

Paras Defence & Space Tech Ltd.

SSIS IPO GRADE 5/5 (Subscribe)
20th September, 2021

Rating Overview

Paras defence is the only Indian company having designing capability for space optics and opto-mechanical assemblies. It's a leading optics provider for Indian defence and space programs. Their 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.

Global defence spending has increased 2.6% to 1.98 trillion dollars during the period of 2019-2020. The five largest spenders account for 62% of total global defence spend. Rise in geopolitical disputes is the major reason fueling this increase in spending. The Indian Defence spending grew at a 7% CAGR to \$64.6 billions during the period of FY17-FY22. The growth of spending was majorly driven by geopolitical risks and modernization program.

At the upper band of INR 175, the issue is valued at 31x its FY21 EPS of INR 5.6. The company has diversified product profiling with complete range of optics, electronics like hardware, monitor etc, electro-magnetic pulse and other heavy engineering products for defense and space. Moreover there are high entry barriers for new entrants as the projects related to strategic sectors such as defense and space. The company has the plans to diversify their verticals to automotive, agriculture, monitoring, surveillance areas and other commercial areas etc. The company's order book stood at INR 300 crores for FY2021 majorly contributed by margin accretive products like Optics and heavy engineering. It has its own in-house team with huge expertise in mechanical, electronics and optics along with foreign partnership, which enables them to provide quality product at reasonable prices. They also benefit from Make in India and Aatmanirbhar Bharat initiative, since domestic participation is encouraged. The company trades at P/E of 31.53x for FY2021. There are no listed peers to compare valuation of the company. The company has niche products with high entry barriers in the market, which makes the issue attractive. However, the company's debt, high proportion of receivables, stretched working capital cycle and dependencies on government organizations are matter of concerns for the long-term investors. Thus, we recommend to subscribe the issue for listing gains.

Our overall rating of PB Fintech is fundamentally sound given its market position, asset quality and product scalability. The ask price is on the higher side but It's a great long term opportunity in the ecommerce sector.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.



Business Overview

Paras Defence and Space Technologies Ltd. (PDSTL) is an Indian private sector company engaged in designing, developing, manufacturing and testing a wide range of defence and space engineering products and solutions. It is one of the leading 'Indigenously Designed Developed and Manufactured' ("IDDM") category private sector companies in India, which caters to four major segments of the Indian defence sector i.e. defence and space optics, defence electronics, electro-magnetic pulse ("EMP") protection solution and heavy engineering. (Source F&S Report). PDSTL is also the sole Indian supplier of critical imaging components such as large size optics and diffractive gratings for space applications in India (Source F&S Report). Its goal is to become one of the leading global companies for optics for the defence and space sector.

The company has five principal categories of product offerings: defence and space optics, defence electronics, EMP protection, heavy engineering for defence and niche technologies. Its defence and space optics operations include manufacturing 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 and electronic systems for defence applications, including subsystems for border defence, missiles, tanks and naval applications.

The company's EMP protection solutions include designing, developing, manufacturing and commissioning various solutions for EMP Protection. It has the ability to undertake and deliver customized turnkey projects in the defence segment, especially in the defence electronics and EMP protection segments (Source: F&S Report). Under its niche technologies division, PDSTL has identified and partnered with some of the leading technology companies around the world in order to indigenize advanced technologies in the defence and space sectors for catering to the Indian market.

The company has two manufacturing facilities in Maharashtra, located at Nerul in Navi Mumbai and Ambarnath in Thane. It is also in the process of expanding its manufacturing facility located at Nerul in Navi Mumbai, Maharashtra. PDSTL'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.

Financial Performance

On the financial performance front, on a consolidated basis, for the last three fiscals, the company has posted turnover/net profits of Rs. 157.17 cr. / Rs. 18.97 cr. (FY19), Rs. 149.05 cr. / Rs. 19.66 cr. (FY20) and Rs. 144.61 cr. / Rs. 15.79 cr. (FY21). Thus it has posted declining trends in its top and inconsistency in the bottom lines for these periods.

For the last three fiscals, PDSTL has posted an average EPS of Rs. 6.20 and an average RoNW of 11.94%. The issue is priced at a P/BV of 3.17 based on its NAV of Rs. 55.23 as of March 31, 2021, and at a P/BV of 2.12 based on its post-issue NAV of Rs. 82.53 per share (at the upper cap). If we attribute FY21 earnings on fully diluted post issue paid-up equity, then the asking price is at a P/E of 43.21, making this offer fully priced.

Summary of financial Information (Restated Consolidated)			
Particulars	For the year/period ended (₹ in millions)		
	31-Mar-21	31-Mar-20	31-Mar-19
Total Assets	3,627.58	3,423.86	3,297.48
Total Revenue	1,446.07	1,490.51	1,571.69
Profit After Tax	157.86	196.57	189.70

Issue Details

To part finance its plans for the purchase of machinery and equipment (Rs. 34.66 cr.), incremental working capital needs (Rs. 60.00 cr.), repayment/prepayment of all or a portion of certain borrowings (Rs. 12.00 cr.) and general corporate fund needs, PDSTL is coming out with a maiden book-building route IPO having a combo of fresh equity issue worth Rs. 140.60 cr. as well as an Offer for Sale (OFS) for Rs. 30.18 cr. making an overall issue size worth Rs. 170.78 cr. The company has fixed a price band of Rs. 165 - Rs. 175 per share of Rs. 10 each. Minimum application is to be made for 85 shares and in multiples thereon, thereafter. The issue opens for subscription on September 21, 2021, and will close on September 23, 2021. Post allotment, shares will be listed on BSE and NSE. At the upper cap, PDSTL will issue 8034285 fresh equity shares and 1724490 shares under OFS, thus the total number of shares to be issued will be 9758775 shares. The issue constitutes 25.02% of the post issue paid-up capital of the company.

The issue is solely lead managed by Anand Rathi Advisors Ltd. and Link Intime India Pvt. Ltd. is the registrar to the issue. Allocation in this IPO is 50% for QIBs, 15% for HNIs and 35% for retail investors.

Having issued initial equity at par, the company raised further equity in the price range of Rs. 125 to Rs. 1000 per share between November 2018 and July 2021. It has also issued bonus shares in the ratio of 4 for 1 in March 2020. The average cost of acquisition of shares by the promoters is Rs. 0.00, Rs. 1.21 and Rs. 3.36 per share.

Post issue PDSTL's current paid-up equity capital of Rs. 30.97 cr. will stand enhanced to Rs. 39.00 cr. At the upper price band of the IPO, the company is looking for a market cap of Rs. 682.50 cr.

Application Dates	Sep 21, 2021 – Sep 23, 2021
Issue Type	Book Built Issue IPO
Face Value	₹10 per equity share
IPO Price	₹165 to ₹175 per equity share
Market Lot	85 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹170.78Cr)

Issue Timeline

Basis of Allotment Date	Sep 28, 2021
Initiation of Refunds	Sep 29, 2021
Credit of Shares to Demat Account	Sep 30, 2021
IPO Listing Date	Oct 1, 2021

Investment Strategy

No doubt, spending on the defence and aerospace segment by the government has been on the rise and this augurs well for this company. However, based on its financial data the issue is fully priced discounting near term prospects. As the overall IPO size is below Rs. 250 cr. its initial listing will take place in T 2 T group limiting speculative movements. Hence cash surplus investors may consider investing in this issue for the long term.