

Paras Defence & Space Technologies Ltd

'Make in India' and niche product offerings to drive top-line



Kyon ki bhaiya, sabse bada rupaiya.

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'Make in India' and niche product offerings to drive top-line

Paras Defence & Space Technologies Ltd (PARAS), incorporated in 2009, is engaged in the designing, developing, manufacturing, and testing of a variety of defence and space engineering products and solutions. The company has three major product categories –

- Defence & Space Optics (FY21 revenue contribution 26.4%),
- Defence Electronics and (FY21 revenue contribution 45.3%)
- Heavy Engineering (FY21 revenue contribution 28.3%).

With a range of 34 different categories of products and solutions in defence and space segments, PARAS is a leading IDDM (Indigenously Designed Developed Manufacturer) category company in India. It has established strategic tie-ups with global defence electronics and optics companies to enhance its product qualities to global standards, which could help the company to expand its presence in the export market. Currently, the domestic business contributes 80-85% of the revenue, while the remaining 15-20% comes from exports. The company has an order book of INR 305 cr, executable in 2 years.

PARAS has 2 manufacturing plants at Nerul (Navi Mumbai) and Ambernath (Thane) in Maharashtra. The company is in the process of expanding both facilities in FY22 at an estimated capex of INR 48 cr. To fund part of this expansion, to repay INR 12 cr of long-term debt and to finance incremental working capital requirements (up to INR 60 cr), the management is looking to raise INR 171 cr through a maiden public offering (INR 141 cr through a fresh issue and INR 30 cr through OFS).

In our opinion, the IPO pricing of INR 175 per share (10.9X FY24 P/E) is not expensive and the upcoming expansion plan is expected to accelerate top-line performance in the coming years. However, the revenue estimates (based on the working capital guidance provided by the company on page 82 & 83 of RHP) are very aggressive in our opinion. We recommend SUBSCRIBE for listing gains.

Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	Adj EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)	EV/EBITDA (X)
FY20	147.0	39.3	19.7	26.7	13.4	5.0	44.3	11.4	7.6	34.7	4.0	19.9
FY21	143.3	43.4	15.8	30.3	11.0	4.0	53.0	7.6	7.6	43.2	3.3	17.9
FY22E	217.0	59.9	30.8	27.6	14.2	7.9	96.9	8.1	9.2	22.2	1.8	11.4
FY23E	326.5	91.8	56.9	28.1	17.4	14.6	111.5	13.1	12.0	12.0	1.6	7.9
FY24E	359.1	102.0	62.5	28.4	17.4	16.0	127.6	12.6	12.2	10.9	1.4	6.9

Industry	Defence
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Issue Details

Listing	BSE & NSE
Open Date	21 st Sep 2021
Close Date	23 rd Sep 2021
Price Band	INR 165-175
Face Value	INR 10
Market Lot	85 shares
Minimum Lot	1 Lot

Issue Structure

Offer for Sale	17.5%
Fresh Issue	82.5%
Issue Size (Amount)	INR 171 cr
Issue Size (Shares)	9,758,776
QIB Share (%)	≥ 50%
Non-Inst Share (%)	≤ 15%
Retail Share (%)	≤ 35%
Pre issue share (nos)	30,965,775
Post issue share (nos)	39,000,061
Post issue M Cap	INR 683 cr

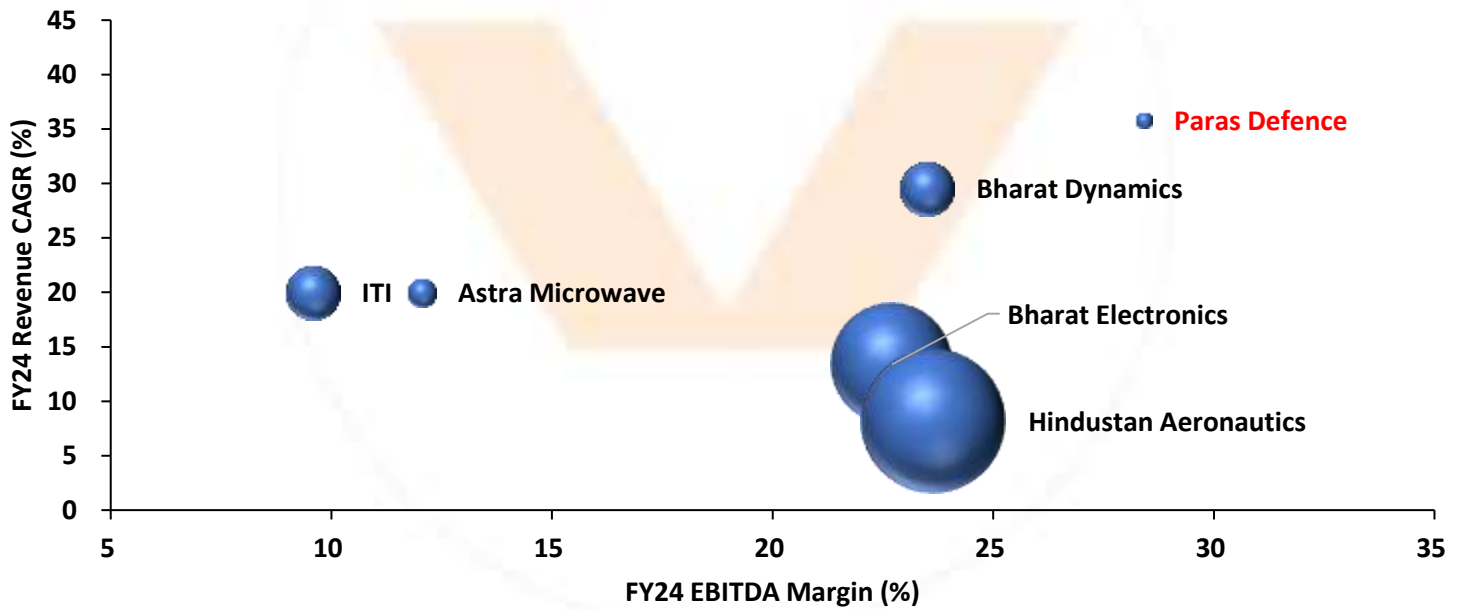
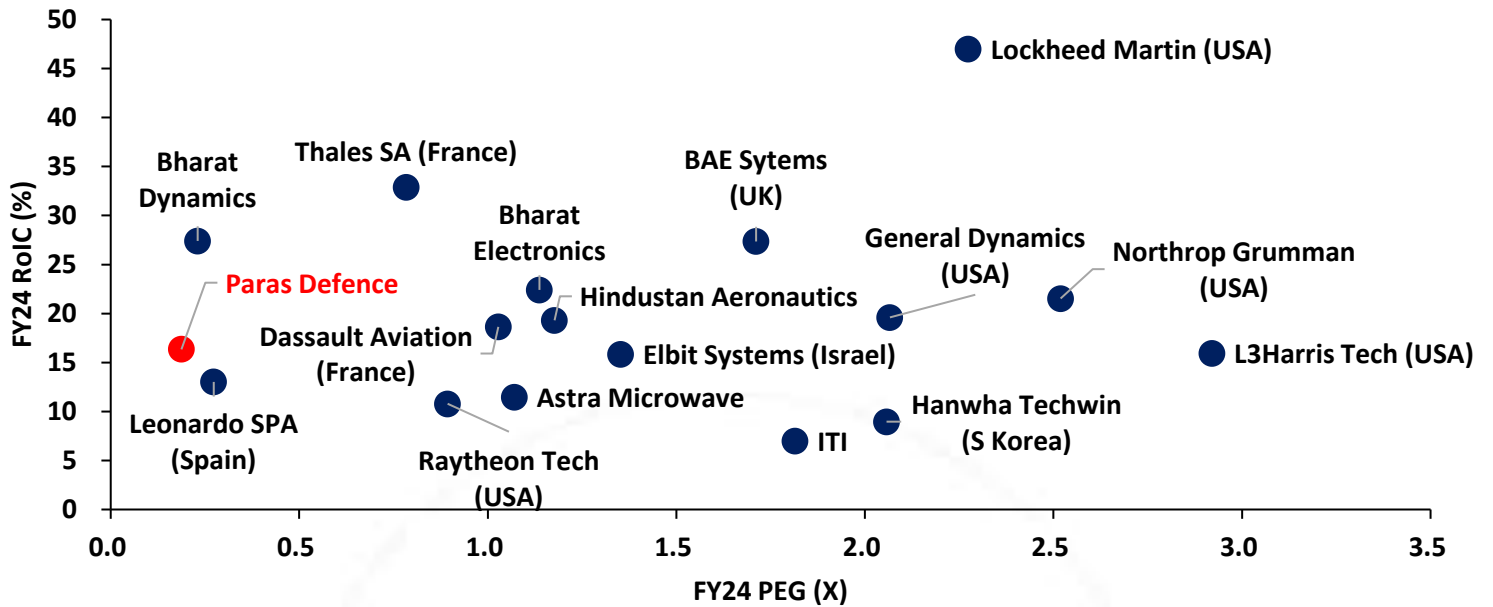
Shareholding (%)	Pre (%)	Post (%)
Promoter	79.4	59.7
Institution	0.0	24.6
Public	20.6	15.7
TOTAL	100	100

Valuation and Comparable Metric of Domestic and Global Defence Equipment Manufacturers

Company Name	Mkt Cap	Price	PEG 2024	P/E (X)			P/BV (X)			EV/EBITDA (X)			RoE (%)			RoIC (%)			Sales			EBITDA Margin (%)			Net Margin (%)		
				2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
Domestic Peers (Fig in INR Cr)																											
Paras Defence & Tech Ltd	683	175.0	0.2	22.2	12.0	10.9	1.8	1.6	1.4	11.4	7.9	6.9	8.1	13.1	12.6	12.4	16.1	16.3	217	326	359	27.6	28.1	28.4	14.2	17.4	17.4
Bharat Electronics Ltd	49,938	205.0	1.1	20.7	18.4	16.0	4.0	3.6	3.1	13.5	11.8	9.7	19.4	19.4	19.3	22.5	22.5	22.4	16,078	18,086	20,568	21.8	21.9	22.7	15.0	15.0	15.2
Bharat Dynamics Ltd	7,349	401.0	0.2	15.3	11.3	9.8	2.4	2.0	1.6	9.3	6.8	5.9	15.5	17.7	16.6	29.8	32.6	27.4	2,984	3,772	4,153	20.9	22.7	23.5	16.1	17.2	18.0
Hindustan Aeronautics Ltd	47,841	1,430.7	1.2	13.6	12.1	11.2	2.7	2.4	2.0	6.7	5.8	4.9	19.9	19.4	18.2	21.0	20.5	19.3	24,294	25,935	28,792	23.2	23.8	23.6	14.5	15.2	14.8
Astra Microwave Products Ltd	1,508	174.1	1.1	41.8	33.4	26.8	2.5	2.2	2.0	17.0	14.2	11.8	5.9	6.7	7.6	9.5	10.4	11.5	769	923	1,107	12.0	12.0	12.0	4.7	4.9	5.1
ITI Ltd	11,076	118.7	1.8	70.9	56.7	45.4	4.1	3.7	3.4	48.0	38.4	30.7	5.8	6.6	7.5	5.2	6.0	7.0	2,835	3,402	4,082	8.8	9.2	9.6	5.5	5.7	6.0
Global Peers (Fig in USD Mn)																											
Lockheed Martin Corp (USA)	94,423	341.0	2.3	12.5	11.9	11.4	8.7	7.0	4.9	9.0	8.6	8.4	69.2	58.7	43.3	58.1	57.8	47.0	70,903	73,136	76,155	15.5	15.5	15.1	10.6	10.8	10.9
Raytheon Technologies (USA)	125,742	83.4	0.9	17.5	14.8	13.5	1.7	1.6	1.5	11.7	10.1	9.0	9.7	10.9	10.8	8.7	10.6	10.8	71,219	76,717	81,089	17.7	18.9	19.7	10.1	11.1	11.5
BAE Systems PLC (UK)	24,671	7.7	1.7	11.2	10.6	10.2	2.8	2.5	2.1	6.8	6.3	5.8	25.1	23.3	20.2	27.6	28.6	27.4	30,622	31,812	32,843	13.1	13.2	13.6	7.2	7.3	7.4
Northrop Grumman Corp (USA)	56,077	350.2	2.5	13.2	12.0	10.9	4.2	3.6	3.3	11.6	10.8	10.4	32.0	30.4	30.4	18.2	18.5	21.5	38,056	39,788	41,519	14.4	14.8	14.7	11.2	11.8	12.4
General Dynamics Corp (USA)	54,544	195.1	2.1	15.8	14.6	13.8	3.1	2.9	2.9	11.8	11.0	10.4	19.8	19.8	20.8	17.0	17.6	19.6	40,869	42,717	44,481	13.1	13.4	13.4	8.5	8.8	8.9
Thales SA (France)	20,202	94.7	0.8	11.8	10.7	9.7	2.7	2.4	2.4	6.5	5.7	5.1	22.8	22.6	24.4	25.6	28.9	32.9	21,882	22,752	23,739	15.2	15.9	16.3	7.8	8.3	8.8
Leonardo SPA (Spain)	4,542	7.9	0.3	5.3	4.7	4.3	0.6	0.6	0.5	3.9	3.3	2.8	11.5	11.8	11.3	12.7	13.9	13.0	17,385	18,073	18,197	11.9	12.4	13.3	4.9	5.4	5.8
L3Harris Technologies Inc (USA)	44,702	222.5	2.9	16.1	15.3	14.6	2.2	2.2	2.4	11.8	11.7	11.6	13.9	14.4	16.4	14.3	14.4	16.0	19,093	19,868	20,606	22.1	21.7	21.1	14.5	14.7	14.9
Elbit Systems Ltd (Israel)	6,542	148.0	1.4	17.4	15.7	14.3	2.6	2.5	2.4	12.2	11.3	10.2	15.0	15.8	16.5	14.3	14.9	15.8	5,349	5,572	6,129	11.5	11.9	11.9	7.0	7.5	7.5
Dassault Aviation SA (France)	8,972	1,074.7	1.0	13.0	11.2	10.1	1.4	1.3	1.2	6.7	6.4	6.2	10.8	11.5	11.7	23.7	20.5	18.6	6,537	6,137	6,545	11.1	11.5	11.4	10.6	13.1	13.5
Hanwha Techwin (S Korea)	2,194	43.3	2.1	11.9	10.8	9.8	0.8	0.8	0.7	6.0	4.9	4.5	6.8	7.0	7.0	7.6	8.8	9.0	5,704	6,056	6,662	8.9	9.2	9.2	3.2	3.4	3.4

Source: Ventura Research & Bloomberg

Ambitious plan to ramp up product portfolio and Make-in-India initiative to accelerate PARAS' earnings



Source: Ventura Research, ACE Equity & Bloomberg

Financial Analysis and Projections

During FY19-21, PARAS' revenue declined at a CAGR of 3.7% to INR 143 cr, while EBITDA grew at a CAGR of 0.7% to INR 43 cr. EBITDA margins improved by 254bps to 30.3% due to a better product mix. However, PAT witnessed a CAGR decline of 8.7% to INR 16 cr, while PAT margins slipped by 126bps to 11.0%. Net Debt to EBITDA in FY21 stood at 2.2X (1.9X in FY19). The company's total debt rose to INR 104 cr in FY21 (from INR 85 cr in FY19), which increased the finance cost by 14.9% to INR 12 cr and impacted PAT. Subsequently, return ratios RoE and RoIC contracted to 7.6% (-480bps) and 7.5% (-298bps), respectively, in FY21.

Financial Summary

Figures in INR Crores	FY19	FY20	FY21	FY22E	FY23E	FY24E
Revenue by Geography						
Domestic Revenue	139.1	128.7	119.2	180.1	271.0	298.1
<i>Share of Domestic Revenue (%)</i>	<i>90.1</i>	<i>87.5</i>	<i>83.1</i>	<i>83.0</i>	<i>83.0</i>	<i>83.0</i>
Export Revenue	15.3	18.4	24.2	36.9	55.5	61.1
<i>Share of Export Revenue (%)</i>	<i>9.9</i>	<i>12.5</i>	<i>16.9</i>	<i>17.0</i>	<i>17.0</i>	<i>17.0</i>
Revenue by Business Segment						
Heavy Engineering	60.1	64.1	37.8	65.1	114.3	143.6
<i>Share of Heavy Engineering (%)</i>	<i>38.9</i>	<i>43.6</i>	<i>26.4</i>	<i>30.0</i>	<i>35.0</i>	<i>40.0</i>
Defence & Space Optics	47.4	51.1	64.9	86.8	114.3	107.7
<i>Share of Defence & Space Optics (%)</i>	<i>30.7</i>	<i>34.8</i>	<i>45.3</i>	<i>40.0</i>	<i>35.0</i>	<i>30.0</i>
Defence Electronics	46.9	31.8	40.6	65.1	97.9	107.7
<i>Share of Defence Electronics (%)</i>	<i>30.4</i>	<i>21.6</i>	<i>28.3</i>	<i>30.0</i>	<i>30.0</i>	<i>30.0</i>
Revenue from Operations	154.4	147.0	143.3	217.0	326.5	359.1
<i>YoY Growth (%)</i>		<i>(4.8)</i>	<i>(2.5)</i>	<i>51.4</i>	<i>50.5</i>	<i>10.0</i>
Raw Material Cost	83.9	72.8	65.3	110.2	165.0	181.4
Employee Benefits Expense	9.0	11.0	11.7	15.8	23.0	24.5
Manufacturing Expenses	7.5	9.7	12.7	19.2	28.9	31.8
Selling & Distribution Expenses	2.4	2.0	0.7	1.1	1.7	1.8
Administration Expenses	6.5	7.6	5.9	8.9	13.2	14.4
Other Expenses	2.4	4.8	3.5	2.0	2.9	3.2
EBITDA	42.8	39.3	43.4	59.9	91.8	102.0
<i>EBITDA Margin (%)</i>	<i>21.6</i>	<i>20.1</i>	<i>23.5</i>	<i>21.4</i>	<i>23.6</i>	<i>23.8</i>
PAT	18.9	19.7	15.8	30.8	56.9	62.5
<i>PAT Margin (%)</i>	<i>12.3</i>	<i>13.4</i>	<i>11.0</i>	<i>14.2</i>	<i>17.4</i>	<i>17.4</i>
Net Worth						
Net Worth	152.4	172.6	206.6	378.0	435.0	497.5
<i>Return on Equity (%)</i>	<i>12.4</i>	<i>11.4</i>	<i>7.6</i>	<i>8.1</i>	<i>13.1</i>	<i>12.6</i>
Invested Capital						
Invested Capital	235.4	271.7	302.0	376.3	479.1	523.2
<i>Return on Invested Capital (%)</i>	<i>10.6</i>	<i>7.6</i>	<i>7.6</i>	<i>9.2</i>	<i>12.0</i>	<i>12.2</i>
Cash Flow						
Cash Flow from Operations	(12.1)	(2.6)	4.3	34.2	(9.7)	57.1
Cash Flow from Investing	(9.6)	(4.9)	(6.3)	(71.2)	(32.8)	(33.8)
Cash Flow from Financing	21.4	8.6	5.4	92.0	(9.7)	(12.8)
Net Cash Flow	(0.2)	1.1	3.4	55.1	(52.2)	10.4
Free Cash Flow	(18.5)	(2.6)	15.1	131.2	19.4	89.0
Debt						
Total Debt	84.9	103.5	103.7	63.5	60.0	52.8
Net Debt	83.0	99.1	95.4	(1.7)	44.2	25.7
<i>Net Debt to Equity (X)</i>	<i>0.5</i>	<i>0.6</i>	<i>0.5</i>	<i>(0.0)</i>	<i>0.1</i>	<i>0.1</i>
<i>Net Debt to EBITDA (X)</i>	<i>1.9</i>	<i>2.5</i>	<i>2.2</i>	<i>(0.0)</i>	<i>0.5</i>	<i>0.3</i>

Source: Company Reports

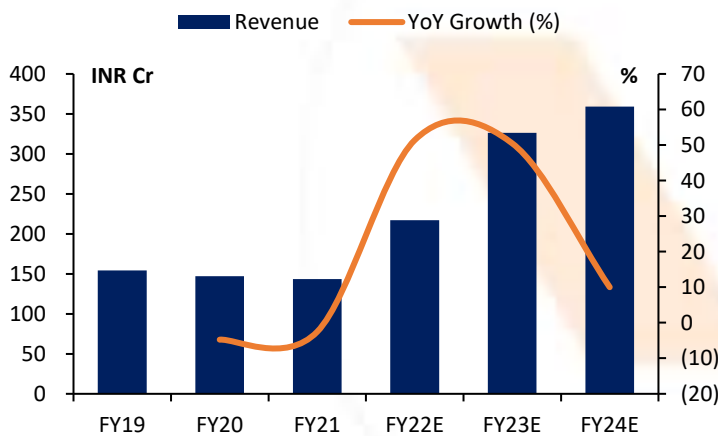
PARAS is expecting trade receivables to grow from INR 95 cr in FY21 (DSO of 242 days) to INR 107 cr (DSO of 180 days) in FY22 and INR 161 cr (DSO of 180 days) in FY23 (please refer to page no 82 & 83 of RHP). With these trade receivable figures, our back of the envelope calculations indicates that the company is expecting revenues of INR 217 cr in FY22 (YoY growth of 51.4%) and INR 326 cr in FY23 (YoY growth of 50.5%). Defence Acquisition Procedure (DAP, started in Oct 2020) by government could be the trigger for aggressive expectations.

Similarly, the company has given inventory guidance of INR 80 cr (DSI of 265 days) in FY22 and INR 113 cr (DSI of 250 days) in FY23, which indicates COGS of INR 110 cr in FY22 (gross margin of 49.2%) and INR 165 cr in FY23 (gross margin of 49.5%).

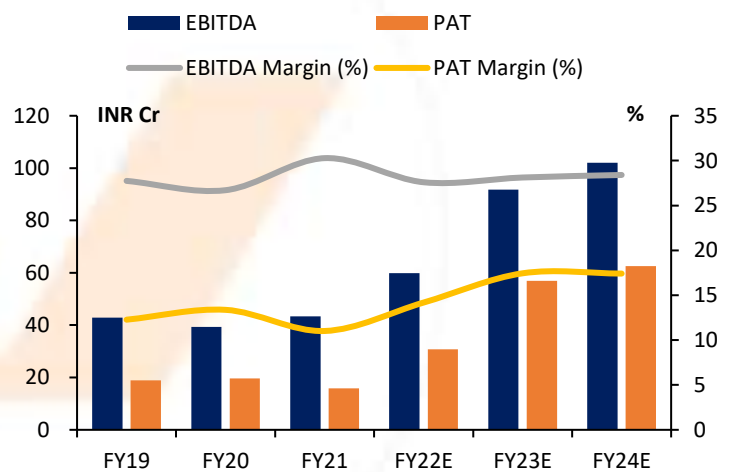
With these estimates, we expect PARAS' revenue to grow at a CAGR of 35.8% to INR 359 cr during FY21-24E, while EBITDA and PAT are estimated to deliver a CAGR of 32.2% (to INR 100 cr) and 57.1% (to INR 61 cr), respectively, over the same period. To accelerate revenue performance, the company is focusing on customized turnkey projects in the defence segment, which is a low margin segment. As a result, EBITDA margins are expected to contract by 188bps to 28.4% by FY24. However, debt repayment and working capital funding through IPO proceeds are expected to expand PAT margins, to 17.4% (+640bps) by FY24. This will lead to an improvement in RoE and RoIC to 12.6% (+493bps) and 12.2% (+466bps), respectively, by FY24. Net Debt to EBITDA is further expected to moderate to 0.3X from the current levels.

PARAS' Financial Performance

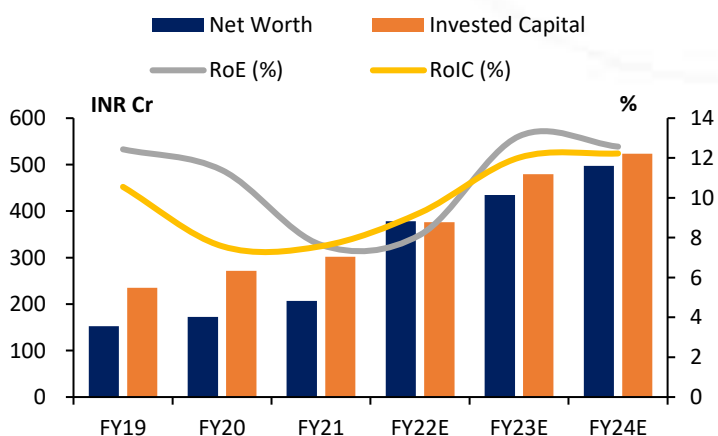
Ambitious plan to ramp up product portfolio to drive revenue performance



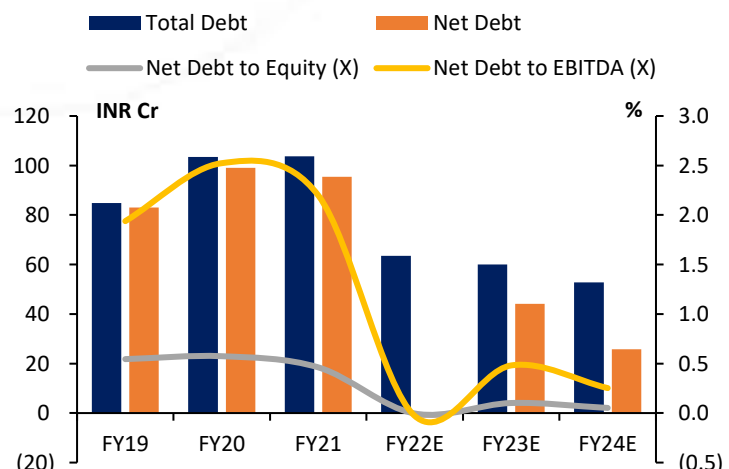
Margins to remain stable



Return ratios to improve on revenue performance



IPO proceeds to reduce debt burden



Source: Company Reports

Key Growth Drivers

Offers a wide range of products and solutions for both defence and space applications

With a wide range of 34 different categories of products and solutions in defence and space segments, PARAS is a leading IDDM category company in India which caters to four major segments of the Indian defence and space sector, i.e., defence optics, defence electronics, EMP protection solution and heavy engineering offering.

Leading supplier of complex & high-quality defence & space engineering product categories

Segments	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.
Defence 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: Company Reports

Revenue Share (%) from Key Private Clients

Customer Name	Country	FY19	FY20	FY21
Bharat Electronics Limited (BEL)	India	18.18	15.48	16.09
Green Optics Co. Ltd.	South Korea	0.00	10.48	1.45
Economic Explosives Ltd.	India	1.18	1.05	1.02
Bharat Dynamics Limited (BDL)	India	0.14	0.00	0.34
Astra-Rafael Comsys Pvt. Ltd.	India/France	0.00	0.24	0.19
Hindustan Aeronautics Ltd (HAL)	India	0.13	0.04	0.15
Tata Consultancy Services Ltd. (TCS)	India	0.02	1.97	0.05
Electronic Corporation of India Ltd. (ECIL)	India	4.15	1.79	0.01
Hindustan Shipyard Ltd. (HSL)	India	0.31	0.06	0.00
Alpha Design Technologies Pvt. Ltd.	India	0.31	0.30	0.00
Advanced Mechanical & Optical Systems S.A.(AMOS)	Belgium	0.78	0.28	0.00
Tae Young Optics Co. Ltd.	South Korea	0.35	0.00	0.00

Source: Company Reports

Well diversified product portfolio with specialized technology competencies

Defence Electronics Capabilities

	Control Systems	Specialized Computers	Displays	MIL Spec Racks	Software	Integration	Sensors
Paras Defence	High Level Capability	High Level Capability	High Level Capability	High Level Capability	High Level Capability	High Level Capability	High Level Capability
Data Patterns	No Capability	No Capability	High Level Capability	No Capability	Mid Level Capability	High Level Capability	Mid Level Capability
Mistral Solutions	High Level Capability	High Level Capability	High Level Capability	High Level Capability	High Level Capability	High Level Capability	High Level Capability
CoreEL Technologies	High Level Capability	High Level Capability	No Capability	No Capability	High Level Capability	High Level Capability	High Level Capability
Ophir Optronics (Israel)	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability
QiOptiq	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability
ISP Optics (USA)	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability
Veero Metals	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability
HYT Engineering	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability
ETS Lindgreen (USA)	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability	No Capability

Defence Optics and EMP

	Lenses	Specialized Lenses	Optical Elements	Precision Engineering	EMP Equip & Projects
Paras Defence	High Level Capability	High Level Capability	High Level Capability	High Level Capability	High Level Capability
Data Patterns	No Capability	No Capability	Mid Level Capability	No Capability	No Capability
Mistral Solutions	No Capability	No Capability	No Capability	No Capability	No Capability
CoreEL Technologies	No Capability	No Capability	No Capability	No Capability	No Capability
Ophir Optronics (Israel)	High Level Capability	High Level Capability	High Level Capability	Mid Level Capability	No Capability
QiOptiq	High Level Capability	High Level Capability	High Level Capability	Mid Level Capability	No Capability
ISP Optics (USA)	High Level Capability	High Level Capability	High Level Capability	Mid Level Capability	No Capability
Veero Metals	High Level Capability	High Level Capability	High Level Capability	Mid Level Capability	No Capability
HYT Engineering	No Capability	No Capability	No Capability	No Capability	No Capability
ETS Lindgreen (USA)	No Capability	No Capability	No Capability	No Capability	High Level Capability

Defence Heavy Engineering Capabilities

	Titanium Manufg & Engg	Flow Formed Tubes	Cooling Assemblies	Heavy Structures	Special Purpose Machines
Paras Defence	High Level Capability	High Level Capability	High Level Capability	High Level Capability	High Level Capability
Data Patterns	No Capability	No Capability	No Capability	No Capability	No Capability
Mistral Solutions	No Capability	No Capability	No Capability	No Capability	No Capability
CoreEL Technologies	No Capability	No Capability	No Capability	No Capability	No Capability
Ophir Optronics (Israel)	No Capability	No Capability	No Capability	No Capability	No Capability
QiOptiq	No Capability	No Capability	No Capability	No Capability	No Capability
ISP Optics (USA)	No Capability	No Capability	No Capability	No Capability	No Capability
Veero Metals	No Capability	Mid Level Capability	No Capability	High Level Capability	Mid Level Capability
HYT Engineering	Mid Level Capability	Mid Level Capability	Mid Level Capability	High Level Capability	High Level Capability
ETS Lindgreen (USA)	No Capability	No Capability	No Capability	No Capability	No Capability

High Level Capability
 Mid Level Capability

No Capability

Strong R&D and technological capabilities is the key differentiating factor

PARAS has diversified its products and solutions mainly due to its R&D and technological capabilities, which includes product design, engineering, simulation, prototyping and testing. These activities are mainly undertaken at their two R&D centers – Nerul and Bengaluru.

PARAS has collaborated with global technology companies to boost indigenous manufacturing, enhance capabilities and enable it to develop a variety of international standard products such as EMP racks, diffractive gratings, IR optics, command and control systems etc.

PARAS technology partners in various countries

Foreign Partner	Collaboration / Partnership	Term
Holland Shielding Systems BV (Netherlands)	Exclusive manufacturing partnership for India for EMP Protection Solutions	5 years from Jan 2017 with auto renewal
HPS GmbH (Germany)	Exclusive partnership for India for large deployable antennas for space applications	2 years from Apr 2021
Invent GmbH (Germany)	Exclusive partnership for India to manufacture CFRP structures and systems for space applications	2 years from Jun 2021
Kley (France)	Exclusive partnership for manufacturing of military winches for Naval, Avionic and Armoured Vehicle Platforms	1st signed in Apr 2019 with annual auto renewal
Spear UAV (Israel)	Non-binding intent to collaborate for requirements of loitering munition drones	
ISISpace (Netherlands)	To enter into partnership to build platforms, sub-systems, mission, etc. for CubeSats (miniaturised satellites) offering various solutions for agriculture, disaster management, earth observation etc.	3 years for Sept 2020

Source: Company Reports

Government thrust for 'Make in India'

The capital outlay by the Indian Government on defence optics, defence electronics, EMP protection solution and heavy engineering is expected to increase from USD 3.2 bn in FY21 to over USD 14.5 bn by FY31 (CAGR of 16.3%) due to extensive fleet recapitalization, C4ISR orientation and greater indigenous supply preferences. The cumulative market in the same time frame for these products is expected to be approximately USD 100 bn.

The defence procurement procedure is governed by the Defence Acquisition Procedure (DAP, started in Oct 2020). The six main defence procurement strategies are differentiated based on whether the equipment is being manufactured by a domestic player or a foreign company.

Key defence procurement categories in Defence Acquisition Procedure

Buy from Indian IDDM	• 1st priority given to Indian vendors with indigenous design
Buy from Indian Company	• 2nd priority given to Indian vendors who are using foreign design
Buy the desing from outside and make in India	• 3rd priority given to Indian vendors who remains in lead and form a JV with foreign partner
Buy from Indian manufacturer of foreign equipments	• Incentive for foreign vendors to tie up with Indian company for domestic manufacturing
Buy from foreign company manufacturing in India	• Incentive for foreign vendors manufacturing in India
Buy from foreign company	• Incentives to Indian vendors contributing at least 30% domestic components

Source: Company Reports

PARAS, with its technological capabilities and foreign partnerships, qualifies for the first three categories of defence procurement, and therefore, is expected to remain a key beneficiary of 'Make in India' in defence segment.

Management Team

Key Person	Designation	Details
Mr Sharad Virji Shah	Chairman and Non-Executive Director	He has been associated with PARAS since its incorporation. He has worked in different areas of engineering and manufacturing and has played a major role in leadership
Mr Munjal Sharad Shah	Managing Director	He has been associated with PARAS since its incorporation. He has experience in the areas of flow forming, special purpose machines and equipment, turnkey mechanical units, titanium structures, among others primarily for defence applications
Mr Shilpa Amit Mahajan	Whole-Time Director	She has been on the Board since June 25, 2018. Prior to joining PARAS, she was associated with Concept Shapers & Electronics Pvt Ltd as director.
Mr Anish Mehta	Director – Business Development	He has over 20 years of work experience in business operations and logistics. He is the chairman of the Defence & Aerospace Committee of Indian Chamber of International Business (ICIB) and is a centenary member of the Maharashtra Chamber of Commerce, Industry and Agriculture.
Mr Amit Navin Mahajan	Director – Technical and R&D	He has over 18 years of work experience in defence electronics and systems. Prior to joining PARAS, he was associated with Concept Shapers & Electronics Pvt Ltd.
Mr Harsh Dharendra Bhansali	Chief Financial Officer	He has over 15 years of work experience in finance and accounts. Prior to joining PARAS, he was associated with our predecessor M/s Paras Engineering Company as the finance manager.

Source: Company Reports

Key Risks & Concerns

- The business of PARAS is largely dependent on contracts from the government, associated entities and PSUs involved in defence and space research. Any decrease or reprioritization of the Indian defence or space budget, reduction in orders, termination of existing contracts, delay of existing or anticipated contracts or programs or any adverse change in the government's defence or space related policies will have a material adverse impact on the company's business.
- PARAS has executed various agreements with third parties, including in relation to securing contracts and manufacturing of products, which may impose certain obligations on it and the termination of which may adversely affect the business.
- The development of technologically advanced products involves a lengthy and expensive process with uncertain timelines and outcomes. Inability or delay in innovating or developing technologically advanced products could adversely affect the business performance.

Issue Structure and Offer Details

The proposed issue size of PARAS is INR 171 cr, comprising INR 141 cr of fresh issue and INR 30 cr of OFS. The price band for the issue is in the range of INR 165-175 and the bid lot is 85 shares and multiples thereof.

Issue Structure		
Category	No of Share Offered	Allocation
QIB	At least 48,79,387	At least 50% of public issue
Non Institutional Bidders	Not more than 14,63,817	Not more than 15% of public issue
Retail	Not more than 34,15,572	Not more than 35% of public issue

Number of shares based on higher price band of INR 175

Source: Company Reports

Shareholding Pattern		
Category	Pre Issue Holding (%)	Post Issue Holding (%)
Promoters & Promoter Group	79.40	59.71
Institution	0.00	24.60
Public	20.60	15.69
Total	100.00	100.00

Source: Company Reports

Financial Analysis & Projections

Figures in INR Crores	FY20	FY21	FY22E	FY23E	FY24E	Figures in INR Crores	FY20	FY21	FY22E	FY23E	FY24E
Income Statement						Per Share Data (Rs) & Yield (%)					
Revenue	147.0	143.3	217.0	326.5	359.1	Adjusted EPS	5.0	4.0	7.9	14.6	16.0
<i>YoY Growth (%)</i>	<i>(4.8)</i>	<i>(2.5)</i>	<i>51.4</i>	<i>50.5</i>	<i>10.0</i>	Adjusted Cash EPS	7.5	6.5	11.3	18.4	20.3
Raw Material Cost	72.8	65.3	110.2	165.0	181.4	Adjusted BVPS	44.3	53.0	96.9	111.5	127.6
<i>YoY Growth (%)</i>	<i>(13.2)</i>	<i>(10.3)</i>	<i>68.7</i>	<i>49.7</i>	<i>9.9</i>	CFO per share	(0.7)	1.1	8.8	(2.5)	14.6
Employee Cost	11.0	11.7	15.8	23.0	24.5	CFO Yield	(0.4)	0.6	5.0	(1.4)	8.4
<i>YoY Growth (%)</i>	<i>22.1</i>	<i>7.1</i>	<i>34.2</i>	<i>45.8</i>	<i>6.9</i>	FCF per share	(0.7)	3.9	33.6	5.0	22.8
Manufacturing Expenses	9.7	12.7	19.2	28.9	31.8	FCF Yield	(0.4)	2.2	19.2	2.8	13.0
<i>YoY Growth (%)</i>	<i>29.5</i>	<i>30.6</i>	<i>51.4</i>	<i>50.5</i>	<i>10.0</i>	Solvency Ratio (X)					
Other Expenses	14.3	10.2	12.0	17.8	19.5	Total Debt to Equity	0.6	0.5	0.2	0.1	0.1
<i>YoY Growth (%)</i>	<i>27.3</i>	<i>(28.5)</i>	<i>17.3</i>	<i>49.1</i>	<i>9.0</i>	Net Debt to Equity	0.6	0.5	(0.0)	0.1	0.1
EBITDA	39.3	43.4	59.9	91.8	102.0	Net Debt to EBITDA	2.5	2.2	(0.0)	0.5	0.3
<i>YoY Growth (%)</i>	<i>(8.3)</i>	<i>10.5</i>	<i>37.9</i>	<i>53.3</i>	<i>11.1</i>	Return Ratios (%)					
<i>Margin (%)</i>	<i>26.7</i>	<i>30.3</i>	<i>27.6</i>	<i>28.1</i>	<i>28.4</i>	Return on Equity	11.4	7.6	8.1	13.1	12.6
Depreciation	9.7	9.7	13.4	14.9	16.5	Return on Capital Employed	7.5	7.4	7.9	11.6	11.6
<i>Dep to Gross Block (%)</i>	<i>5.2</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	<i>5.0</i>	Return on Invested Capital	7.6	7.6	9.2	12.0	12.2
EBIT	29.6	33.7	46.5	76.9	85.5	Working Capital Ratios					
<i>YoY Growth (%)</i>	<i>(11.6)</i>	<i>14.2</i>	<i>37.8</i>	<i>65.4</i>	<i>11.1</i>	Inventory Days	303	418	265	250	250
<i>Margin (%)</i>	<i>20.1</i>	<i>23.5</i>	<i>21.4</i>	<i>23.6</i>	<i>23.8</i>	Receivable Days	242	242	180	180	180
Other Income	2.0	1.3	3.0	5.3	3.7	Payable Days	136	86	75	75	75
Finance Cost	9.8	12.4	8.4	6.2	5.6	Net Working Capital Days	410	573	370	355	355
<i>Interest Coverage (X)</i>	<i>3.0</i>	<i>2.7</i>	<i>5.6</i>	<i>12.5</i>	<i>15.2</i>	Net Working Cap to Sales (%)	89.1	107.6	75.8	73.5	73.5
PBT	21.8	22.6	41.1	76.1	83.6	Valuation (X)					
<i>YoY Growth (%)</i>	<i>(18.7)</i>	<i>3.8</i>	<i>81.9</i>	<i>85.1</i>	<i>9.8</i>	P/E Ratio	34.7	43.2	22.2	12.0	10.9
<i>Margin (%)</i>	<i>14.8</i>	<i>15.8</i>	<i>19.0</i>	<i>23.3</i>	<i>23.3</i>	P/BV Ratio	4.0	3.3	1.8	1.6	1.4
Reported Tax	2.1	6.8	10.4	19.2	21.0	EV/EBITDA	19.9	17.9	11.4	7.9	6.9
<i>Tax Rate</i>	<i>9.8</i>	<i>30.2</i>	<i>25.2</i>	<i>25.2</i>	<i>25.2</i>	EV/Sales	5.3	5.4	3.1	2.2	2.0
PAT	19.7	15.8	30.8	56.9	62.5	Cash Flow Statement					
<i>YoY Growth (%)</i>	<i>3.8</i>	<i>(19.7)</i>	<i>94.9</i>	<i>85.1</i>	<i>9.8</i>	Profit Before Tax	21.8	22.6	41.1	76.1	83.6
<i>Margin (%)</i>	<i>13.4</i>	<i>11.0</i>	<i>14.2</i>	<i>17.4</i>	<i>17.4</i>	Adjustments	14.2	11.8	13.6	9.1	18.5
Balance Sheet						Change in Working Capital	(36.5)	(23.3)	(10.1)	(75.7)	(24.0)
Share Capital	28.4	29.9	39.0	39.0	39.0	Less: Tax Paid	(2.1)	(6.8)	(10.4)	(19.2)	(21.0)
Total Reserves	144.2	176.8	339.0	396.0	458.5	Cash Flow from Operations	(2.6)	4.3	34.2	(9.7)	57.1
Shareholders' Fund	172.6	206.6	378.0	435.0	497.5	Net Capital Expenditure	(4.0)	(5.3)	(74.0)	(30.0)	(33.0)
LT Borrowings	36.8	25.5	13.5	10.0	0.0	Change in Investments	(0.8)	(1.0)	2.8	(2.8)	(0.8)
LT Lease Liabilities	0.1	0.1	0.0	0.0	0.0	Cash Flow from Investing	(4.9)	(6.3)	(71.2)	(32.8)	(33.8)
LT Provisions	1.3	1.2	1.6	2.3	2.5	Change in Borrowings	18.9	(13.0)	(40.2)	(3.5)	(7.2)
Deferred Tax Liabilities	23.5	23.1	23.1	23.1	23.1	Less: Finance Cost	(9.8)	(12.4)	(8.4)	(6.2)	(5.6)
Total Liabilities	234.3	256.6	416.3	470.4	523.1	Proceeds from Eq/OCPS/CCD	0.0	31.9	140.6	0.0	0.0
Gross Block	185.2	193.1	267.1	297.1	330.1	Other Finance Cost	(0.5)	(1.1)	0.0	0.0	0.0
Less: Accumulated Dep	29.4	37.9	51.3	66.1	82.6	Cash Flow from Financing	8.6	5.4	92.0	(9.7)	(12.8)
Net Block	155.8	155.1	215.8	230.9	247.4	Net Cash Flow	1.1	3.4	55.1	(52.2)	10.4
Capital WIP	4.9	0.5	0.0	0.0	0.0	FOREX Effect	(0.0)	0.0	0.0	0.0	0.0
Other Intangible Assets	2.0	1.5	1.5	1.5	1.5	Opening Balance of Cash	0.2	1.3	4.7	59.7	7.5
LT Loans & Advances	0.1	1.1	1.1	1.1	1.1	Closing Balance of Cash	1.3	4.7	59.7	7.5	18.0
Other LT Financial Assets	0.3	1.2	1.8	2.7	3.0						
Income Tax Assets	1.4	1.2	1.9	2.8	3.1						
Net Current Assets	69.8	95.9	194.2	231.4	267.0						
Total Assets	234.3	256.6	416.3	470.4	523.1						

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