

<b>Retail Research</b>	<b>IPO Note</b>
<b>Sector: Information Technology</b>	<b>Price Band (Rs): 195 - 206</b>
<b>20<sup>th</sup> August 2024</b>	<b>Recommendation: Subscribe for Long Term Investment Horizon</b>

## Orient Technologies Ltd.

### Company Overview:

**Orient Technologies Ltd** is an IT solutions provider, offering products and services across the IT infrastructure, IT Enabled Services (ITeS), and Cloud & Data Management Services verticals. The company's expertise in conjunction with its technological tie-ups enable it to provide customized IT solutions to clients present in the BFSI, IT, ITeS, Government, Healthcare and Pharmaceutical industries.

### Key Highlights:

#### 1. Marquee customer base with diversified customer industry profile:

Since its establishment, the company has built a strong reputation in India for providing high-quality products and services with the ability to tailor its offerings to meet customer needs. Through collaborations with technology partners like Dell, Fortinet and Nutanix, it creates advanced, customized products and services to meet specific customer requirements which helps maintain strong customer relationships.

#### 2. Comprehensive and diverse IT solutions & services:

The company's business consists of 3 verticals: IT infrastructure, ITeS, and Cloud & Data Management Services, offering a wide range of products. IT Infrastructure services include Data Centre Solutions and End-User Computing, which have been the largest revenue generator for the company in recent years. The company's offerings in Cloud and Data Management Services serve in the fields of data analytics, business analytics, containerization, etc.

#### 3. Ventured into new markets:

The company has recently entered the Device as a Service (DaaS) segment. This involves providing desktops, laptops, tablets, printers, scanners, smartphones, and servers bundled with software as well as managed services, on a subscription or "pay-per-use" basis. The DaaS market in India is currently at a very early stage and is fragmented.

#### 4. Decent order book:

As of Jun'24, the company has a diverse order book standing at ~Rs 101 crore with orders flowing from various industries, namely BFSI, Manufacturing, ITeS, Healthcare, Government & PSU's, and Communication.

**Valuation:** The company is valued at FY24 P/E multiple of 20.7x at the upper price band. The fundamentals of the company look decent with a healthy CAGR of 13.6%/11.3%/9.8% in Revenue/EBITDA/PAT over FY22-24 period. The company's diversified end-user industry profile, comprehensive product & service offerings and technology partnership with big players will help in sustainable growth for the company. However, we believe the company faces high competition in the fragmented industry. We recommend subscribing to the issue for long term investment horizon.

Issue Details	
Date of Opening	21 <sup>st</sup> August 2024
Date of Closing	23 <sup>rd</sup> August 2024
Price Band (Rs)	195 - 206
Offer for sale (no of shares)	46,00,000
Fresh Issue (Rs cr)	120
Issue Size (Rs cr)	210 - 215
No. of shares	1,04,25,243
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	818 - 858
BRLMs	Elara Capital (India) Private Limited
Registrar	Link Intime India Private Limited
Bid Lot	72 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Objects of Issue	
	<b>Estimated utilization from fresh issue (Rs cr)</b>
Acquisition of office premises at Navi Mumbai	10.3
Funding capital expenditure requirements	79.7
General corporate purposes*	-
<b>Total proceeds from fresh issue</b>	<b>120</b>

\*To be finalised upon determination of the Offer Price and updated in the Prospectus prior to filing with the RoC. The amount utilized for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern		
<b>Pre-Issue</b>	<b>No. of Shares</b>	<b>%</b>
Promoter & Promoter Group	3,50,87,500	98.0
Public & Others	7,29,000	2.0
<b>Total</b>	<b>3,58,16,500</b>	<b>100.0</b>

Post Issue @ Lower Price Band		
	<b>No. of Shares</b>	<b>%</b>
Promoter & Promoter Group	3,04,87,500	72.6
Public & Others	1,14,82,846	27.4
<b>Total</b>	<b>4,19,70,346</b>	<b>100.0</b>

Post Issue @ Upper Price Band		
	<b>No. of Shares</b>	<b>%</b>
Promoter & Promoter Group	3,04,87,500	73.2
Public & Others	1,11,54,243	26.8
<b>Total</b>	<b>4,16,41,743</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

Rs cr	FY22	FY23	FY24
Revenue from operation	467.4	535.1	602.9
EBITDA	45.8	48.6	56.6
PAT	33.5	38.3	41.4
EBITDA Margin (%)	9.8	9.1	9.4
PAT Margin (%)	7.2	7.2	6.9
ROE (%)	35.6	29.7	23.6
ROCE (%)	47.3	37.9	31.6
PE (x)*	22.0	19.3	17.8

\*Note: Pre-issue PE based on upper price band

Source: RHP, SSL Research

## Risk Factors

- **Customer concentration risk:** The company, through its customized offerings, garners prominent customers across industries. While the company's customer base may change annually, the top 10 customers significantly impact the financial stability of the business as they contributed 38% to the FY24 revenues. Hence, maintaining strong relationships with these customers is crucial for the company, and any failure to do so could have a significant adverse impact on operations, financial condition, and cash flows.
- **Employee risk:** The company has a large workforce and employee benefit expense is a significant part of the operating costs. Hence, any increase in these expenses could reduce the company's profitability. Additionally, IT system failures or employee lapses may lead to operational disruptions or reputational harm.
- **High competition:** Orient Technologies operates in a competitive industry with numerous domestic and international rivals. Some competitors have advantages in financial, technical, and marketing resources, which could impact the company's ability to compete, acquire funding, and respond to industry changes. Any failure to maintain high-quality standards, reduce costs, and continually enhance services may affect market share and profitability. Competitive pressures may also lead to lower prices and reduced profit margins, impacting revenue.
- **Dependency on partnerships:** The technologies related to the company's product offerings are complex and require specialized knowledge. Orient Technologies collaborates with technology partners like Dell, Fortinet and Nutanix to design products and provide tailored services. However, a continued long-term relationship with these partners cannot be guaranteed, which may impact the company's ability to meet customer demands.

## Growth Strategy

- To expand and enhance product and services portfolio to better serve client needs.
- To expand presence towards newer geographical locations.
- To continue to invest in the professional development and growth of the employees.

## Revenue Split – Segment Wise

Particulars	FY22		FY23		FY24	
	Revenue (Rs cr)	% of Revenue	Revenue (Rs cr)	% of Revenue	Revenue (Rs cr)	% of Revenue
IT Infrastructure	329.5	70.5	349.3	65.3	314.7	52.2
ITeS	79.8	17.1	105.2	19.7	133.9	22.2
Cloud & Data Management Services	58.1	12.4	80.6	15.0	154.3	25.6
<b>Total</b>	<b>467.4</b>	<b>100.0</b>	<b>535.1</b>	<b>100.0</b>	<b>602.9</b>	<b>100.0</b>

Source: RHP, SSL Research

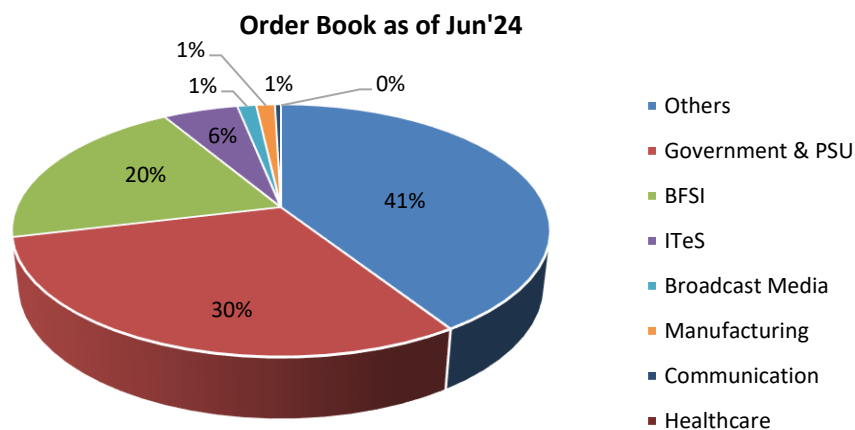
## Revenue Split – Customer Industries

Particulars	FY22		FY23		FY24	
	Revenue (Rs cr)	% of Revenue	Revenue (Rs cr)	% of Revenue	Revenue (Rs cr)	% of Revenue
BFSI	179.2	38.3	144.9	27.1	130.6	21.7
Broadcast Media Production & Distribution	1.6	0.4	4.7	0.9	31.1	5.2
Communication	17.8	3.8	34.5	6.5	77.1	12.8
Healthcare	24.3	5.2	22.1	4.1	23.3	3.9
ITeS	53.7	11.5	70.9	13.2	58.8	9.8
Manufacturing	6.5	1.4	14.9	2.8	19.1	3.2
Others*	136.4	29.2	154.6	28.9	180.8	30.0
Government & PSU	48.0	10.3	88.7	16.6	82.2	13.6
<b>Total</b>	<b>467.4</b>	<b>100.0</b>	<b>535.1</b>	<b>100.0</b>	<b>602.9</b>	<b>100.0</b>

\*Others include infrastructure, real estate, logistics, education, e-commerce, conglomerates, energy and service industries etc.

Source: RHP, SSL Research

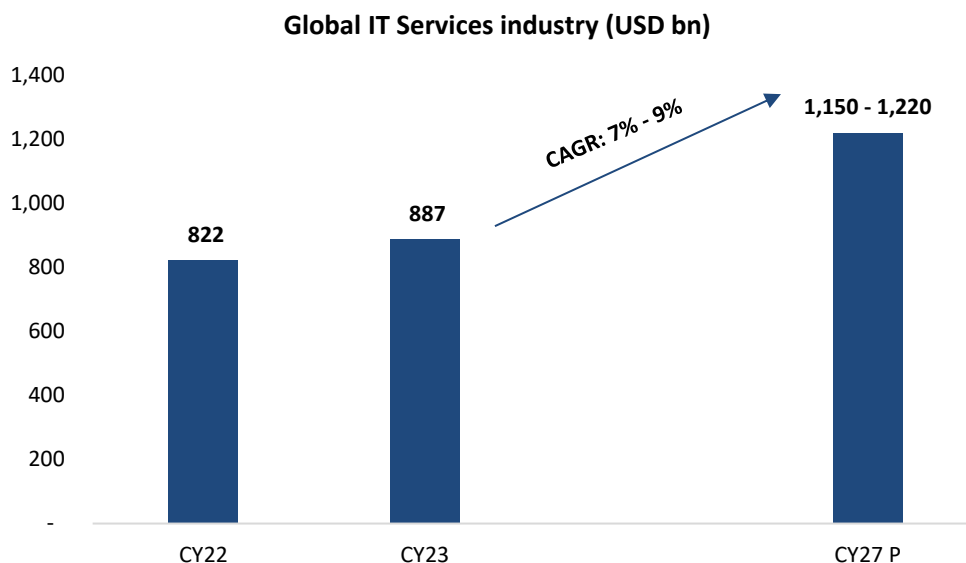
## Order book diversified across customer industries (~Rs 101 crore)



# Industry Overview

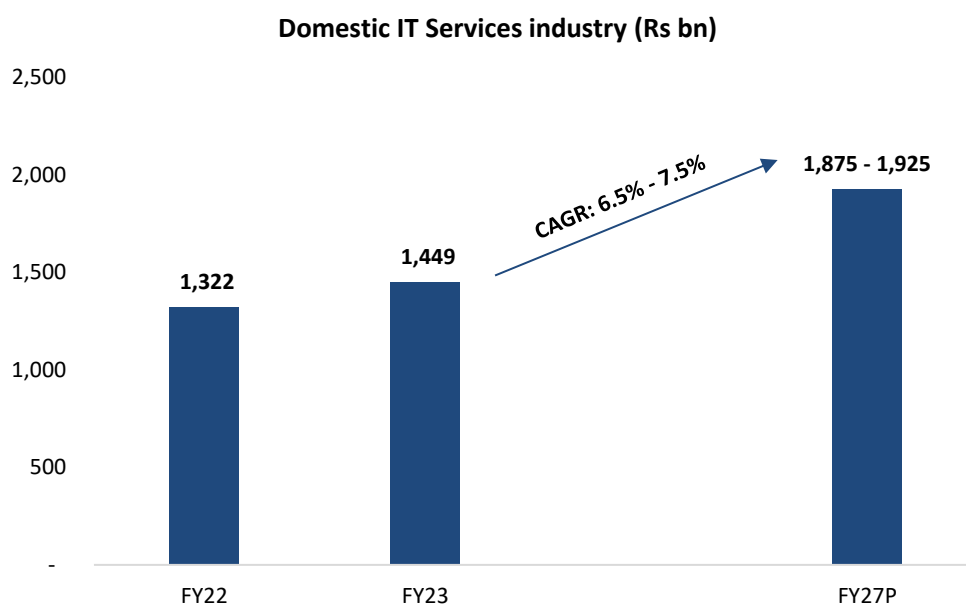
## Global IT industry

The Global IT industry is expected to grow at a CAGR of 7%-9% between CY23 to CY27 to reach a valuation of ~USD 1,150 – 1,220 bn on the back of demand caused by increased dependence of global businesses on IT to drive efficiency, connectivity, and innovation.



Source: RHP, SSL Research

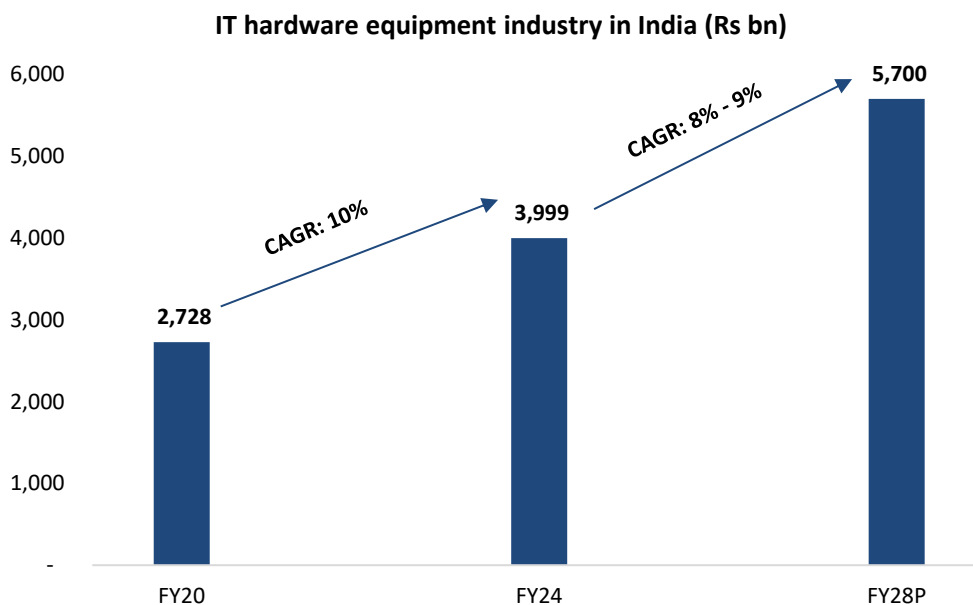
Whereas, the **Indian IT industry** is poised to grow at a CAGR of 6.5%-7.5% between FY24-FY27 to become a Rs 1,875 - 1,925 bn industry aided by the ever-growing investments in digitization by businesses to support long-term sustainability. The digitization speed in India is growing at a very fast rate led by higher mobile penetration, improved data connectivity, and faster and cheaper data. Government and government agencies are expected to remain the largest contributors to domestic IT revenue, in line with achieving long-term growth from technology and platform upgrades and e-governance initiatives.



Source: RHP, SSL Research

**Device-as-a-Service (DaaS) Industry**

The DaaS is a new subscription-based service model that involves a third-party provider that provides businesses with a full array of end-user devices, software services, and managed IT support in the same package against a monthly contractual fee. The various products covered by the DaaS industry include a variety of laptops, smartphones, tablets, desktops, networking equipment, servers, peripherals, etc. Overall, the IT hardware equipment industry in India is expected to grow at 8-9% CAGR over the medium term, reaching Rs 5,450 -5,700 bn by FY28 driven by digitization trends. At the moment, the DaaS market in India is at a very nascent stage, however, the growing demand due to the formation of hybrid workforces, shift towards subscription-based models, rising cyber threats, and need for improved internal team bandwidth provide a lucrative opportunity for the industry to flourish.



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY22	FY23	FY24
<b>Revenue from Operations</b>	<b>467</b>	<b>535</b>	<b>603</b>
<b>YoY growth (%)</b>	-	<b>14.5%</b>	<b>12.7%</b>
Cost Of Revenues (incl Stock Adj)	381	433	492
<b>Gross Profit</b>	<b>86</b>	<b>103</b>	<b>111</b>
<b>Gross margins (%)</b>	<b>18.4%</b>	<b>19.2%</b>	<b>18.4%</b>
Employee Cost	25	34	40
Other Operating Expenses	16	20	14
<b>EBITDA</b>	<b>46</b>	<b>49</b>	<b>57</b>
<b>EBITDA margins (%)</b>	<b>9.8%</b>	<b>9.1%</b>	<b>9.4%</b>
Other Income	2	7	4
Interest Exp.	1	2	2
Depreciation	2	2	4
<b>PBT</b>	<b>45</b>	<b>52</b>	<b>55</b>
Exceptional item/Extraordinary item	-	-	-
Tax	11	14	13
<b>PAT</b>	<b>33</b>	<b>38</b>	<b>41</b>
<b>PAT margin (%)</b>	<b>7.2%</b>	<b>7.2%</b>	<b>6.9%</b>
<b>EPS</b>	<b>9.4</b>	<b>10.7</b>	<b>11.6</b>

BALANCE SHEET			
(Rs cr)	FY22	FY23	FY24
<b>Assets</b>			
Net Block	10	12	11
Capital WIP	-	-	-
Intangible Assets	-	-	-
Intangible Assets under development	-	-	-
Right of use assets	1	7	6
Other Non-current Assets	6	5	14
<b>Current Assets</b>			
Current Investment	18	34	39
Inventories	14	8	14
Trade receivables	96	118	158
Cash and Bank Balances	25	20	21
Short-term loans and advances	-	-	-
Other Current Assets	23	35	49
<b>Total Current Assets</b>	<b>176</b>	<b>215</b>	<b>280</b>
<b>Current Liabilities &amp; Provisions</b>			
Trade payables	66	63	91
Other current liabilities	25	24	28
Short-term provisions	-	-	1
<b>Total Current Liabilities</b>	<b>92</b>	<b>87</b>	<b>120</b>
<b>Net Current Assets</b>	<b>84</b>	<b>128</b>	<b>160</b>
<b>Total Assets</b>	<b>101</b>	<b>153</b>	<b>191</b>
<b>Liabilities</b>			
Share Capital	18	18	36
Reserves and Surplus	77	111	139
<b>Total Shareholders' Funds</b>	<b>94</b>	<b>129</b>	<b>175</b>
Minority Interest	-	-	-
<b>Total Debt</b>	<b>2</b>	<b>13</b>	<b>5</b>
Long Term Provisions	4	4	5
Lease Liabilities	1	7	6
Other Long-Term Liabilities	-	-	-
Net Deferred Tax Liability	-	-	-
<b>Total Liabilities</b>	<b>101</b>	<b>153</b>	<b>191</b>

CASHFLOW (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	30	2	22
Cash flow from Investing Activities	(8)	(12)	(12)
Cash flow from Financing Activities	(8)	4	(10)
Free Cash Flow	28	(2)	18

RATIOS			
	FY22	FY23	FY24
<b>Profitability</b>			
Return on Assets	17.4%	16.0%	13.3%
Return on Capital Employed	47.3%	37.9%	31.6%
Return on Equity	35.6%	29.7%	23.6%
<b>Margin Analysis</b>			
Gross Margin	18.4%	19.2%	18.4%
EBITDA Margin	9.8%	9.1%	9.4%
Net Profit Margin	7.2%	7.2%	6.9%
<b>Short-Term Liquidity</b>			
Current Ratio (x)	1.9	2.2	2.2
Quick Ratio (x)	1.8	2.1	2.1
Avg. Days Sales Outstanding	75	81	95
Avg. Days Inventory Outstanding	11	6	8
Avg. Days Payables	52	43	55
Fixed asset turnover (x)	47.3	44.7	53.4
Debt-service coverage (x)	13.8	3.7	8.3
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	0.0	0.1	0.0
Interest Coverage Ratio (x)	45.0	29.7	27.8
<b>Valuation Ratios*</b>			
EV/EBITDA (x)	15.6	15.0	12.8
P/E (x)	22.0	19.3	17.8
P/B (x)	7.8	5.7	4.2
EV/Sales (x)	1.5	1.4	1.2

\*Valuation ratios are based on pre-issue capital at upper price band

Source: RHP, SSL Research

## Peer Comparison – FY24

Particulars (Rs cr)	Orient Technologies	Dynacons Systems & Solutions	HCL Technologies	LTI Mindtree	Tech Mahindra	Wipro
CMP	206.0	1,588.0	1,675.0	5,669.0	1,592.0	520.0
Sales	603.0	1,024.0	1,09,913.0	35,517.0	51,996.0	89,760.0
EBITDA	56.6	78.0	24,198.0	6,387.0	4,506.0	16,752.0
Net Profit	41.4	54.0	15,710.0	4,585.0	2,397.0	11,112.0
Mkt Cap.	857.8	2,018.0	4,54,607.0	1,67,904.0	1,55,730.0	2,71,723.0
Enterprise Value	722.1	1,963.2	4,36,784.0	1,65,129.0	1,52,524.0	2,76,175.0
EBITDA Margin (%)	9.4	7.6	22.0	18.0	8.7	18.7
Net Margin (%)	6.9	5.3	14.3	12.9	4.6	12.4
PE (x)	20.7	37.5	28.9	36.6	65.9	24.6
EV/EBITDA (x)	12.8	25.2	18.1	25.9	33.8	16.5
RoE (%)	23.6	41.0	23.3	25.0	8.6	14.3
RoCE (%)	31.6	44.1	29.6	31.2	11.9	16.9
EV/Sales	1.2	1.9	4.0	4.6	2.9	3.1

For Orient Technologies, the Market Cap, PE (x), Enterprise Value, and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

CMP of peer companies is as on 19<sup>th</sup> August, 2024.

Source: RHP, SSL Research



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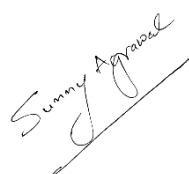
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