



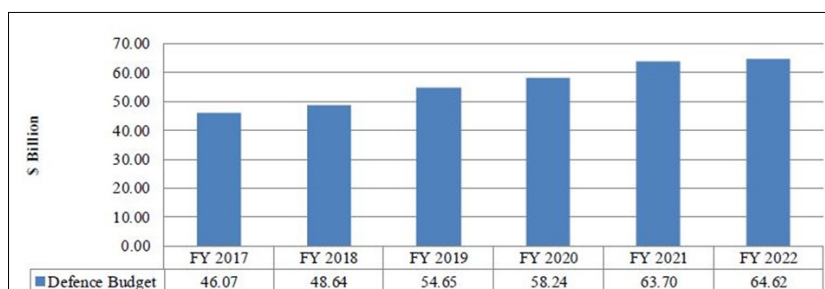
Paras Defence and Space Technologies Ltd

Issue Opens	Tuesday, Sept 21, 2021
Issue Closes	Thursday, Sept 23, 2021
Price Band (in Rs)	165 - 175
Bid Lot	85 shares and multiples thereafter

Overview: Defence Industry

Global defence spending touched USD1.98trn in 2020, which was an increase of 2.6% over such corresponding spending in 2019. The five largest spenders, accounting for 62% of the total global spend, were the United States, China, India, Saudi Arabia and Russia. Rise in geopolitical disputes, such as the on-going flare up between the United States and China, was the major reason fuelling this increase in spending. ISR solutions generally include space and defence electro optics relay visuals, enemy location and other datasets to commanders and enable effective decision making and de-risking assets on the ground. ISR solutions, which would generally be exclusive to advanced nations such as the United States, are becoming ubiquitous especially in countries such as Turkey, India, and Saudi Arabia.

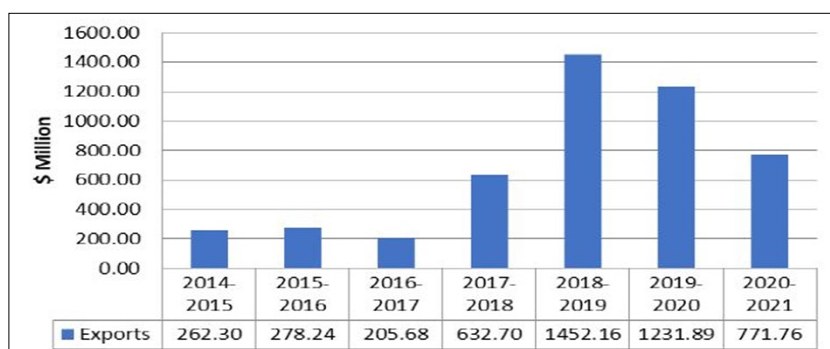
Exhibit 01: Defence Budget Growth



Source: Company RHP

India's defence exports and imports used to be at two ends of a continuum with a massive trade deficit skewed against Indian indigenous production. The Stockholm International Peace Research Institute (SIPRI) Arms Transfer Database indicates that India remained the largest importer of defence equipment in the 2012-16 timeframe with its share in global arms imports dropped from 14% in 2011-2015 to 9% in 2016-2020, a drop of 33%. Compared to the above, India's arms exports contributed to only a small percentage of global arms trade during this time. However, there has been a substantial increase in Indian defence exports in the 2016-20 timeframe as set out below.

Exhibit 02: Defence Exports Growth



Source: Company RHP

Industry Drivers:

- Atmanirbhar Bharat initiative with major measures to strengthen self-reliance and indigenous defence industry promotion
- Defence Acquisition Procedure with the underlying principle are making the acquisition procedure as transparent as possible and promoting the indigenous industry in line with Atmanirbhar Bharat initiative
- Capital Acquisition with 6 main categories differentiated on the basis of whether the equipment is being manufactured by a domestic player or a foreign OEM
- Defence Offsets with the aim to offset foreign import bill

SNAPSHOT		
Issue Opens	Tuesday, Sept 21, 2021	
Issue Closes	Thursday, Sept 23, 2021	
Price Band (Rs)	165/175	
Bid Lot	85 shares and multiples thereafter	
Face Value	Rs10	
Listing	BSE & NSE	
Type of Issue	Fresh Issue & OFS	
Offer Size (Rs Mn)	Fresh Issue	1,406
	OFS	302
	Total	1,708
*Implied Market Cap (Rs Mn)	6,825	
P/E (based on FY21 Earnings)*	43.23	

*Note: Implied Market Cap & P/E are calculated at upper price band of Rs175

Issue Allocation	
Reservations	% of Net Issue
QIB	50
NIB	15
Retail	35
Total	100

Object of the Offer
<ul style="list-style-type: none"> • Purchase of machinery equipment • Funding incremental working capital requirements of the company • Repayment/Prepayment of all or portion of certain borrowings/outstanding loan facilities availed by the company • General corporate purposes

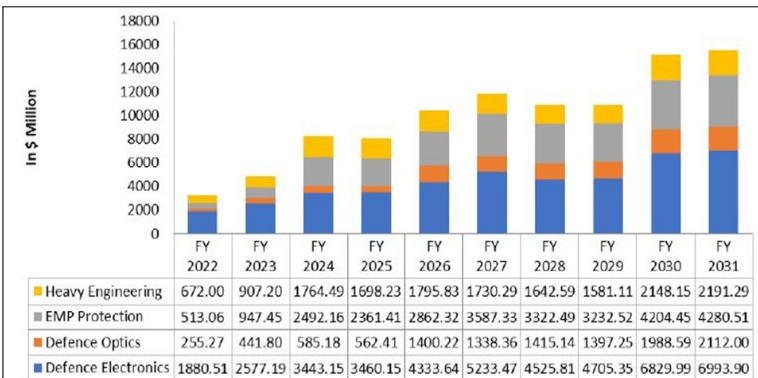
Forecast and Opportunities:

According to Frost & Sullivan, as modernization of the Indian Defence sector becomes more technology oriented, four major segments will become key contributors to most emerging programs, namely, Defence Electronics, Defence Optics, EMP Protection and Heavy Engineering. The company has a presence in each of these segments. The Indian defence establishment will increasingly look at sourcing these segments from local suppliers because of the Atmanirbhar Bharat initiative, and increasing levels of well-established R&D, quality standards and manufacturing capabilities in these segments. Whilst currently, the outlays to these segments made to Indian companies are in the order of ~USD3.21bn, by 2031 the spending will increase to over ~USD14.5bn because of extensive fleet recapitalisation, C4ISR orientation and greater indigenous supply preferences. The cumulative market in the time frame 2022-2031 is expected to be ~USD99.4bn.

Space Industry:

The India Space Program was initiated with the launch of the first satellite Aryabhata in 1975. The Indian space industry has been driven and enabled by the national space agency, ISRO. Some of the key milestones for ISRO are with Chandrayaan and Mangalyaan missions being the key missions highlighting the technical capabilities of ISRO. These missions have had trickledown effect in terms of technological capability building for its suppliers i.e. component and system manufacturers. Suppliers like the company have established a strong foothold in the domestic space industry by being the supplier of Optics & Opto-Mechanical Assemblies for these space exploration missions. Further, the DoS is creating opportunities for the Indian space program to better engage with existing and new private participants while evolving from a supply-based model to a demand-based model. To support this objective, it has created a new commercial business unit called NSIL. NSIL is expected to improve and expand the ongoing commercialization effort to integrate the private participants with the Indian space program. This is expected to create more new opportunities for private participants including for the company.

Exhibit 03: Defence Segment Growth



Source: Company RHP

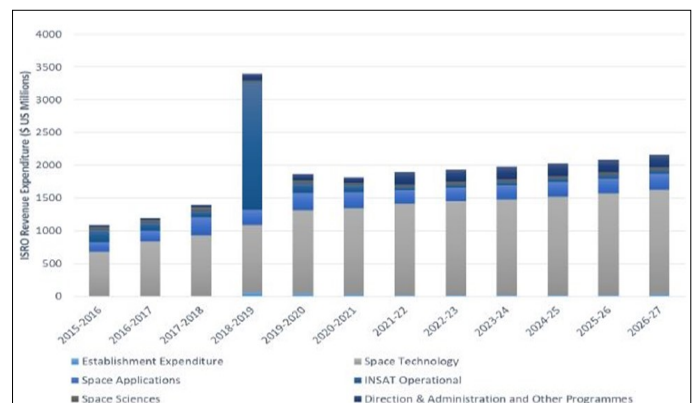
Exhibit 04: Recent ISRO Missions

Satellite Missions	2018	2019	2020	2021-22
Earth Observation Satellites	2	4	1	17
Communication Satellites	4	1	2	4
Navigation Satellites	1	0	0	4
Space Exploration satellites	0	1	0	3
Technology Demonstrator	1	0	0	1
GAGANYAN	0	0	0	2
Total	8	6	3	31

Source: Company RHP

ISRO's revenue expenditure has been increasing since 2015-16 from USD1086.11mn to USD1865.82mn in 2020-2021 and is forecasted to grow to USD2160.61mn in 2026-2027. ISRO's establishment expenditure is increasing due to the incorporation of NSIL and Indian National Space Promotion and Authorisation Centre (IN-SPACE). Since 2018, ISRO has been allocating the establishment expenditure to support the incorporation and operations of the new commercial arms (NSIL/IN-SPACE) and this cumulatively amounts to USD132.09mn as of 2020. This additional funding to create and enable new commercial arms indicates the government's agenda to drive further the ongoing ISRO's effort in engaging the private participants, both domestic and international. This will create new opportunities for India private space participants as ISRO's commercialization efforts grow via the newly created entities. Space applications expenditure will see constant growth until 2027, as will space sciences and space applications, with increasing focus on these missions. A similar increase can be observed in the case of space technology from USD675.19mn to USD1600.82mn. This expected rise is due to increase in contract manufacturing, with increased serial production capability of satellites and launch vehicles.

Exhibit 05: ISRO Revenue Expenditure (USD mn)



Source: Company RHP

Domestic commercial participants are agile in their approach by addressing the emerging market demand. Once the National Space Policy and the Space Activities Bill are passed, a regulatory framework will be established for operation within the Indian space market. This will attract new participants, increasing local competition. However, the companies with an established launch history will have a competitive edge. With multiple international players willing to enter Indian market and open to partnerships, the domestic space private space ecosystem will flourish in medium-term.

About the Company:

Paras Defence and Space Technologies Limited (Paras Defence) was 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.

Major Segments Catered:

- ⇒ **Defence and Space Optics:** high precision optics for defence and space applications such as thermal imaging and space imaging systems.
- ⇒ **Defence Electronics:** 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.
- ⇒ **Electro-Magnetic Pulse (EMP) protection solution:** EMP Racks, EMP filters used for protection of data and power lines within a rack/shelter/ room against electro-magnetic pulse or interference.
- ⇒ **Heavy Engineering:** components for rockets and missiles along with mechanical manufacturing support to other verticals.
- ⇒ **Niche Technologies:** 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.

They are 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. The flagship product of their subsidiaries - 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 company in India.

Research and Development: Paras Defence has diversified their products and solutions mainly due to their Research and Development and technological capabilities. Their R&D capabilities include product design, product engineering, product simulation, prototyping and testing. The R&D activities are mainly undertaken at their centres at Nerul in Navi Mumbai, Maharashtra and Bengaluru, Karnataka. Their R&D centre at Nerul was recognised by DSIR and such recognition is under renewal process. Their research activities are focused on creating new products and solutions which are customised to meet customer expectations and end-user preferences and also improving their production processes and improving the quality of their existing products. With their R&D capabilities, they are currently developing several new products and solutions, such as hyper spectral space camera, ARINC-818 based avionic display and naval periscopes. Their focus on R&D distinguishes them as one of the leading IDDM category company in the Indian defence industry. Recently, the Ministry of Defence, Government of India (MoD) has announced the Defence Acquisition Procedure, which focuses on significantly boosting indigenous production and turning India into a global manufacturing hub of weapons and military platforms. This is expected to provide a boost to indigenous defence companies such as Paras Defence and with the expertise and technological know-how that they have, they are poised to take advantage of the expected growth in India's defence industry. As of June 30, 2021, the R&D team comprises of 31 engineers and officers and they have in-depth knowledge of the design and engineering of their products. As part of their R&D partnership products vertical, they aim to source technologies from their partners in various countries and manufacture products for clients in India and abroad.

Order Book:

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.

Exhibit 06: Order Book Positioning as on 30th June, 2021

Particulars	No. of Orders	Value (Rs in mn)
Defence and Space Optics	37	2026.4
Defence Electronics	49	705.6
Heavy Engineering	34	317.9
Total Order Book	120	3049.9

Source: Company RHP, Progressive Research

Manufacturing Facilities: 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. This facility is engaged in manufacturing of Optics, Design, Development, Manufacturing and Integration of Electronics and EMP protection products and solutions. The Ambernath facility is engaged in manufacturing of heavy engineering products such as flow-formed motor tubes, vacuum brazed cold plates, titanium structures and assemblies, large and heavy dynamic structures with built-in automation for strategic applications, indigenously designed and manufactured flow-forming machines and mechanical racks, cabinets and consoles for various defence applications. Their manufacturing facilities at Nerul and Ambernath have been accredited with quality management system certificate for compliance with ISO9001:2015 requirements while the Nerul Facility has been recommended for AS9100D certification. They are also in the process of expanding their manufacturing facility located at Nerul in Navi Mumbai, Maharashtra. In addition, for certain of the processes across their business verticals such as laser cutting, anodising, surface treatment and electroplating involved in the manufacturing process of all the products, they outsource such processes to their developed partners and sub-contractors who have dedicated facilities for such processes.

Facility Expansion:

Paras Defence is in the preliminary stages of augmenting their manufacturing facility located at Nerul in Navi Mumbai, Maharashtra and Ambernath in Thane, Maharashtra by expanding its production capacity and installing new equipment from the proceeds of the Offer and from internal accruals. The expansion is in process on land parcels adjoining their existing facilities, which they hold on a long-term lease hold basis, admeasuring (i) 21,569 sq. mtr located at Ambernath, Maharashtra and (ii) 4,050 sq. mtr located at Nerul, Navi Mumbai, Maharashtra, respectively. The total estimated cost of the expansion is upto Rs480mn.

Strengths:

- Offering a wide range of products and solutions for both defence and space applications
- One of the few players in high precision optics manufacturing for space and defence application in India
- Strong R&D capabilities with a focus on innovation
- Well positioned to benefit from the Government's "Atmanirbhar Bharat" and "Make in India" initiatives
- Strong relationships with a diverse customer base
- An experienced Management team

Strategies:

- Expansion of the production capacity
- Strengthen the foothold in India's expanding market
- Continue to focus on R&D
- Diversify the products and solutions range, with focus on growth by expansion into opportunistic areas
- Increasing the reach in the International market

Financials:

On the financial performance front, the company has on a consolidated basis, posted turnover of Rs1544mn in FY19, Rs.1470mn in FY20 and Rs1433mn in FY21. EBITDA margin stood at 27.7%, 26.7%, and 30.3% for FY19, FY20 and FY21 respectively. Net Profit for FY19, FY20 and FY21 came in at Rs190mn, Rs197mn and Rs158mn respectively for the period. The company has not declared any dividend for the last three fiscals and till the filing of RHP for this offer. It will adopt a prudent dividend policy post listing on the basis of its financial performance and future prospects.

Exhibit 07: Financial Snapshot

Revenues (Rs mn)	FY19	FY20	FY21
Sales	1,544	1,470	1,433
EBITDA	428	393	434
EBITDA Margin %	27.7	26.7	30.3
PAT	190	197	158
PAT Margin %	12.3	13.4	11.0
EPS	6.8	6.9	5.6
RoNW (%)	15.9	14.2	9.1

Source: Company RHP, Progressive Research

Risks and Concerns:

- The loss, shutdown or slowdown of the business operations may have a material adverse effect on the business, results of operations and financial condition
- The business is largely dependent on contracts from the Government of India and associated entities including defence public sector undertakings and government organizations involved in space research
- The company has executed various agreements with third parties, including in relation to securing contracts and manufacturing of products, which may impose certain obligations on the company and the termination of which may adversely affect the business, results of operations, financial condition and prospects
- The company have significant power, and fuel requirements and any disruption to power or water sources could increase the production costs and adversely affect the results of operations
- The company depend on a limited number of customers for a significant portion of the revenue

Outlook and Recommendations:

Paras Defence is a small sized player in the defence and space related manufacturing. While catering to the requirements of IDDM products for India, the company caters to four major segments of Indian defence sector i.e. defence & space optics, defence electronics, EMP protection solution and heavy engineering. The company is the sole Indian supplier of critical imaging components including large size optics and diffractive gratings for space applications. In the long run, some of the key triggers which will help boost the growth of the company will include the GOI focus on Make in India products, higher budgetary allocation for defense sector, liberalized policies and PLI scheme for drones, Atmanirbhar Bharat and associated production coupled with a strong relationship with a diverse customer base. In the past, PDST has shown its capability of serving space & defence technological requirement of GOI and various other government organizations. The products manufactured by the company require very high precision manufacturing skills with no compromise on quality. PDST intends to use the proceeds of the fresh issue of shares for purchase of machinery & equipment's, fund the incremental working capital requirements, repay debts as well as for some general corporate purposes. Recently, the company has been able to raise ~Rs344mn through a pre-IPO placement of 25,52,598 equity shares. The company has a well-diversified product portfolio in defense and space optics, defense electronics, heavy engineering and niche technologies with a strong order book of ~Rs3,050mn (as on June 30, 2021). If one looks at the financials, optically on the operational front, the top and bottom-line growth seems to be muted, however, there are some triggers which will benefit the company post the opening up of the partial lockdowns in addition to the strong R&D capabilities with focus on innovation. At the upper band of Rs175 and post the fresh issue the asking P/E is ~43x. The company has a unique product profile with no listed peers to compare to which makes it a niche entity to invest in with a long-term vision. **We recommend a Subscribe to the IPO with a long term perspective.**

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