

Paras Defence & Space Technologies (PDSTL)

Defence | NBIE Conference Update

ACCUMULATE

CMP: Rs880 | Target Price (TP): Rs916 | Upside: 4%

June 11, 2024

Conference Key Takeaways

Key Points

- We hosted the management of Paras Defence and Space Technologies (PDSTL) as part of NBIE investor conference on 28th May, 2024. The company was represented by Mr. Amit Mahajan, Director - Technical and R&D and Mrs. Shilpa Mahajan - Wholetime Director in order to gain insights into the current business outlook.
- The management has guided the following:
 - Absolute revenue of Rs3.3bn in FY25
 - The company expects its order book to double its revenue in the next few years, with a visibility period of 18 month
 - Capex of Rs50-100mn in FY25 and FY26 for expanding current facilities
- PDSTL is exploring a partnership with Mitsubishi (Japan) for periscope systems. Japan presently buys periscopes from Thales (France), which represents a significant opportunity for PDSTL.
- We maintain our valuation multiple and value the stock at 52x FY26E EPS with a target price (TP) of Rs916.

▪ PDSTL operates in two segments

- Optics and Optronic Systems
- Defence Engineering

▪ Optics and Optronic Systems

- PDSTL started with optical components and today it is the only company in India manufacturing optical components for space, maintaining a market leader position.
- In tenders with 10-20 companies participating, PDSTL exclusively supplies the optics parts.
- The total market size for optics and optronic systems is Rs50bn.
- Due to indigenization, the reliance on imported materials has decreased, reducing raw material costs by less than 30% compared to imported alternatives.
- Competitive Advantage: PDSTL is the only private company in this segment, with its closest competitor ranked 11th and facing significant barriers to catching up. The company offers warranties on systems rather than individual components.

▪ Space Segment

- Historically, ISRO contributed more than 50% to PDSTL's order book, which fell to 15% in FY24. The company expects ISRO's orders to return to 60% of total order book.
- The hyperspectral imaging camera market has a TAM of Rs200bn.

Est Change	No Change
TP Change	No Change
Rating Change	No Change

Company Data and Valuation Summary

Reuters:	PRAF.BO
Bloomberg:	PARAS IN Equity
Mkt Cap (Rsbn/US\$mn):	34.3 / 413.0
52 Wk H / L (Rs):	985 / 550
ADTV-3M (mn) (Rs/US\$):	835.7 / 10.0
Stock performance (%) 1M/6M/1yr:	25.3 / 24.8 / 57.5
Nifty 50 performance (%) 1M/6M/1yr:	4.3 / 3.4 / 24.3

Shareholding	2QFY24	3QFY24	4QFY24
Promoters	58.9	58.9	58.9
DILs	2.7	2.7	2.8
FILs	0.6	0.5	0.1
Others	37.8	37.8	38.2
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24	FY25E	FY26E
Net Sales	2,224	2,535	3,234	4,215
Growth YoY (%)	21.8	14.0	27.6	30.3
EBITDA	568	512	718	1,086
EBITDA margin (%)	25.5	20.2	22.2	25.8
Adj. PAT	360	321	466	687
Growth YoY (%)	32.6	(10.8)	45.2	47.6
EPS (Rs)	9.2	8.2	11.9	17.6
RoE (%)	9.1	7.5	10.0	13.1
EV/EBITDA	60.0	68.1	47.2	31.0
P/E (x)	95.4	107.0	73.7	49.9

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links -
[4QFY24 Result](#)

Please refer to the disclaimer towards the end of the document.

▪ **Defence Engineering**

- Flow Forming Tubes: PDSTL manufactures flow forming tubes for missiles, with only 2-3 competitors in this sub-segment.
- Titanium Fabrication: The company is also involved in titanium fabrication and expects potential orders worth Rs4.5bn in the EMP sub-segment from chambers (submarines).
- Remote Control Border System: The company anticipates potential remote control border systems orders, each costing ~Rs10mn. PDSTL expects potential orders for 4,000 systems (worth Rs40bn). These systems are currently in field trials, with ToT received from DRDO. The company has a 10-year order visibility for this system.

▪ **Submarine Periscope**

- The first periscope is expected to be delivered in June 2024, with an indigenous content of over 50%.
- Each periscope is valued at Rs300mn. The company expects to deliver six new periscopes in FY25, totaling Rs1.8bn.
- Market Potential: Each submarine requires two periscopes. With India having 20 submarines and additional ones in the pipeline, there is a potential for orders worth 80 periscopes, including new and refurbished ones. Refurbishment costs are 80% of the cost of a new periscope.
- The company has received two orders worth Rs530mn for periscope refurbishment.
- It is focused on adding ESM radars to periscope systems. Each ESM radar costs ~Rs100mn and is fully indigenized. PDSTL aims to provide periscopes that match global technology standards.
- PDSTL is exploring a tie-up with Mitsubishi (Japan) for periscope systems. Japan currently buys periscopes from Thales (France), presenting a huge potential for PDSTL.

▪ **Order Book**

- As of May 28, the company has orders worth Rs6bn.
- The company expects an order book of Rs25bn by FY28-end, which will be 60% of the total contracts rolled out.
- It expects the order book to be twice the company's revenue in the coming years, with visibility of 18 months.

▪ **Capex**

- The company has provided guidance for a small capex of Rs50-100mn in FY25 and FY26 for expanding current facilities.

▪ **Guidance**

- The company has guided for a revenue of Rs3.3bn in FY25.

Exhibit 1: Change in estimates

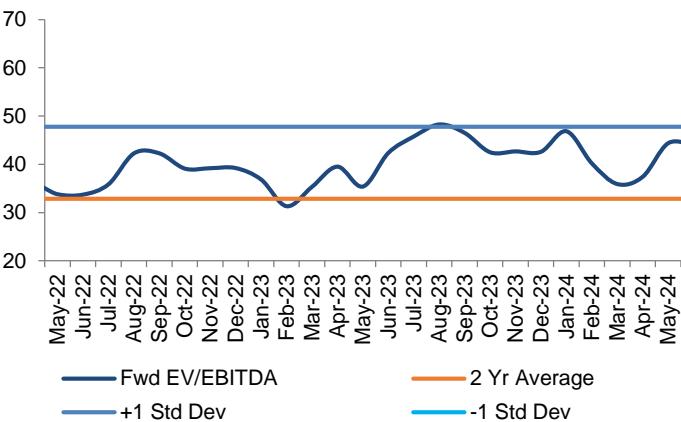
Particulars	FY25E			FY26E			
	(Rs mn)	Old	New	Change (%)	Old	New	Change (%)
Revenue		3,234	3,234	0.0	4,215	4,215	0.0
EBITDA		718	718	0.0	1,086	1,086	0.0
PAT		466	466	0.0	687	687	0.0
EPS		11.9	11.9	0.0	17.6	17.6	0.0

Source: Nirmal Bang Institutional Equities Research

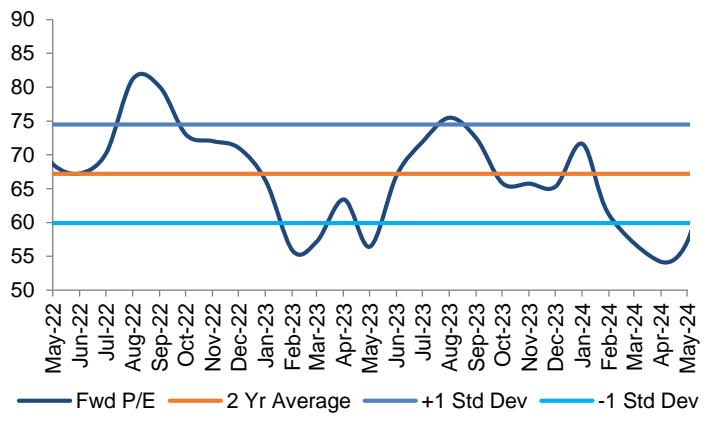
Exhibit 2: Valuation summary

Particulars	(Rs mn)
Mar'26 EPS	18
Target multiple (x)	52.0
Value per share (Rs)	916
CMP (Rs)	880
Upside / (downside) %	4%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Rolling valuation charts


Source: Company, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

Financial Statements

Exhibit 4: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	1,826	2,224	2,535	3,234	4,215
Raw Material Consumed	770	997	1,262	1,625	1,997
Purchase of Traded Goods	53	172	277	355	466
Changes in Inventory	(6)	(115)	(334)	(507)	(557)
Employee Cost	148	219	309	393	461
Other expenses	341	385	510	650	763
Total Expenditure	1,307	1,657	2,023	2,516	3,129
Operating profit	519	568	512	718	1,086
<i>Operating profit margin (%)</i>	28.4	25.5	20.2	22.2	25.8
Other Income	30	82	83	102	43
Interest	78	67	54	55	63
Depreciation	104	113	134	178	185
PBT	366	471	406	587	882
Exceptional items	-	-	-	-	-
PBT post exc items	366	471	406	587	882
Tax	95	109	104	147	221
<i>Tax rate (%)</i>	26.0	23.1	25.7	25.0	25.0
PAT	271	360	321	466	687
Adj PAT	271	360	321	466	687
EPS (Rs)	7.8	9.2	8.2	11.9	17.6

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Balance sheet

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity Capital	390	390	390	390	390
Other Equity	3,392	3,742	4,056	4,522	5,209
Minority interest	4	2	(13)	(13)	(13)
Networth	3,785	4,135	4,433	4,898	5,586
Total Debt	348	194	719	769	819
Deferred tax liability	211	212	204	204	204
Other noncurrent liabilities	15	20	30	21	24
Trade Payables	153	261	610	274	355
Other Current Liabilities	65	384	402	457	673
Total liabilities	4,577	5,205	6,397	6,623	7,660
PPE	1,349	1,452	1,782	1,464	1,371
CWIP	5	45	45	50	58
Investment property	178	170	-	200	271
Intangible assets under development	-	64	65	-	-
Intangible Assets	10	9	11	9	9
Investments	-	-	-	-	-
Deferred Tax Assets	0.3	0.4	0.5	0.5	0.5
Other Non-Current Assets	61	314	485	485	485
Inventories	666	934	1,502	1,081	1,389
Trade receivables	1,230	1,499	1,979	1,754	2,252
Cash & Near-Cash Items	22	171	30	1,081	1,326
Other Current Assets	1,056	547	499	499	499
Total Assets	4,577	5,205	6,397	6,623	7,660

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Cash flow

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	366	468	405	587	882
Add: Depreciation & Impairment	104	113	134	178	185
Cash flow from operations before WC	575	601	588	793	1,102
Net change in Working capital	(342)	(49)	(927)	310	(724)
Tax paid	(118)	(95)	(117)	(147)	(221)
Net cash from operations	115	458	(456)	956	157
Capital expenditure	(86)	(253)	(260)	100	100
Free Cash Flow	29	204	(716)	1,056	257
Others	(685)	350	243	-	-
Net cash from investing	(771)	96	(17)	100	100
Issue of shares	1,434	-	5	-	-
Increase in debt	(592)	(236)	500	50	50
Dividends paid incl. tax	2	(107)	(127)	-	-
Interest paid	(91)	(59)	(46)	(55)	(63)
Others	(122)	(2)	-	-	-
Net cash from financing	631	(405)	331	(5)	(13)
Net Cash	(25)	149	(142)	1,051	245
Opening Cash	47	22	171	30	1,081
Closing Cash	22	171	30	1,081	1,326

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Key ratios

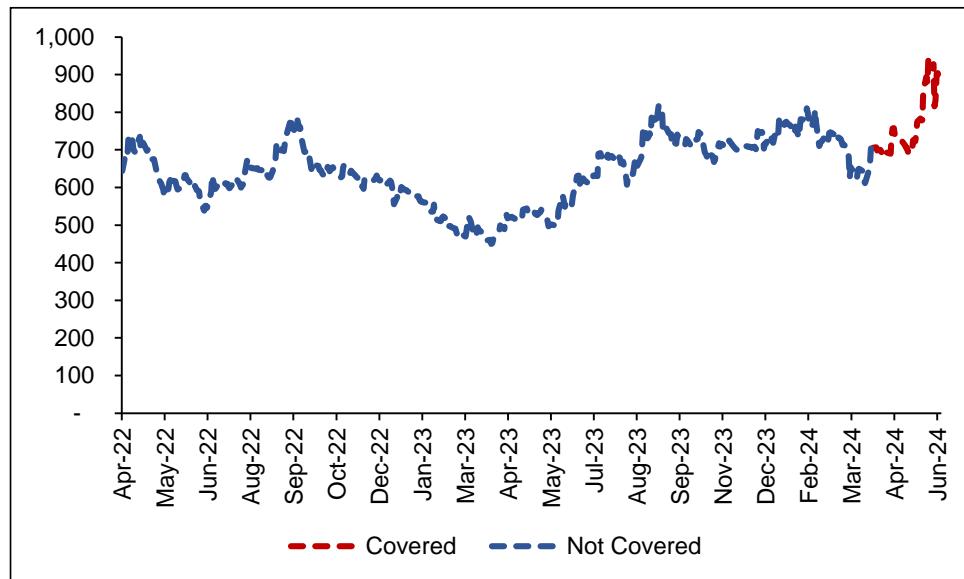
Y/E March	FY22	FY23	FY24	FY25E	FY26E
Growth (%)					
Sales	27.4	21.8	14.0	27.6	30.3
Operating Profits	19.5	9.4	(9.9)	40.3	51.4
Net Profits	71.1	32.6	(10.8)	45.2	47.6
Leverage (x)					
Net Debt: Equity	(0.1)	(0.1)	0.1	(0.1)	(0.1)
Interest Cover(x)	5.3	6.8	6.9	9.8	14.4
Total Debt/EBITDA	0.6	0.3	1.3	1.0	0.7
Profitability (%)					
OPM	28.4	25.5	20.2	22.2	25.8
NPM	14.9	16.2	12.6	14.4	16.3
ROE	9.3	9.1	7.5	10.0	13.1
ROCE	12.6	10.8	8.3	11.0	16.4
Turnover ratios (x)					
GFAT	0.91	1.04	1.07	1.27	1.60
Debtors Turnover(x)	0.7	0.7	0.8	0.5	0.5
Working Capital Days					
Debtor Days	218	224	200	198	195
Inventory Days	316	277	270	268	266
Payable Days	68	72	70	68	68
Net Working Capital Days	465	429	400	398	393
Valuation (x)					
P/E	112.9	95.4	107.0	73.7	49.9
P/B	8.1	8.3	7.7	7.0	6.1
EV/EBIDTA	58.1	60.0	68.1	47.2	31.0

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
5 April 2024	Accumulate	706	714
29 May 2024	Accumulate	877	916
11 June 2024	Accumulate	880	916

Rating track graph



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