Azad Engineering Limited

July 23, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	145.00	CARE A; Stable	Upgraded from CARE A-; Stable
Long-term / Short-term bank facilities	35.00	CARE A; Stable / CARE A2+	LT rating upgraded from CARE A-; Stable and ST rating reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Revision in ratings assigned to bank facilities of Azad Engineering Limited (AEL) derive strength from its experienced promoters and leadership team, established relationships with reputed original equipment manufacturers (OEMs), a proven track record of supplying mission/ life-critical components, and advanced manufacturing infrastructure. Ratings also factor in the company's consistent revenue growth in FY25 (FY refers to April 01 to March 31), healthy profitability margins, comfortable financial profile despite a moderate increase in leverage, and AEL's presence in critical segments such as energy, defence, aerospace, and oil and gas.

The company is among the few suppliers with a broad portfolio of 3D products (airfoil) used in critical applications across the energy, defence, aerospace, and oil and gas sectors. One of its key offerings is airfoil for utility supply turbines, which are engineered for failsafe performance. AEL has successfully completed qualification for over 1,700 products through rigorous testing processes conducted by OEMs. These products are subsequently taken in production under long-term contracts, typically spanning 4-5 years, depending on order volume and machine availability at AEL.

AEL has consistently executed orders over the last five years, resulting in a steady improvement in its total operating income (TOI), which increased from ₹123.12 crore in FY21 to ₹343.20 crore in FY24, and further to ₹457.49 crore in FY25. Throughout this period, the company has consistently maintained healthy profitability, with PBILDT margins remaining above 25%.
However, ratings are constrained by elongated working capital cycle due to lengthy qualification process and commercialisation and project risk associated with large-sized debt-funded capex.

The company's working capital cycle remained elongated due to increased receivables and inventory holding. The rise in inventory levels was driven by higher requirements for products under development, particularly those involving customised alloys that must be procured in bulk. This is expected to normalise with the commencement of serial production. Receivables also remained elevated, reflecting the nature of operations and extended credit terms in export markets. Meanwhile, the creditor period remained largely stable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Substantial improvement in scale of operations by leveraging newly added capacity while maintaining profit before interest, lease rentals, depreciation and taxation (PBILDT) margin at current level.
- Sustained improvement in return on capital employed (ROCE) to above 20%, supported by efficient capital deployment and healthy profitability.

Negative factors

- Inability to scale up operations and PBILDT margin falling below 30%.
- Operating cycle continuing to remain stretched leading to increased reliance on working capital debt.
- Sustained reduction in PBILDT margins leading to deterioration in debt coverage indicators and debt/PBILDT deteriorating over 2.0x.

Analytical approach: Standalone

Outlook: Stable

Stable outlook assigned considers raising significant equity which is deployed for expansion of its manufacturing capabilities that is expected to help a sustained robust growth in income while maintaining profitability.

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Detailed description of key rating drivers:

Key strengths

Experienced promoters and leadership team

Promoter Rakesh Chopdar brings over 26 years' experience in the precision engineering industry. He has established strong relationships with customers through timely execution, consistent quality, and by securing relevant process certifications. The company's operations are managed by a team of seasoned professionals, each with an average experience of over 17 years in their respective domains, having held key roles in reputed organisations such as Siemens, Godrej Aerospace, and Toshiba.

Consistent growth in revenue with healthy profitability margins

The company's TOI registered a robust compound annual growth rate (CAGR) of 38.84% over four-years ending March 31, 2025, increasing from ₹123.12 crore in FY21 to ₹343.20 crore in FY24, and further to ₹457.49 crore in FY25. This growth has been driven by the consistent supply of high-quality components and a strong focus on quality assurance. A significant portion of the company's revenue is derived from exports, which yield superior profitability margins. As on June 30, 2025, the company has an outstanding order book of ₹6,080 crore, comprising ₹3,500 crore from the energy segment, ₹1,720 crore from aerospace, and the remainder from other segments. This provides strong revenue visibility over the next 5-6 years.

Profitability has remained healthy, with PBILDT margins consistently above 25% over the last five years. In FY25, the PBILDT margin improved to 36.19% (PY: 34.68%), while the profit after tax (PAT) margin increased to 19.35% (PY: 17.07%), driven by a reduction in overall cost of sales. The company continues to maintain superior profitability owing to its focus on manufacturing critical components, limited domestic competition, and the presence of only a few players in the global market.

Comfortable financial profile despite moderate leverage build-up

The company's financial profile remains comfortable, with an overall gearing of 0.18x and a debt-to-equity ratio of 0.14x as on March 31, 2025, compared to 0.06x for both metrics as on March 31, 2024. The increase in leverage in FY25 was primarily due to term loans availed for debt-funded capital expenditure, which raised the total debt from ₹39.43 crore in FY24 to ₹256.99 crore in FY25. Despite the rise in debt, coverage indicators remain satisfactory, with total debt to gross cash accruals (TD/GCA) at 2.07x (PY: 0.45x), PBILDT interest coverage ratio at 9.23x (PY: 2.52x), and total outside liabilities to tangible net worth (TOL/TNW) at 0.30x (PY: 0.23x).

Presence in critical products of energy, aerospace and oil and gas

The company manufactures airfoils used across the energy, defence, aerospace, and oil and gas sectors, where fail-safe performance is critical. Downtime of these turbines can result in disruptions to power transmission grids, making their reliability essential. These blades are produced from single-piece, high-grade metal alloys capable of withstanding extreme temperatures and pressures. AEL has developed the capability to supply such components consistently, maintaining high precision with tolerance levels as low as four to five microns. In the aerospace segment, the company supplies life-critical components such as air generation systems, auxiliary power units, and engine systems to OEMs including Honeywell and GE Aviation. Manufacturing in this domain demands the use of lightweight materials that retain structural integrity across a wide range of temperatures, pressures, and altitudes.

Established relationships with reputed OEMs

AEL has established long-term contracts with reputed customers across domestic and international markets. Its operations are structured around three key business verticals including energy, aerospace, and oil and gas. In the energy segment, the company supplies components to prominent OEMs such as GE, Mitsubishi, Arabelle, MAN, BHEL, Siemens, and Toshiba. In the aerospace segment, its clientele includes Honeywell, GE Aviation, Eaton, Boeing, Rolls Royce, Baker Hughes, Pratt & Whitney, Rafael, and HAL, among others. Export sales are well diversified across geographies including the US, UK, Europe, Japan, and the Middle East. Notably, there are no other qualified domestic suppliers for such components, as product and process qualification in this domain is capital-intensive and time-consuming. Over the past decade, AEL secured over 1,700 product qualifications and over 45 process qualifications, providing a significant competitive advantage. AEL is one of only four major global players offering similar high-precision components, alongside AECC Aero Science & Tech, Pietro Rosa, and Wuxi.

Established track record and advanced infrastructure
The company has an established manufacturing facility in Hyderabad and has been consistently expanding its capacity since FY2018. The infrastructure currently includes a Forge Shop, Heat Treatment Shop, Hi-Tech CNC Machines, a state-of-the-art Laboratory and Inspection Facility, a Heavy Machining Shop, and advanced manufacturing software. It holds several international certifications, including National Aerospace and Defence Contractors Accreditation Program (NADCAP), ISO 9001:2015 (QMS), AS9100 D, ISO 14001:2015 (EMS), BS 45001:2018 (OHSAS), and ISO 27001:2013 (ISMS). The company has also been certified by EDF, France, for the supply of components for nuclear turbines. Since inception, it has been a qualified OEM for its several clients.

Key weaknesses
Lengthy qualification process and commercialisation thereof
AEL serves the energy, aerospace, defence, and oil and gas sectors, industries characterised by lengthy and stringent qualification processes due to the critical nature of component applications. Each component must undergo rigorous validation, requiring sustained capital investment in product development and financial resilience to navigate the development phase. This process must be continuously undertaken to diversify the product portfolio and end-user sectors.

Elongated working capital cycle
The company's working capital cycle remained elongated at 287 days as on March 31, 2025, compared to 257 days in the previous year, primarily considering increased receivables and inventory holding periods. The average inventory holding period rose to 209 days (PY: 184 days), driven by higher inventory requirements for products under development that involve customised alloys, which must be procured in bulk due to minimum order quantity constraints. This is expected to normalise once serial production begins. The average collection period also remained elevated at 157 days in FY25 (PY: 153 days) and is likely to stay stretched considering operations, with export receivables subject to extended credit terms of 120–180 days. Meanwhile, the average creditor period remained stable at 79 days in FY25 (PY: 80 days).

Project risk associated with large-sized debt-funded capex
The company is currently enhancing its installed capacity through the establishment of a new manufacturing facility. The estimated capital expenditure for the plant and machinery installation is ~₹207.69 crore, predominantly funded through debt. Of this, ₹139 crore is being financed by a consortium of three banks, including Union Bank of India (₹57 crore), IndusInd Bank (₹43 crore), and ICICI Bank (₹39 crore). The remaining ₹41 crore is expected to be funded through internal accruals. The project is at an advanced stage and is expected to be completed by the end of September 2025. However, it remains exposed to execution risk, and time or cost overruns could exert pressure on the company's liquidity, a key monitorable for CARE Ratings Limited (CareEdge Ratings). The company maintains healthy PBILDT margins of over 30%, and is expected to generate sufficient cash accruals to meet its capex commitments.

In Q4-FY25, the company issued and allotted 54,68,750 equity shares (face value ₹2 each) to qualified institutional buyers (QIBs) at an issue price of ₹1,280 per share, aggregating ₹700 crore. The net proceeds amounted ₹681.21 crore after deducting fees, commissions, and issue-related expenses of ₹18.79 crore. The QIP proceeds will be utilised for capacity expansion, with ~₹560 crore allocated for machinery and the balance for infrastructure development. The expansion is expected to be completed over the next 12 to 18 months, with operations to commence in FY28. The company does not anticipate the need to deploy internal accruals for this expansion. Of the net proceeds, ₹43.67 crore was utilised towards funding and part-funding of capital expenditure and general corporate purposes. The unutilised balance of ₹637.54 crore as of March 31, 2025, was temporarily invested as deposits with banks. Of this, ~₹153 crore was utilised in Q1 FY26 for the purchase of machinery, ₹4.70 crore towards general cost of borrowing, and the remaining balance has been parked in fixed deposits.

Liquidity: Adequate
The company's liquidity position is adequate, backed by healthy cash accruals relative to its debt repayment obligations. The debt service coverage ratio (DSCR) is expected to remain comfortable and above unity in FY26–FY28. With a gearing ratio below unity, the company retains sufficient headroom to raise additional debt, if required. Average utilisation of working capital limits stood at a moderate ~84% for the 12 months ended May 31, 2025, supported by a strong current ratio of 5.00x as on March 31, 2025. The company maintained a robust cash and liquid investment balance of ₹58.76 crore as on March 31, 2024, which significantly increased to ₹695.62 crore as on March 31, 2025, primarily due to proceeds from issue of equity shares in FY25.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks

Parameters	Risk factors
Environmental	The company has valid TSPCB consent for compliance of pollution norms. The coolant used in the process of manufacturing is recycled and disposed of through approved vendors.
Social	The board approved CSR spending of ₹81.90 Lakh in FY25 vs ₹47.20 Lakh in FY24. The areas for CSR activities are Education, Health and Wellness. CSR committee has been formed by the company per the Act. Funds are utilised through the year on these activities.
Governance	Azad Engineering Limited's senior leadership comprises a well-structured board with diversity in expertise and industry background. As on March 31, 2025, the board consists of eight members, including two women directors and four independent directors. The board through its constituted committees, oversees the company's ESG initiatives and performance. Regulatory compliance risk is managed through a structured internal governance and compliance framework aligned with applicable statutory and regulatory requirements.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Capital goods	Industrial manufacturing	Industrial products

AEL incorporated by Rakesh Chopdar in 1983, is engaged in manufacturing precision forged and machined components for clean energy, aerospace, defence, oil and gas, standalone power supply (SPS) as required by OEMs, with its manufacturing unit in Hyderabad. The company manufactures all types of blades for radial and axial flow. The company's infrastructure includes a Forge Shop, Heat Treatment Shop, Hi-Tech CNC Machines, State of the art Laboratory, State of the art Inspection Facility, Heavy Machining Shop, and Manufacturing software among others. The company obtained international certifications, including National Aerospace and Defense Contractors Accreditation Program (NADCAP), ISO 9001:2015 (QMS), AS9100 D, ISO 14001: 2015 (EMS), BS 45001: 2018 (OHSAS) and ISO 27001: 2013 (ISMS) for its facilities. It has recently been certified for the supply of components for nuclear turbines from EDF, France.

Particular	March 31, 2023 (A)	March 31, 2024 (A)	March 31, 2025 (A)
Total operating income	257.69	343.20	457.49
PBILDT	77.07	119.02	165.55
PAT	8.51	58.58	88.53
Overall gearing (times)	0.38	0.06	0.18
Interest coverage (times)	1.51	2.52	9.23

A: Audited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	29-Feb-2032	145.00	CARE A; Stable
Fund-based - LT/ ST-Packing Credit in Foreign Currency		-	-	-	35.00	CARE A; Stable / CARE A2+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2025-2026	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023
1	Debentures-Non-convertible debentures	LT	-	-	-	-	1)Withdrawn (07-Apr-23)	1)CARE BBB+; Stable (03-Mar-23)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (22-Mar-24) 2)CARE BBB+; Stable (07-Apr-23)	-
3	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (22-Mar-24) 2)CARE BBB+; Stable (07-Apr-23)	-
4	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	1)Withdrawn (22-Mar-24) 2)CARE BBB+; Stable (07-Apr-23)	-
5	Fund-based - LT-Term Loan	LT	145.00	CARE A; Stable	-	1)CARE A-; Stable (07-Nov-24)	-	-
6	Fund-based - LT/ ST-Packing Credit in Foreign Currency	LT/ST	35.00	CARE A; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (07-Nov-24)	-	-

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - LT/ ST-Packing Credit in Foreign Currency	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CareEdge Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Karthik Raj K Director **CARE Ratings Limited** Phone: +91-80- 4662 5555 E-mail: karthik.raj@careedge.in Niraj Thorat Assistant Director **CARE Ratings Limited** Phone: 914040102030 E-mail: Niraj.Thorat@careedge.in Bhushanreddy Ankilla Lead Analyst **CARE Ratings Limited** E-mail: Bhushanreddy.ankilla@careedge.in

About us:

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