

Company Overview

Incorporated on June 16, 2009, Paras Defence 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. Paras Defence caters to 5 major segments of Indian defence sector: Defence and Space Optics, Defence Electronics, Electro-Magnetic pulse ("EMP") protection solution, Heavy Engineering and Niche Technologies. The company is currently 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, cubesats and anti-drone systems. Paras Defence has two manufacturing facilities in Maharashtra, located in Navi Mumbai and Thane. As of June 30, 2021, they employed 341 employees. It is also in the process of expanding its manufacturing facility located at Nerul in Navi Mumbai, Maharashtra. The company's client list includes BEL, HAL, BDL, HSL, ECIL, TCS etc. The company has orders on hand worth Rs. 305 cr. as of June 30, 2021.

Objects of the issue

The IPO proceed will be used towards the following purposes:

- ⇒ Purchase of machinery and equipment
- ⇒ Funding incremental working capital requirements of the company
- ⇒ Repayment or prepayment of all or a portion of certain borrowings/outstanding loan facilities availed by the company
- ⇒ General corporate purposes

Investment Rationale

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

As of June 30, 2021, Paras Defence has a range of 34 different categories of products and solutions, with multiple variations in each category. Offering high-quality products and operational execution focused on continual improvement supports their ability to offer a wide range of products and solutions. In the space sector, they have established heritage in the earth observation domain by supporting government organizations involved in space research across multiple missions. They are also the sole Indian supplier of diffraction gratings used in hyper-spectral imagers, large size optics.

Strong R&D capabilities with a focus on innovation:

The company places 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 had several significant achievements in R&D. For instance, they have successfully developed and delivered remotely controlled surveillance and defence systems recently which will enhance their defence capabilities. Through R&D, they have developed robust design and technological capabilities, which allow them to develop new and cutting-edge products and solutions, undertake process innovation and improve existing portfolio. It further helps them in expanding their role in core sectors of defence and space. As an example, they are in process of expanding their role in space sector from being a component manufacturer to complete subsystem manufacturer for a satellite.

Valuation and Outlook

Paras Defence has a wide range of products and services with strong R&D capabilities. It is well positioned to benefit from the Government's "Atmanirbhar Bharat" and "Make in India" initiatives in the defence manufacturing sector. The company has a diversified customer base which ranges from Government arms and government organizations involved in defence and space research, to various defence public sector undertakings. However, the company's financials have been volatile over the past 3 years which is a cause of concern. On the valuation front, the issue is priced at P/E of 31.5x based on FY21 earnings, diluted equity shares and upper price band. The company has mentioned no listed peers. Outlook for Paras defence in the long term is encouraging based on positive sectoral outlook, government support and company's expansion & diversification plans. Hence we give a "SUBSCRIBE" rating to this IPO for a long term horizon.

Issue Details

| | |
|----------------------------------|--|
| Offer Period | 21 st Sept– 23 rd Sept, 2021 |
| Price Band | INR.165 to INR.175 |
| Bid Lot | 85 |
| Listing | BSE&NSE |
| Issue Size (no. of shares in mn) | 9.75 |
| Issue Size (INR. in bn) | 1.7 |
| Face Value | 10 |

Issue Structure

| | |
|--------|-----|
| QIB | 50% |
| NIB | 15% |
| Retail | 35% |

| | |
|-----------|-----------------------------|
| BRLM | Anand Rathi Advisors |
| Registrar | Link Intime India Pvt. Ltd. |

| Particulars | Pre Issue % | Post Issue % |
|--------------|-------------|--------------|
| Promoter | 79.40% | 59.71% |
| Public | 20.60% | 40.29% |
| Total | 100% | 100% |

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



Paras Defence and Space Technologies Ltd

IPO Note

Income Statement (In mn)

| Particulars | FY19 | FY20 | FY21 |
|---|--------------|--------------|--------------|
| Revenue | | | |
| Revenue from operations | 1,544 | 1,470 | 1,433 |
| Total revenue | 1,544 | 1,470 | 1,433 |
| Expenses | | | |
| Raw material consumed | 955 | 740 | 599 |
| Changes in inventories of finished goods and work-in-progress | (116) | (16) | (80) |
| Purchase of Stock in Trade | - | 4 | 135 |
| Employee benefit expenses | 90 | 110 | 117 |
| Other expenses | 187 | 240 | 229 |
| Total Operating expenses | 1,116 | 1,078 | 999 |
| EBITDA | 428 | 393 | 434 |
| Depreciation and amortisation expense | 94 | 97 | 97 |
| Other income | 28 | 20 | 13 |
| EBIT | 362 | 316 | 350 |
| Finance costs | 94 | 98 | 124 |
| PBT | 268 | 218 | 226 |
| Current tax | 69 | 66 | 73 |
| Deferred Tax charge | 10 | (45) | (5) |
| Total tax | 78 | 21 | 68 |
| PAT | 190 | 197 | 158 |
| Diluted EPS | 6.7 | 6.9 | 5.6 |

Source: RHP, BP Equities Research

Cash Flow Statement (In mn)

| Particulars | FY19 | FY20 | FY21 |
|---|------------|-----------|-----------|
| Cash Flow from operating activities | (121) | (26) | 43 |
| Cash flow from investing activities | (96) | (49) | (63) |
| Cash flow from financing activities | 214 | 86 | 54 |
| Net increase/(decrease) in cash and cash equivalents | (2) | 11 | 34 |
| Cash and cash equivalents at the beginning of the period | 4 | 2 | 13 |
| Cash and cash equivalents at the end of the period | 2 | 13 | 47 |

Source: RHP, BP Equities Research



Paras Defence and Space Technologies Ltd

IPO Note

Balance Sheet (In mn)

| Particulars | FY19 | FY20 | FY21 |
|--------------------------------------|--------------|--------------|--------------|
| Liabilities | | | |
| Share Capital | 57 | 284 | 299 |
| Other Equity | 1,467 | 1,442 | 1,768 |
| Net worth | 1,524 | 1,726 | 2,066 |
| Long-Term Borrowings | 382 | 368 | 255 |
| Lease Liabilities | - | 1 | 1 |
| Long-Term Provisions | 17 | 13 | 12 |
| Deferred Tax Liabilities (Net) | 278 | 235 | 231 |
| Total Non Current Liabilities | 677 | 616 | 499 |
| Trade Payables | 533 | 270 | 153 |
| Short-Term Borrowings | 379 | 602 | 680 |
| Other Financial Liabilities | 112 | 89 | 152 |
| Other Current Liabilities | 18 | 63 | 8 |
| Current Tax Liabilities | 56 | 58 | 68 |
| Total Current Liabilities | 1,097 | 1,081 | 1,061 |
| Total Liabilities | 3,297 | 3,424 | 3,628 |
| Assets | | | |
| Property, Plant and Equipment | 1,659 | 1,558 | 1,551 |
| Capital Work in Progress | 26 | 49 | 5 |
| Intangible Assets | 24 | 20 | 15 |
| Financial Assets | 5 | 3 | 23 |
| Other Non-Current Assets | 9 | 14 | 12 |
| Total Non Current Assets | 1,723 | 1,645 | 1,607 |
| Inventories | 645 | 604 | 747 |
| Trade Receivables | 832 | 976 | 949 |
| Cash and Bank Balances | 2 | 13 | 47 |
| Bank Balances | 17 | 31 | 36 |
| Other Current Assets | 79 | 130 | 201 |
| Total Current Assets | 1,575 | 1,754 | 1,979 |
| Net Current Assets | 478 | 673 | 918 |
| Assets held for Sale | - | 25 | 41 |
| Total Assets | 3,297 | 3,424 | 3,628 |

Source: RHP, BP Equities Research

Key Risks

- ⇒ *Its business is largely dependent on contracts from Government of India ("GoI") and associated entities including defence public sector undertakings and government organizations involved in space research. A decline or reprioritisation of the Indian defence or space budget, reduction in orders, termination of existing contracts, delay of existing or anticipated contracts or programmes or any adverse change in the GoI's defence or space related policies will have a material adverse impact on its business. For FY21, revenue derived was ₹72.9 crore from GoI Entities, which is equivalent to 50.8% of sales. Further, as at 30th June, 2021, order book from the GoI Entities, was ₹130.6 crore.*
- ⇒ *From time to time, the company enters into contracts with third parties in India and outside India for partnering in relation to development of certain products or sourcing components. These agreements are typically short term and are entered for a period of one or two years. These agreements may or may not be renewed or extended at the end of their respective terms. A delay in or failure to do so may have an impact on its business, financial condition and results of operations.*
- ⇒ *It has sustained negative cash flows from operating activities due to working capital changes and from investing activities are majorly due to investment in PPE and CWIP.*

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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Corporate Office:

4th floor,
Rustom Bldg,
29, Veer Nariman Road, Fort,
Mumbai-400001
Phone- +91 22 6159 6464
Fax-+91 22 6159 6160
Website- www.bpwealth.com

Registered Office:

24/26, 1st Floor, Cama Building,
Dalal street, Fort,
Mumbai-400001
BP Wealth Management Pvt. Ltd.
CIN No: U67190MH2005PTC154591
BP Equities Pvt. Ltd.
CIN No: U67120MH1997PTC107392