

Company Overview

Founded in 1973, R K Swamy Ltd. (RKSL) is engaged in the business of integrated marketing communications, customer data analysis, customer data mining, customer insights mapping, full-service market research and syndicated studies. RKSL is essentially a data-driven, integrated marketing services provider. It successfully leverages the digital and the physical interfaces to offer a full service and 360-degree solution to the clients. It has a very extensive repertoire to its credit of works done. In FY23 alone, RKSL published more than 818 creative campaigns on behalf of its clients across various media platforms. In addition, RKSL also processed over 97.69 terabytes of data and conducted over 2.37 million consumer interviews via quantitative, qualitative, and telephone surveys. The company started as a publicity and advertising agency but has gradually embarked on the full gamut of digital marketing services that are in sync with the needs of modern growth stories. It has an impressive client roster, with some of its premium clients including Dr. Reddy's Labs, EID Parry, Fujitsu, Gemini Edibles, Havells, IFB Industries, Mahindra & Mahindra, ONGC, Eicher Motors, Hawkins, HPCL, Himalaya Wellness, and Ultratech Cements. Among service industry players, its key clients include Birla Sun Life AMC, Cera, ICICI Prudential Life Insurance, Shriram Finance, and Union Bank of India. Many of its publicity and marketing campaigns have been quite iconic in terms of its impact on customers and the market, apart from the customer mindshare. RKSL currently employs over 2,391 personnel across its 12 offices and 12 field offices.

Objects of the issue

The net proceeds from the fresh issue will be used towards the following purposes:

- ⇒ Funding working capital requirement of the company - Rs. 87 crores;
- ⇒ Funding capital expenditure to be incurred by the company for setting up a digital video content production studio ("DVCP Studio") - Rs. 10.9 crores;
- ⇒ Funding investment in IT infrastructure development of the company, and the Material Subsidiaries, Hansa Research and Hansa Customer Equity - Rs. 33 crores;
- ⇒ Funding setting up of new customer experience centres ("CEC") and computer aided telephonic interview centres ("CATI") of the company - Rs. 21.7 crores; and
- ⇒ General corporate purposes.

Investment Rationale

Strategic integration and diversification propel the company into marketing services landscape

RKSL boasts a rich heritage of over 50 years as a pioneer in integrated marketing services within India. Over the decades, the company has evolved into one of the nation's leading integrated marketing service groups, offering a comprehensive suite of solutions spanning creative, media, data analytics, and market research services. Grounded in responsiveness to market trends and client needs, RKSL has cultivated enduring relationships with a diverse clientele comprising large corporates, state-owned enterprises, emerging entrepreneurs, and businesses across various sectors. As the marketing landscape continues to evolve, clients increasingly seek streamlined and efficient solutions to address their diverse marketing needs. In response, RKSL's integrated service model emerges as a compelling value proposition, offering clients a single window for their marketing requirements. By leveraging its interrelated and complementary business segments, the company stands poised to provide comprehensive support across the entire media and marketing value chain. As clients navigate the complexities of modern marketing, the appeal of consolidating services with a trusted integrated provider like RKSL becomes ever more apparent.

Robust track record and client-centric approach bolster the company's market dominance

RKSL's exceptional 15-year track record in the Data Analytics and Marketing Technology (MarTech) segment underscores its position as a leader in market research and customer data analytics. Since its inception, the company's subsidiary, Hansa Customer Equity, has been at the forefront of standalone customer data analytics, servicing over 200 clients across various sectors. Recognized as one of India's top 50 companies for data scientists to work for by Analytics India Magazine, Hansa Customer Equity exemplifies excellence in the field of data science. With a comprehensive suite of services encompassing Marketing Automation Platforms, Media Planning Tools, and AI-driven insights, RKSL remains at the forefront of innovation in the industry.

Issue Details

Offer Period	04 th Mar 2024 - 06 th Mar 2024
Price Band	Rs. 270 to Rs. 288
Bid Lot	50
Listing	BSE & NSE
Issue Size (no. of shares in mn)	14.7
Issue Size (Rs. in bn)	4.2
Face Value (Rs.)	10

Issue Structure

QIB	75%
NIB	15%
Retail	10%

BRLM	SBI Capital Markets Ltd., IIFL Securities Ltd., Motilal Oswal Investment Advisors Ltd.
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Registrar	Kfin Technologies Limited
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Particulars	Pre Issue %	Post Issue %
Promoter and Promoter group	83.03	70.86
Public	16.97	29.14
Total	100.00	100.00

(Assuming issue subscribed at higher band)

Research Team - 022-61596138

R K Swamy Ltd.

The company's ability to deploy various technologies, including machine learning and in-house algorithms, positions it to address clients' evolving business needs effectively. As the market for customer data analytics and MarTech solutions continues to expand, RKSL anticipates robust growth, with projections indicating significant market expansion by FY28. Furthermore, RKSL's well-diversified client base and long-standing relationships underscore its market dominance and resilience. With over 4,000 client organizations served and a focus on key sectors such as BFSI, automotive, and FMCG, the company possesses deep domain expertise and a proven track record of delivering value-added solutions. By leveraging the reach and relevance of digital content, RKSL supports clients' marketing initiatives across online and offline channels, further solidifying its position as a trusted partner in the marketing services landscape.

Valuation

RKSL, with its integrated marketing services approach, is strategically positioned to capitalize on India's burgeoning digital infrastructure growth spurred by initiatives like the 'Digital India' campaign and the expansion of 4G/5G networks. This rapid digital transformation has facilitated increased connectivity, internet penetration, smartphone usage, and digital payments, thereby creating significant marketing opportunities, particularly in rural areas, and fostering industry expansion. Over the past three years, R K Swamy Ltd. has demonstrated robust revenue growth, with sales increasing by nearly 70% in the last two years alone. The company's profitability metrics reflect this growth trajectory, with net profit margins reaching 10.7% in FY23 and marked a ten-fold increase in net profit over the past two years. Moreover, the impressive ROE of 69.1% and ROA of 10.0% underscore the company's efficient utilization of resources and strong profitability. **From a valuation perspective, R K Swamy Ltd.'s P/E ratio of 41x, based on FY23 earnings, is reasonable considering the industry average P/E of 69x. The inherent nature of the digital marketing analytics business is such that it entails higher initial risk followed by a phased replication model upon successful roll-out. While the IPO presents an opportunity for substantial returns, investors must be prepared for potential cyclical returns and a longer investment horizon. Based on the above positives, we give the issue a "SUBSCRIBE" rating.**

Key Risks

- ⇒ RKSL's revenue heavily depends on critical clients. Failure to retain or diversify the client base, or if crucial clients reduce marketing budgets, may materially and adversely impact business, revenue growth, and financial health.
- ⇒ RKSL's reliance on specific sectors exposes them to economic risks, including reduced advertising expenditure during downturns. Changes in client business models, competition, and budget shifts pose challenges. Economic uncertainties may impact their revenue, requiring effective risk mitigation.
- ⇒ RKSL's revenue heavily relies on digital operations, accounting for 78.1% in 2023. While industry trends suggest growth, the dynamic and competitive nature, technological changes, and regulatory oversight pose risks. Failure to adapt to digital trends and compliance with privacy laws could adversely affect their business, financial condition, and results of operations.



R K Swamy Ltd.

Income Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Revenue				
Revenue from Operations	1,735	2,344	2,926	1,411
Total Revenue	1,735	2,344	2,926	1,411
Expenses				
Cost of Material consumed	442	742	930	419
Purchase of Stock-in-Trade	794	900	1,071	582
Other expenses	308	363	369	214
Total Operating Expenses	1,544	2,004	2,370	1,216
EBITDA	192	340	556	195
Depreciation and Amortization expenses	150	139	147	74
Other income	97	106	73	15
EBIT	138	306	482	135
Finance costs	91	58	56	27
Exceptional Loss	-	-	-	-
PBT	47	248	426	109
Current tax	21	50	108	23
Deferred Tax charge/ (credit)	-5	5	5	6
Total tax	16	54	113	29
PAT	31	194	313	79
Diluted EPS	1	4	7	2

Source: RHP, BP Equities Research

Cash Flow Statement (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Cash Flow from operating activities	499	640	292	-353
Cash flow from investing activities	-216	-212	-138	-24
Cash flow from financing activities	-276	-335	-443	369
Net increase/(decrease) in cash and cash equivalents	8	93	-289	-7
Cash and cash equivalents at the beginning of the period	281	289	382	92
Cash and cash equivalents at the end of the period	289	382	92	85

Source: RHP, BP Equities Research



R K Swamy Ltd.

Balance Sheet (Rs. in millions)

Particulars	FY21	FY22	FY23	H1FY24
Equity and Liabilities				
Equity Share Capital	41	41	44	222
Other Equity	-8	123	408	288
Total Equity	33	163	452	511
Non-Current Liabilities				
Financial Liabilities				
(i) Borrowings	11	7	2	1
(ii) Lease Liabilities	203	153	194	148
(iii) Other Financial Liabilities	956	0	0	0
Provisions	58	18	29	30
Total Non current liabilities	1,228	178	224	179
Current Liabilities				
Financial Liabilities				
(i) Borrowings	446	281	43	510
(ii) Lease Liabilities	87	65	106	105
(iii) Trade Payable	1,991	2,263	1,971	1,087
(iv) Other financial liabilities	4	983	216	16
Other current liabilities	81	104	96	84
Provisions	30	26	27	30
Total Current Liabilities	2,639	3,723	2,460	1,831
Total liabilities	3,868	3,901	2,684	2011
Total Equity and Liabilities	3,901	4,064	3,137	2,521
Assets				
Non-Current Assets				
Property, plant and equipment	47	60	81	81
Right -of-use Assets	291	205	285	235
Investment Property	7	0	0	0
Intangible Assets	38	52	40	34
Intangible Assets under Development	31	0	0	0
Financial Assets				
(i) Investments	3	3	3	4
(ii) Other Financial Assets	89	37	126	119
Deferred Tax Assets (net)	55	52	48	43
Income tax assets (net)	204	137	104	202
Other non current assets	101	0	0	0
Total Non current assets	865	548	688	718
Current Assets				
Investments	27	23	24	23
Trade Receivables	1,770	1,897	2,047	1,170
Cash and cash equivalents	289	382	92	85
Bank Balances	117	51	44	61
Loans	542	834	8	8
Other Financial Assets	122	95	47	118
Other Current assets	168	236	186	338
Total Current Assets	3,035	3,517	2,448	1,803
Total Assets	3,901	4,064	3,137	2,521

Source: RHP, BP Equities Research

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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