of one or two years. Further, Company has also entered into a partnership agreement with S-TEC Corporation on May 5, 2020 (“S-TEC Agreement”) for collaboration in relation to offering products and solutions for aircraft component manufacturing. As part of such partnerships or collaborations, Company may take certain steps such as making investment in R&D for the products which are the subject matter of such partnerships or may commit to orders based on arrangements agreed to in such contracts. They cannot assure that these agreements will be renewed or extended at the end of their respective terms. A delay in or failure to do so may have an impact on business, financial condition and results of operations.

Peer Comparison

There are no listed entities in India whose business portfolio is comparable with that of business. Below are the competitors in the unlisted space:

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



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

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

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

Legend	
■	High Level Capability
■	Mid Level Capability
■	No Capability

Canara Bank Securities Ltd

Our Views

The company has diversified product profiling with complete range of optics, electronics like hardware, monitor etc, electro-magnetic pulse and other heavy engineering products for defense and space. Moreover there are high entry barriers for new entrants as the projects related to strategic sectors such as defense and space.

The company has the plans to diversify their verticals to automotive, agriculture, monitoring, surveillance areas and other commercial areas etc. The company’s order book stood at INR 300 crores for FY2021 majorly contributed by margin accretive products like Optics and heavy engineering. It has its own in-house team with huge expertise in mechanical, electronics and optics along with foreign partnership, which enables them to provide quality product at reasonable prices. They also benefit from Make in India and Aatmanirbhar Bharat initiative, since domestic participation is encouraged.

The company trades at P/E of 31.53x for FY2021. There are no listed peers to compare valuation of the company. The company has niche products with high entry barriers in the market, which makes the issue attractive. However, the company’s debt, high proportion of receivables, stretched working capital cycle and dependencies on government organizations are matter of concerns for the long-term investors. Thus, we recommend to subscribe the issue for listing gains.

Sources: Company Website and Red Herring Prospectus



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