Azad Engineering (AZAENG)

CMP: ₹ 2422 | Target ₹ 2960 (22%) | Target Period: 12 months | BUY

November 7, 2026

Capacity expansion nearing fruition; growth set to accelerate...

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

Investment Rationale:

- **Multiple structural growth engines along with upcoming programmes could drive sustained >25% growth:** Azad is entering a new growth phase, with all six customer-dedicated facilities commissioned across 44,800 sq. m. and the major investments in infrastructure, machinery and manpower now in place. Management expects the installed capacity is to support an annual revenue run rate of over ₹1,300 crore by FY28-end, with revenue ramp-up expected from Q4FY27E and full utilisation by H1FY28E. The existing business continues to benefit from strong global demand, with H1FY27 Energy & Oil and Gas and Aerospace & Defence revenues growing 28.5% and 28.3%, respectively. In addition, the company is moving up the value chain through Rolls-Royce, Pratt & Whitney and Safran aero-engine programmes, an eight-year Mitsubishi Heavy Industries hot-section contract and indigenous defence engine development with GTRE. With current contract visibility of ~₹6,500 crore over 5-7 years and scope to increase its wallet share with existing OEMs, management remains confident of sustaining annual revenue growth of over 25%.
- Increasing technological complexity and operating leverage can sustain superior margins as Azad moves up the value chain: Azad's capabilities are expanding from precision components towards higher-value and complex assemblies, including aero-engine airfoils, hot-section components and complete defence engine integration. Despite carrying costs associated with newly commissioned facilities, EBITDA margin improved 150 bps YoY to 37.5% in Q2FY27, supported by operating leverage, local sourcing and backward integration. Management expects the largely established cost base to be absorbed as revenue ramps up, supporting further profitability improvement. 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. The company's focus on automation, lean manufacturing and higher-value programmes should further support growth over the medium term.

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)

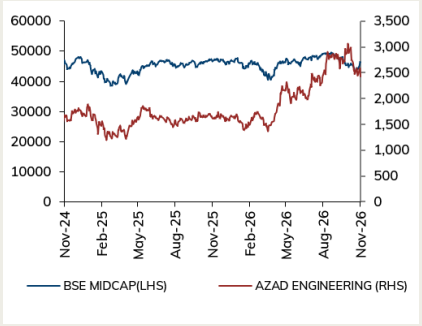
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	15,642
FY26 Gross Debt (₹ Crore)	457
ssFY26 Cash (₹ Crore)	185
EV (₹ Crore)	15,914
52 Week H/L (₹)	3128 / 1359
Equity Capital	12.9
Face Value	2.0

Shareholding pattern

	Dec-25	Mar-26	Jun-26	Sep-26
Promoter	55.8	55.8	55.8	55.8
FII	15.3	14.8	13.3	12.7
DII	10.7	11.7	10.3	10.4
Others	18.1	17.7	20.5	21.1

Price Chart



Key risks

i. Dependency on limited customers
ii. Raw material unavailability
iii. Significant revenue from exports
iv. Change in technology

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Result Update

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)	1,686.5	267.1	179.1	117.1		95.3	69.6	
EV/EBITDA (x)	219.3	134.0	94.1	70.6		55.2	42.1	
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

Q2FY27 Result Summary

- Revenue increased by 31% YoY (+10.6% QoQ) to ₹191 crore in Q2FY27, supported by the ramp-up of newly commissioned capacities and continued demand across its 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 37.5% YoY (+12.3% QoQ) to ₹72.3 crore, with EBITDA margin expanding by 177 bps YoY (+56 bps QoQ) to 37.9%, reflecting operating leverage from higher business volumes. PAT declined 5.2% YoY (-12.0% QoQ) to ₹30.9 crore, primarily due to higher costs in capacity expansion
- For H1FY27, revenue from operations increased 28.6% YoY to ₹363.5 crore, EBITDA grew 34.3% to ₹136.6 crore, with margins expanding to 37.6%, while PAT increased 6.5% to ₹66.1 crore

Q2FY27 concall highlights

- Management reiterated its long-term annual revenue growth guidance of over 25%. It highlighted that demand is not a constraint, with the focus now shifting towards converting commissioned capacity into revenue. Historically, Q3 and Q4 have been the stronger quarters, and the company expects this trend to continue.
- Energy, Oil & Gas remained the largest contributor, with H1FY27 revenue growing 28.5% YoY to ₹290.5 crore, contributing over 81% of revenue. Aerospace & Defence revenue grew 28.3% to ₹60.4 crore, contributing 16.8% of revenue.
- Domestic revenue increased over 2.5x to ₹53 crore, taking its contribution to 12% from 6%. Exports contributed 88% of Q2 revenue, and management expects this to remain above 85%
- Management stated that the company has completed the major capacity-building phase, with all six customer-dedicated facilities commissioned across 44,800 sq. m. for Mitsubishi Heavy Industries, GE Vernova, Siemens Energy and Baker Hughes. Two additional GE Vernova facilities were inaugurated in September, taking its dedicated facilities to three
- The company has completed the deployment of capital, machinery installation, hiring and training of skilled manpower, and procurement of raw materials, tooling and consumables. Multiple delta qualifications are currently underway across customer facilities. These are shorter revalidation processes required when qualified parts or machines are shifted to a new facility, rather than full product qualifications
- Management expects throughput from the newly commissioned capacity to improve from Q3FY27, with revenue ramp-up beginning from Q4FY27 as customer approvals are completed. All plants are expected to be fully ramped up by H1FY28. The existing installed capacity is expected to support an annual revenue run rate (ARR) of over ₹1,300 crore by the end of FY28E
- The company secured a two-year rate contract worth approximately ₹52.68 crore with BHEL for gas turbine airfoils, strengthening its presence in India's domestic power-sector indigenisation opportunity. Baker Hughes' supply agreement has also been extended until 2030, while the ramp-up of its dedicated oil & gas facility is expected to add to growth from Q4FY27
- In aerospace, the company is progressing with aero-engine airfoil programmes for Rolls-Royce, Pratt & Whitney and Safran. Qualification of two Rolls-Royce engine programmes is in the final stages, with the first qualification batch expected shortly and production deliveries likely to commence from the next fiscal year. The required production CapEx has already been deployed.

- The company is also moving up the value chain into hot-section components, including nozzle vane segments for Mitsubishi Heavy Industries under an eight-year single contract. Management highlighted this as a significant opportunity, with further details expected as the programme progresses. It is also exploring dedicated manufacturing facilities for aerospace customers, like the model adopted for energy customers.
- In defence, Azad has delivered India's first indigenous expendable turbojet engine to GTRE, demonstrating its end-to-end manufacturing, assembly and integration capabilities. Engine testing is ongoing, with the second engine expected to be delivered shortly. Management indicated that successful testing and subsequent weapon integration would be key milestones towards production, although the programme remains subject to testing and customer timelines.
- The company's current contract visibility stands at approximately ₹6,500 crore representing rolling customer demand across products and programmes over the next 5-7 years.
- Management indicated that energy and oil & gas are expected to contribute around 55-60% of revenue by FY30-31, with the balance coming from aerospace and defence. The company currently caters to less than 2% of the wallet share of its customers, providing scope to increase participation through additional product qualifications and higher production volumes.
- The company is evaluating further growth opportunities through selective acquisitions, manufacturing of larger components, full-stack production and co-location with key OEMs. The land is available for the next phase of expansion, with further CapEx decisions expected to be linked to customer visibility and programme requirements beyond FY29.
- Management is taking steps to improve working-capital efficiency. One OEM has agreed to provide a 50% advance against purchase orders. Further, bill-discounting facilities with are expected to be utilised from Q4FY27 to reduce debtor days.
- Management indicated that replacement cycles provide recurring demand for turbine components, with cold-section gas-turbine parts typically replaced every 10-12 years and steam-turbine parts every 16-18 years.

Exhibit 1: Q2FY27 consolidated result overview (₹ crore)

Particulars	Q2FY27	Q2FY26	YoY (%)	Q1FY27	QoQ (%)	Comments	H1FY27	H1FY26	YoY (%)
Revenue from operations	190.9	145.6	31.1	172.6	10.6	Execution remained strong across segments	363.5	282.7	28.6
Other income	4.2	12.2		3.5			7.7	20.9	
Total Revenue	195.1	157.9		176.1			371.3	303.7	
Raw materials costs	8.4	17.2		9.7			18.1	34.0	
Employees Expenses	51.7	33.7		41.7			93.4	63.0	
Other Expenses	58.5	42.2		56.8			115.3	84.0	
Total Expenditure	118.7	93.1		108.2			226.9	180.9	
EBITDA	72.3	52.5	37.5	64.4	12.3		136.6	101.8	34.3
EBITDA margins (%)	37.9	36.1	177 bps	37.3	56 bps	Margins improved despite capacity expansions	37.6	36.0	159 bps
Interest	12.4	6.7		10.3			22.8	12.6	
Depreciation	22.5	11.7		18.6			41.1	21.8	
Tax	10.6	13.8		3.8			14.4	26.3	
PAT	30.9	32.6	-5.2	35.2	-12.0		66.1	62.0	6.5

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	94.1	70.6	55.2	42.1
P/E	179.1	117.1	95.3	69.6
EV / Net Sales	33.2	26.4	20.4	15.8
Sales / Equity	0.3	0.4	0.5	0.5
Market Cap / Sales	34.2	25.9	20.0	15.4
Price to Book Value	11.2	10.2	9.3	8.2
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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