



**Choice**  
Nurturing Financial Excellence

# IPO REPORT

**“SUBSCRIBE” to  
Paras Defence and Space Technologies Ltd.**

A leading provider of optic and EMP protection solutions to defence and space sector

## Salient features of the IPO:

- **Paras Defence and Space Technologies Ltd. (PDSTL)**, which provides defence and space engineering products & solutions is coming up with an IPO to raise around Rs. 170cr, which opens on 21<sup>st</sup> Sept. and closes on 23<sup>rd</sup> Sept. 2021. The price band is Rs. 165 - 175 per share.
- The issue is a combination of fresh and OFS. The company will not receive any proceeds from the OFS part of the issue. Of the net proceeds from the fresh issue, Rs. 34.7cr will be used for the purchase of machinery & equipments, Rs. 60cr will be utilized to fund the working capital requirements and another Rs. 12cr will be used to repay/pre-pay certain debt availed by the company.
- In the last 6-7 months, the company has undertaken the pre-IPO placement of total 0.255cr equity shares for cash consideration aggregating to Rs. 34.4cr. However, the size of the fresh issue has not been reduced by the company. The shares were offered in the range of Rs. 125 - 160 per share.

## Key competitive strengths:

- Offer a wide range of products & solutions for both defence and space applications
- One of the few players in high precision optics manufacturing for space and defence application in India
- Strong R&D capabilities with a focus on innovation
- Well positioned to benefit from the Government's "Atmanirbhar Bharat" and "Make in India" initiatives
- Strong relationships with a diverse customer base
- An experienced management team

## Risk and concerns:

- Unexpected change in government policies and regulations
- Revenue concentration risk
- Lumpy business
- Working capital intensive business
- Competition

## Below are the key highlights of the company:

- PDSTL is engaged in designing, developing, manufacturing and testing of a wide range of defence and space engineering products & solutions. The company is the sole Indian supplier of critical imaging components such as large size optics and diffractive gratings for space applications in India. It is also one of the leading "Indigenously Designed Developed and Manufactured" category private sector companies in India, which caters to the four major segments of Indian defence sector i.e. defence & space optics, defence electronics, electro-magnetic pulse (EMP) protection solution and heavy engineering.
- The outlays by the Indian government on the above-mentioned four segments is expected to increase from around USD 3.2bn in 2021 to over USD 14.5bn by 2031, mainly due to extensive fleet re-capitalization, C4ISR orientation and greater indigenous supply preferences. The cumulative market during the same time is anticipated to around USD 99.4bn.

Recommendation	SUBSCRIBE
Price band	Rs. 165 - 175 per share
Face value	Rs. 10
Shares for fresh issue	0.803 - 0.852cr shares
Shares for OFS	0.172cr shares
Fresh issue size	Rs. 140.6cr
OFS issue size	Rs. 28.5 - 30.2cr
Total issue size	0.976 - 1.025cr shares (Rs. 169.1 - 170.8cr)
Bidding date	21 <sup>st</sup> Sept. - 23 <sup>rd</sup> Sept. 2021
MCAP at higher price band	Rs. 683cr
Enterprise value at higher price band	Rs. 626cr
Book running lead manager	Anand Rathi Advisors Ltd.
Registrar	Link Intime India Pvt. Ltd.
Sector	Industrials
Promoters	Mr. Sharad Virji Shah and Mr. Munjal Sharad Shah

Issue breakup		
Category	Percent of issue (%)	Number of shares
QIB portion	50%	0.488 - 0.512cr shares
Non institutional portion	15%	0.146 - 0.154cr shares
Retail portion	35%	0.342 - 0.359cr shares

Indicative IPO process time line	
Finalization of basis of allotment	28 <sup>th</sup> Sept. 2021
Unblocking of ASBA account	29 <sup>th</sup> Sept. 2021
Credit to demat accounts	30 <sup>th</sup> Sept. 2021
Commencement of trading	1 <sup>st</sup> Oct. 2021

Pre and post - issue shareholding pattern		
	Pre-issue	Post-issue
Promoter & promoter group	79.40%	58.94%
Public	20.60%	41.06%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

Retail application money at higher cut-off price per lot	
Number of shares per lot	85
Application money	Rs. 14,875 per Lot

Analyst	
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## Key highlights of the company (Contd...):

- Under defence & space optics segment, the company manufactures high precision optics for defence and space applications such as thermal imaging and space imaging systems. Its defence electronics operations include providing a wide array of high performance computing & electronic systems for defence applications, including sub-systems for border defence, missiles, tanks and naval applications. Under EMP protection solutions, the company is engaged in designing, developing, manufacturing and commissioning various solutions for EMP protection. Further, under heavy engineering, it provides heavy engineering products & solutions, such as components for rockets and missiles along with providing mechanical manufacturing support to other verticals.
- As of 30<sup>th</sup> Jun. 2021, PDSTL has a range of 34 different categories of high-quality products & solutions, which are manufactured from the two facilities located at Nerul and Ambernath in the state of Maharashtra. Further, to meet to the growing demand of its customers and also to enhance its product portfolio the company is in the process of expanding the manufacturing facilities at Nerul and Ambernath.
- The company derives majority of its business from government entities in the defence and space sector. As of FY21, government and private entities generated 50.8% and 32.3% to the top-line, while the rest was by the exports. Its customer base includes companies like Bharat Electronics Ltd., Hindustan Aeronautics Ltd., Bharat Dynamics Ltd., Hindustan Shipyard Ltd., Electronic Corporation of India Ltd., Tata Consultancy Services Ltd., Solar Industries India Ltd., Alpha Design Technologies Pvt. Ltd. and Astra-Rafael Comsys Pvt. Ltd. Its foreign customers include Advanced Mechanical and Optical Systems (Belgium), Tae Young Optics Company Ltd. (South Korea), and Green Optics (South Korea) etc.
- PDSTL is expanding into new opportunistic areas like unmanned aircraft systems (drones). Through its subsidiary, it aims to offer UAV integration solutions & services for a wide range of applications such as agriculture, power transmission, oil and gas, mining and construction. Its flagship product will be a cloud based NPNT solution (offered as software-as-a-service) and an indigenous multispectral camera. Through another subsidiary, the company will design sub-modules and will be involved in solution integration. PDSTL also aims to become one of the first indigenous anti-drone technology development companies in India and is currently collaborating with leading UAV anti-drone technology firms from Israel and Italy.
- Due to elongated production cycles, the company operations are working capital intensive. Pre-pandemic, i.e. over FY18-20, the working capital cycle has increased from 160 days in FY18 to 336 days in FY20. During the period, payable days have almost doubled, while inventory and debtor days have increased from 204 days and 62 days in FY18 to 313 days and 225 days, respectively. Going forward, we are not anticipating this to improve in the medium term.
- On financial performance front, the performance of the company is not encouraging. Over FY18-21, it has reported a 14.4% CAGR fall in earnings on 1.3% CAGR lower top-line. EBITDA margin during the period remained in the range of 26-30%. PDSTL reported a negative operating cash flow in two out of four reported fiscals. Financial liabilities increased by 15.6% CAGR, however, debt-to-equity ratio declined from 0.6x in FY18 to 0.5x in FY21. Average RoIC and RoE stood at 10.6% and 12.9%, respectively, over FY18-21.
- As of 30<sup>th</sup> Jun. 2021, the company had an order book of Rs. 305cr, which is around 2.1x times the FY21 business. Based on our conservative estimate, we are anticipating a 13.6% CAGR rise in top-line over FY21-24E to Rs. 210cr in FY24E. EBITDA and PAT are expected to increase by 12.1% and 29% CAGR. EBITDA margin is likely to contract by 117bps, while mainly on account of lower finance costs PAT margin is forecasted to expand by 511bps over FY21-24E. Moreover, RoIC and RoE to expand by 126bpd and 314bps, respectively, to 6.7% and 7.5% in FY24E.

**Peer comparison and valuation:** Considering the product profile, PDSTL doesn't have any peer in the listed space. At higher price band of Rs. 175, PDSTL is demanding a P/E multiple of 43.4x (to its FY21 EPS of Rs. 4). Considering its niche product profile & technology, dominant market positioning and vast growth potential, we assign a "**SUBSCRIBE**" rating for the issue.

## About the issue:

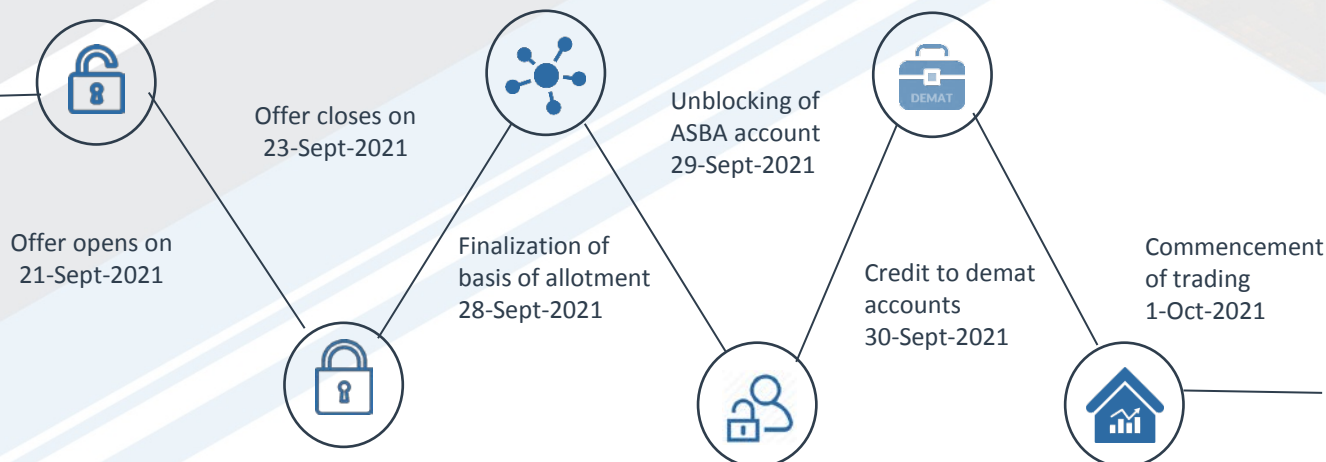
- PDSTL is coming up with an initial public offering (IPO) with 0.976 - 1.025cr shares (fresh issue: 0.803 - 0.852cr shares; OFS shares: 0.172cr shares) in offering. The offer represents around 25.02% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 169.1 - 170.8cr.
- The issue will open on 21<sup>st</sup> Sept. 2021 and close on 23<sup>rd</sup> Sept. 2021.
- The issue is through book building process with a price band of Rs. 165 - 175 per share.
- In the last 6-7 months, the company has undertaken the pre-IPO placement of total 0.255cr equity shares for cash consideration aggregating to Rs. 34.4cr. However, the size of the fresh issue has not been reduced by the company. The shares were offered in the range of Rs. 125 - 160 per share.
- The issue is a combination of fresh and OFS. The company will not receive any proceeds from the OFS part of the issue. Of the net proceeds from the fresh issue, Rs. 34.7cr will be used for the purchase of machinery & equipments, Rs. 60cr will be utilized to fund the working capital requirements and another Rs. 12cr will be used to repay/pre-pay certain debt availed by the company.
- 50% of the net issue are reserved for qualified institutional buyers, while 15% and 35% of the net issue is reserved for non-institutional bidders and retail investors, respectively.
- Promoter currently holds 79.40% stake in the company and post-IPO this will come down to 58.94%. Public holding will increase from current 20.60% to 41.06%.

### Pre and post-issue shareholding pattern (%)

	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group (%)	79.40%	58.94%
Public (%)	20.60%	41.06%

Source: Choice Equity Broking

## Indicative IPO process time line:



## Financial performance:

**Performance over FY18-21:** On financial performance front, the performance of the company is not encouraging. Over FY18-21, it has reported a 14.4% CAGR fall in earnings on 1.3% CAGR lower top-line. EBITDA margin during the period remained in the range of 26-30%.

During FY18-21, business from the Heavy engineering segment increased by 2% CAGR, while business from the Defence electronics and Defence & space optics segment declined by 3.5% and 0.5% CAGR, respectively. Accordingly, consolidated top-line declined by 1.3% CAGR to Rs. 143.3cr in FY21. As of FY21, the Defence electronics segment contributed 45.3% to the top-line, while the Heavy engineering and Defence & space optics segment contributed 26.4% and 28.3%, respectively.

Net cost of material consumed declined by 5.9% CAGR (a rate higher than the decline in top-line), thereby leading to a 6.4% CAGR higher material margin over FY18-21. As a percent of top-line, net cost of material consumed stood at 45.6% in FY21 as compared to 52.5% in FY18. However, with 19.6% and 11% CAGR higher expenses towards employee and other expenses led to a 1.8% CAGR higher consolidated EBITDA, which stood at Rs. 43.4cr in FY21. EBITDA margin expanded by 269bps over FY18-21 to at 30.3% in FY21.

Depreciation charge increased by 13.1% CAGR, while higher financial liabilities led to a 19% CAGR higher finance costs over FY18-21. As a result, reported PAT declined by 14.4% CAGR to be at Rs. 15.7cr in FY21. PAT margin contracted by 583bps during the period.

PDSTL reported a negative operating cash flow in two out of four reported fiscals. Financial liabilities increased by 15.6% CAGR, however, debt-to-equity ratio declined from 0.6x in FY18 to 0.5x in FY21. Average RoIC and RoE stood at 10.6% and 12.9%, respectively, over FY18-21.

Consolidated financial snapshot (Rs. cr)	FY18	FY19	FY20	FY21	CAGR over FY18-21 (%)	Y-o-Y (% Annual)
Heavy engineering	35.6	60.1	64.1	37.8	2.0%	-41.1%
Defence electronics	72.3	46.9	31.8	64.9	-3.5%	104.1%
Defence & space optics	41.3	47.4	51.1	40.6	-0.5%	-20.5%
Revenue from operations	149.3	154.4	147.0	143.3	-1.3%	-2.5%
EBITDA	41.2	42.8	39.3	43.4	1.8%	10.5%
Reported PAT	25.1	19.0	19.7	15.7	-14.4%	-20.0%
Restated reported EPS	6.4	4.9	5.0	4.0	-14.4%	-20.0%
Cash flow from operating activities	40.8	(12.1)	(2.6)	4.3	-52.8%	
NOPLAT	27.2	24.8	20.6	22.9	-5.6%	11.1%
FCF		(9.9)	6.6	(2.6)		-139.5%
RoIC (%)	14.0%	10.9%	8.6%	8.7%	(529) bps	8 bps
Revenue growth rate (%)		3.4%	-4.8%	-2.5%		
EBITDA growth rate (%)		4.0%	-8.3%	10.5%		
EBITDA margin (%)	27.6%	27.7%	26.7%	30.3%	269 bps	357 bps
EBIT growth rate (%)		-3.1%	-11.6%	14.2%		
EBIT margin (%)	23.1%	21.6%	20.1%	23.5%	43 bps	344 bps
Restated reported PAT growth rate (%)		-24.4%	3.6%	-20.0%		
Restated reported PAT margin (%)	16.8%	12.3%	13.4%	11.0%	(583) bps	(240) bps
Inventory days	204.1	235.7	313.1	377.6	22.8%	20.6%
Debtor days	61.9	128.3	224.4	245.0	58.2%	9.2%
Payable days	(106.7)	(165.7)	(201.2)	(118.4)	3.5%	-41.2%
Cash conversion cycle	159.3	198.3	336.4	504.3	46.8%	49.9%
Fixed asset turnover ratio (x)	0.9	0.9	0.9	0.9	1.8%	0.9%
Total asset turnover ratio (x)	0.6	0.5	0.4	0.4	-12.1%	-8.0%
Current ratio (x)	1.4	1.6	1.7	2.1	15.4%	20.3%
Total debt (Rs.)	70.5	87.3	106.0	108.9	15.6%	2.8%
Net debt (Rs.)	67.9	85.4	101.6	100.6	14.0%	-1.0%
Debt to equity (x)	0.6	0.6	0.6	0.5	-2.6%	-14.2%
Net debt to EBITDA (x)	1.6	2.0	2.6	2.3	12.0%	-10.4%
RoE (%)	20.3%	12.5%	11.4%	7.6%	(1,264) bps	(378) bps
RoA (%)	9.8%	5.8%	5.7%	4.3%	(543) bps	(141) bps
RoCE (%)	17.5%	14.6%	12.3%	12.7%	(485) bps	37 bps

Source: Choice Equity Broking



### Competitive strengths:

- Offer a wide range of products & solutions for both defence and space applications
- One of the few players in high precision optics manufacturing for space and defence application in India
- Strong R&D capabilities with a focus on innovation
- Well positioned to benefit from the Government's "Atmanirbhar Bharat" and "Make in India" initiatives
- Strong relationships with a diverse customer base
- An experienced management team

### Business strategy:

- Expansion of production capacity
- Strengthen foothold in India's expanding market
- Continued focus on R&D
- Diversify products & solutions range, with focus on growth by expansion into opportunistic areas
- Increasing reach in the international market



### Risk and concerns:

- Unexpected change in government policies and regulations
- Revenue concentration risk
- Lumpy business
- Working capital intensive business
- Competition

## Financial statements:

### Consolidated profit and loss statement (Rs. cr)

	FY18	FY19	FY20	FY21	CAGR over FY18 - 21 (%)	Annual growth over FY20 (%)
<b>Revenue from operations</b>	<b>149.3</b>	<b>154.4</b>	<b>147.0</b>	<b>143.3</b>	<b>-1.3%</b>	<b>-2.5%</b>
Cost of materials consumed	(94.8)	(95.5)	(74.0)	(59.9)	-14.2%	-19.1%
Purchases of stock in trade			(0.4)	(13.5)		3029.2%
Changes in inventories of finished goods, work in progress and stock in trade	16.5	11.6	1.6	8.0	-21.3%	408.8%
Excise duty and service tax	(6.2)					
<b>Gross profit</b>	<b>64.8</b>	<b>70.5</b>	<b>74.2</b>	<b>78.0</b>	<b>6.4%</b>	<b>5.1%</b>
Employee benefits expense	(6.9)	(9.0)	(11.0)	(11.7)	19.6%	7.1%
Other expenses	(16.7)	(18.7)	(24.0)	(22.9)	11.0%	-4.6%
<b>EBITDA</b>	<b>41.2</b>	<b>42.8</b>	<b>39.3</b>	<b>43.4</b>	<b>1.8%</b>	<b>10.5%</b>
Depreciation and amortization expense	(6.7)	(9.4)	(9.7)	(9.7)	13.1%	-0.6%
<b>EBIT</b>	<b>34.5</b>	<b>33.4</b>	<b>29.6</b>	<b>33.7</b>	<b>-0.7%</b>	<b>14.2%</b>
Finance costs	(7.4)	(9.4)	(9.8)	(12.4)	19.0%	27.0%
Other income	3.3	2.8	2.0	1.3	-27.0%	-36.4%
<b>PBT</b>	<b>30.4</b>	<b>26.8</b>	<b>21.8</b>	<b>22.6</b>	<b>-9.4%</b>	<b>3.8%</b>
Tax expenses	(5.3)	(7.8)	(2.1)	(6.8)	8.6%	219.7%
<b>PAT before minority interest</b>	<b>25.1</b>	<b>19.0</b>	<b>19.7</b>	<b>15.8</b>	<b>-14.3%</b>	<b>-19.7%</b>
Minority interest				(0.1)		
<b>Reported PAT</b>	<b>25.1</b>	<b>19.0</b>	<b>19.7</b>	<b>15.7</b>	<b>-14.4%</b>	<b>-20.0%</b>

### Consolidated balance sheet statement (Rs. cr)

	FY18	FY19	FY20	FY21	CAGR over FY18 - 21 (%)	Annual growth over FY20 (%)
Equity share capital	5.6	5.7	28.4	29.9	74.9%	5.1%
Other equity	118.3	146.7	144.2	176.8	14.3%	22.6%
Non current borrowings	45.3	47.0	43.1	35.6	-7.8%	-17.5%
Non current lease liabilities			0.1	0.1		-41.6%
Non current provisions	0.9	1.7	1.3	1.2	10.9%	-7.9%
Non current net deferred tax liabilities	27.0	27.8	23.5	23.1	-5.0%	-1.5%
Current borrowings	21.1	37.9	60.2	68.0	47.8%	13.0%
Current lease liabilities			0.1	0.1		1.6%
Other current financial liabilities	4.2	2.4	2.5	5.2	7.5%	108.4%
Trade payables	22.9	53.3	27.0	15.3	-12.5%	-43.3%
Current provisions	0.5	0.2	0.2	0.1	-31.6%	-3.3%
Current net tax liabilities	5.1	5.6	5.8	6.8	9.6%	17.2%
Other current liabilities	6.1	1.6	6.0	0.6	-53.6%	-89.9%
<b>Total liabilities</b>	<b>256.8</b>	<b>329.7</b>	<b>342.4</b>	<b>362.7</b>	<b>12.2%</b>	<b>5.9%</b>
Property, plant and equipment	169.7	165.9	155.8	155.1	-3.0%	-0.4%
Capital work-in-progress	1.2	2.6	4.9	0.5	-24.9%	-89.6%
Intangible assets	1.6	2.4	2.0	1.5	-2.6%	-26.7%
Non current investments	0.1	0.1	0.1	1.1	182.4%	2152.0%
Other non current financial assets	0.8	0.4	0.3	1.2	14.6%	323.5%
Non current tax assets				0.0		
Other non current assets	1.6	0.9	1.4	1.2	-7.7%	-12.7%
Inventories	43.8	64.5	60.4	74.7	19.5%	23.6%
Trade receivables	25.3	83.2	97.6	94.9	55.4%	-2.8%
Cash and cash equivalents	2.7	1.9	4.4	8.3	46.1%	89.9%
Current financial assets	0.6	0.5	0.6	0.5	-6.1%	-24.1%
Current loans	0.1	0.2	0.0	0.0	-15.1%	48.5%
Other current assets	9.4	7.2	12.3	19.5	27.6%	58.5%
Assets held for sale			2.5	4.1		64.3%
<b>Total assets</b>	<b>256.8</b>	<b>329.7</b>	<b>342.4</b>	<b>362.8</b>	<b>12.2%</b>	<b>6.0%</b>

Source: Choice Equity Broking

## Financial statements:

### Consolidated cash flow statement (Rs. cr)

Particulars (Rs. mn)	FY18	FY19	FY20	FY21	CAGR over FY18 - 21 (%)	Annual growth over FY20 (%)
Cash flow before working capital changes	44.9	46.3	42.9	45.2	0.2%	5.4%
Working capital changes	0.3	(51.4)	(38.4)	(34.0)		-11.6%
<b>Cash flow from operating activities</b>	<b>40.8</b>	<b>(12.1)</b>	<b>(2.6)</b>	<b>4.3</b>	<b>-52.8%</b>	
Purchase and construction of property, plant and equipment	(49.7)	(9.7)	(4.1)	(5.3)	-52.5%	31.4%
<b>Cash flow from investing activities</b>	<b>(49.1)</b>	<b>(9.6)</b>	<b>(4.9)</b>	<b>(6.3)</b>	<b>-49.7%</b>	<b>28.5%</b>
<b>Cash flow from financing activities</b>	<b>7.8</b>	<b>21.4</b>	<b>8.6</b>	<b>5.4</b>	<b>-11.7%</b>	<b>-37.1%</b>
<b>Net cash flow</b>	<b>(0.5)</b>	<b>(0.2)</b>	<b>1.1</b>	<b>3.4</b>		<b>216.0%</b>
Opening balance of cash	0.9	0.4	0.2	1.3	12.3%	601.1%
<b>Closing balance of cash</b>	<b>0.4</b>	<b>0.2</b>	<b>1.3</b>	<b>4.7</b>	<b>132.0%</b>	<b>270.9%</b>

### Consolidated financial ratios

Particulars (Rs. mn)	FY18	FY19	FY20	FY21
Revenue growth rate (%)		3.4%	-4.8%	-2.5%
Gross profit growth rate (%)		8.9%	5.3%	5.1%
Gross profit margin (%)	43.4%	45.7%	50.5%	54.4%
EBITDA growth rate (%)		4.0%	-8.3%	10.5%
EBITDA margin (%)	27.6%	27.7%	26.7%	30.3%
EBIT growth rate (%)		-3.1%	-11.6%	14.2%
EBIT margin (%)	23.1%	21.6%	20.1%	23.5%
Restated reported PAT growth rate (%)		-24.4%	3.6%	-20.0%
Restated reported PAT margin (%)	16.8%	12.3%	13.4%	11.0%
<b>Turnover ratios</b>				
Inventories turnover ratio (x)	3.4	2.9	2.4	2.1
Trade receivable turnover ratio (x)	5.9	2.8	1.6	1.5
Accounts payable turnover ratio (x)	6.5	4.1	3.7	6.8
Fixed asset turnover ratio (x)	0.9	0.9	0.9	0.9
Total asset turnover ratio (x)	0.6	0.5	0.4	0.4
<b>Return ratios</b>				
RoE (%)	20.3%	12.5%	11.4%	7.6%
RoA (%)	9.8%	5.8%	5.7%	4.3%
RoCE (%)	17.5%	14.6%	12.3%	12.7%
<b>Per share data</b>				
Restated adjusted EPS (Rs.)	6.4	4.9	5.0	4.0
DPS (Rs.)	0.0	0.0	0.0	0.0
BVPS (Rs.)	31.8	39.1	44.3	53.0
Operating cash flow per share (Rs.)	10.5	(3.1)	(0.7)	1.1
Free cash flow per share (Rs.)		(2.5)	1.7	(0.7)
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%

Note: Ratios calculated on pre-issue data; Source: Choice Equity Broking



## Disclaimer

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