

Recommendation	Subscribe	
Price Band	Rs. 475-500	
Bidding Date	17 th –19 th July	
Book Running Lead Manager	Equirus Capital, IIFL Securities Ltd	
Registrar	LINK Intime India	
Sector	IT	
Minimum Retail Application- Detail At Cut off Price		
Number of Shares	30	
Minimum Application Money	Rs. 15000	
Payment Mode	ASBA	
Consolidated Financials (Rs Cr)	FY22	FY23
Total Income	247	445
EBITDA	34.6	70
Adj PAT	22.5	46.9
Valuations(FY23)	Upper Band	
Market Cap (Rs Cr)	2803	
Adj EPS	8.4	
PE	59.7	
EV/ EBITDA	40.4	
Enterprise Value (Rs Cr)	2825	
Post Issue Shareholding Pattern		
Promoters	75.4%	
Public	24.6%	
Offer structure for different categories		
QIB (Including Mutual Fund)	50%	
Non-Institutional	15%	
Retail	35%	
Post Issue Equity (Rs. in Cr)	11.21	
Issue Size (Rs in Cr)	631	
Face Value (Rs)	2	
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BACKGROUND

Incorporated in 1999, Netweb Technologies India provides high-end computing solutions (HCS). It offers high-performance computing (supercomputing/HPC) systems; private cloud and hyper-converged infrastructure (HCI); AI systems and enterprise workstations; high-performance storage (HPS/enterprise storage system) solutions; data center servers, softwares and services .

Objects and Details of the Issue:

The public issue consists of Offer For Sale aggregating upto Rs 425 Cr and fresh issue of equity shares aggregating upto Rs 206 Cr. Cr. The net proceeds from the fresh issue will be utilised towards:

- i) Funding capital expenditure requirements of (a) the building for the surface mount technology (SMT) line and interior development (b) Purchase of machinery for the new SMT production line (Rs. 32.2 Cr);
- iii) Funding of long-term working capital requirements (Rs. 128 Cr)
- iv) Prepayment of certain borrowings (Rs. 22.5 Cr).

Investment Rationale:

- HPC market has strong tailwinds
- Strong relationship with customers
- High entry barriers to business
- New product lines and expanding geographic presence
- Strong and consistent financial performance

Valuation and Recommendation:-

Netweb Technologies intends to leverage its presence in the fast growing HCS (High end Computing Solutions) industry with focus on developing refined, customised computing systems to address the high-end computational requirements of customers. Netweb is thus able to generate high EBITDA margins and ROCE. There are no directly comparable peers in the listed space who are present in the HCS industry. Thus we compare Netweb with EMS players who are mainly into manufacturing of electronic components and are also supported by strong growth due to favorable industry tailwinds. We believe, Netweb possesses higher growth and return ratios compared to EMS players and is also available at cheaper valuations. Thus we recommend to Subscribe to the IPO.

Financials (Rs Cr.)	FY21	FY22	FY23
Net Revenues	142.8	247.0	445.0
Growth	NA	73.0%	80.1%
EBIDTA	14.4	34.6	70.0
EBITDA Margins	10.1%	14.0%	15.7%
PBT	11.1	30.2	63.0
Adjusted PAT	8.2	22.5	46.9
EPS	1.5	4.0	8.4
ROCE	28%	43%	52%
EV/Sales	19.8x	11.5x	6.3x
EV/EBITDA	196.50x	81.8x	40.4x
P/E	340.6x	124.8x	59.7x

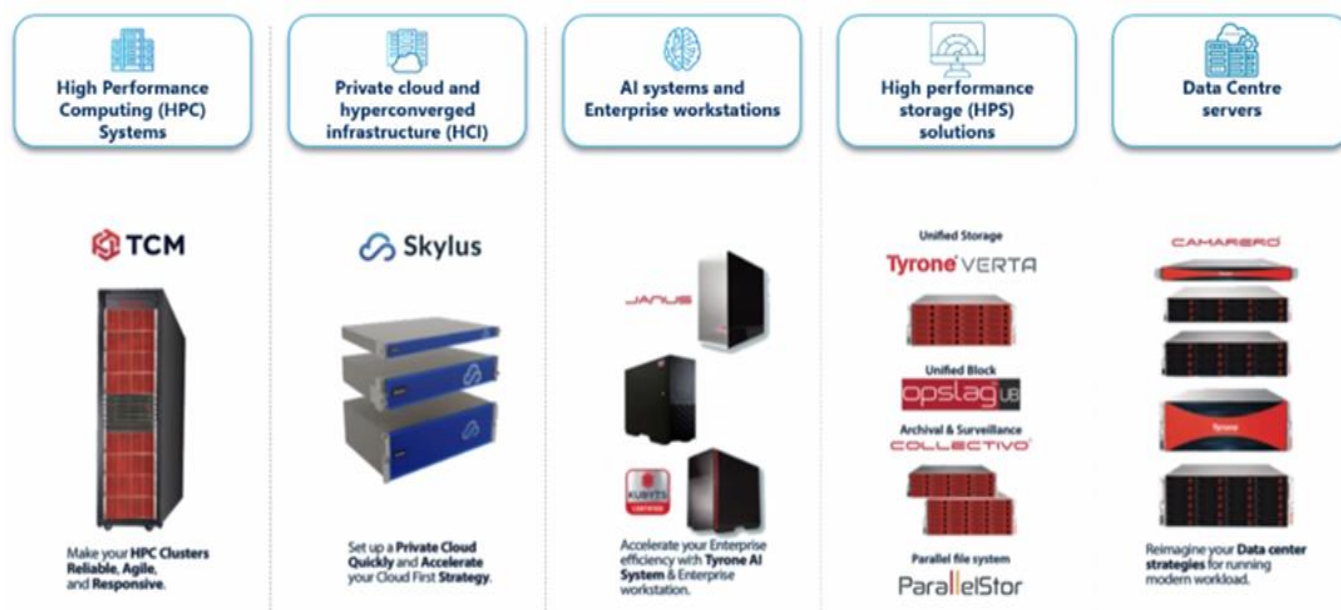
Source: Company data, NBRR

Company Background

Netweb Technologies India Limited is one of India's leading Indian origin owned and controlled OEM for high-end computing solutions (HCS) providing end to end solutions with fully integrated design and manufacturing capabilities, now compliant with Make in India policy.

HCS offerings & their revenue mix for FY23

- (i) High performance computing (Supercomputing / HPC) systems (39% mix)
- (ii) Private cloud and hyper converged infrastructure (HCI) (33% mix)
- (iii) AI systems and enterprise workstations (7% mix)
- (iv) High performance storage (HPS / Enterprise Storage System) solutions (7% mix)
- (v) Data centre servers (6% mix)
- (vi) Software and services (2% mix)
- (vii) Others (6% mix)



Source: Company

It has experience of installing 300+ HPC system, 50+ private cloud & HCI, 4000+ accelerator/GPU based AI systems and enterprise workstations. In terms of number of HPC installations, it is one of the most significant OEMs in India amongst others. It has collaborated with various technology partners including: 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. It also independently designs and innovates products and solutions offerings and provides services tailored to specific customer requirements.

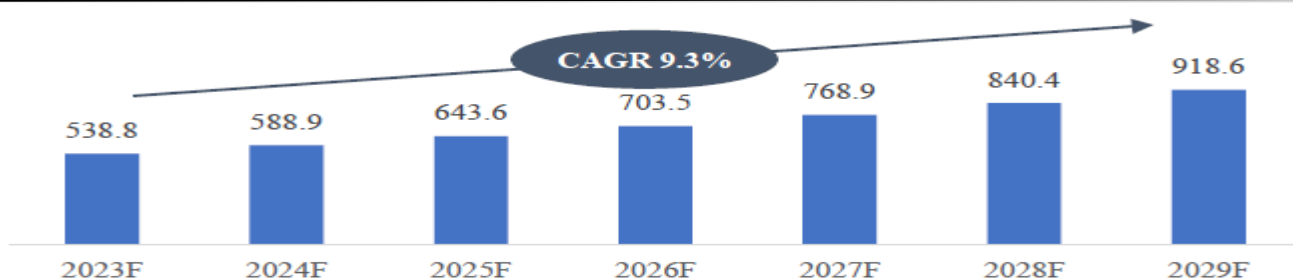
The manufacturing infrastructure facility is located in Faridabad and Haryana. In addition to registered office in Faridabad, it has 15 offices across India.

Investment Rationale

HPC (High Performance Computing) market has strong tailwinds

Indian Supercomputing systems market is expected to grow from USD 539 mn in FY23 to USD 919 mn in FY29 at a CAGR of 9.3%. FY23 witnessed the introduction of 5G network in the Indian market and the 5G market in India is expected to witness a high growth rate in the years to come and is projected to grow at a CAGR of over 90% from FY24-FY28. The projected growth in the 5G market in India is also expected to result in an increased demand for HCI (Hyper Converged Infrastructure) and private cloud infrastructure in India.

Share of Indian HPC market expected to grow

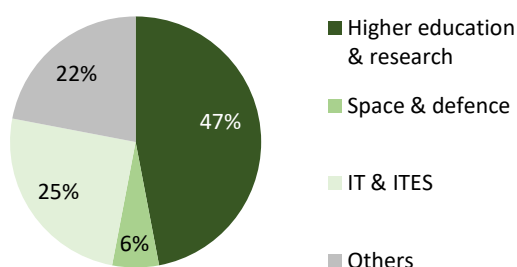


Source: RHP

Strong relationship with customers

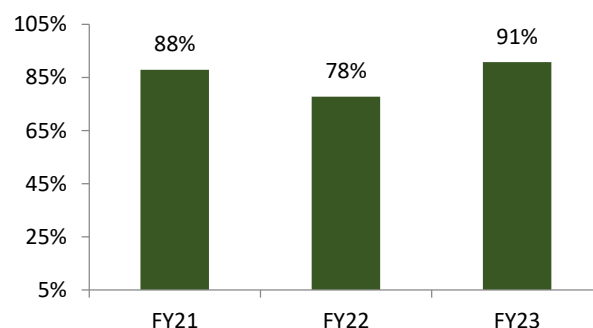
Netweb typically integrates proprietary software into the product and solution suite that it offers, the operational framework is flexible enough to also integrate third party software into solutions, in accordance with the customer's needs and requirements. This enables and helps in customer retention and repeat business. Its 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 GOI space research organisation, and an R&D organisation of the Ministry of Electronics and Information Technology, GOI which is involved in carrying out R&D in information technology and electronics and associated areas including Supercomputing.

Industry- wise revenue mix



Source: RHP

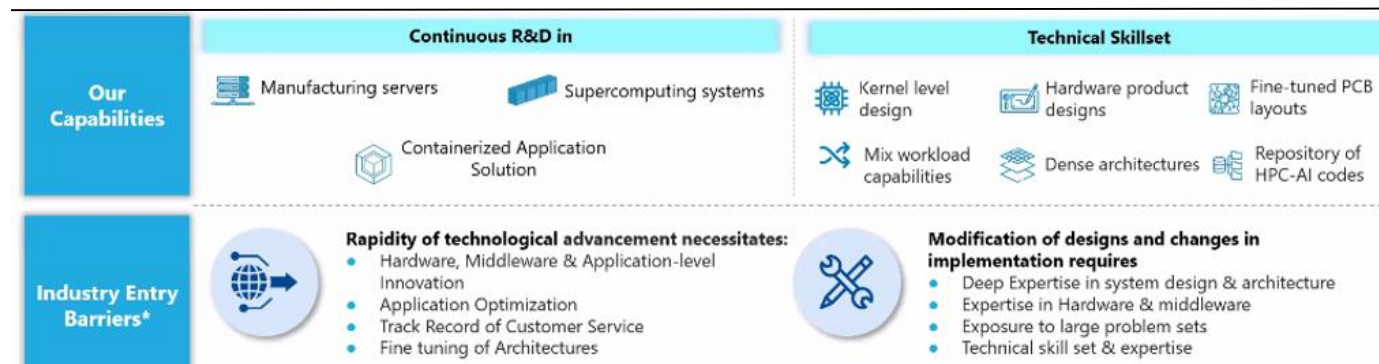
Revenue from repeat customers



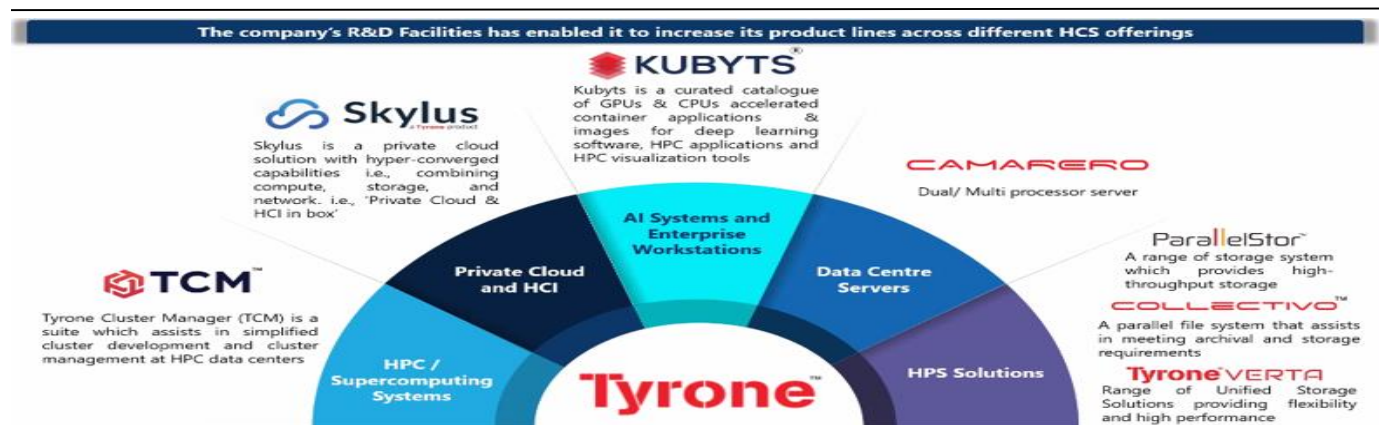
Source: RHP

High entry barriers to business

The association with companies operating in different Application Industries and catering to their specific needs has honed technical expertise with devoted time, energy and resources, to constantly innovating and developing skill-sets which are required in rapidly evolving and technologically advanced industries.



Source: Company



Source: Company

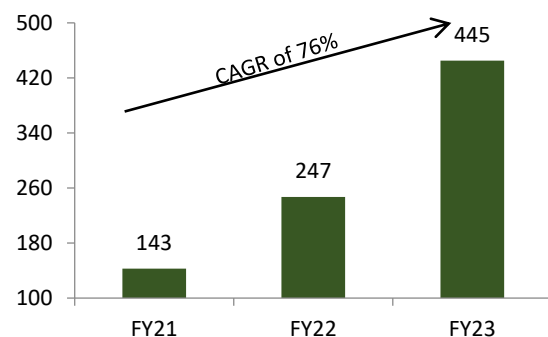
New product lines and expanding geographic presence

Over the years, Netweb has honed its technical capabilities to create a wide-ranging product portfolio comprising Supercomputing solutions, private cloud and HCI (Hyper Converged Infrastructure), and enterprise storage solutions. It has developed cloud suite in-house based on the brand 'Tyrone Skylus' which insulates from third party reliance. Netweb recently forayed into developing new product lines, network switches and 5G ORAN appliances in FY23.

Netweb is catering to many Indian and multinational customers based in India that have operations overseas and propose to start by leveraging existing relationship to expand business and cater to the international operations of such companies. 5G is expected to drive growth in businesses globally. The 5G market in European and Africa countries is expected to grow at a CAGR of 45.7% between FY23 and FY29. Mobile service providers in the Asia Pacific region intend to invest USD 227 bn on 5G deployments between FY22 and FY25.

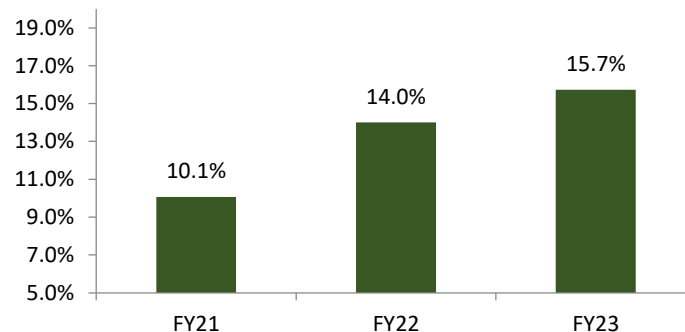
Strong and consistent financial performance

Revenue Growth (YoY)



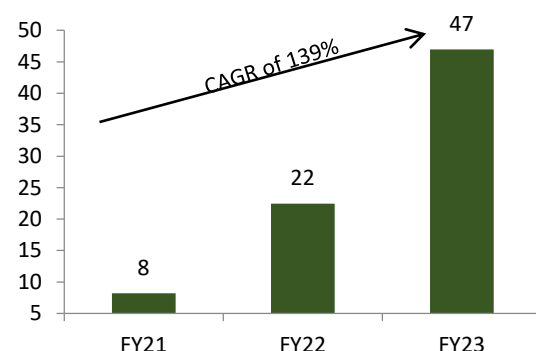
Source: RHP

EBITDA Margin



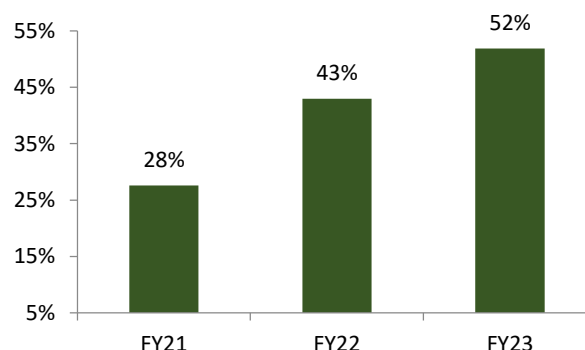
Source: RHP

PAT Growth (YoY)



Source: RHP

ROCE % (YoY)



Source: RHP

As a result of continuous R&D in data centre server development, with capabilities of manufacturing servers that are suitable for building private cloud solutions, Supercomputing systems clusters, and modern data centre have enabled the company to deliver consistent and strong financial performance. Revenue has increased at a CAGR of 76% from Rs 143 Cr in FY21 to Rs 445 Cr in FY23. EBITDA has increased at a CAGR of 121% from Rs 14 Cr in FY21 to Rs 70 Cr in FY23.

Concerns

High client concentration: Company's top 5 clients together constituted 47% of revenue in FY23. Any unforeseen events impacting these 5 customers or change in outsourcing policies of these 5 clients could have a negative impact on Netweb.

Heavy dependence on few of the HCS offerings: Out of the HCS offerings, Supercomputing systems, and private cloud & HCI have generally been the largest revenue generating business verticals contributing 39% and 33% of total revenue respectively in FY23.

Valuation and Recommendation

Netweb Technologies intends to leverage its presence in the fast growing HCS (High end Computing Solutions) industry with focus on developing refined, customised computing systems to address the high-end computational requirements of customers. Netweb is thus able to generate high EBITDA margins and ROCE. There are no directly comparable peers in the listed space who are present in the HCS industry. Thus we compare Netweb with EMS players who are mainly into manufacturing of electronic components and are also supported by strong growth due to favorable industry tailwinds. We believe, Netweb possesses higher growth and return ratios compared to EMS players and is also available at cheaper valuations. Thus we recommend to Subscribe to the IPO.

Listed Comparable Peers

FY23 Figures	Avalon	Syrma SGS	Kaynes	Cyient DLM	Avg	Netweb
Revenue	945	2,048	1,126	832	1,238	445
CAGR (FY21-23)	17%	52%	64%	15%	37%	76%
Gross Margin	36%	25%	31%	33%	31%	27%
EBITDA Margin	12.0%	9.0%	15.0%	10.6%	11.6%	16%
Asset Turns (x)	1.1x	1.1x	1.0x	1.5x	1.2x	3.4x
ROCE	12%	12%	14%	13%	13%	52%
W.C.Cycle	117	102	147	132	125	84
EV/EBITDA	25.7x	35.5x	46.7x	26.1x	33.5x	40.4x
P/E	63.7x	61.9x	91.6x	66.2x	70.8x	59.7x

Source: Company Data, NBRR

Financials

P&L (Rs. Cr)	FY21	FY22	FY23
Net Revenue	143	247	445
% Growth	-	73%	80%
Raw Materials	106	186	324
% of Revenues	74.3%	75.5%	72.9%
Employee Cost	13	15	29
% of Revenues	8.9%	6.2%	6.6%
Other expenses	10	11	21
% of Revenues	6.7%	4.4%	4.8%
EBITDA	14	35	70
EBITDA Margin	10.1%	14.0%	15.7%
Depreciation	1	2	4
Other Income	2	1	1
Interest	3	4	4
Exceptional item	0	0	0
PBT	11	30	63
Tax	3	8	16
Tax rate	25.9%	25.7%	25.5%
Non controlling interest	0	0	0
Adj PAT	8	22	47
% Growth	-	173%	109%
EPS (Post Issue)	1.5	4.0	8.4

Ratios & Others	FY21	FY22	FY23
EBITDA Margin (%)	10.1%	14.0%	15.7%
PAT Margin (%)	5.8%	9.1%	10.5%
ROE (%)	38%	51%	50%
ROCE (%)	28%	43%	52%

Turnover Ratios	FY21	FY22	FY23
Debtors Days	143	115	124
Inventory Days	75	57	44
Creditor Days	109	79	85
Asset Turnover (x)	2.7	3.1	3.4

Valuation Ratios	FY21	FY22	FY23
Price/Earnings (x)	340.6	124.8	59.7
EV/EBITDA (x)	196.5	81.8	40.4
EV/Sales (x)	19.8	11.5	6.3
Price/BV (x)	229.2	112.7	53.4

Source: Company Data, NBRR

Balance Sheet (Rs. Cr)	FY21	FY22	FY23
Share Capital	5.7	5.7	10.2
Reserve & Surplus	16	39	83
Networth	22	44	94
Total Loans & Lease Liab.	31	34	36
Other non-curr liab.	1	1	2
Trade payable	43	53	103
Other Current Liab	14	15	32
Total Current Liab.	57	68	135
Total Equity & Liab.	110	149	266
Fixed Assets & CWIP	7	11	24
Intangible Assets	-	-	1
Financial Assets	3	3	1
Investments	-	-	-
Other non Curr. assets	2	1	2
Inventories	29	38	54
Cash & cash equivalent	2	2	7
Bank	5	6	7
Debtors	56	78	152
Other Current assets	6	10	19
Total Assets	110	149	266

Cash Flow (Rs. Cr)	FY21	FY22	FY23
EBITDA	14	35	70
Provisions & Others	0	0	2
Op. profit before WC	15	35	72
Change in WC	(24)	(25)	(32)
Less: Tax	1	5	13
CF from operations	(10)	5	27
Addition to assets	(2)	(5)	(13)
(Purchase)/Sale of invst.	-	0	(0)
(Invst)/ withdrawal of deposi	(1)	(0)	(1)
Int & Div Received	0	0	0
CF from Investing	(2)	(5)	(14)
Proceeds from borrowings/	19	12	4
Repayment of borrowings	(4)	(9)	(7)
Repayment of lease liab.	(0)	(1)	(1)
Dividend & Intt paid	(3)	(3)	(4)
CF from Financing	12	0	(8)
Net Change in cash	0	0	5
Cash at beginning	2	2	2
Cash at end	2	2	7

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