IPO NOTE

ORIENT TECHNOLOGIES LIMITED IPO

Date: 20.08.2024

Canara Bank Securities Ltd
A Wholly Owned Subsidiary Of Canara Bank

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- Incorporated in July 1997, Orient Technologies Limited is a fast-growing information technology (IT) solutions provider headquartered in Mumbai, Maharashtra.
- The company has developed extensive knowledge to create products and solutions for specific areas within its three business verticals.
    - IT Infrastructure: Products and solutions include Data Centre Solutions and End-User Computing. Data Centre Solutions offers servers, storage, active and passive networking components, collaboration solutions (such as solutions for CCTV and virtual conferences / meetings), and security solutions. End user computing involves desktop management, end-user support, and mobile device management;
    - IT Enabled Services (ITeS): Services include Managed Services, Multi-Vendor Support Services, IT Facility Management Services, Network Operations Centre Services, Security Services, and Renewals; and
    - Cloud and Data Management Services: Services include migrating workloads from data centres to the cloud.
- OTL has recently ventured into 'Device as a service (DaaS)'. Under DaaS they provide desktops, laptops, tablets, printers, scanners, smartphones, and servers, bundled with software, along with managed services on a 'pay-per-use' model i.e. on a subscription basis. The company's wide range of customized offerings and its ability to tailor solutions to meet customers' specific needs have enabled it to attract prominent clients across various industries.
- They serve leading public and private sector entities in diverse customer industries, such as banking, financial services, insurance (BFSI), IT, ITeS, and healthcare/pharmaceutical.

Issue Details

Price Band (in ₹ per share)	195 - 206
Issue size (in ₹ Crore)	209.70-214.76
Fresh Issue (in ₹ Crore)	120.00
OFS (in ₹ Crore)	89.70-94.76
Issue open date	21.08.2024
Issue close date	23.08.2024
Tentative date of Allotment	26.08.2024
Tentative date of Listing	28.08.2024
Total number of shares (lakhs)	107.54-104.25
No. of shares for QIBs (50%) (lakhs)	53.77-52.13
No. of shares for NII (15%) (lakhs)	16.13-15.64
No. of shares for S-HNI (33%)(lakhs)	5.38-5.21
No. of shares for B-HNI (66%)(lakhs)	10.75-10.43
No. of shares for retail investors (35%) (lakhs)	37.64-36.49
No of shares for Employee Reservation (lakhs)	NA
Minimum order quantity	72
Face value (in ₹)	10.00
Amount for retail investors (1 lot) (in ₹)	14040-14832
Maximum no. of shares for Retail investors at Lower Band	1008 (14 lots)
Maximum no. of shares for Retail investors at Upper Band	936 (13 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	196560-192816
Minimum no. of shares for sHNI (2 Lakhs) at upper band	1008 (14 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	4824 (67 lots)
Minimum number of shares for bHNI at upper band	4896 (68 lots)
Exchanges to be listed on	BSE, NSE

Promoters

- AJAY BALIRAM SAWANT
- UMESH NAVNITLAL SHAH
- UJWAL ARVIND MHATRE
- JAYESH MANHARLAL SHAH

Objects of the Offer

The Company proposes to utilize the Net Proceeds towards the following objects:

- Acquisition of office premise at Navi Mumbai situated at units no 1201, 1202, 1203, and 1204, respectively which are situated at Plutonium Business Park, Trans-Thana Creek Industrial Area, Turbhe MIDC, District Thane, Navi Mumbai (collectively, Navi Mumbai Property);
- Funding capital expenditure requirements for:
    - Purchase of equipment for setting up of Network Operating Centre (NOC) and Security Operation Centre (SOC) at Navi Mumbai Property; and
    - Purchase of equipment and devices to offer a Devise-as-a-Service (DaaS) offering. (collectively, Capital Expenditure).
- General corporate purposes.

Brief Financials

PARTICULARS (Rs. Cr)*	FY24	FY23	FY22
Share Capital^	35.81	17.50	17.50
Net Worth	175.30	128.82	94.10
Revenue from Operations	602.89	535.10	467.44
EBITDA	56.61	48.64	45.82
EBITDA Margin (%)	9.39	9.09	9.80
Profit/(Loss) After Tax	41.44	38.29	33.49
EPS (in Rs.)	11.80	10.94	9.57
Net Asset Value (in Rs.)	48.95	73.61	53.77
Total Borrowing	4.81	12.85	2.28
P/E#	17.46	NA	NA
P/B#	4.21	NA	NA

#Calculated at upper price band *Restated consolidated financials ^^ Bonus issue of Equity Shares in the ratio of 1 Equity Share allotted for each Equity Share held.

Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
INCOME			
Revenue from operations	467.44	535.10	602.89
Other income	1.68	6.91	3.97
Total income	**469.12**	**542.01**	**606.86**
YoY Growth (%)		15.54%	11.97%
Expenses			
Purchase of IT products, spare parts and related accessories	364.27	399.49	457.34
Cost of IT Products-% of Revenue	78%	74%	75%
Changes in inventories of stock-in-trade	-9.08	5.36	-5.35
Direct expenses	26.05	27.67	40.21
Employee benefit expenses	24.71	34.25	39.70
Other expenses	23.76	19.17	14.80
EBIDTA	**45.83**	**48.64**	**56.62**
EBIDTA Margin (%)	9.80%	9.09%	9.39%
Depreciation and amortisation expense	1.94	1.79	3.63
EBIT	**43.89**	**46.86**	**52.99**
EBIT Margin (%)	9.39%	8.76%	8.79%
Finance cost	1.01	1.81	2.05
Profit before tax	44.55	51.95	54.91
Tax expenses			
Current year tax expenses	11.19	12.83	14.97
Tax expense relating to earlier years [debit/(credit)]	-0.05	0.40	-0.46
Deferred tax (credit)/charge	-0.08	0.43	-1.05
Total tax expenses	**11.06**	**13.66**	**13.46**
Profit for the year	**33.49**	**38.30**	**41.45**
PAT Margin (%)	7.17%	7.16%	6.87%
Earnings per share			
Basic & Diluted	9.57	10.94	11.80

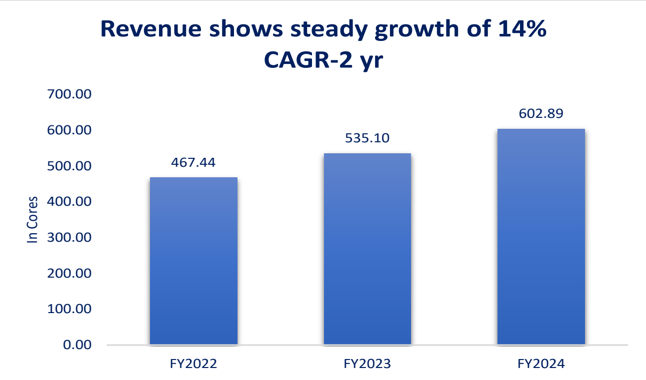
Cashflow Statement

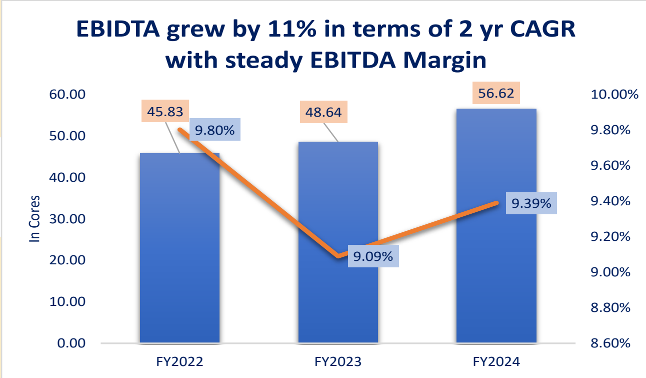
Particulars (In Crores)	FY2024	FY2023	FY2022
Cash generated from operating activities	36.64	12.51	32.05
Income tax paid (net of refunds)	-14.35	-10.55	-1.57
Net cash generated from operating activities	22.29	1.95	30.48
Net cash used in investing activities	-12.11	-11.72	-8.41
Net cash used in financing activities	-9.72	4.41	-8.50
Net increase/ (decrease) in cash and cash equivalents	0.46	-5.36	13.57
Cash and cash equivalent as at 1 April	20.05	25.41	11.84
Cash and cash equivalent as at year end	**20.52**	**20.05**	**25.41**

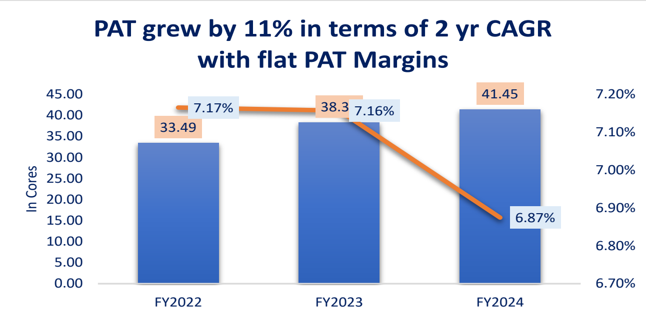
Balance Sheet

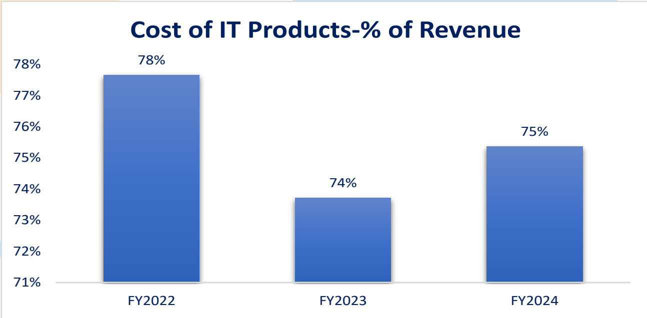
Particulars (In Crores)	FY2024	FY2023	FY2022
Assets			
Non-current assets			
Property, plant and equipment	11.29	11.97	9.88
Right to use asset	6.07	7.31	0.57
Intangible assets	-	-	-
Financial assets			
Investment	0.20	0.20	0.02
Other non-current financial assets	9.58	5.21	5.69
Deferred tax asset (net)	0.96	-	0.54
Other non-current assets	3.16	-	0.02
Total non- current assets	**31.26**	**24.69**	**16.71**
Current assets			
Inventories	13.55	8.19	13.56
Financial assets			
Investment	39.37	33.57	18.03
Trade receivables	157.59	118.10	96.12
Cash and cash equivalent	18.99	19.55	18.59
Bank balances other than cash and cash equivalent	1.52	0.50	6.82
Other current financial asset	5.04	3.28	3.17
Current tax assets (net)	2.46	2.46	4.56
Other current asset	41.36	29.59	15.48
Total Current Assets	**279.88**	**215.25**	**176.32**
Total assets	**311.14**	**239.94**	**193.03**
Equity and liabilities			
Equity			
Equity share capital	35.82	17.50	17.50
Other equity	139.49	111.32	76.61
Total equity	**175.31**	**128.82**	**94.11**
Liabilities			
Non-Current liabilities			
Financial liabilities			
Borrowings	1.40	4.37	1.83
Lease liabilities	4.42	5.33	0.27
Deferred tax liabilities (net)	-	0.03	-
Provision	5.05	4.09	4.03
Total Non-Current liabilities	**10.87**	**13.82**	**6.13**
Current liabilities			
Financial liabilities			
Borrowings	3.41	8.49	0.45
Lease liabilities	1.90	1.98	0.33
Trade payables			
Total outstanding dues of micro and small enterprises	0.87	0.60	0.81
Total outstanding dues of creditors other than micro and small enterprises	90.46	62.03	65.47
Other current financial liabilities	13.28	10.57	9.65
Other curreent liabilities	14.53	13.25	15.72
Provision	0.52	0.39	0.36
Total Current liabilities	**124.97**	**97.30**	**92.80**
Total liabilities	**135.84**	**111.12**	**98.93**
Total equity and liabilities	**311.14**	**239.94**	**193.03**

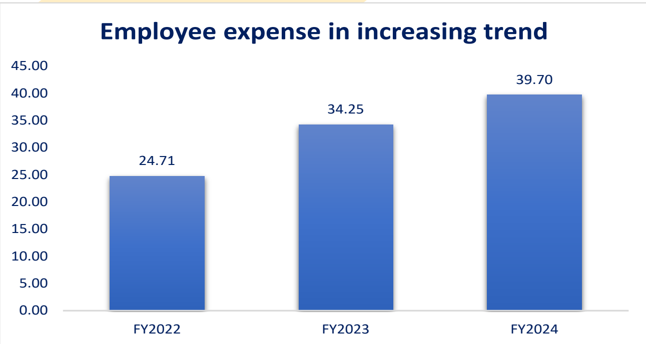
Performance

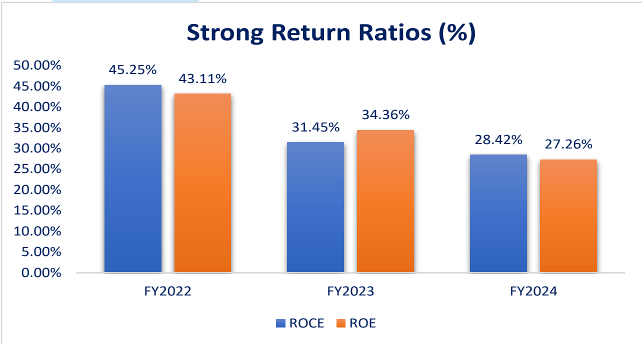


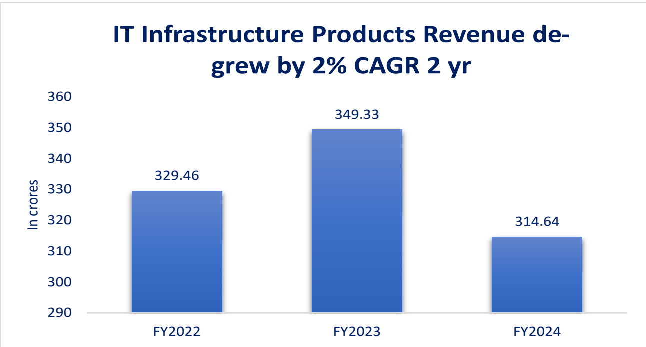


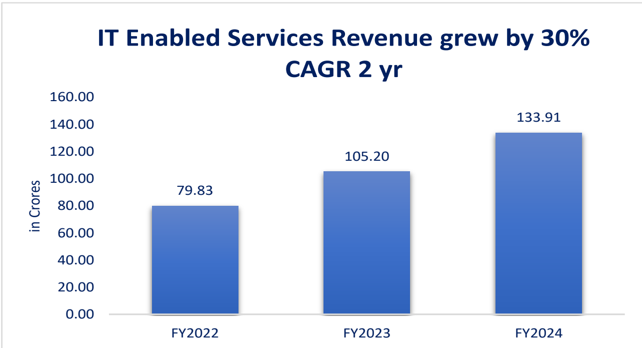


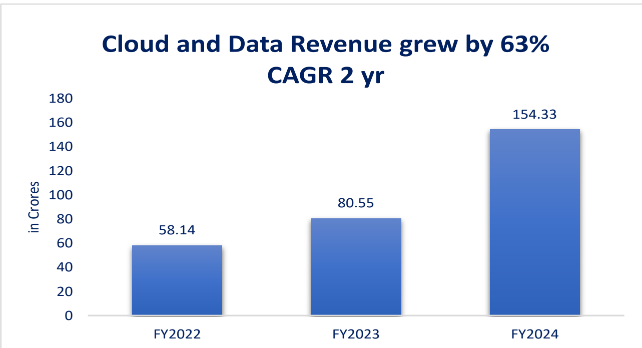












Industry Review

Growth in key economies to weigh on Indian ITeS Industry:

- ITeS refers to the outsourcing of processes in which the provider utilizes technologies to meet the business goals of global companies.
- It provides a gamut of services that exploit technology to improve organizations.
- Outsourcing saves clients' money and boosts the economic progress of the country providing the service by creating more jobs.
- Over the years, the Indian ITeS industry has transformed with the emergence of new technological advancements in areas like process improvement, data analysis, and automation.
- The Indian ITeS Industry grew by 10% in Fiscal 2023 due to growth in non-voice and omni-channel CRM segments and also knowledge services.
- In Fiscal 2024, ITeS market growth is estimated to have grown at 5-6% over the previous year.
- This is on account of the existing order book which has not been impacted by the global slowdown as spending in this industry is mostly non-discretionary.

In FY25 margins are expected to improve marginally as projects pick up:

- ITeS players are anticipated to experience a margin contraction of 50-100 bps in fiscal 2024, due to rising employee-related expenses and project deferrals.
- However, in FY25, margins are expected to rebound as projects revive.
- Furthermore, the attrition rate is forecasted to trend downwards in the coming fiscal year, offering a cushion to margins.

Long-term trends in the Indian IT service industry:

- Businesses continue to invest in digitization by making more cost-conscious decisions and value-driven investments to support long-term sustainability.
- Increasing commoditization of traditional services will keep the billing rates to remain under pressure in the medium term. The volume is expected to be the key revenue driver.
- In fiscal 2024, CRISIL MI&A estimates the Domestic IT services to have grown at 8% on-year in rupee terms to reach Rs. 1,571 trillion aided by core digital transformation along with the need for enterprises shifting to digital to differentiate themselves using technology will be the leading growth drivers.
- In India, digital transformation is being led by three sectors namely – government, banking, financial services and telecom. Banks are adopting IT solutions for regulatory compliance as well as customer convenience.
- These garments showcase the rich cultural heritage of India and are highly sought after by the Indian diaspora and enthusiasts of Indian fashion across the globe.

IT hardware equipment industry in India is expected to grow at 8-9% CAGR over FY24-28P:

- The domestic IT hardware equipment market has witnessed a ~10% CAGR over fiscal 2020 to 2024. The high growth has been driven by high consumption in the COVID-19 years (FY21-22).
- A sudden need for digital connectivity during the pandemic boosted domestic consumption.
- The growth was driven by domestic production of mobile phones which registered a CAGR of ~31.2% over the fiscal 2016 to 2022 period. India has become the second largest mobile handset manufacturing nation globally and India has also become the second largest smartphone market in the world thus making India the fastest-growing smartphone market in the world.
- As per MEITY, over 200 manufacturing units for cellular mobile handsets and their sub-assemblies/ parts/ components have been set up in the country during the last couple of years.

Competitive Strengths of the Company

Marquee customer base across diverse Customer industries:

- One of the singular factors that has enabled them to consistently grow their business is their ability to tailor and customize their products and services to suit the requirements of their customers.
- Over the years they have built deep expertise to develop products and solutions for specialized disciplines including HCI, End-User Computing and Robotic Process Automation.
- Their business operations involve technologically advanced solutions for which they collaborate with a wide range of technology partners including Dell, Fortinet and Nutanix.
- Their collaboration with their technology partners heightens their ability to design and innovate products and provide services tailored to specific customer requirements.
- They have demonstrated an ability to cater to entities across various Customer Industries.

Wide-ranging and diversified IT solutions and offerings:

- Their products and services offering in IT Infrastructure comprise Data Centre Solutions and End-User Computing.
- While the IT Infrastructure segment is the business segment with the longest operational track record and, in Fiscal 2024, Fiscal 2023 and Fiscal 2022, their largest revenue-generating segment, they have broad-based their offerings significantly even within this segment, and continually, add new products.
- For instance, in Fiscal 2024, Fiscal 2023 and Fiscal 2022, they added various new products under their cyber-security solutions.

Strong Promoters and a Board of Directors supported by an experienced senior management team:

- They believe that the knowledge and experience of their Promoters and directors, along with the skilled management team, is their strength.
- In addition, they can provide their services across India. They believe that their headquarters located in Mumbai and 6 offices located in Navi Mumbai and Pune in Maharashtra, Ahmedabad, Gujarat, New Delhi, Bengaluru, Karnataka and Chennai, Tamil Nadu enables them to base their geographical coverage in India.
- Further, they have also established operations in Singapore through their branch.

Track record of financial performance:

- They have demonstrated consistent growth in their financial performance commensurate with the broadening of their product range and increase in their customer base.
- Their revenue from operations grew at a CAGR of 13.57% between Fiscal 2022 and Fiscal 2024.
- Their revenue from operations during Fiscal 2024, Fiscal 2023 and Fiscal 2022, was ₹ 6,028.93 million, ₹ 5,351.02 million, and ₹ 4,674.43 million, respectively. Their profit after tax for Fiscal 2024, Fiscal 2023 and Fiscal 2022, was ₹ 414.48 million, ₹ 382.98 million and ₹ 334.93 million, respectively.

Risk Factors

They are heavily reliant on their top 10 customers, and the loss of such customers or a significant reduction in purchases by such customers will have a material adverse impact on their business:

- Their business, results from operations and financial condition are heavily dependent on maintaining relationships with their customers, and failure or inability to maintain all or any of their top 10 customers, for any reason could have a material adverse impact on their business, results of operations, financial condition and cash flows.
- There can be no assurance that they will not lose all or a portion of sales to these customers or will be able to offset any reduction of prices to these customers with reductions in their costs or by obtaining new customers which could adversely affect their business, financial condition and results of operations.

They are heavily reliant on a few vendors/ suppliers and they typically do not enter into long-term contracts or arrangements with their vendors. Any loss of such vendors/ suppliers or any increase in the price will have a material adverse impact on their business and their revenue:

- During Fiscal 2024, Fiscal 2023 and Fiscal 2022, the cost of purchase of inter alia IT products, spare parts and related accessories, software licenses and cloud space, from their top 10 vendors/suppliers aggregated ₹ 3,938.36 million, ₹ 3,387.19 million and₹ 2,894.69 million, constituting 71.35%, 69.12% and68.18%, respectively, of their total expenses.
- Their inability to maintain their relationship with their existing top 10 vendors and/or failure to procure equipment from vendors/suppliers on favourable terms may hurt their revenue, and results of operation and would have an impact on their financial condition.
- Further, their margins and profitability will be adversely affected if, and to the extent, they are unable to pass on the price escalation in their input materials to their customers.

Their success depends on their long-term relationship with their customers. They do not, generally, enter into long-term contracts with their customers. The loss of one or more of their customers or a reduction in their demand for their solutions offering could adversely affect their business, results of operation and financial conditions:

- Their business relationships with their customers have been built over time and while they, generally, do not enter into long-term contracts with their customers a significant portion of their revenue is routed through short-term purchase orders.
- As of March 31, 2024, have been catering to each of their top 10 and top 5 customers for an average period of 9.9 years and 8 years, respectively.
- Failure to receive orders from their customers or their inability to do so on commercially viable terms could hurt their revenue and, or margin and consequently their profitability.
- If they are unable to continuously develop new products and solutions or optimise their processes, their ability to grow and, or, compete effectively, might be compromised, which would hurt their business operations and financial condition.

Peer Comparison

Name of the company	Total Income (in Cr)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoNW (%)	P/E*	P/B*
Orient Technologies Limited	606.86	10.00	11.8	48.95	23.64	17.46	4.21
Dynacons Systems & Solutions Limited	1028.81	10.00	42.41	124.02	34.13	37.14	12.70
HCL Technologies Limited	111408.00	2.00	57.99	251.58	23.01	28.94	6.67
Wipro Limited	89794.30	2.00	20.89	143.77	14.79	24.88	3.62
LTIMindtree Limited	36218.90	1.00	154.85	676.19	22.89	36.65	8.39
Allied Digital Services Limited	688.22	5.00	8.29	111.93	7.41	26.63	1.97
Dev Information Technology Limited	165.11	5.00	4.19	25.92	16.26	30.10	4.87
Tech Mahindra Limited	52912.40	5.00	26.66	277.93	8.83	59.81	5.74
Silicon Rental Solutions Limited	63.60	10.00	12.56	61.14	20.54	14.49	2.98

*P/E & P/B ratio based on closing market price as of August 19th, 2024, at the upper price and of IPO, financial details consolidated audited results as of FY24.

Our View

- **Established Market Position:**
  - ◊ Longstanding Industry Presence: Operating since 1997, Orient Technologies has built a solid reputation and extensive expertise in IT solutions, providing a competitive edge in the market.
  - ◊ Strong Geographical Footprint: Dominant presence in Western India, particularly in Mumbai, Pune, and Ahmedabad, which contributes 60% of total revenue, ensuring a stable revenue base.

- **Strategic Service Diversification:**
  - ◊ Transition to High-Growth Segments: The company has strategically expanded into cloud computing and data management services, which are experiencing rapid growth. Cloud services revenue increased by 300-350% from FY2021 to FY2024, as their traditional legacy-based model is into leasing equipment and software along with different solutions that fetch lower margins.
  - ◊ Ongoing Shift to Higher-Margin Services: There is a clear shift from low-margin infrastructure services (currently 52% of revenue) towards higher-margin services like cloud-based solutions (13% margin) and managed services (21% margin).

- **Robust Sectoral Revenue Distribution:**
  - ◊ Diverse Revenue Streams: Revenue is well-distributed across various sectors, reducing dependency on any single industry with Banking: 21% of revenue, Telecom: 12% of revenue, Government and Other Sectors: 13% of revenue
  - ◊ Long-Term Contracts: The company has secured long-term contracts, especially in cloud services (3-5 years), providing a steady and predictable revenue stream.

- **Market Growth Opportunities:**
  - ◊ Expanding Hardware Services Market: The hardware services market is valued at $246 billion with a CAGR of 7.5-8.5%, providing a solid foundation for the company's traditional services.
  - ◊ High-Growth Data Center Operations: The data centre market, with a projected CAGR of 25-30%, presents significant growth opportunities, particularly in leasing and managing data centre spaces, which Orient Technologies is well-positioned to capitalize on.

- **Capital Deployment for Expansion:**
  - ◊ Strategic Use of IPO Proceeds: The funds raised will be directed towards expanding service offerings, including the establishment of security operations centres, which will enhance the company's service portfolio and competitive positioning.
  - ◊ Focus on Growth in High-Margin Segments: Investments will be concentrated in high-margin segments like cloud computing and data management, which are expected to drive profitability improvements.

- **Financial Considerations and Risks:**
  - ◊ **Current Margin Structure:** While the company is shifting towards higher-margin services, the existing reliance on low-margin infrastructure services (52% of revenue) poses a challenge to profitability.
  - ◊ **Capex and Debt Impact:** The planned expansion involves significant capital expenditures. If financed through debt, this could lead to increased depreciation and finance costs, impacting financial stability in the short term.
  - ◊ **Cash Flow Management:** With an average order size of ₹100 crores and lengthy billing cycles for government contracts, efficient cash flow management will be critical as the company scales operations.

- **Balanced Growth Outlook:**
  - ◊ Orient Technologies Ltd. offers strong growth potential in high-margin, rapidly expanding technology services, supported by a diversified revenue base and strategic geographic positioning.
  - ◊ While Investors should weigh the opportunities against the risks associated with the company's margin structure and planned capital expenditure. The ongoing transition to higher-margin services and the careful management of expansion costs will be key to long-term value creation.

Our Views

- **Scope of expansion beyond India**:
    - ◊ The company's business operations are, currently, concentrated in India and the revenues are predominantly generated from India, including from various multinational companies and transnational corporations.

- **Expanding and augmenting the product and services portfolio:**
    - ◊ Apart from their IT Infrastructure, ITeS and Cloud and Data Management Services, they have recently ventured into 'Device as a service (DaaS)'. Under DaaS, they provide desktops, laptops, tablets, printers, scanners, smartphones, and servers, bundled with software, along with managed services on a 'pay-per-use' model i.e. on a subscription basis.
    - ◊ The growth of the DaaS industry is propelled by several key drivers such as a Hybrid workforce, Demand for the subscription model, ESG and Sustainability goals, Cyber security requirements, and Improved bandwidth for internal IT teams.

Given the company's growth trajectory in emerging technology segments and strategic expansion plans with P/E of 17.46x which is lower than listed peers. Therefore, we recommend to **SUBSCRIBE** this issue for long-term gains.

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