

Paras Defence and Space Technologies

Defence | India

IPO | 20 September 2021

Healthy Outlook; Weak Financials

About the Company

Paras Defence and Space Technologies Ltd (PDST), incorporated in June'2009, is one of the leading 'Indigenously Designed Developed and Manufactured' (IDDM) category Indian private sector company engaged in designing, developing, manufacturing and testing of a wide range of defence and space engineering products and solutions. It caters to 5 major segments of Indian defence sector: 1) defence and space optics, 2) defence electronics, 3) electro-magnetic pulse (EMP) protection solution, 4) heavy engineering, and 5) niche technologies. PDST is in the process of developing several new products and solutions, such as hyper spectral space camera, ARINC-818 based avionic display and naval periscopes, and multi and hyper spectral cameras for drones and space, UAVs, cube sats and anti-drone systems. Notably, the flagship product of its subsidiary - Paras Aerospace Pvt Ltd - will be a Cloud based NPNT Solution (offered as software-as-a-service) and Indigenous Multispectral Camera for various applications including agriculture; and Paras Anti-drone Technologies aims to be one of the first indigenous anti-drone technology development companies in India. The company has two manufacturing facilities in Maharashtra, located in Navi Mumbai and Thane. As of June 30, 2021, it employed 341 employees. The company derives most of their revenues under the contracts from the Government arms and associated entities such as defence public sector undertakings and government organizations involved in space research.

Financials in Brief

PDST's financial performance has not been impressive over last two years. While revenue recorded negative 4% CAGR over FY19-FY21, net profit recorded negative 9% CAGR during the same period. Asset turnover ratio has been less than 1x throughout the years. Notably, cash flow generation has also not been impressive for the company with cumulative OCF and FCF generation standing merely at negative Rs0.1bn and negative Rs0.3bn, respectively over FY19-FY21. Elevated working capital cycle (325 and 393 days in FY20 and FY21, respectively) was the prime reason for muted cash flows. Notably, order book as on 30th June'21 stood at Rs3.05bn, which is 2.13x FY21 revenue and offers decent revenue visibility.

Our View

The IPO is valued at 43x FY21 earnings, which does not look to be appealing.

While company states there is no comparable peers for it, other defence companies like Hindustan Aeronautics and Bharat Dynamics are trading at discounts despite generation healthy cash flows and enjoying healthy FCF yield. Notably, India is witnessing path breaking reforms in defence space and is expected to see huge traction under "Atmanirbhar Bharat" and "Make in India" initiatives. Further, a few PDST's products come under the list of 101 items for which there would be an embargo on the import as per recent proposal by Department of Military Affairs, MoD. This should essentially aid company to see sizeable order book in ensuing period.

IPO Details

Pice Band	Rs165-175
Face Value (Rs)	10
Issue Open/Closing Date	21st / 23rd Sept'21
Fresh Issues (mn)	8.0
OFS (mn)	1.7
Total Issue (mn)	9.8
Minimum Bid Qty. (Nos)	85
Issue Size (Rs bn)	1.7
QIB / HNI / Retail	50% / 15% / 35%
Implied Market Cap (Rs bn)	6.8

Object of the Issue

- ▶ To fund capex and working capital needs
- ▶ To pare down debt levels
- ▶ General corporate purposes

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	79.4	59.7
Public	20.6	40.3

Key Financials

(Rs bn)	FY19	FY20	FY21
Revenue	1.5	1.5	1.4
EBITDA	0.4	0.4	0.4
EBITDA Margin (%)	27.8	26.7	30.3
Adj. PAT	0.19	0.20	0.16
PAT Margin (%)	12.3	13.4	11.0
EPS (Rs)	6.7	6.9	5.6
P/E (x)	36.0	34.7	43.3
EV/EBITDA (x)	17.8	19.9	18.0
EV/Sales (x)	5.0	5.3	5.4
Net Worth	1.5	1.7	2.1
RoE (%)	12.5	11.4	7.6
OCF	(0.1)	0.0	0.0
OCF Yield (%)	(1.8)	(0.4)	0.6
FCF	(0.2)	(0.1)	0.0
Gross Debt	0.8	1.0	1.1
Net Debt/Equity (x)	0.55	0.57	0.47
Gross Block	1.9	1.9	1.9
Asset Turnover (x)	0.83	0.79	0.74
WCC (Days)	224	325	393

Source: RHP

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