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IPO Report

14th July'23

Snapshot

Netweb Technologies is one of India's leading high-end computing solutions (HCS) provider, with fully integrated design and manufacturing capabilities. Company's HCS offerings comprises (i) high performance computing (Supercomputing / HPC) systems; (ii) private cloud and hyperconverged infrastructure (HCI); (iii) AI systems and enterprise workstations; (iv) high performance storage (HPS / Enterprise Storage System) solutions; (v) data centre servers; and (vi) software and services for its HCS offerings

VALUATION

Company is bringing the issue at price band of Rs 475-500 per share at p/e multiple of 60x on post issue FY23 PAT basis. Company being one of India's leading Indian origin owned and controlled OEM for HCS with integrated design and manufacturing capabilities has long standing relationship with a marquee and diverse customer base. Company has done significant product development and innovation through R&D & it is one of India's leading HCS provider and operate in a rapidly evolving and technologically advanced industry with high entry barriers. Also, company has experienced Board and Senior Management with track record of financial performance and consistent growth, Hence looking after all this we believe that company is well poised to cater opportunities present in sector, & therefore we recommend to "Subscribe" issue .

Price Band (Rs./Share)	475-500
Opening date of the issue	17 th July 2023
Closing Date of the issue	19 th July 2023
No of shares pre issue	51943980 Eq Shares
Issue Size(In Rs)	Rs 610-631 Cr
Issue Size	12837894-12601000 Eq Shares
Fresh issue	Rs 206 Cr
Offer For Sale	8500000 Eq Shares
Face Value (Rs/ share)	Rs 2/share
Bid Lot	30

BIDDING DETAILS	
QIBs (Including Anchor)	50% of the offer (Approx 63,00,000 Eq Shares)
Non-Institutional	15% of the offer (Approx 18,90,150 Eq Shares)
Retail	10 % of the offer (Approx 44,10,350 Eq Shares)
Employee Reservation	20,000 Equity Shares
Pre Issue Promoter & Group Holding	97.79%
Post Issue Promoter & Group Holding	75.45%
Lead managers	Equirus Capital, IIFL Securities
Registrar to the issue	Link Intime India Pvt Ltd.

KEY HIGHLIGHTS

One of India's leading Indian origin owned and controlled OEM for HCS with integrated design and manufacturing capabilities

Company is one of the few players in India who can offer a full stack of product and solution suite with comprehensive capabilities in designing, developing, implementing and integrating high performance computing solutions. Company is also an Indian origin OEM to build Supercomputing systems, private cloud and HCI, data centre servers, AI systems and enterprise workstations, and HPS solutions under the 'Make in India' initiative of the Government of India.

Long standing relationship with a marquee and diverse customer base

Company's marquee Customers include IIT Jammu, IIT Kanpur, Airamatrix, NMDC Data Centre, Graviton, INST, HL Mando, IIIT Naya Raipur, JNU, Hemvati University, Akamai, A.P.T. Portfolio, Yotta Data, CUHP University, an Indian Government space research organisation, and an R&D organisation of the Ministry of Electronics and Information Technology, Government of India which is involved in carrying out R&D in information technology and electronics and associated areas including Supercomputing. Company's customer accretion between April 1, 2020 and March 31, 2023, had grown at a CAGR of 11.26%

Track record of financial performance and consistent growth

Company's revenue from operations have increased at a CAGR of 76.53% from Fiscal 2021 Fiscal 2023, Also, during the same period company's profit before tax has increased at a CAGR of 138.16 %. Company's EBITDA, increased at a CAGR of 110.95% from Fiscal 2021 to Fiscal 2023 Company's return on capital employed was 35.54%, 51.63% and 64.42% in Fiscal 2021, Fiscal 2022 and Fiscal 2023, respectively. Company's Order Book value as at March 31, 2022, March 31, 2023 and May 31, 2023 was ₹ 485.61 million, ₹ 711.86 million, and ₹ 902.05 million, respectively.



COMPANY BACKGROUND

Netweb Technologies India is one of India's leading Indian origin, owned and controlled OEM in the space of HCS providing Supercomputing systems, private cloud and HCI, data centre servers, AI systems and enterprise workstations, and HPS solutions. In terms of number of HPC installations, company is one of the most significant OEMs in India amongst others. Company have undertaken installations of (i) over 300 Supercomputing systems, (ii) over 50 private cloud and HCI installations; (iii) over 4,000 accelerator / GPU based AI systems and enterprise workstations; and (iv) HPS solutions with throughput storage of up to 450 GB/sec. Company cater to marquee Customers across various end-user industries such as information technology, information technology enabled services, entertainment and media, banking, financial services and insurance (BFSI), national data centres and government entities including in the defence sector, education and research development institutions (Application Industries) such as Indian Institute of Technology (IIT) Jammu, IIT Kanpur, NMDC Data Centre Private Limited (NMDC Data Centre), Airmatrix Private Limited (Airmatrix), Graviton Research Capital LLP (Graviton), Institute of Nano Science and Technology (INST), HL Mando Softech India Private Limited (HL Mando), Dr. Shyam Prasad Mukherjee International Institute of Information Technology, Naya Raipur (IIIT Naya Raipur), Jawaharlal Nehru University (JNU), Hemvati Nandan Bahuguna Garhwal University (Hemvati University), Akamai India Networks Private Limited (Akamai), A.P.T. Portfolio Private Limited (A.P.T.), and Yotta Data Services Private Limited (Yotta), Centre for Computational Biology and Bioinformatics, Central University of Himachal Pradesh (CUHP University).

Company also cater to an Indian Government space research organisation and an R&D organisation of the Ministry of Electronics and Information Technology, Government of India which is involved in carrying out R&D in information technology and electronics and associated areas including Supercomputing. Company design, manufacture and deploy its HCS comprising proprietary middleware solutions, end user utilities and precompiled application stack. Company develop homegrown compute and storage technologies, deploy supercomputing infrastructure to meet the rising computational demands of businesses, academia, and research organisations, particularly, under India's National Supercomputing Mission. Further, thus far, 3 of company's supercomputers have been listed 11 times in the world's top 500 supercomputers.

Company have recently, in Fiscal 2023, forayed into developing new product lines, viz., Network Switches and 5G ORAN Appliances. Network Switches and 5G ORAN Appliances are critical to the data center industry for enterprise IT, and the telecommunication industry for enabling 5G services, and are expected to (i) address the dearth in Indian network switch market which has significantly fewer Indian network switch OEM; and (ii) reduce India's dependency on foreign OEMs. Adoption of high throughput – low latency network switches in data centres and 5G networks has been proliferating at a very high pace which further necessitates higher security, reliability, and greater operational efficiencies with lower latencies. Company have recently introduced 5G cloud on core and edge for an international telecommunication service provider. Company operate out of its manufacturing facility located in Faridabad, Haryana (Manufacturing Facility) which is equipped with capabilities to (i) design, develop, manufacture and test its products, and (ii) cater to company's software and service portfolio.

Set out below are certain details of company's revenue from operations bifurcated into Application Industries and its business verticals:

Application Industries	Revenue from operations					
	Fiscal 2023		Fiscal 2022		Fiscal 2021	
	(in ₹ million)	As a % of revenue from operations	(in ₹ million)	As a % of revenue from operations	(in ₹ million)	As a % of revenue from operations
Higher education and Research	2059.09	46.69	1409.48	57.06	597.62	41.85
Space and Defence	271.33	6.15	262.90	10.64	128.63	9.01
IT & ITES	1094.93	24.83	526.24	21.30	426.60	29.88
Others	984.68	22.33	271.71	11.00	275.02	19.26
Total	4410.02	100.00	2470.33	100.00	1427.87	100.00

Business Vertical	Revenue from operations					
	Fiscal 2023		Fiscal 2022		Fiscal 2021	
	(in ₹ million)	As a % of revenue from operations	(in ₹ million)	As a % of revenue from operations	(in ₹ million)	As a % of revenue from operations
Supercomputing system	1728.38	39.19	1030.02	41.70	138.75	9.72
Private cloud and HCI	1461.08	33.13	478.82	19.38	405.41	28.39
AI systems and enterprise workstations	309.30	7.01	243.12	9.87	145.65	10.20
HPS solutions	308.09	6.99	216.79	8.78	336.16	23.54
Data centre server	283.28	6.42	241.19	9.76	168.24	11.78
Software and service for HCS offerings	94.67	2.15	68.55	2.77	24.97	1.75
Spare and others	225.22	5.11	191.84	7.77	208.69	14.62
Total	4410.02	100.00	2470.33	100.00	1427.87	100.00



INVESTMENT RATIONALE

<p><i>Significant product development and innovation through R&D</i></p>	<p>The industry in which company operate is R&D intensive and relies significantly on technically qualified resources. Company have continued to strive towards innovation in its product range and have continued to build its R&D capabilities by continuously developing its R&D team to improve systems design and architecture and to expand its products and solutions suite. Company have dedicated R&D Facilities which, as on May 31, 2023, comprised a 38 member technically skilled R&D team all of whom are professionally qualified. Company's R&D team is led by Mukesh Golla, Chief Research & Development Officer, who holds a bachelor's degree in technology (computer science and engineering) from the Jawaharlal Nehru Technological University, Hyderabad and has been associated with company's HCS since 2004. Company's dedicated R&D teams are based in Faridabad, Hyderabad and Gurgaon, comprising 34, 1 and 3 members, respectively. Company's R&D team, which has 22 engineers, 7 master's in computer applications, 1 bachelor's in computer application, 3 science graduates, 4 graduates in commerce/arts and 1 MBA, constitutes 13.92% of company's total workforce. Since April 1, 2019, company's R&D team strength has grown from 12 to 38, as at May 31, 2023. Company's R&D team's in-depth understanding of high-end computing solutions, their ability to meet the advanced technological challenges and their constant efforts at innovation, coupled with experience in working on innovative products in India, enable it to stay at the forefront of technological evolution and anticipate and envision the future needs of company's Customers and the market. Company's dedicated R&D Facilities have enabled it to increase its product lines to 8 viz., Tyrone Cluster Manager, KUBYTS, VERTA, ParallelStor, Collectivo, SKYLUS and Tyrone Camarero AI Systems and GPU System. Company collaborate with various technology partners, such as Intel Americas, Inc. (Intel), Advanced Micro Devices, Inc. (AMD), Samsung India Electronics Private Limited, Nvidia Corporation (Nvidia), and Seagate India Private Limited to design and innovate products and provide services tailored to specific customer requirements. Company also independently design and innovate its products and solutions offerings and provide services tailored to specific customer requirements.</p>
<p><i>Company is one of India's leading HCS provider and it operate in a rapidly evolving and technologically advanced industry with high entry barriers</i></p>	<p>Company operate in a rapidly evolving and technologically advanced industry which requires it to stay abreast of the developments and improve and customise its designs, and hardware and software offerings. The nature of the industry and the rapidity of technological advancement necessitates continual innovation, improvement, and customisation of company's solutions. Modification of designs and changes in implementation of the offerings requires technical skill set and expertise which is a significant entry barrier in the industry for new entrants. Company is one of India's leading HCS provider, with fully integrated design and manufacturing capabilities enabled by company's blend of proprietary hardware designs, middleware stack and software solutions. As a result of company's continuous R&D in data centre server development, company have the capabilities of manufacturing servers that are suitable for building private cloud solutions, Supercomputing systems clusters, and modern data centres.</p>



OBJECTS OF OFFER

Offer for Sale

The Offer for Sale comprises up to 8,500,000 Equity Shares

Company proposes to utilise the Net Proceeds towards the following objects:

1. Funding capital expenditure requirements for:
 - i. Civil construction of the building for the surface mount technology (SMT) line and interior development; and
 - ii. Purchase of equipment/machineries for company's new SMT production line (SMT Line); (collectively, Capital Expenditure).
2. Funding company's long term working capital requirement;
3. Repayment or pre-payment, in full or in part, of certain of company's outstanding borrowings; and
4. General corporate purposes.

RISKS

Company derive a majority portion of its revenues from operations from a select few of company's HCS offerings. Loss or decline in the demand of such offerings may result in an adverse effect on company's business, revenue from manufacturing operations and financial condition.

Source:RHP

INDUSTRY OVERVIEW

Global Technology Market Outlook

Two years ago, when the pandemic first began, industry executives were compelled to reconsider where and how digital expenditures needed to be made and to concentrate on enhancing transparency, flexibility, and robustness as 2021 got underway. To fully utilise emerging technologies like AI and ML and enhance remote work capabilities, organisations also had to reorient and reskill their workforces. The pandemic's effects on workforce challenges and shifting IT requirements are hastening the shift to services. Software-as-a-service(S-a-a-S), infrastructure-as-a-service(I-a-a-S), and platform-as-a-service(P-a-a-S) will all continue to grow in popularity, and hardware-as-a-service will gain ground as a means for companies to offer integrated services to their hybrid workforces. Additionally, Everything-as-a-service (X-a-a-S) is expected to become essential to digital transformation and developing novel solutions and business models that will succeed in the new normal.

India High-Performance Computing Market Overview The India high-performance computing (HPC) market was USD 492.9 Mn in FY 2022. The market is forecasted to be USD 538.8 Mn in FY 2023 and is expected to reach USD 918.6 Mn by FY 2029 with a CAGR of 9.3% over the forecast period (FY 2023-2029).

Following factors across industry will lead to higher adoption and growth of HPC in India:

- Government & Defense - Nov 2022, EU and India signed an "Intent of cooperation on High Performance computing and Quantum Technologies". The intent of cooperation is aimed at establishing collaboration using HPC application using Indian European supercomputers in the areas of Biomolecular medicines, COVID Therapeutics, mitigating climate change, predicting natural disasters and quantum computing.
- India dominates the Fintech market in terms of technological innovation and acceptance, with a high adoption rate of 87% (India Fintech report by E&Y). Beyond temporary solutions to ensure business continuity, artificial intelligence, and high-performance computing (HPC) enable financial institutions to further streamline and automate processes, improve data management and utilisation, and ultimately enjoy efficiencies and build resilience to weather future storms.
- Telecommunications - Given the prospects provided by machine and deep learning, businesses and telecom firms are now having difficulty managing the enormous and complicated data sets as well as the specific number of simultaneous activities. Thanks to the rising HPC workloads and the efficiently accelerated infrastructure, businesses may completely own their data. It is intended to aid in the development of the following generations of these multifunctional supercomputing systems. Ceremorphic has created a novel architecture that can support next-generation applications such as AI model training, HPC, drug discovery, and metaverse processing.


Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23
Total Revenue (A)	1427.87	2470.33	4449.72
Total Expenditure (B)	1284.05	2124.34	3749.57
EBIDTA	143.82	345.99	700.15
EBIDTA Margin	10.07	14.00	15.73
Other Income	15.04	9.08	6.78
Depreciation	14.52	16.38	36.57
EBIT	144.34	338.69	670.36
Interest	33.33	36.42	40.73
PBT	111.01	302.27	629.63
Tax	28.71	77.74	160.27
PAT	82.3	224.53	469.36
NPM%	5.76	9.09	10.55
Eq Cap	56.58	56.58	101.85
Net Worth	218.17	443.7	936.66
EPS	2.91	7.94	9.22
ROE %	37.72	50.60	50.11
ROCE%	28.35	43.46	54.03

(Source: RHP)

Peer Comparison

Company Name	Total Income (Rs in million)	EPS	PE	RONW%	NAV (in Rs)
Netweb Technologies India Ltd	4456.50	9.22	--	68.01	18.39
Peer Group					
Syrma SGS Technology	20921.37	7.59	59.72	11.58	87.28
Kaynes Technology	11375.12	19.84	76.77	16.36	165.17
Dixon Technologies (India) Ltd	121976.20	42.92	102.97	215.69	22.36



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