Azad Engineering (AZAENG)

ICICI Direct

CMP: ₹ 2450 | Target ₹ 2960 (21%) | Target Period: 12 months | BUY

August 10, 2026

Result Update

Multiple growth engines taking shape...

About the stock: Azad Engineering (AEL) is one of the key manufacturers of qualified product lines supplying to global original equipment manufacturers (OEMs) in the energy, aerospace & defence and oil & gas industries, manufacturing highly engineered, complex and mission and life-critical components

- FY26 revenue mix: ~93% from exports, ~7% from domestic markets

Investment Rationale:

- **Multiple structural growth engines along with upcoming programmes could drive sustained >25% growth:** Company is entering a growth phase supported by various independent factors. The current eight customer-specific facilities could generate approximately ₹1,200–1,440 crore in revenue at full capacity, creating a significant revenue pool. Management is assessing the next capacity cycle for FY29 as the opportunity pipeline expands. The successful delivery of India's first indigenous turbojet engine positions Azad for higher-value system-integration opportunities. Management expects testing to progress over the next few months and has already been advised to prepare for potentially significant production volumes. In parallel, the upcoming hot-section facility is expected to cater to both land-based gas turbines and aviation engines, with multiple global OEMs already showing interest. Successful qualification could therefore create a new set of long-cycle contracts and materially expand Azad's addressable market while the proposed hot-section facility presents additional prospects in gas turbines and aviation engines. With capacity expansion expected from Q3FY27 and management projecting over 25% long-term revenue growth, we view these programmes as long-term optionality rather than near-term earnings assumptions, but their successful conversion could significantly alter the company's growth trajectory beyond FY28/FY29.
- Increasing technological complexity and operating leverage can sustain superior margins as Azad moves up the value chain: Azad's margin profile is increasingly supported by structural manufacturing advantages rather than a temporary favourable mix. EBITDA margin has improved to 37.6% driven by process engineering, shop-floor productivity, localisation of critical raw materials and increasing scale. While management remains conservative with its 32–35% long-term EBITDA margin guidance the company is simultaneously moving into more high-value complex products sustaining high-margin profile even during scale-up, including hot-section turbine components and complete propulsion-system integration through the indigenous turbojet programme.

Rating and Target Price:

- With healthy order-backlog, robust pipeline and improving execution led by increasing indigenisation, we believe that AEL provides strong earnings visibility. Over FY26-28E, we expect revenue, EBITDA & PAT CAGR at ~30% each. We upgrade to BUY on AEL with a target price of ₹ 2960 per share (based on 85x FY28E EPS)

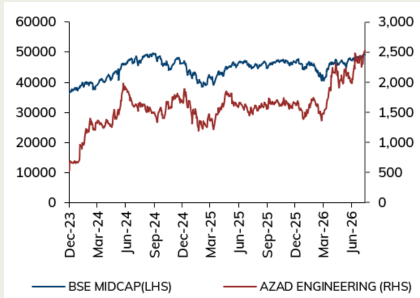
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	15,823
FY26 Gross Debt (₹ Crore)	457
ssFY26 Cash (₹ Crore)	185
EV (₹ Crore)	16,095
52 Week H/L (₹)	2350 / 1359
Equity Capital	12.9
Face Value	2.0

Shareholding pattern

	Sep-25	Dec-25	Mar-26	Jun-26
Promoter	55.4	55.8	55.8	55.8
FII	15.8	15.3	14.8	13.3
DII	9.8	10.7	11.7	10.3
Others	19.0	18.1	17.7	20.5

Price Chart



Key risks

i. Dependency on limited customers

ii. Raw material unavailability

iii. Significant revenue from exports

iv. Change in technology

Research Analyst

Vijay Goel
vijay.goel@icicisecurities.com

Kush Bhandari
kush.bhandari@icicisecurities.com

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials (₹ Crore)	FY23	FY24	FY25	FY26	3-year CAGR (FY23-26)	FY27E	FY28E	2-year CAGR (FY26-28E)
Revenues	252	341	457	603	33.8	783	1,018	29.9
EBITDA	72	117	161	225	46.1	290	381	30.0
EBITDA margin (%)	28.7	34.2	35.3	37.4		37.0	37.4	
Net Profit	8	59	87	134	150.7	164	225	29.7
EPS (Rs)	1.3	9.1	13.5	20.7		25.4	34.8	
P/E (x)	1,706.0	270.1	181.2	118.5		96.4	70.4	
EV/EBITDA (x)	221.8	135.5	95.3	71.4		55.8	42.6	
RoCE (%)	13.0	18.8	8.7	11.0		12.4	14.8	
RoE (%)	4.2	9.1	6.3	8.7		9.7	11.7	

Source: Company, ICICI Direct Research

Q1FY27 Result Summary

- Revenue increased by 25.9% YoY (+6.7% QoQ) to ₹172.6 crore in Q1FY27, led by strong operational execution across segments
- Energy and Oil & Gas revenue grew 26.7% YoY to ₹139.7 crore, while Aerospace & Defence revenue increased 24.7% YoY to ₹29.5 crore
- EBITDA grew 30.7% YoY (+5.0% QoQ) to ₹64.4 crore, with EBITDA margin improving 138 bps YoY to 37.3%, supported by favourable mix and operating leverage
- PAT increased 19.5% YoY (-4.5% QoQ) to ₹35.2 crore

Q1FY27 highlights

- Management highlighted that Q1FY27 marked a strong start to the year, with growth remaining broad-based across the Energy, Oil & Gas (EnO&G) and Aerospace & Defence (A&D) segments
- A&D revenue grew ~38.4% YoY in Q1FY27, supported by higher contribution from global aviation majors and initial benefits from advanced propulsion and defence system deliveries. This segment outlooks strong structural growth opportunities from rising aircraft demand, global supply-chain diversification and increasing defence indigenisation
- EnO&G revenue grew 21.6% YoY, supported by healthy demand for gas-turbine components and the operationalisation of new customer-dedicated production lines. Management sees a strong global upgrade cycle in gas turbines driven by energy security and increasing adoption of advanced turbine technologies.
- Company stated that FY26 was largely a year of capacity creation and stabilisation, with around 80% of the initiatives undertaken during the year now stabilised. The remaining major activities are expected to be completed by H2FY27, with full closure targeted by Q3FY27, following which the company expects a stronger revenue ramp-up from Q3/Q4FY27
- Management reiterated its long-term revenue growth guidance of 25%+ while maintaining a conservative EBITDA margin of 32-35% annually. The company expects to maintain its current profitability profile, while the guidance could be revisited as additional capacities are stabilised and the next phase of opportunities is secured
- Company successfully manufactured, assembled and delivered India's first completely in-house indigenous turbojet engine to GTRE/DRDO and the Ministry of Defence. Management considers this a significant strategic milestone as the company has moved beyond precision component manufacturing towards end-to-end manufacturing, assembly and integration of a complete propulsion system
- The turbojet program is currently in testing, with the next phase expected to start in 4 to 6 weeks, followed by airworthiness certification and production readiness. Management anticipates manufacturing the first 4 to 5 engines in 8 to 12 weeks, emphasizing a transition to production in months rather than years
- While exact production volumes are uncertain, current capacity could support double-digit outputs, while achieving three-digit or four-digit volumes would require additional planning
- Management indicated that Azad continues to work on multiple opportunities with global aerospace OEMs and expects the qualification process for the first batch of parts for Rolls-Royce to be completed within the current quarter. The company expects these programmes to progressively contribute as customer qualifications are completed
- The company inaugurated its fourth dedicated manufacturing facility for Baker Hughes in Apr-26. The 7,600 sq. m facility follows the dedicated facilities established for Mitsubishi, GE Gas Power and Siemens Energy and

is expected to deepen customer integration and provide multi-year volume visibility

- The new Azad Centre of Excellence comprises eight customer-dedicated facilities, with each facility expected to generate around ₹150–180 crore of revenue at full utilisation. This implies potential revenue of roughly ₹1,200–1,440 crore from the new facilities once fully ramped up, although the timing of utilisation will depend on customer qualifications and production schedules
- Management highlighted a significant opportunity into higher value hot-section market (higher than current addressable market), where global OEMs have shown interest in Azad's capabilities. The facility being established for Mitsubishi is expected to be ready in around 7–8 months, after which qualification with other OEMs can begin. Importantly, the same facility is expected to cater to both land-based gas turbines and aviation engine applications
- Management expects the current manufacturing infrastructure to be sufficient for the company's guided growth over the next couple of years. However, given the significant opportunity pipeline, the company has already started evaluating the next phase of capacity requirements, with the larger capex plan likely to become relevant from FY29 onwards.
- Raw material cost as a percentage of sales declined materially, supported by increasing localisation of critical raw materials, while employee costs increased during the quarter as the company has been building manpower ahead of the expected Q3/Q4 production ramp-up
- Working capital is expected to remain elevated at around 200 days during H1FY27 but is targeted to improve to 160–180 days by H2FY27. Management expects bill discounting to reduce debtor days from the current ~170–180 days towards ~90 days, thereby improving operating cash flows.
- Management indicated that the company is evaluating opportunities across multiple sectors rather than relying on a single customer or product category. The opportunity pipeline spans aerospace, defence, energy, turbine components and other precision-engineering applications, providing scope for further diversification of the business.

Exhibit 1: Q1FY27 consolidated result overview (₹ crore)

Particulars	Q1FY27	Q1FY26	YoY (%)	Q4FY26	QoQ (%)	Comments
Operating Income	172.6	137.1	25.9	161.5	6.8	Healthy execution in-line with management guidance
Other income	3.5	8.7		16.6		
Total Revenue	176.1	145.8		178.1		
Raw materials costs	9.7	16.8		11.1		
Employees Expenses	41.7	29.3		38.3		
Other Expenses	56.8	41.8		50.8		
Total Expenditure	108.2	87.9		100.2		
EBITDA	64.4	49.2	30.7	61.3	5.0	
EBITDA margins (%)	37.3	35.9	138 bps	38.0	-67 bps	Improved on account of favorable mix and operating leverage
Interest	10.3	5.9		9.9		
Depreciation	18.6	10.1		16.8		
Tax	3.8	12.4		14.4		
PAT	35.2	29.4	19.5	36.8	-4.5	

Source: Company, ICICI Direct Research

Financial summary

Exhibit 2: Profit and loss statement ₹ crore

(₹Crore)	FY25	FY26	FY27E	FY28E
Revenue	457	603	783	1,018
% Growth	34.2	31.8	29.8	30.0
Other income	10.6	45.7	52.5	58.8
Total Revenue	457	603	783	1,018
% Growth	34.2	31.8	29.8	30.0
Total Raw Material Costs	64	58	67	87
Employee Expenses	93	136	176	220
other expenses	139	184	250	330
Total Operating Expenditure	296	378	493	637
Operating Profit (EBITDA)	161	225	290	381
% Growth	38.4	39.7	28.7	31.3
EBITDA Margin	35.3	37.4	37.0	37.4
Interest	18	31	41	43
PBDT	154	240	301	396
Depreciation	29	53	71	81
PBT before Exceptional Items	124	187	230	315
Total Tax	37	54	66	90
PAT before MI	87	134	164	225
PAT	87	134	164	225
% Growth	49.1	52.9	22.9	36.8
Diluted EPS	13.5	20.7	25.4	34.8

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

(₹Crore)	FY25	FY26	FY27E	FY28E
Profit after Tax	87	134	164	225
Depreciation	29	53	71	81
Interest	18	31	41	43
CF before WC chg.	135	217	276	349
Changes in inventory	(56)	(140)	(46)	(43)
Changes in debtors	(54)	(88)	(74)	(74)
Changes in loans & adv	-	-	-	-
Changes in other CA	(24)	(74)	(4)	(59)
Net Inc. in Curr. Assets	(137)	(305)	(124)	(178)
Changes in creditors	30	5	33	49
Changes in provisions	0	0	-	-
Net Inc. Curr. Liabilities	72	(20)	34	51
Net CF from Op act.	70	(108)	187	222
Chg. in def. tax assets	-	-	-	-
(P)/S of Fixed Assets	(248)	(573)	(200)	(180)
Net CF from Inv act.	(281)	(588)	(225)	(212)
Div. and Dividend Tax	-	-	-	-
Net CF from Fin Act.	849	184	2	(43)
Net Cash flow	638	(512)	(37)	(33)
Opening Cash/Cash Eq	59	697	185	148
Closing Cash/ Cash Eq	697	185	148	115

Source: Company, ICICI Direct Research

Exhibit 4: Balance sheet ₹ crore

(₹ Crore)	FY25	FY26	FY27E	FY28E
Equity Capital	12.9	12.9	12.9	12.9
Reserve and Surplus	1,381	1,516	1,676	1,901
Total Sh. funds	1,394	1,529	1,689	1,914
Total Debt	244	457	507	507
Total Liabilities	1,704	2,073	2,283	2,508
Gross Block	505	905	1,242	1,422
Acc: Depreciation	89	142	213	294
Net Block	417	763	1,029	1,127
Capital WIP	80	257	120	120
Total Fixed Assets	516	1,036	1,168	1,267
Non-Curr. Assets	148	184	209	242
Inventory	189	329	375	418
Debtors	223	312	386	460
Other Curr. Assets	84	158	162	221
Cash	697	185	148	115
Total Current Assets	1,197	989	1,076	1,221
Current Liabilities	80	85	118	167
Provisions	90	91	91	92
Total Curr. Liab.	157	136	170	222
Net Current Assets	1,040	853	906	999
Total Assets	1,704	2,073	2,283	2,508

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

(Year-end March)	FY25	FY26	FY27E	FY28E
Diluted EPS	13.5	20.7	25.4	34.8
Cash per Share	107.9	28.6	22.9	17.8
BV	215.8	236.7	261.5	296.3
EBITDA Margin	35.3	37.4	37.0	37.4
PAT Margin	19.1	22.2	21.0	22.1
RoE	6.3	8.7	9.7	11.7
RoCE	8.7	11.0	12.4	14.8
RoIC	14.0	9.6	10.7	13.0
EV / EBITDA	95.3	71.4	55.8	42.6
P/E	181.2	118.5	96.4	70.4
EV / Net Sales	33.6	26.7	20.7	15.9
Sales / Equity	0.3	0.4	0.5	0.5
Market Cap / Sales	34.6	26.2	20.2	15.5
Price to Book Value	11.4	10.3	9.4	8.3
Asset turnover	0.3	0.3	0.4	0.4
Debtors Turnover Ratio	2.3	2.3	2.2	2.4
Creditors Turnover Ratio	7.0	7.3	7.7	7.1
Debt / Equity	0.2	0.3	0.3	0.3
Current Ratio	3.3	6.1	5.6	5.2
Quick Ratio	2.1	3.6	3.3	3.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

Pankaj Pandey	Head – Research	pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Jeetu Jawrani Email address: headservicequality@icicidirect.com Contact Number: 18601231122

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