

IPO Report

“Subscribe with Caution” to
eMudhra Ltd.



IPO Report

Salient features of the IPO:

- Digital signature certificate provider, **eMudhra Ltd.** (EML), is coming up with an IPO to raise around Rs. 413cr, which opens on 20th May and closes on 24th May 2022. The price band is Rs. 243 - 256 per share.
- The company on 5th May 2022, has executed a pre-IPO placement of 0.16cr shares at Rs. 243.2 for a total consideration of Rs. 39cr. Consequently, it has reduced the fresh issue size from Rs. 200cr (as indicated in the DRHP) to the current size of Rs. 161cr.
- The IPO is a combination of fresh issue and OFS portion. The company will not receive any proceeds from the OFS portion. Of the fresh issue net proceeds, Rs. 46.4cr to be used for setting-up data centers; Rs. 40.2cr will be utilized to fund the working capital; Rs. 35cr will be used for the repayment/prepayment of the borrowings; Rs. 15.3cr to be used for augmenting business development in the US and another Rs. 15cr to be used for product development.

Key competitive strengths:

- Largest licensed certifying authority in India
- A one stop shop solution provider in secure digital transformation and well-positioned to capture the favorable industry dynamics in India and globally
- Technology certifications, accreditations and membership in international bodies
- Technology backed infrastructure to support quality and security of services & solutions
- Diverse, longstanding and growing customer base
- Partnerships with leading Indian and global channel partners and enterprise solution partners
- Experienced promoter, board of directors and senior management team

Risk and concerns:

- Unfavorable government policies and regulations
- Difficulty in adapting to the rapid changing technology standards and customer requirements
- Difficulty in expanding the international operations
- Competition

Below are the key highlights of the company:

- EML is the largest licensed certifying authority in India with a market share of 37.9% in the digital signature certificates market in FY21. It is the only Indian company to be admitted as a member of European Cloud Signature Consortium as well as Certifying Authority / Browser Forum, a global forum that governs the use of SSL/TLS certificates.
- The company is also the only Indian company to be directly recognized by renowned browsers and document processing software companies such as Microsoft, Mozilla, Apple and Adobe, thereby allowing it to sell digital identities to individual/organization and issue SSL/TLS certificates for website authentication, globally. Further EML is the only Indian company to be accredited to Webtrust which makes its digital signature certificates directly recognized by browsers across the world and allowing it to issue digital signature certificates in many countries.
- EML is one of the largest players in the domestic digital trust services market with a market share of 17.8%. Further, it also had a 19% market share in the domestic digital transformation solutions market in FY21. The company's experience in the digital secure & paperless transformation segment has enabled it to identify and capitalize the market opportunity offered by the Indian digital certificates market and serve all kind of subscribers who use digital certificates for income tax return filing, filings to be made with Registrar of Companies, tenders, foreign trade, banking, railways etc. EML works closely with large government and banking customers, +20 public & private sector banks and state governments.

Recommendation	Subscribe with Caution
Price band	Rs. 243 - 256 per share
Face value	Rs. 5
Shares for fresh issue	0.629 - 0.663cr shares
Shares for OFS	0.984cr shares
Fresh issue size	Rs. 161cr
OFS issue size	Rs. 239 - 251.8cr
Total issue size	1.612 - 1.646cr shares (Rs. 400 - 412.8cr)
Bidding date	20 th May - 24 th May 2022
MCAP at higher price band	Rs. 1,999cr
Enterprise value	Rs. 2,044cr
Book running lead manager	IIFL Securities Ltd., YES Securities (India) Ltd. and Indorient Financial Services Ltd.
Registrar	Link Intime India Pvt. Ltd.
Sector	IT Enabled Services
Promoters	Mr. Venkatraman Srinivasan and Taarav Pte. Ltd.

Issue breakup		
Category	Percent of issue (%)	Number of shares
QIB portion	50%	0.806 - 0.823cr shares
Non institutional portion	15%	0.242 - 0.247cr shares
Retail portion	35%	0.564 - 0.576cr shares

Indicative IPO process time line	
Finalization of basis of allotment	27 th May 2022
Unblocking of ASBA account	30 th May 2022
Credit to demat accounts	31 st May 2022
Commencement of trading	1 st Jun. 2022

Pre and post - issue shareholding pattern		
	Pre-issue	Post-issue
Promoter & promoter group	79.19%	62.81%
Public	12.37%	29.43%
Non-promoter and non-public	8.44%	7.76%
Total	100.00%	100.00%

Retail application money at higher cut-off price per lot	
Number of shares per lot	58
Application money	Rs. 14,848 per lot

Analyst	
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Key highlights of the company (Contd...):

- The company is engaged in the business of providing digital trust services and enterprise solutions to individuals and organizations functioning in various sectors. Under digital trust services, it issues a range of certificates including individual/organizational certificates, SSL/TLS certificates and device certificates (used in IoT use cases) to build a digital trust backbone. Under the enterprise solutions vertical, EML offers a diverse portfolio of digital security & paperless transformation solutions to customers engaged in different sectors, thereby making itself as a “one-stop-shop” player in secure digital transformation market.
- With solid presence in the domestic market, the company is taking strategic efforts to expand into foreign regions like Middle-East, APAC, Americas and Europe. Over FY19-21, business from overseas has increased by 58% CAGR. As of FY21, overseas business was around 20% of the total revenue.
- Since the inception of the business, EML has issued over 5cr digital signature certificates through a network of 91,259 channel partners spread across India. Over FY19-21, its retail and enterprise customer base has increased by 40.3% and 44.2% CAGR. As of 31st Dec. 2021, the company catered to 14.3lakh retail and 626 enterprise customers.
- Over FY19-21, EML has demonstrated a sustained growth in the business and almost stability in the operating margins. On the back of 58% CAGR rise in the business from the overseas operations, the company has reported a 13.8% CAGR rise in consolidated top-line to Rs. 131.6cr in FY21. During the period, business from domestic operations increased by 7.8% CAGR. Total operating expenditure increased by 15% CAGR (higher than the top-line growth), leading to a 137bps contraction in the EBITDA margin during the period. Consolidated EBITDA increased by 11.3% CAGR to Rs. 39.9cr in FY21. Depreciation charge increased by 1.6% CAGR, higher financial liabilities led to a 78.5% CAGR rise in the finance costs. Consolidated PAT before minority interest increased by 20.6% CAGR, while on account of relatively higher share of minority interests, earnings attributable to the shareholders was flat over FY19-21 to Rs. 17.5cr in FY21.
- Over FY19-21, the company has reported a positive cash flow from operations, which has increased by 56.2% CAGR. Average operating cash flow during the period stood at Rs. 27cr. Financial liabilities increased by 35.1% CAGR with debt-to-equity ratio increasing from 0.4x in FY19 to 0.5x in FY21. Average RoIC and RoE stood at 17.6% and 20%, respectively, during the period.

Peer comparison and valuation: The Covid-19 pandemic has forced the organizations for the faster adoption of digital solutions like digital identity, security and paperless transformation solutions. We feel that this trend will continue and players like EML, which is a “one-stop-shop” player in secure digital transformation is expected to benefit from the growth in the addressable market.

There are no listed peers having business similar to EML. At higher price band of Rs. 256, the company is demanding a P/E multiple of 114.5x (to its FY21 earnings of Rs. 2.2 per share), which seems to be high. Annualizing the 9M FY22 performance, the demanded P/E multiple comes out to be 49x. Also considering the current turbulence in the global equity market, we assign a “**Subscribe with Caution**” rating for the issue.

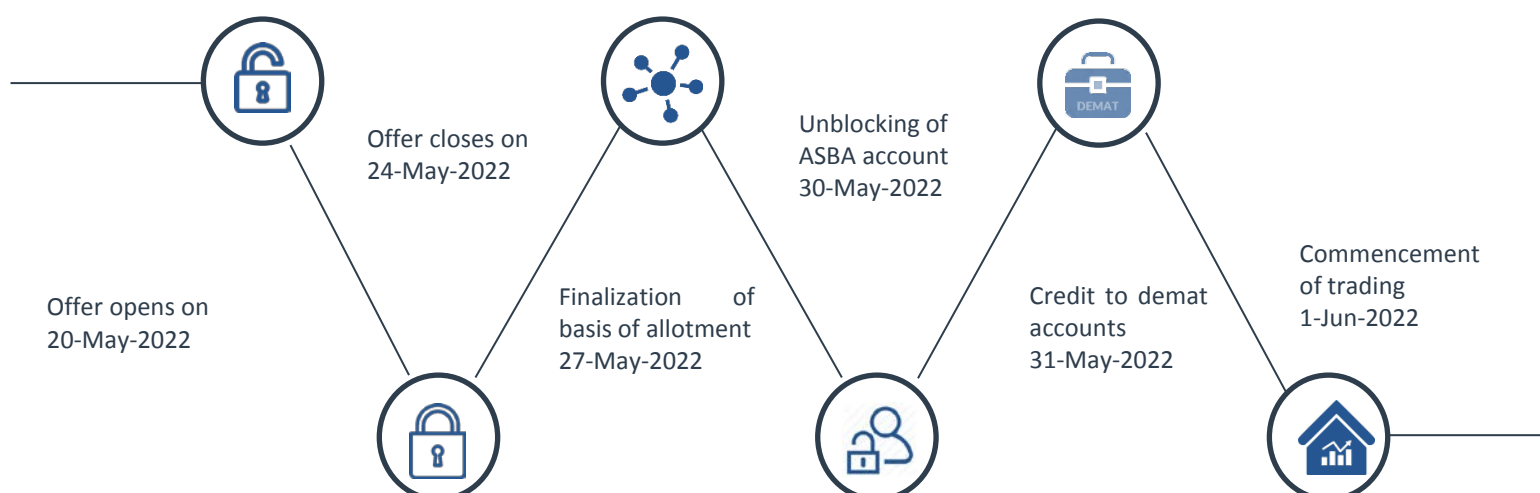
About the issue:

- EML is coming up with an IPO with 1.612 - 1.646cr shares (fresh issue: 0.629 - 0.663cr shares; OFS shares: 0.984cr shares) in offering. The offer represents around 20.7% of its post issue paid-up equity shares of the company. Total IPO size is Rs. 400 - 412.8cr.
- The issue will open on 20th May 2022 and close on 24th May 2022.
- The issue is through book building process with a price band of Rs. 243 - 256 per share.
- The company on 5th May 2022, has executed a pre-IPO placement of 0.16cr shares at Rs. 243.2 for a total consideration of Rs. 39cr. Consequently, it has reduced the fresh issue size from Rs. 200cr (as indicated in the DRHP) to the current size of Rs. 161cr.
- The IPO is a combination of fresh issue and OFS portion. The company will not receive any proceeds from the OFS portion. Of the fresh issue net proceeds, Rs. 46.4cr to be used for setting-up data centers; Rs. 40.2cr will be utilized to fund the working capital; Rs. 35cr will be used for the repayment/prepayment of the borrowings; Rs. 15.3cr to be used for augmenting business development in the US and another Rs. 15cr to be used for product development.
- 50% of the net issue are reserved for qualified institutional buyers, while 15% and 35% of the net issue is reserved for non-institutional bidders and retail investors, respectively.
- Promoter currently holds 100.00% stake in the company and post-IPO this will come down to 56.10%. Public holding will increase from current nil to 43.90%.

Pre and post-issue shareholding pattern (%)		
	Pre-issue	Post-issue (at higher price band)
Promoter & promoter group	79.19%	62.81%
Public	12.37%	29.43%
Non-promoter and non-public	8.44%	7.76%

Source: Choice Equity Broking

Indicative IPO process time line:



Financial performance:

Performance over FY19-21: Over FY19-21, EML has demonstrated a sustained growth in the business and almost stability in the operating margins. On the back of 58% CAGR rise in the business from the overseas operations, the company has reported a 13.8% CAGR rise in consolidated top-line to Rs. 131.6cr in FY21. During the period, business from domestic operations increased by 7.8% CAGR.

Total operating expenditure increased by 15% CAGR (higher than the top-line growth), leading to a 137bps contraction in the EBITDA margin during the period. In FY21, EBITDA margin stood at 30.3%, while over FY19-21, the average margin was 29.8%. Consolidated EBITDA increased by 11.3% CAGR to Rs. 39.9cr in FY21.

Depreciation charge increased by 1.6% CAGR, higher financial liabilities led to a 78.5% CAGR rise in the finance costs. Consolidated PAT before minority interest increased by 20.6% CAGR, while on account of relatively higher share of minority interests, earnings attributable to the shareholders was flat over FY19-21 to Rs. 17.5cr in FY21.

Over FY19-21, the company has reported a positive cash flow from operations, which has increased by 56.2% CAGR. Average operating cash flow during the period stood at Rs. 27cr. Financial liabilities increased by 35.1% CAGR with debt-to-equity ratio increasing from 0.4x in FY19 to 0.5x in FY21. Average RoIC and RoE stood at 17.6% and 20%, respectively, during the period.

Consolidated financial snapshot (Rs. cr)	FY19	FY20	FY21	9M FY22	CAGR over FY19-21	Y-o-Y (Annual)
Trust services	65.4	56.4	67.3	66.4	1.4%	19.2%
Cyber security and digital transformation solutions	36.2	60.0	64.3	70.8	33.4%	7.2%
Revenue from operations	101.6	116.5	131.6	137.2	13.8%	13.0%
EBITDA	32.2	31.9	39.9	49.3	11.3%	25.0%
Reported PAT	17.4	16.6	17.5	30.6	0.1%	4.9%
Adjusted PAT	19.3	16.6	17.5	30.6	-5.0%	4.9%
Restated adjusted EPS	2.5	2.1	2.2	3.9	-5.0%	4.9%
Cash flow from operating activities	16.8	23.2	40.9	22.6	56.2%	76.2%
NOPLAT	19.2	19.1	25.9	32.0	16.1%	35.7%
FCF		(1.4)	19.1			
RoIC (%)	19.6%	15.4%	17.9%	17.9%	(168) bps	249 bps
Revenue growth rate (%)		14.6%	13.0%			
EBITDA growth rate (%)		-0.9%	25.0%			
EBITDA margin (%)	31.7%	27.4%	30.3%	35.9%	(137) bps	291 bps
EBIT growth rate (%)		-1.6%	33.5%			
EBIT margin (%)	23.3%	20.0%	23.7%	28.5%	33 bps	364 bps
Restated adjusted PAT growth rate (%)		-13.9%	4.9%			
Restated adjusted PAT margin (%)	19.0%	14.3%	13.3%	22.3%	(577) bps	(103) bps
Inventory days	3.2	8.4	12.6	17.1	96.9%	49.2%
Debtor days	76.7	70.1	53.1	104.8	-16.8%	-24.2%
Payable days	(53.6)	(60.0)	(65.1)	(127.0)	10.3%	8.6%
Cash conversion cycle	26.3	18.6	0.6	(5.2)	-85.3%	-96.9%
Fixed asset turnover ratio (x)	1.2	1.1	1.0	0.9	-8.5%	-9.9%
Total asset turnover ratio (x)	0.8	0.7	0.7	0.5	-10.2%	-6.5%
Current ratio (x)	1.8	1.7	1.5	1.4	-6.0%	-6.9%
Quick ratio (x)	1.7	1.6	1.5	1.4	-6.3%	-5.8%
Total debt (Rs.)	28.9	43.2	52.8	70.1	35.1%	22.3%
Net debt (Rs.)	26.6	33.9	45.1	56.5	30.1%	32.9%
Debt to equity (x)	0.4	0.5	0.5	0.5	13.4%	5.0%
Net debt to EBITDA (x)	0.8	1.1	1.1	1.1	16.9%	6.3%
RoE (%)	25.6%	18.1%	16.3%	21.8%	(930) bps	(180) bps
RoA (%)	16.2%	10.5%	9.1%	12.0%	(708) bps	(139) bps
RoCE (%)	24.4%	19.9%	20.1%	22.5%	(428) bps	22 bps

Source: Choice Equity Broking



Competitive strengths:

- Largest licensed certifying authority in India
- A one stop shop solution provider in secure digital transformation and well-positioned to capture the favorable industry dynamics in India and globally
- Technology certifications, accreditations and membership in international bodies
- Technology backed infrastructure to support quality and security of services & solutions
- Diverse, longstanding and growing customer base
- Partnerships with leading Indian and global channel partners and enterprise solution partners
- Experienced promoter, board of directors and senior management team

Business strategy:

- Capitalize on industry opportunities in India and maintain leadership in Indian trust services market and as a 'one stop shop' player in secure digital transformations
- Leveraging existing data center infrastructure and setting up new data centers in overseas locations
- Enhance solution offerings to tap growing needs of digital transformation
- Grow presence in overseas markets
- Expand share of revenues among existing customers and broaden partner network and customer base



Risk and concerns:

- Unfavorable government policies and regulations
- Difficulty in adapting to the rapid changing technology standards and customer requirements
- Difficulty in expanding the international operations
- Competition

Financial statements:

Consolidated profit and loss statement (Rs. cr)

	FY19	FY20	FY21	9M FY22	CAGR over FY19 - 21	Annual growth over FY20
Revenue from operations	101.6	116.5	131.6	137.2	13.8%	13.0%
Operating expenses	(11.1)	(13.1)	(12.9)	(8.2)	8.0%	-1.4%
Purchase of stock-in-trade	(20.4)	(25.9)	(18.0)	(27.2)	-6.1%	-30.6%
Changes in stock of finished goods	(0.1)	1.2	(0.8)	1.4	259.6%	-163.4%
Employee benefit expenses	(25.9)	(29.2)	(41.7)	(34.9)	27.0%	42.8%
Other expenses	(12.0)	(17.5)	(18.3)	(19.1)	23.6%	4.6%
EBITDA	32.2	31.9	39.9	49.3	11.3%	25.0%
Depreciation and amortization expense	(8.5)	(8.6)	(8.8)	(10.1)	1.6%	1.9%
EBIT	23.7	23.3	31.2	39.2	14.6%	33.5%
Finance costs	(0.3)	(0.7)	(0.8)	(3.5)	78.5%	25.9%
Other income	0.1	0.3	0.9	1.1	199.5%	146.7%
Exceptional items	(1.9)					
PBT	21.6	23.0	31.2	36.7	20.0%	35.5%
Tax expenses	(4.2)	(4.6)	(5.8)	(6.4)	17.6%	26.5%
PAT before minority interest	17.4	18.4	25.4	30.3	20.6%	37.7%
Minority interest		(1.8)	(7.9)	0.3		346.3%
Reported PAT	17.4	16.6	17.5	30.6	0.1%	4.9%
Adjusted PAT	19.3	16.6	17.5	30.6	-5.0%	4.9%

Consolidated balance sheet statement (Rs. cr)

	FY19	FY20	FY21	9M FY22	CAGR over FY19 - 21	Annual growth over FY20
Equity share capital	35.1	35.1	35.1	35.1	0.0%	0.0%
Other equity	40.6	57.1	72.3	105.4	33.5%	26.7%
Non controlling interests		0.9	9.3	1.0		888.2%
Non current borrowings	19.9	29.0	27.2	31.0	17.0%	-6.1%
Non current lease liabilities			12.8	11.3		
Net deferred tax liabilities	0.3	0.8	1.4	1.0	109.8%	79.9%
Non current provisions	1.9	2.2	3.3	2.3	32.1%	50.6%
Other non current liabilities	1.8	1.6	1.5	0.6	-10.8%	-9.2%
Current borrowings	7.7	12.5	8.7	22.5	6.4%	-30.3%
Current lease liabilities			2.6	2.3		
Other current financial liabilities	1.4	1.7	1.5	3.0	4.9%	-12.1%
Trade payables	4.6	7.8	3.5	16.0	-13.0%	-55.1%
Current provisions	3.3	6.1	9.3	18.5	68.6%	51.8%
Other current liabilities	3.0	4.0	3.6	4.1	9.1%	-10.3%
Total liabilities	119.5	158.7	191.9	254.1	26.7%	20.9%
Property, plant and equipment	15.0	15.0	65.7	66.2	109.0%	338.0%
Intangible assets	46.6	42.3	40.2	48.9	-7.0%	-4.9%
Capital work-in-progress	21.8	40.5	4.5	21.9	-54.5%	-88.9%
Right-of-use assets			13.4	11.2		
Goodwill	0.0	5.2	5.3	2.1		2.0%
Non current investments	0.2	0.1	13.8			
Other non current assets	1.0	2.3	3.7	8.4	93.4%	65.6%
Inventories	0.3	1.5	0.7	2.2	59.7%	-51.2%
Trade receivables	21.3	23.4	14.9	53.2	-16.4%	-36.3%
Current investments		0.1	0.1			-38.0%
Cash and cash equivalents	2.3	9.2	7.7	13.6	81.9%	-16.0%
Current loans	3.1	3.1	3.1	3.1	-1.0%	-1.3%
Other current assets	7.9	16.2	18.8	23.4	54.1%	16.1%
Total assets	119.5	158.7	191.9	254.1	26.7%	20.9%

Source: Choice Equity Broking

Financial statements (Contd...):

Consolidated cash flow statement (Rs. cr)						
	FY19	FY20	FY21	9M FY22	CAGR over FY19 - 21	Annual growth over FY20
Cash flow before working capital changes	30.1	31.3	39.5	47.9	14.4%	26.1%
Working capital changes	(10.3)	(4.0)	5.4	(26.0)		
Cash flow from operating activities	16.8	23.2	40.9	22.6	56.2%	76.2%
Purchase and construction of property, plant and equipment	(38.4)	(22.9)	(20.9)	(34.4)	-26.3%	-8.5%
Cash flow from investing activities	(32.0)	(28.7)	(47.1)	(30.1)	21.2%	64.1%
Cash flow from financing activities	10.5	12.3	4.7	13.4	-33.3%	-62.1%
Net cash flow	(4.8)	6.9	(1.5)	5.9	-44.5%	
Opening balance of cash	7.1	2.3	9.2	7.7	13.7%	294.1%
Closing balance of cash	2.3	9.2	7.7	13.6	81.9%	-16.0%

Consolidated financial ratios				
Particulars (Rs. mn)	FY19	FY20	FY21	9M FY22
Revenue growth rate (%)		14.6%	13.0%	
EBITDA growth rate (%)		-0.9%	25.0%	
EBITDA margin (%)	31.7%	27.4%	30.3%	35.9%
EBIT growth rate (%)		-1.6%	33.5%	
EBIT margin (%)	23.3%	20.0%	23.7%	28.5%
Restated adjusted PAT growth rate (%)		-13.9%	4.9%	
Restated adjusted PAT margin (%)	19.0%	14.3%	13.3%	22.3%
Turnover ratios				
Inventories turnover ratio (x)	362.8	133.5	120.8	63.7
Trade receivable turnover ratio (x)	4.8	5.2	6.9	2.6
Accounts payable turnover ratio (x)	22.0	18.8	23.3	8.6
Fixed asset turnover ratio (x)	1.2	1.1	1.0	0.9
Total asset turnover ratio (x)	0.8	0.7	0.7	0.5
Return ratios				
RoE (%)	25.6%	18.1%	16.3%	21.8%
RoA (%)	16.2%	10.5%	9.1%	12.0%
RoCE (%)	24.4%	19.9%	20.1%	22.5%
Per share data				
Restated adjusted EPS (Rs.)	2.5	2.1	2.2	3.9
DPS (Rs.)	0.0	0.0	0.0	0.0
BVPS (Rs.)	9.7	11.8	13.8	18.0
Operating cash flow per share (Rs.)	2.1	3.0	5.2	2.9
Free cash flow per share (Rs.)		(0.2)	2.4	
Dividend payout ratio	0.0%	0.0%	0.0%	0.0%

Note: Pre-IPO financial ratios; Source: Choice Equity Broking

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