

IPO Note: Paras Defence and Space Technologies Ltd.

Industry: Defence

Date: September 21, 2021

Issue Snapshot		Issue Break up		
Company Name	Paras Defence and Space Technologies Ltd.	QIB ex Anchor	20%	1,951,755
Issue Opens	September 21, 2021 to September 23, 2021	Anchor Investor	30%	2,927,633
Price Band	Rs. 165 to Rs. 175	HNI	15%	1,463,816
Bid Lot	85 Equity Shares and in multiples thereof.	RII	35%	3,415,572
The Offer	Public issue of 9,758,776 Equity shares of Face value Rs. 10 each, (Comprising of fresh issue of 8,034,286 Equity Shares* (Rs. 140.6 cr.) and Offer for Sale of 1,724,490 Equity Shares (Rs. 30.2 cr.*) by Selling Shareholder).	Total Public	100%	9,758,776
Issue Size	Rs. 169.05 – 170.78 Crore	Equity Share Pre Issue (Nos. Cr.)		3.1
IPO Process	100% Book Building	Fresh Share (Nos. Cr.)		0.8
Face Value	Rs. 10.00	OFS Share (Nos. Cr.)		0.2
Exchanges	NSE & BSE	Equity Share Post Issue (Nos. Cr.)		3.9
BRLM	Anand Rathi Advisors Limited	Market Cap (Rs. Cr.)		682.5
Registrar	Link Intime India Pvt Ltd.	Equity Dilution		20.6%
		Stake Sale by OFS		4.4%

Objects of the Offer

Offer for Sale

The Company will not receive any proceeds of the Offer for Sale by the Selling Shareholder. (up to 1,250,000 equity shares by Sharad Virji Shah, up to 50,000 equity shares by Munjal Sharad Shah, up to 300,000 equity shares by Ami Munjal Shah, up to 62,245 equity by Shilpa Amit Mahajan and up to 62,245 equity shares by Amit Navin Mahajan)

Fresh Issue

- Purchase of machinery and equipment (Rs. 34.66 cr.);
- Funding incremental working capital requirements of the Company (Rs. 60 cr.);
- Repayment or prepayment of all or a portion of certain borrowings/outstanding loan facilities availed by the Company (Rs. 12 cr.); and
- General corporate purposes.

Company Highlights

- Paras Defence and Space Technologies Ltd. (PDSTL) is an Indian private sector company engaged in designing, developing, manufacturing and testing of a wide range of defence and space engineering products and solutions. The company is one of the leading 'Indigenously Designed Developed and Manufactured' ("IDDM") category private sector company in India who is also the sole Indian supplier of critical imaging components such as large size optics and diffractive gratings for space applications in India. The goal is to become one of the leading global companies for optics for defence and space sector.
- Paras Defence has 5 principal categories of product offerings: Defence and space optics, Defence electronics, EMP protection, Heavy engineering for defence and Niche technologies.
- The defence and space optics operations include manufacturing high precision optics for defence and space applications such as thermal imaging and space imaging systems. The company is one of the leading providers of optics for various Indian defence and space programmes, and the only Indian company with the design capability for space-optics and opto-mechanical assemblies. The defence electronics operations include providing a wide array of high performance computing and electronic systems for defence applications, including sub systems for border defence, missiles, tanks and naval applications. The domain expertise in electronics for defence applications has allowed them to contribute to some of the most prestigious defence programmes of the country. The EMP protection solutions include designing, developing, manufacturing and commissioning various solutions for EMP Protection. Paras Defence has the ability to undertake and deliver customized turnkey projects in the defence segment, especially in the defence electronics and EMP protection segments.
- Paras Defence is one of the few companies with specialized technology capabilities such as manufacturing EMP protection and the company is expected to be an integral stakeholder in a majority of future sourcing of defence and space optics and EMP protection solutions. Further, the heavy engineering for defence operations involves providing heavy engineering products and solutions, such as components for rockets and missiles along with providing mechanical

- manufacturing support to other verticals of the business. The company is specialise in high end manufacturing for defence and space applications and have been providing the customers with customised and exclusive mechanical products since the inception.
- Under the niche technologies division, the company has identified and partnered with some of the leading technology companies around the world in order to indigenise advanced technologies in the defence and space sectors for catering to the Indian market. This also affords them an opportunity to serve as manufacturing partner for global requirements of such overseas technology companies.
- Paras Defence has diversified the products and solutions mainly due to the R&D and technological capabilities. The research activities are focused on creating new products and solutions which are customised to meet customer expectations and end-user preferences and also improving the production processes and improving the quality of the existing products. With the R&D capabilities, the company is currently developing several new products and solutions, such as hyper spectral space camera, ARINC-818 based avionic display and naval periscopes.
- Paras Defence has two manufacturing facilities in Maharashtra, located at Nerul in Navi Mumbai and Ambernath in Thane. The Nerul facility is an advanced nano technology machining centre for producing high quality optics and ultra-precision components. The Ambernath facility is engaged in manufacturing of heavy engineering products and consoles for various defence applications. The company is also in the process of expanding their manufacturing facility located at Nerul in Navi Mumbai, Maharashtra.
- The company derives most of the revenues under the contracts from the Government arms and associated entities such as defence public sector undertakings and government organizations involved in space research. Further, the company partner with international players such as Holland Shielding Systems BV Netherlands, HPS, Gmbh and Invent, Gmbh to provide the customers in India with products and technologies for defence and space applications. The company is currently associated with some of the critical projects in India and abroad.

View

- Paras Defence has offering 34 different categories of products & solutions with multiple variations in each category. The wide range of offerings helps to catering specific customer needs and service core strategic sectors such as defence & space in India. The company has the ability to provide solutions such as designing, developing, manufacturing and testing which increases their capability to meet specific requirements of customers.
- Paras Defence has R&D centre at Nerul recognized by DSIR and falls within category of IDDM, the highest priority of categorization under Defence Acquisition Procedure (DAP), most of the products & components are designed, developed and manufactured by the company in India. DAP focuses on 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 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. The company believed that this policy will provide a significant boost to indigenous manufacturing companies like them and that with domain expertise, R&D and manufacturing capabilities, is poised to take full benefit of the same.
- 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.
- 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.
- In terms of the valuations, on the higher price band, PDSTL demands a P/E multiple of 43.2x based on FY21 post issue fully diluted EPS.

Revenue from Operations

Particulars	FY19	FY20	FY21
Disaggregated Revenue			
Sale of Products	149.87	141.96	141.86
Sale of Services / Job Work Income	4.53	5.09	1.47
Total	154.40	147.04	143.33
Type of Products and Services			
Heavy Engineering	60.11	64.13	37.78
Defence Electronics	46.86	31.81	64.93
Defence & Space Optics	47.42	51.10	40.62
Total	154.40	147.04	143.33
Geographical segment-wise			
India	139.05	128.66	119.16
Outside India	15.35	18.38	24.18
Total	154.40	147.04	143.33

Order Book

Particulars	Number of orders	Value (Rs. Crore)
Defence and Space Optics	37	202.64
Defence Electronics	49	70.56
Heavy Engineering	34	31.79
Total Order Book		304.99

Manufacturing Facilities

Location	Work undertaken	Year of commissioning	Leased/ owned	Land Area (sq. feet)	Constructed Area (sq. feet)
Ambernath (Thane)	All mechanical activities in the Company	2009	Long term lease (95 years from May 1, 2008)	232,167	25,428
Nerul (Navi Mumbai)	All optics activities in the Company and Defence electronics and EMP Solutions activities including all integration activities.	2005	Long term lease (95 years from Sep'1, 1974)	43,593	20,820

Major Clientele

Domestic Customers	Foreign Customers
o Bharat Electronics Ltd (BEL),	o Advanced Mechanical and Optical Systems (AMOS), Belgium,
o Hindustan Aeronautics Ltd (HAL),	o Chaban (Israel),
o Bharat Dynamics Ltd (BDL),	o Tae Young Optics Company Limited (South Korea),
o Hindustan Shipyard Ltd (HSL),	o Green Optics (South Korea) etc.
o Electronic Corporation of India Ltd (ECIL),	
o Tata Consultancy Services Ltd (TCS),	
o Solar Industries India Ltd,	
o Alpha Design Technologies Ltd,	
o Astra- Rafael Comsys Pvt. Ltd.	

Financial Statement

(In Rs. Cr)	FY19	FY20	FY21
Share Capital	5.7	28.4	29.9
Net Worth	152.4	172.6	206.7
Long Term Borrowings	38.2	36.8	25.5
Other Long Term Liabilities	29.5	24.9	24.4
Short-term borrowings	37.9	60.2	68.0
Other Current Liabilities	71.8	47.9	38.1
Fixed Assets	170.9	162.7	157.1
Non Current Assets	1.3	1.7	3.5
Current Assets	157.5	177.9	202.1
Total Assets	329.7	342.4	362.8
Revenue from Operations	154.4	147.0	143.3
Revenue Growth (%)		(4.8)	(2.5)
EBITDA	42.8	39.3	43.4
EBITDA Margin (%)	27.7	26.7	30.3
Net Profit	19.0	19.7	15.8
Net Profit Margin (%)	12.3	13.4	11.0
Earnings Per Share (Rs.)	6.7	6.9	5.6
Return on Networth (%)	15.9	14.2	9.1
Net Asset Value per Share (Rs.)	38.9	46.0	55.2

Source: RHP, Ashika Research

Cash Flow Statement

(In Rs. Cr)	FY19	FY20	FY21
Cash flow from Operations Activities	(12.1)	(2.6)	4.3
Cash flow from Investing Activities	(9.6)	(4.9)	(6.3)
Cash flow from Financing Activities	21.4	8.6	5.4
Net increase/(decrease) in cash and cash equivalents	(0.2)	1.1	3.4
Cash and cash equivalents at the beginning of the year	0.4	0.2	1.3
Cash and cash equivalents at the end of the year	0.2	1.3	4.7

Source: RHP

Comparison with listed industry peers

There are no listed companies in India that engage in a business similar to that of the Company. Accordingly, it is not possible to provide an industry comparison in relation to the Company.

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