Netweb Technologies – ADD

IIFL SECURITIES

26 June 2024

Shovel seller in the age of AI

Netweb Technologies is one of the leading domestic providers of end-to-end high-end computing solutions (HCS), employing a customer-centric approach to compete with global MNCs. The company has emerged as a proxy to AI and data centre related investments in India with a TAM of ~US$13bn, expected to grow at 14% Cagr over the next 5 years. It has witnessed a robust 5x/9x growth in sales/PAT over FY21-24 led by acceleration in investments in HPCs and Private Cloud. Substantial headroom for growth in existing portfolio and expansion of offerings through R&D should drive sales/PAT Cagr of 45%/50% over FY24-27ii. However, post the recent run up, the stock trades richly at 1.7x PEG, leaving little room for upside. We initiate coverage on Netweb with ADD rating and a TP of Rs2,680 (70x PER), implying 4% upside.

Leading domestic provider of HCS: Rapid transition to private Cloud and increasing investments in Data Centres drives demand for severs while a surge in outlay towards generative AI and supercomputing systems is driving historic growth for HCS. This coupled with GoI's schemes aimed at incentivising local manufacturing augurs well for domestic players. Netweb, with its 20+ years of experience in deploying HCS and partnerships with NVIDIA & ARM, is one of the leading domestic players, and well poised to capitalise on the opportunity.

Leveraging R&D to expand portfolio offerings: Netweb spends ~3.5-4% of sales on R&D and has a demonstrated history of entering new product categories, based on the gaps in the end-consumer needs and market opportunity viz. entry into private Cloud in 2021 and the most recent foray into manufacturing of Network Switches and 5G ORAN. We expect Netweb's R&D efforts to continue to aid expansion in product portfolio and drive the overall TAM.

Expect 50% EPS Cagr over FY24-27ii: Robust demand led jump in execution and resultant operating leverage to lead a 3.5x jump in PAT over FY24-27ii. Despite the high NWC intensity, we expect strong net margin profile to aid ~30% RoE with healthy FCF conversion. Key risks – high customer concentration and technology disruption.

CMP	Rs2570
12-mth TP (Rs)	2680 (4%)
Market cap (US$m)	1,736
Enterprise value(US$m)	1,710
Bloomberg	NETWEB IN
Sector	EMS

Shareholding pattern (%)

Promoter	75.0
Pledged (as % of promoter share)	0.0
FII	10.2
DII	6.9
52Wk High/Low (Rs)	2661/500
Shares o/s (m)	56
Daily volume (US$ m)	3.3
Dividend yield FY25ii (%)	0.2
Free float (%)	25.0

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	20.7	57.6	0.0
Absolute (US$)	20.2	57.5	0.0
Relative Perf.	11.3	29.4	0.0

Cagr (%)		3 yrs	5 yrs
EPS (Rs)		66.7	70.0

Stock performance
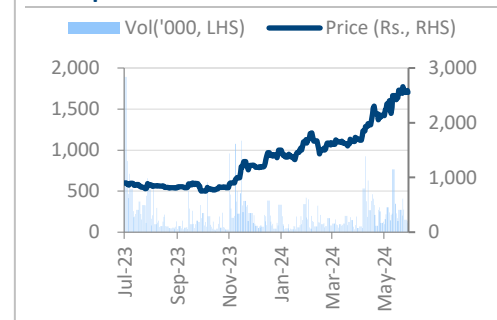
Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Revenues (Rs m)	4,450	7,241	10,905	15,217	22,008
Ebitda margins (%)	*15.7*	*14.2*	*16.0*	*15.9*	*16.1*
Pre-exceptional PAT (Rs m)	469	759	1,281	1,750	2,565
Reported PAT (Rs m)	469	759	1,281	1,750	2,565
Pre-exceptional EPS (Rs)	9.2	13.5	22.7	31.1	45.5
Growth (%)	*16.1*	*46.1*	*68.8*	*36.6*	*46.6*
IIFL vs consensus (%)			*0.1*	*(0.2)*	*0.0*
PER (x)	**NM**	**190.8**	**113.1**	**82.8**	**56.5**
ROE (%)	*68.0*	*29.4*	*26.8*	*29.1*	*33.3*
Net debt/equity (x)	0.2	(0.5)	(0.4)	(0.4)	(0.4)
EV/Ebitda (x)	187.2	139.1	81.5	58.6	39.9
Price/book (x)	139.7	34.3	27.2	21.6	16.6
OCF/Ebitda (x)	0.4	0.2	0.3	0.4	0.3

Source: Company, IIFL Research. Priced as on 25 June 2024

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Company snapshot

- Netweb Technologies is one of India's leading high-end computing solutions (HCS) provider, with fully integrated design and manufacturing capabilities.
- It has comprehensive capabilities in designing, developing, and integrating supercomputing systems, private cloud and HCI, data centre servers, AI systems and enterprise workstations, and HPS solutions.
- Established as a sole proprietorship in 1999 (incorporated as a company in 2016), over the last two decades, Netweb has installed 300+ supercomputing systems, 50+ private Cloud & HCI installations and 4,000+ AI systems and enterprise workstations.

Figure 1: Netweb's brands & offerings across segments

Source: Company, IIFL Research

- It recently forayed into developing Network Switches and 5G ORAN Appliances, which are critical to the Data centre industry for enterprise IT, and the Telecommunication industry for enabling 5G services.
- While its revenue has largely been domestic with almost negligible exports, the company is now looking to expand operations in Europe and the Middle-East, with plans to set up service networks in four countries initially.

Figure 2: Revenue mix over the years – HPC, Private Cloud and AI solutions dominate
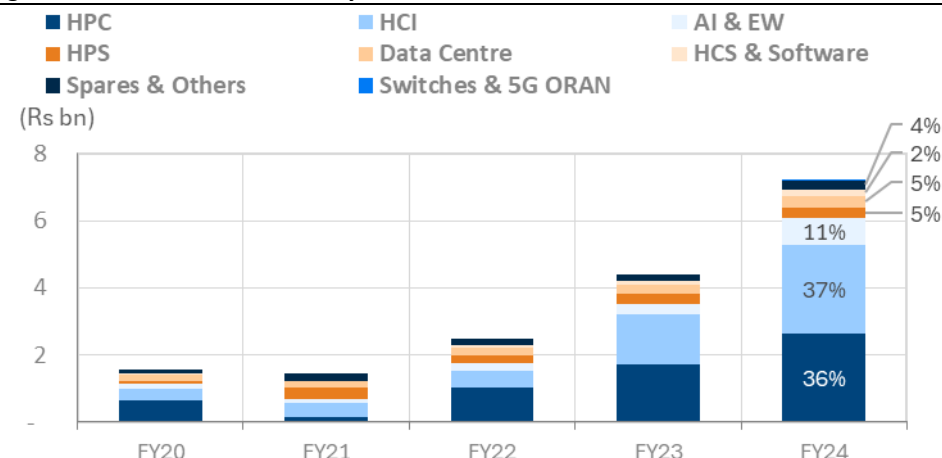
Source: Company, IIFL Research

- Netweb is eligible to seek incentives under the IT Hardware PLI 2.0 Scheme for the manufacturing of servers and under Telecom and Networking PLI Scheme for the manufacturing of switches & ORAN.

Figure 3: Mix of private enterprises in FY24 revenue increased by 4pps YoY to 53%
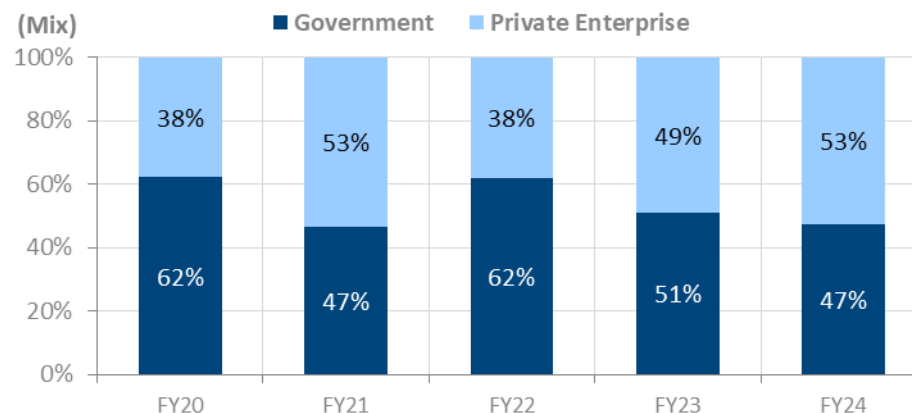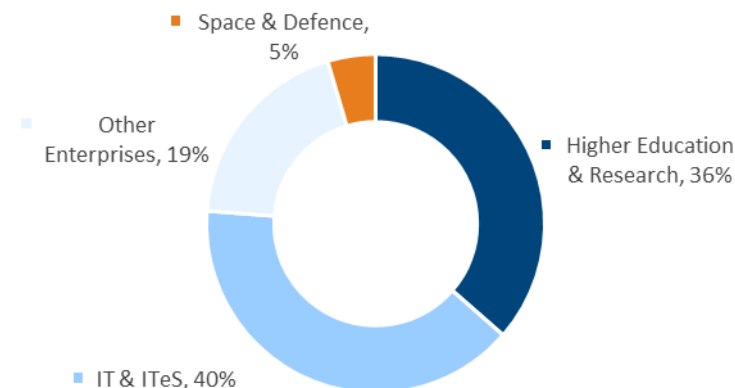

Source: Company, IIFL Research

Figure 4: Netweb's historical timeline

| Year	Particulars
1999	Netweb **established** as a sole proprietorship
2005	Launched **Tyrone** brand of products & solutions
2013	Deployed **Param Yuva II** - 70th most powerful supercomputer in the world
2016	Netweb **incorporated** as a **company**
2017	Deployed **servers** at **204 locations** across **23 states** for a PSU
2019	Deployed **Param Ambar** - India's 4th fastest supercomputer for **ISRO**
2021	Qualified for GoI's **PLI for IT Hardware**
2021	Launched Private Cloud stack - **Skylus**
2021	Deployed **5G cloud** for **large international Telco**
2022	Launched **Kubyts** - platform for rapid deployment of AI & HPC
2022	Qualified for GoI's **PLI for Telecom & Networking products**
2022	Deployed **AIRAWAT** - India's largest and fastest AI Supercomputing system
2023	Forayed into **Network Switches** and **5G ORAN**

Source: Company, IIFL Research

Application-wise diversified customer base

- Netweb caters to marquee customers across various end-user industries such as IT & ITeS, Entertainment and Media, BFSI, National Data Centres, Defence sector, Education & Research institutes.

- Its comprehensive implementation and service support resulting end-to-end solutions is a key factor in attracting new customers – Netweb on boarded 171 new clients in FY24.

Figure 5: Netweb's FY24 customer mix

Source: Company, IIFL Research

Figure 6: Execution of a large order for a new client led to decline in the share of repeat customers in FY24...
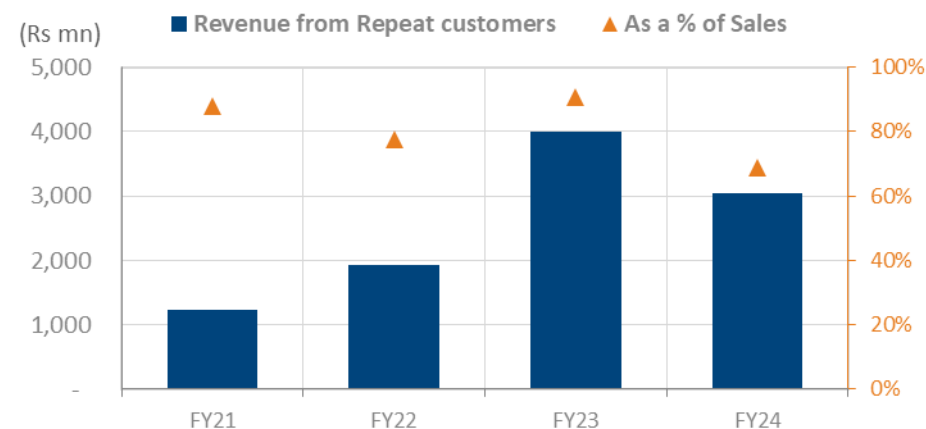
Source: Company, IIFL Research

Figure 7: …translating into higher customer concentration
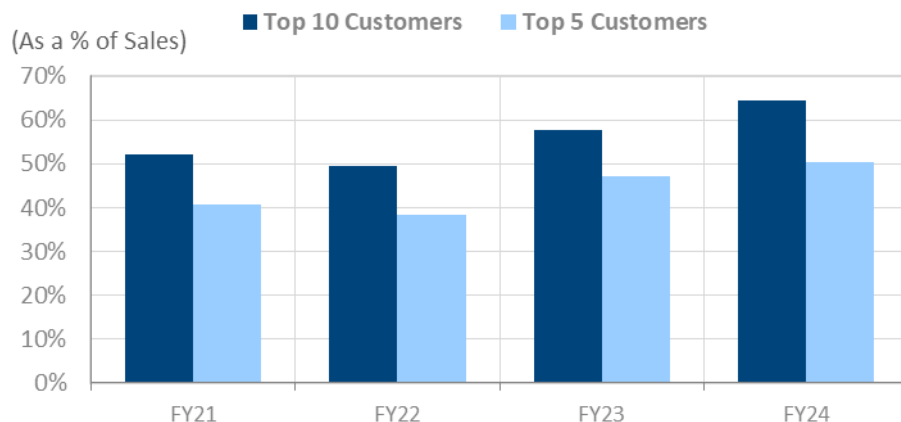
Source: Company, IIFL Research

Figure 8: Netweb's key clients across application categories

Source: Company, IIFL Research

Manufacturing

- Netweb manufactures products from the facility located in Faridabad, Haryana in India. The facility is equipped with capabilities to design, develop and manufacture their product, and cater to their service portfolio.
- The Manufacturing Facility has received ISO 9001:2015 (Quality Management System), ISO 14001:2015 (Environmental Management System) and ISO/IEC 27001:2013 (Information Security Management System) certificates from International Benchmarking & Certification agencies.
- The company has also entered into a manufacturing agreement with an Indian EMS player for contract manufacturing of server motherboards and related PCB assemblies using SMT, for its products.
- Further, the company operationalised a new manufacturing facility in Faridabad in 1QFY25, comprising PCB design, manufacturing and SMT line for high-end servers, storage and switches. This would enhance the company's manufacturing capability and prevent the need to share designs with third parties.

Figure 9: Netweb's new SMT facility operationalized in 1QFY25

Source: Company, IIFL Research

Segment-wise analysis

High-Performance Computing (HPC)

- Netweb is one of India's largest manufacturer of supercomputing systems. Over the last two decades, it has **deployed** some of **India's fastest supercomputing systems** including Airawat, Param Ambar and Param Yuva – II.
- Its supercomputing systems use the in-house 'Tyrone cluster management suite', which is an integrated set of software components that can be deployed in a variety of configurations.

Figure 10: Application of HPCs across sectors

Sectors	Applications
Aerospace	Run complex simulations like **airflow over wings of the plane**
Automobile	**Crash simulations** for safety & **autonomous driving**
Fintech	Complex **risk analysis**, **high-frequency trading**, **financial modeling**
Genomics	**DNA sequencing**, analysing **drug interactions** and running **protein analyses**
Healthcare	Research drugs, **create vaccines** and develop **treatments for rare diseases**
Media	Creating **animations**, render **special effects**, **transcode huge media files**
Oil & Gas	**Spatial analyses** and testing reservoir models to **predict O&G resources**
Retail	Analyse customer data to provide **targeted product recommendations**

Source: Company, IIFL Research

- Netweb has deployed diverse supercomputing systems ranging from 10 nodes to 400 nodes, to cater to different customer requirements and its supercomputing systems are scalable up to 1,000 nodes.
- A large part of execution in the HPC business historically pertained to supercomputers for government educational & research institutions. However, with the increase in usage of HPC systems in Automotive, Healthcare sectors and Oil & Gas exploration, traction is picking up with private enterprises.
- **Key Clients** – IITs, IISC, CDAC, IISER Pune, TIFR, Ministry of Defence, Sun Pharma

Figure 11: HPC segment is poised to grow at 42% Cagr over FY24-27ii
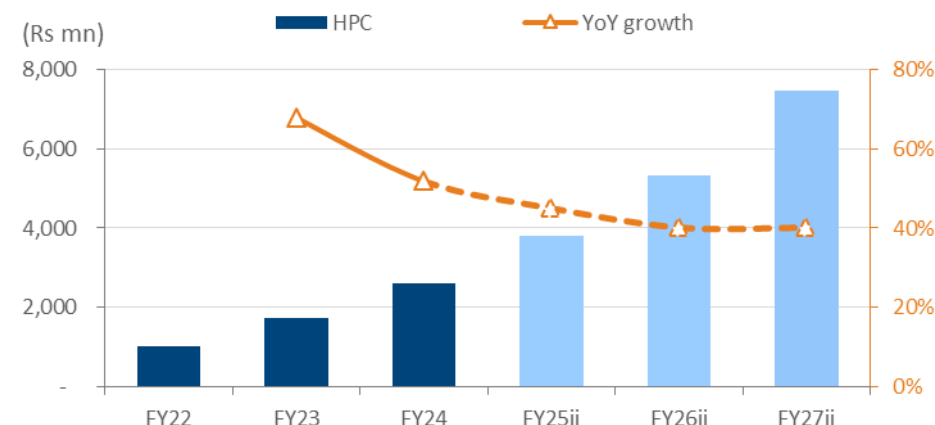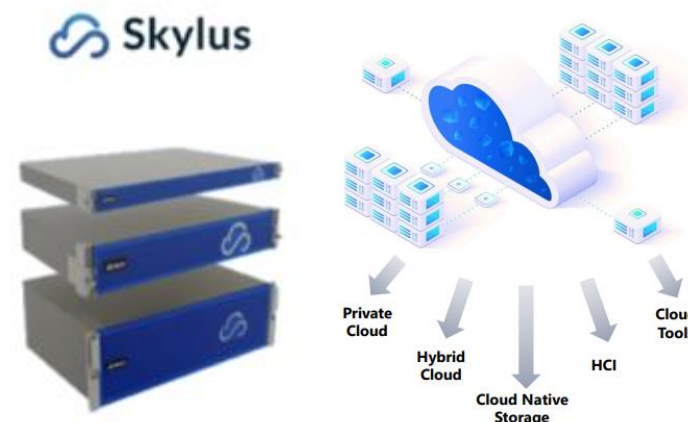
Source: Company, IIFL Research

## Private Cloud & Hyper-Converged Infrastructure (HCI)

- Netweb's private Cloud and HCI offering, is built and sold under the Tyrone **Skylus** brand, offers hyper-converged capabilities i.e., combining compute, storage, and network.

Figure 12: Netweb's Cloud & HCI solutions sold under the Skylus brand
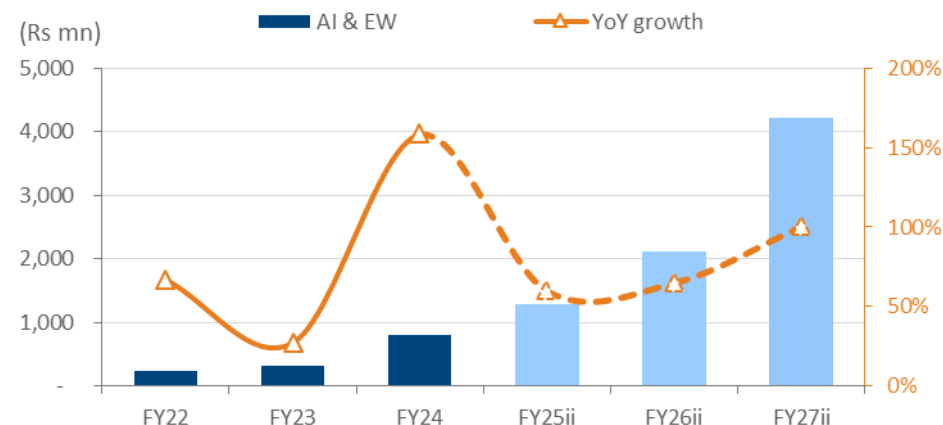
Source: Company, IIFL Research

- It provides bespoke hardware and curated software stack, competing with foreign OEMs, virtualisation ISVs, private Cloud platforms, and general computing rigs (like VMware, Nutanix, Suse and RedHat).
- Transition of public banks to private Cloud architecture, increasing popularity of SAAS for diverse workloads are key growth drivers for the segment.
- **Key clients** – Netweb has undertaken 50+ installations of private Cloud and HCI for marquee customers including Graviton, Akamai, A.P.T. Portfolio, and Yotta Data. Other clients include TCS, Infosys, NIC, HCL Technologies.

Figure 13: HCI to grow at 36% Cagr over FY24-27ii – to account for ~30% of FY27ii sales
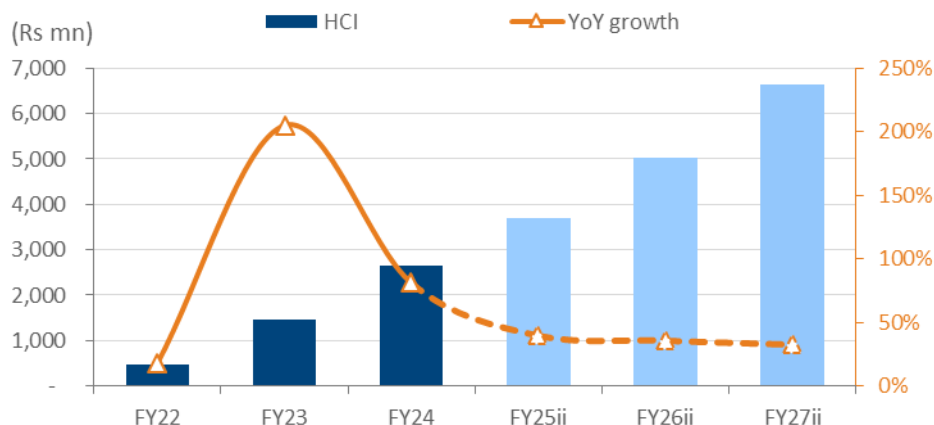
Source: Company, IIFL Research

AI systems & Enterprise Workstations (AI & EW)

- Netweb's AI systems and workstations sold under the **Tyrone Janus** brand, address the requirements of supercomputing systems, Machine Learning and Deep Learning. They are equipped with the *proprietary containerised application solution* (**Tyrone Kubyts**) to run computation intensive applications like CFD, CAD & CMD.
- Enterprise workstations are designed to work across different use cases including high performance graphics, 3D designs and animation, and a multitude of scientific activities such as engineering design and Data Science.

Figure 14: AI & EW to grow at 49% Cagr over FY24-27ii

Source: Company, IIFL Research

- **Key clients** – AIRA Matrix, HL Mando, Knor Bremse, NDTV, IITs, NITs, Trexquant, Proptiger

High Performance Storage (HPS)

- Netweb's HPS solutions provide high throughput storage solutions for enterprise computation users. Its offerings comprise –
  - Unified Storage – **Tyrone Verta**
  - Parallel File storage – **Tyrone ParallelStor**
  - Surveillance and Object Storage – **Tyrone Collectivo**
- It provides cost-effective, integrated end-to-end solutions that are scalable up to Exabytes. Netweb provides integrated solutions with in-house developed hardware, middleware and software.
- Increasing HPC workloads, AI demands for HPS, regulatory requirements on data localisation and mandates on localised manufacturing, is driving the demand for Netweb's indigenous HPS solutions.
- **Key clients** – Institute of Nano Science & Technology, C-DAC, DRDO, APT Portfolio, T-Series, Shemaroo Entertainment

Figure 15: HPS to grow at 30% Cagr over FY24-27ii
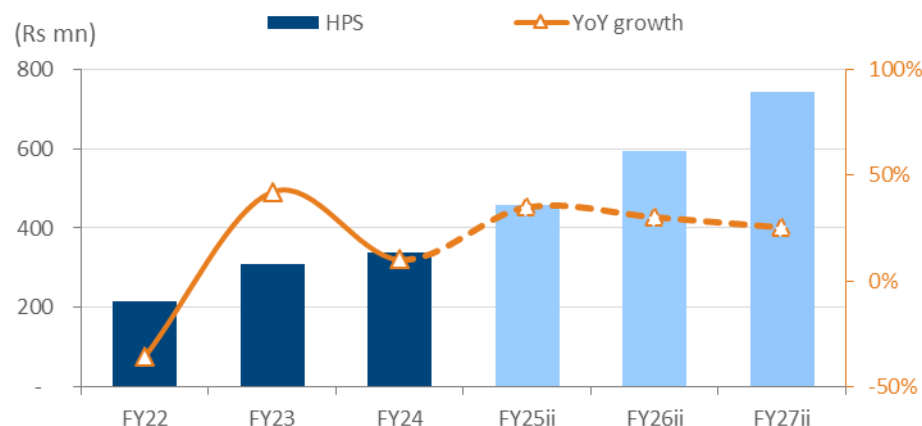
Source: Company, IIFL Research

Data Centre servers

- Netweb's data centre servers are sold under the brand **Tyrone Camarero**. It has built over 200 dual-processor server models enabling multiple operations simultaneously, leading to low latency and better physical space utilisation.

Figure 16: Data Centre servers business to grow at 18% Cagr over FY24-27ii
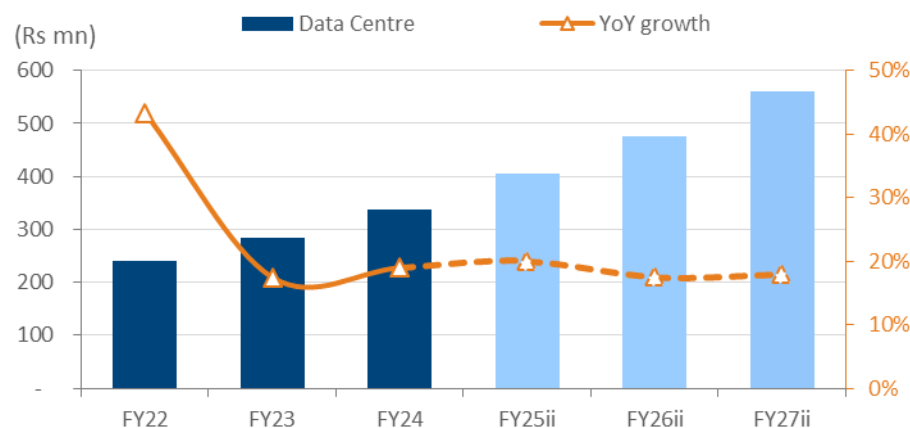
Source: Company, IIFL Research

- Designed and manufactured in compliance with GoI's 'Make-In-India' policy, its data centre server offerings are aimed at meeting specific customer requirements of low rack-space consumption, high in-built storage, energy efficiency among others.
- Netweb's expansive product portfolio, bespoke and customised solutions, short GTM on new tech offerings and lower cost makes it a preferable option vis-à-vis competitors.
- **Key clients** – IIT Kanpur, JNU, HL Mando, Infosys, Citrix, NTPC, Tata Group, RailTel, Grey Orange.

HCS – Software & Services

- This segment pertains to Netweb's private Cloud software stack designed for managed Kubernetes, AI-ML and Deep Learning as a service, containers as a service, and handle complex workloads (like 5G enterprise Cloud, 5G edge compute & enterprise IT).
- It also provides 'Big Data' centric solutions that are designed to cater to the data-intensive distributed applications. Other offerings include Netweb openstack services, HPC on Cloud, containers as a service, and Cloud migration.
- **Key clients** – Graviton Research Capital LLP, NMDC Data Centre, Infosys, Accenture, British Telecom, Cairn Energy, IITs

Figure 17: HCS Software & Services business to grow at 40% Cagr over FY24-27ii
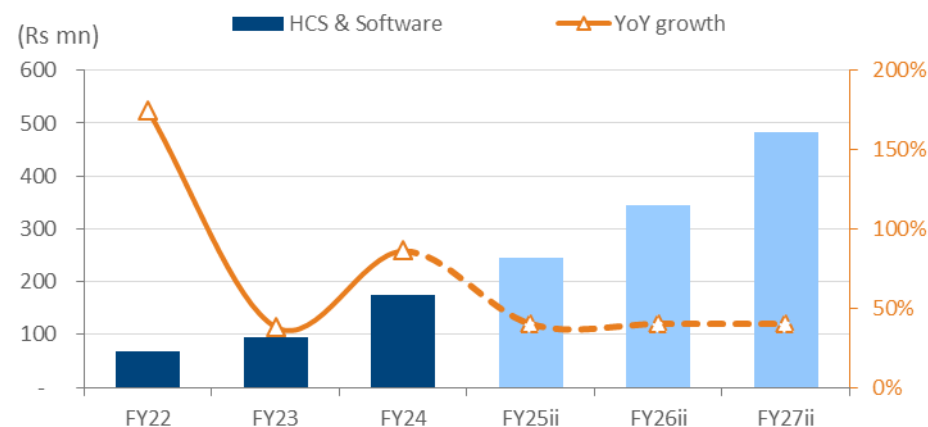

Source: Company, IIFL Research

Investment rationale

Rising demand for HCS solutions

Data Centres and Cloud

- Rising adoption of smartphones and internet, IoT technologies and regulatory requirements for BFSI has led to a substantial increase in the demand for data centres, in turn driving demand for servers.
- Number of servers deployed at a data centre vary from 1,000 servers at the lower end to over 100,000 servers at large data centres. At ~80%, they make up bulk of the initial set up cost of a data centre.
- Increased installation of hyperscale data centres, large scale commercialisation of 5G networks resulting in increasing volume of data traffic and OTT services to spur demand globally.

Figure 18: Market for Data Centre servers to grow at 10% Cagr over FY23-27F
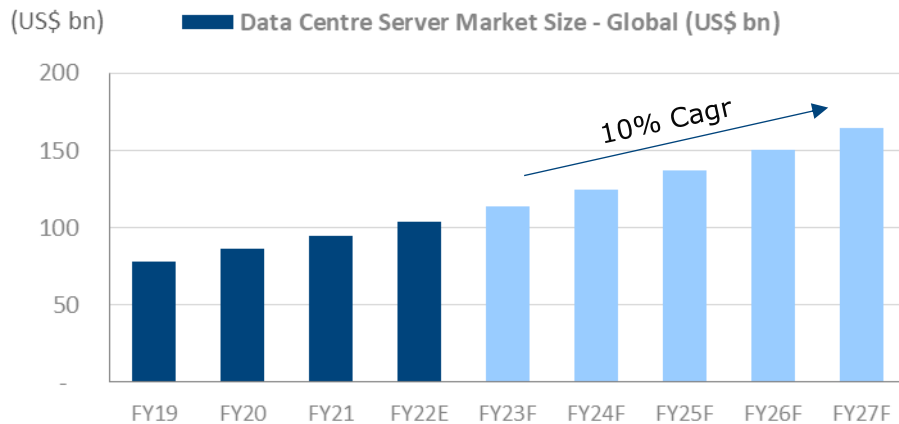
Source: F&S Research, IIFL Research

- India currently has 173 data centres, ~3% of global installations (Source). With the advent of 5G technology, increased multi-cloud usage, and GoI policies (data localisation requirements, e-governance programs & support measures), the Data Centre industry in India is poised to ramp up - expected to double its stock to 20 mn sq. ft. by 2025.

- MEITY's policy on data centres aims at making India a global hub for data centres – assigning "infrastructure status" to data centres and streamlining clearance processes.

Figure 19: Ramp-up in data centre investments in India to drive 35% Cagr growth for servers over FY24-30
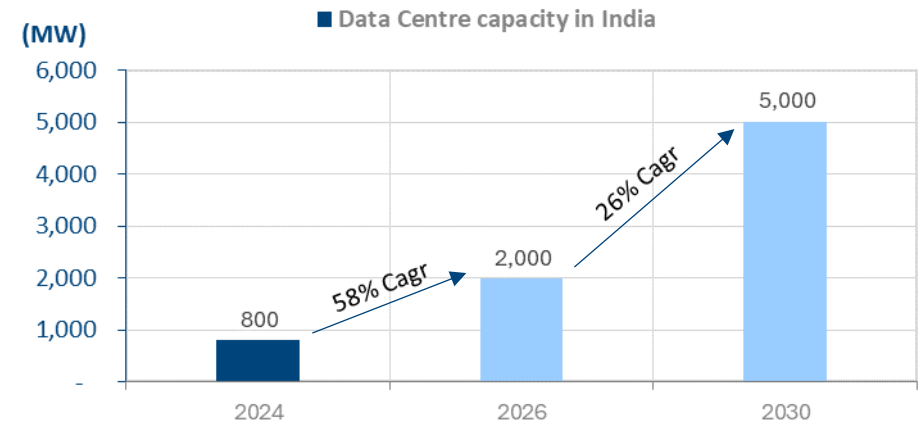
Source: Industry Data, IIFL Research

Figure 20: Government & Defence, BFSI and IT & ITeS applications dominate data centre servers market in India
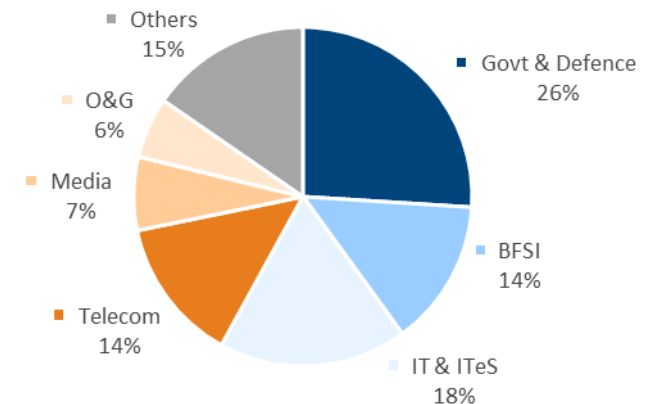
Source: F&S Research, IIFL Research

High Performance Computing

- High Performance Computing (HPC) technology uses clusters of powerful processors, working in parallel to process massive datasets and solve complex problems at extremely high speeds.

Figure 21: Top ten supercomputing systems globally

| System	Year	Developer	Country	Speed*	Application	Cost (US$ mn)
Frontier	2023	HPE	USA	1,194	Research	600
Aurora	2023	Intel	USA	585	Research	500
Eagle	2023	Microsoft	USA	561	Commercial	NA
Fugaku	2020	Fujitsu	Japan	442	Research	1,000
LUMI	2022	HPE	Finland	380	Research	157
Leonardo	2022	EVIDEN	Italy	239	Research	261
Summit	2018	IBM	USA	149	Research	200
Mare Nostrum	2023	EVIDEN	Spain	138	Research	220
DGX SuperPOD	2021	NVIDIA	USA	121	Commercial	NA
Sierra	2018	IBM/NVIDIA	USA	95	NW# simulation	150

Source: top500.org, IIFL Research, *RMax (PFlops/s), #NW – nuclear weapons

Figure 22: Global HPC market is poised to grow at over 4% Cagr over FY23-27F
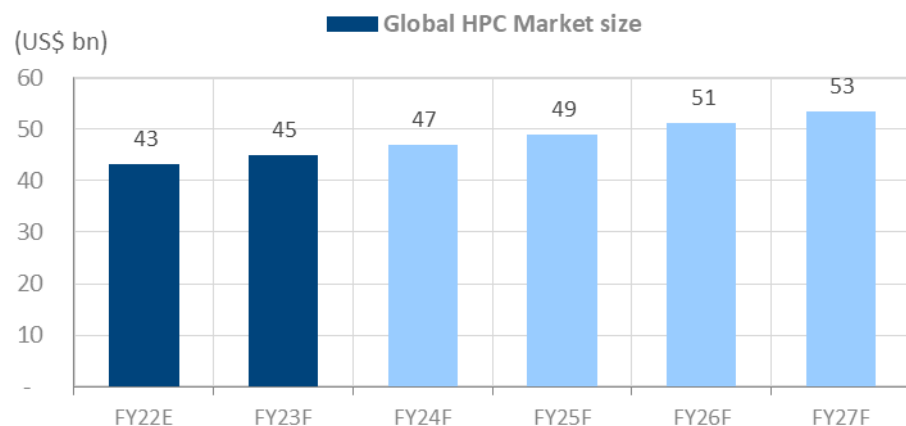
Source: F&S Research, IIFL Research

- Adoption of HPC in the automobile sector, usage of HPC for drug discovery and healthcare and increasing investments in artificial intelligence (AI), are likely to drive the global HPC market.

High Performance Storage (HPS)

- HPS is increasingly becoming critical components of IT networks. Regulatory requirements on data storage and backups, high availability and disaster recovery, centralised administration, and remote support are key growth drivers for the category globally.

Figure 23: Global HPS market is poised to grow at over 3% Cagr over FY23-27F
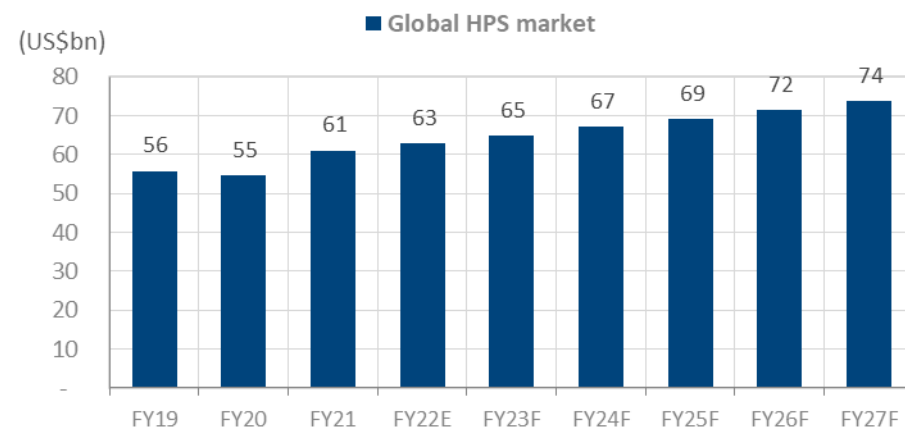
Source: F&S Research, IIFL Research

- In India, the HPS market size stagnated around ~US$700mn over 2019-2023F. However, significant jump in the production and consumption of data, data science & analysis, requirement of uniformity of IT protocols for ease of access for users to drive growth in the category.

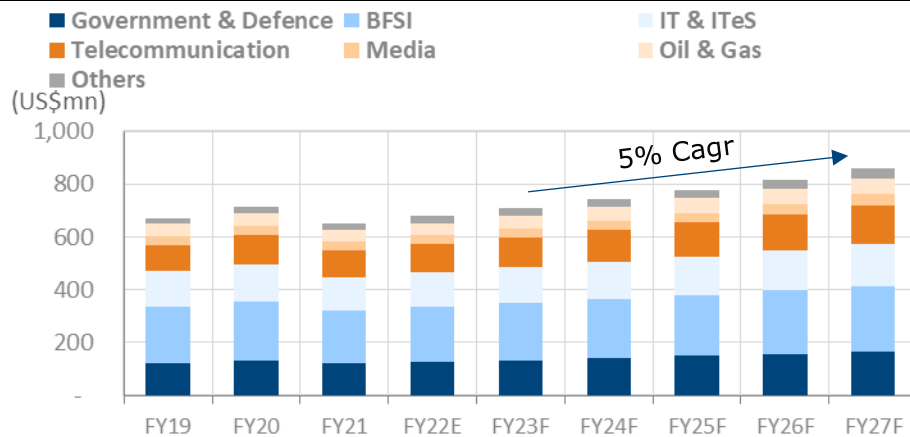**Figure 24: Government & Defence and Telecom to be key growth segments in India's Enterprise storage market – to grow at 5% Cagr over FY23F-27F**
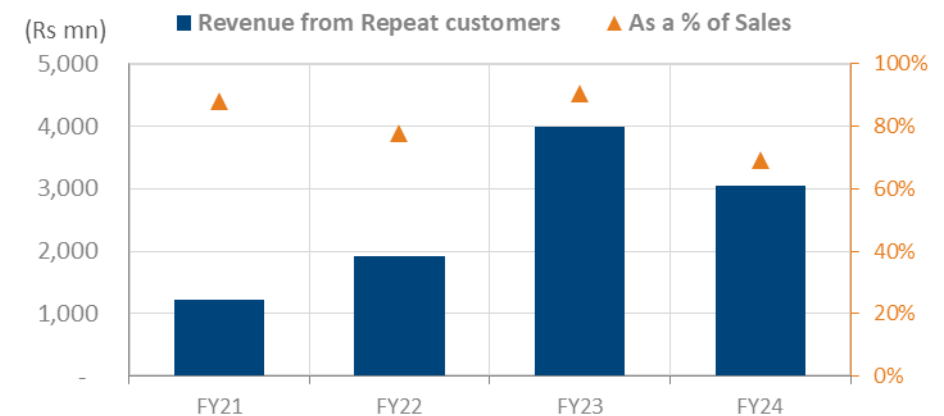

Source: F&S Research, IIFL Research

R&D drives creation of new product categories

- Netweb has a demonstrated history of intensive R&D efforts leading to the development of new product lines viz. Tyrone Cluster Manager, KUBYTS, VERTA, ParallelStor, Collectivo, SKYLUS and Tyrone Camarero AI Systems and GPU System.
- R&D capabilities have helped them design and build a range of 200+ server models and a range of 30+ AI systems and workstation models and over 15 storage systems.
- The company's R&D team operates out of their dedicated facilities based in Faridabad, Gurgaon and Hyderabad and currently employs over 70-75 people in the R&D team (~20% of total workforce). Annual R&D expenses have ranged between 3.5-4% of sales over FY21-24.
- Currently, the R&D efforts are focussed on introducing ARM-based servers, develop servers for NVIDIA's new Grace Superchips and 5G ORAN. It launched enterprise-grade network switches in 3QFY24.
- Netweb's R&D efforts are also supported by its collaboration with technology partners such as Intel, AMD, Samsung, Nvidia and Seagate.

Long-standing relationship with vendors & clients

- Netweb designs, develops, and implements entire solutions which helps it to engage with customers in a more holistic manner.
- This has enabled the company to embed itself within the institutional framework of its customers, aiding customer retention and repeat business.

Figure 25: Repeat customers account for bulk of Netweb's revenue

Source: Company, IIFL Research

- It served 310 repeat customers in FY24 that were associated with the company for an average period of 5+ years. The top 10 customers by revenue have been associated with Netweb for ~4.5 years.
- Furthermore, Netweb has a long standing, established relationship with its key vendors including NVIDIA, Intel and AMD. This ensures better support during the times of supply constraints and allows for tech-collaboration opportunities.

Figure 26: Netweb Technologies is NVIDIA's only Elite OEM partner in India

Partner	Location	Type of Partnership	Scope
Netweb Technologies	Faridabad	OEM + Solution Provider & Integration Partner	NVIDIA AI, Networking, Visualization, Compute, DGX Cloud, DGX AI Compute systems
ByteScale Technologies	Mumbai	Solution Provider	NVIDIA Omniverse, Compute, Visualization, Virtual Desktops
CCS Computers	New Delhi	Solution Provider & Integration Partner	DGX AI Compute Systems, NVIDIA AI, DGX Cloud, Compute, Networking
Digitaltrack Solutions	Chennai	Solution Provider	DGX AI Compute Systems, DGX Cloud
E-Con Systems	Chennai	Professional Services delivery	Embedded Compute
Fore Solutions	Chandigarh	Solution Provider	DGX AI Compute Systems, DGX Cloud, NVIDIA AI, Compute
Locuz Enterprise Solutions	Hyderabad	Solution Provider	NVIDIA AI, Compute
Micropoint Computers	Mumbai	Solution Provider	Compute
Softel	New Delhi	Solution Provider	NVIDIA AI

Source: Company, IIFL Research

Figure 27: NVIDIA's partnership types
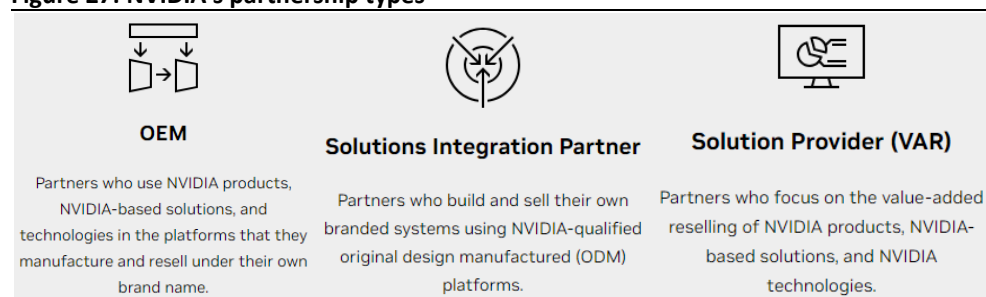
Source: Company, IIFL Research

GoI thrust on local manufacturing

- GoI's programs and initiatives are aimed at increasing the local manufacturing of servers and networking equipment. In addition to the said schemes, the condition of 'Make-In-India' compliance for government procurements is providing an opportunity for the domestic manufacturers.

- **PLI 2.0** – Under PLI 2.0, the government has enhanced incentives for local manufacturing of servers, increasing the same to 5-8% (vs earlier 1-4%) based on fulfilment of localisation conditions, while also increasing the term for claiming benefits to six years (vs four years earlier).

- **PLI for Telecom & Networking equipment** – DoT notified PLI scheme for Telecom & Networking equipment with an outlay of ~Rs122bn, to be spent over a period of five years. The scheme provides for 4-7% incentives on incremental sales with an additional 1% incentive for products qualified under Design-led Manufacturing. Support to be provided to companies which engage in the manufacturing of –
  - Core transmission equipment
  - 4G/5G, **Next Generation RAN** and Wireless Equipment
  - Access & CPE, IoT Access Devices and Other Wireless Equipment
  - Enterprise Equipment: **Switch** and Router

- **India AI Mission** – GoI recently approved a national level India AI mission with a budgeted outlay of ~Rs104bn (over the next 3-5 years) aimed at building scalable AI computing infrastructure by deploying 10,000+ GPUs through public-private collaborations.
  - Tendering expected to commence in FY25, projects will be short-cycle in nature with lead time of ~3-4 months
  - Projects to be similar to AIRAWAT, comprising comprehensive hardware and middleware solution
  - Supercomputing infra (Netweb's addressable opportunity) to comprise ~50-60% of the budgeted expenditure i.e. ~Rs60bn.

Robust earnings growth to continue

Pipeline & order book

- Rapid growth in the demand for HCS solutions, entry into new product lines, GoI thrust on domestic manufacturing and incentives for localisation of server under PLI 2.0 - all drive increase in the order pipeline.

Figure 28: Order pipeline has witnessed healthy growth sequentially
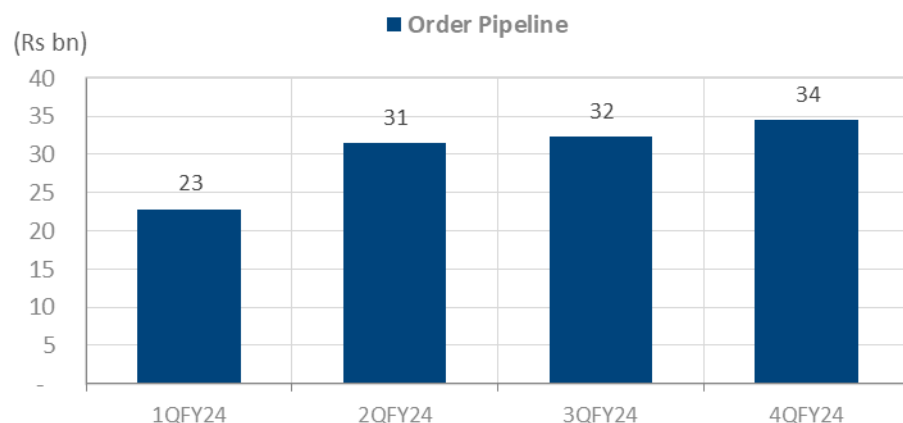
Source: Company, IIFL Research

- Orders in which Netweb is the L1 bidder add onto the order book with a lag of three to four months. This conversion has a hit rate of 100%, making it appropriate to consider L1 position as part of the order book.

- Projects executed by Netweb are short-cycle in nature with lead time ranging between 12-16 weeks from the date of receipt of order. Due to the short execution cycle, order pipeline needs to be considered alongside the order book & L1 position to estimate future execution.

Figure 29: Netweb's order book + L1 position stands at Rs6.4bn – 1.1x TTM sales
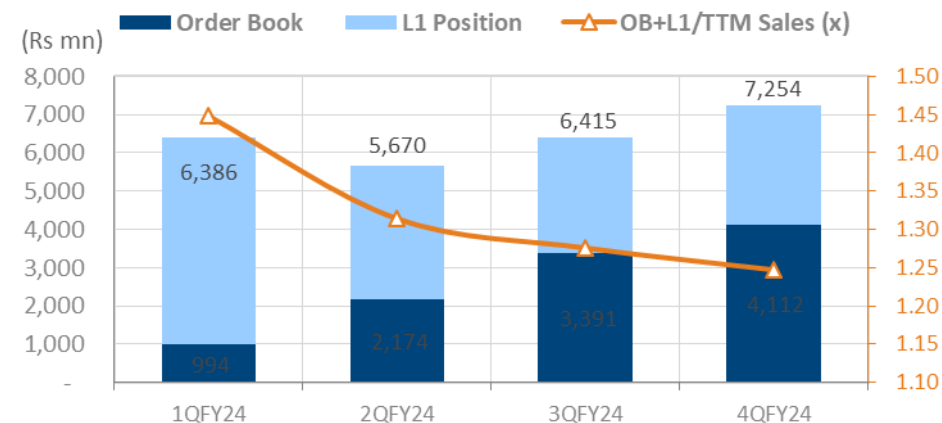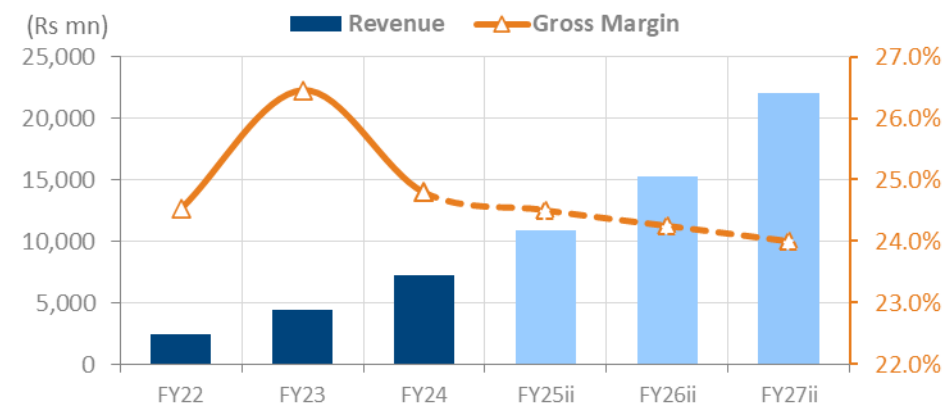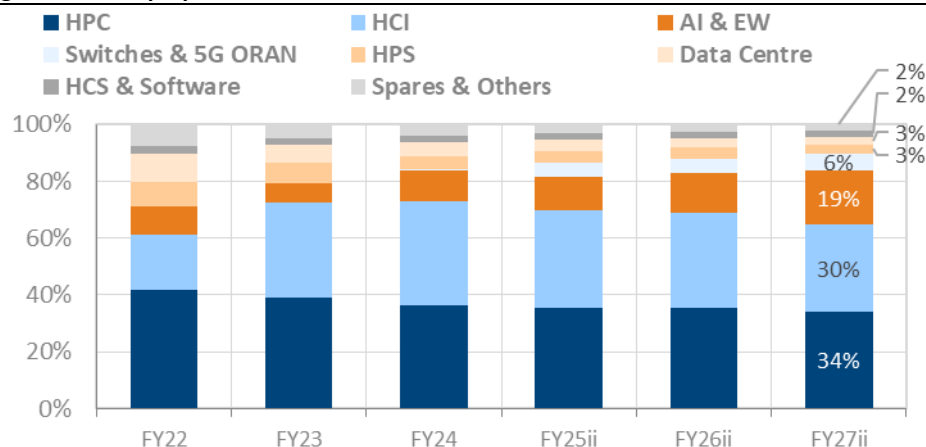

Source: Company, IIFL Research

Revenue to grow at 45% Cagr over FY24-27ii

- Ramp-up in the Network Switches & 5G ORAN and AI & Enterprise workstations portfolio, growing at 135% and 45% Cagr over FY24-27ii respectively, to drive growth in overall sales.

**Figure 30: Revenue expected to grow at 45% Cagr over FY24-27ii**

Source: Company, IIFL Research

Figure 31: Ramp up in AI & EW to drive share in mix to ~19% of FY27ii sales

Source: Company, IIFL Research

- PLI incentives form a major portion of other operating income for the company. As a result of the migration to IT Hardware PLI 2.0, Netweb relinquished the right to receive incentives in FY24 – incentives to be received from FY25 onwards in-line with the new IT PLI 2.0 scheme.

Figure 32: Receipt of PLI to commence from FY25
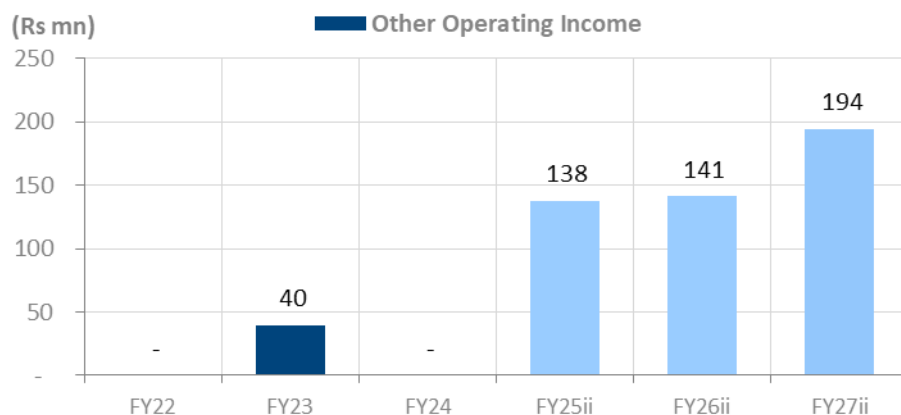
Source: Company, IIFL Research

Figure 33: Growth rates across key verticals

Revenue YoY	FY22	FY23	FY24	FY25	FY26	FY27
HPC	642%	68%	52%	45%	40%	40%
HCI	18%	205%	81%	40%	36%	32%
AI & EW	67%	27%	158%	60%	65%	100%
HPS	-36%	42%	10%	35%	30%	25%
Data Centre Servers	43%	17%	19%	20%	18%	18%
Software & Services	175%	38%	86%	40%	40%	40%
Switches & 5G ORAN	NA	NA	NA	1500%	50%	55%
Total	73%	80%	63%	51%	40%	45%

Source: Company, IIFL Research

- Key components used in Netweb's operations comprise PCB and PCB assemblies using surface mount technology, chassis, hard disk drives, dynamic RAM, solid state drives and microprocessors – a large part of which are imported.

Figure 34: GMs expected to decline marginally albeit sustain in the 24-25% range, while revenue clocks 45% Cagr over FY24-27ii
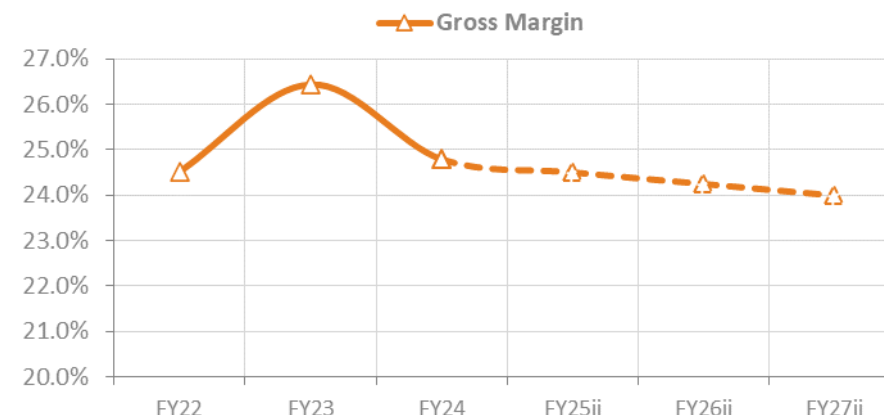
Source: Company, IIFL Research

Figure 35: Expansion of the R&D team and increase in headcount led by the new SMT line to drive 29% Cagr in employee cost over FY24-27ii

Source: Company, IIFL Research

Figure 36: Costs of setting up newer verticals (Switches & ORAN) together with initial costs towards the SMT line to drive increase in other expenses in the near-term

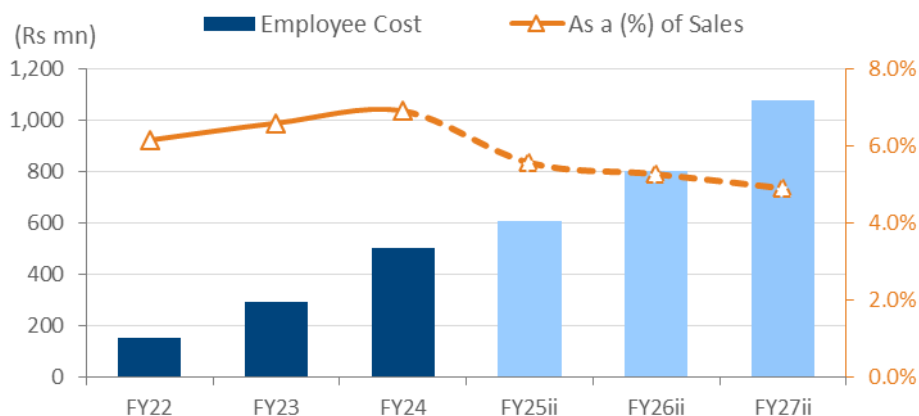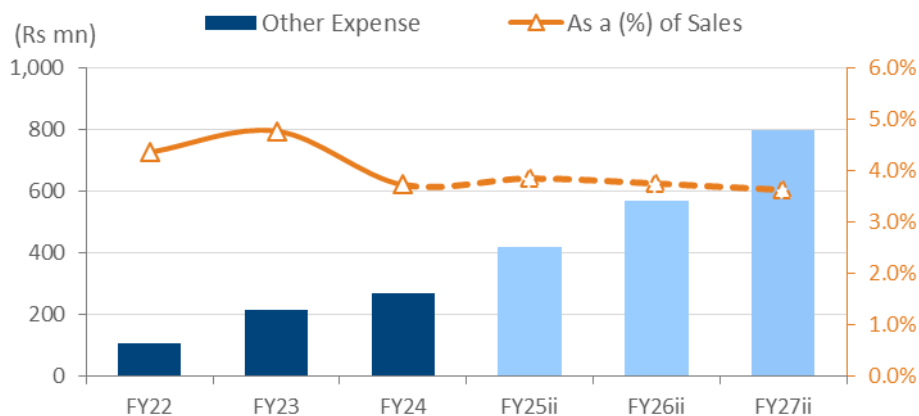Source: Company, IIFL Research

- Change in mix (ramp up in higher margin Networking equipment business) led improvement in GMs and operating leverage are key Ebitda growth drivers over FY24-27ii.

Figure 37: Ebitda to grow at 51% Cagr over FY24-27ii, OPMs to improve to ~16% levels
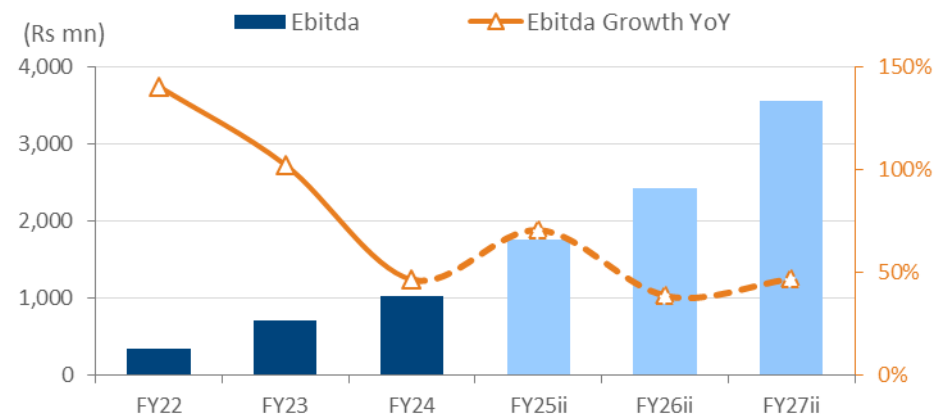
Source: Company, IIFL Research

- Robust OPMs (~16% levels by FY27ii) and debt-repayments led substantial reduction in finance cost set to drive 50% Cagr growth in PAT over FY24-27ii.

Figure 38: PAT set to more than triple over FY24-27ii, while PAT margins to improve to more than 11.5%
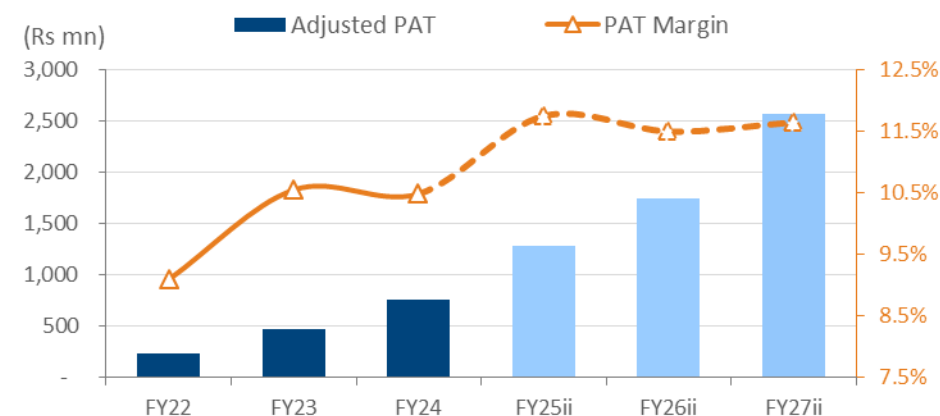
Source: Company, IIFL Research

Cash flow & Balance Sheet

- Netweb's operations comprise end—to-end designing of PCBs & servers, development of software, surface-mounting of components (like GPUs, CPUs) onto PCBs and assembly into own-branded machines – with majority of components sourced externally.

- Asset-light nature of the business operations translates into high fixed asset turns and consequently, ensures the ability to scale up production without major outlay on capacity expansion.

Figure 39: Netweb's assembly-oriented operations allow for high net fixed asset T/O
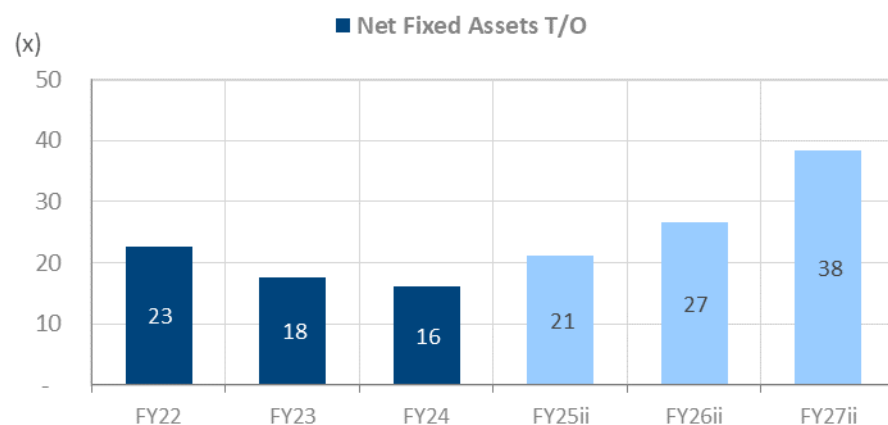
Source: Company, IIFL Research

Figure 40: Spike in capex in FY25 owing to setting up of the new SMT line, post which spends expected to be restricted to maintenance related only
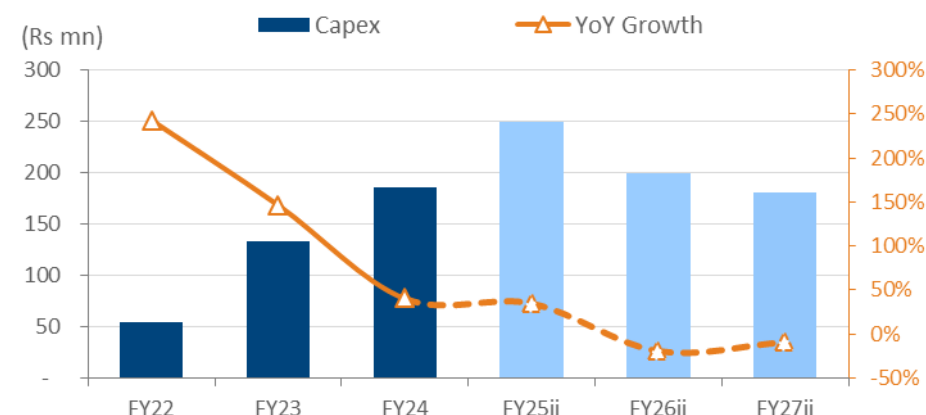
Source: Company, IIFL Research

Figure 41: Decline in payable days to drive increase in cash conversion cycle
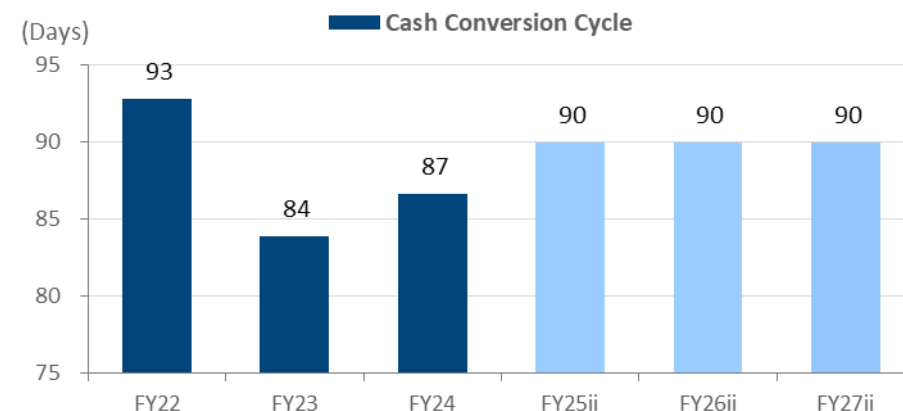
Source: Company, IIFL Research

- However, reliance on large overseas suppliers (imports comprised 50-60% of material consumed in FY24) and resultant low payable days drives an elevated NWC cycle for Netweb to 100+ days by FY27ii.

Figure 42: NWC to sales expected to elevate to ~23% levels by FY27ii
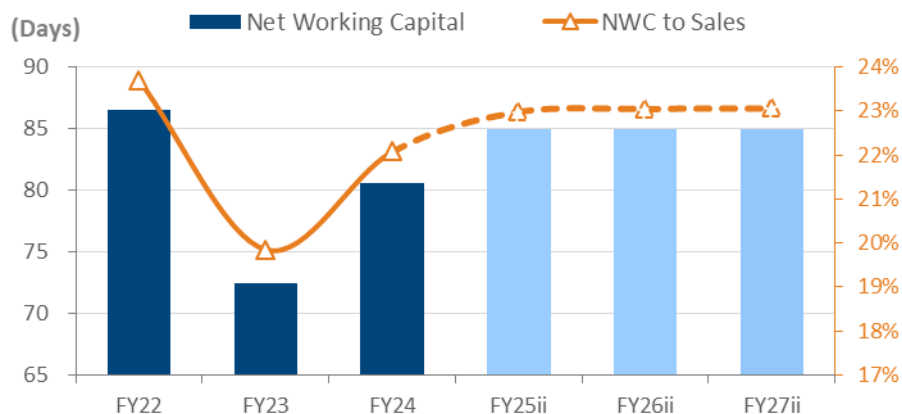
Source: Company, IIFL Research

- Increase in NWC intensity to restrict OCF-to-Ebitda to ~35% levels, yet robust profitability to aid OCF to grow by over 5.5x over FY24-27ii in absolute terms. Robust OCF coupled with low capex spends to drive healthy FCF profile.

Figure 43: Low base in FY24 and robust profitability to drive 86% Cagr growth in OCF over FY24-27ii
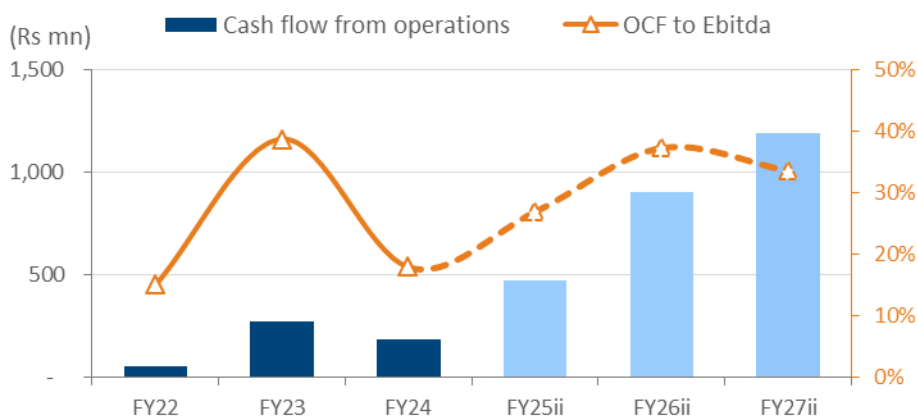
Source: Company, IIFL Research

Figure 44: Robust OCF and modest capex spends to bolster growth in FCF over FY24-27ii
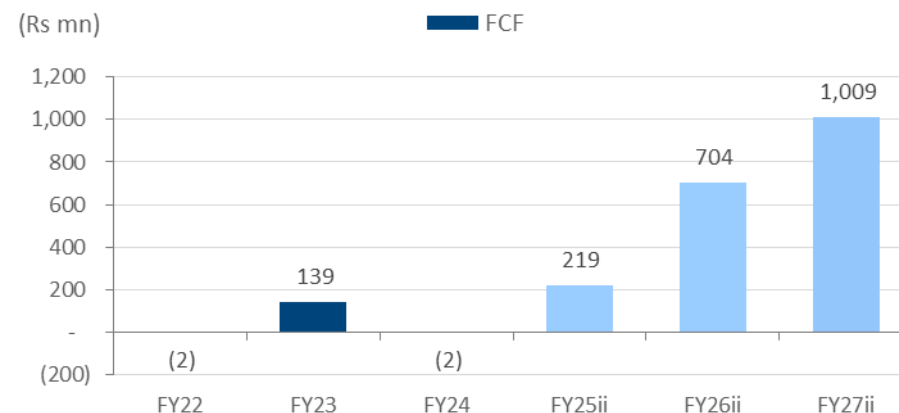
Source: Company, IIFL Research

Figure 45: With the repayment of loans from IPO proceeds, Netweb has negligible debt on the books – turned net debt-free in FY24
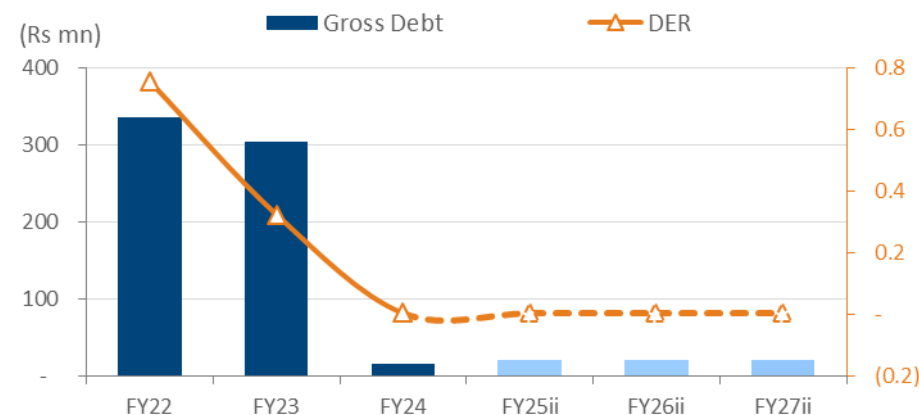
Source: Company, IIFL Research

Figure 46: Expect dividend payout to increase to 25% vs 15% in FY24

Source: Company, IIFL Research

Figure 48: Du-Pont analysis

Particulars	FY22	FY23	FY24ii	FY25ii	FY26ii	FY27ii
Ebitda margin	14.0%	15.7%	14.2%	16.0%	15.9%	16.1%
Non-operating effect (PBT/Ebitda)	0.9	0.9	1.0	1.0	1.0	1.0
Tax effect (PAT/PBT)	0.7	0.7	0.7	0.7	0.7	0.7
Asset Turnover (Sales/ Assets)	1.9	2.1	1.6	1.5	1.6	1.8
Equity multiplier (Assets/ Equity)	3.9	3.0	1.7	1.5	1.6	1.6
RoE	**67.8%**	**68.0%**	**29.4%**	**26.8%**	**29.1%**	**33.3%**
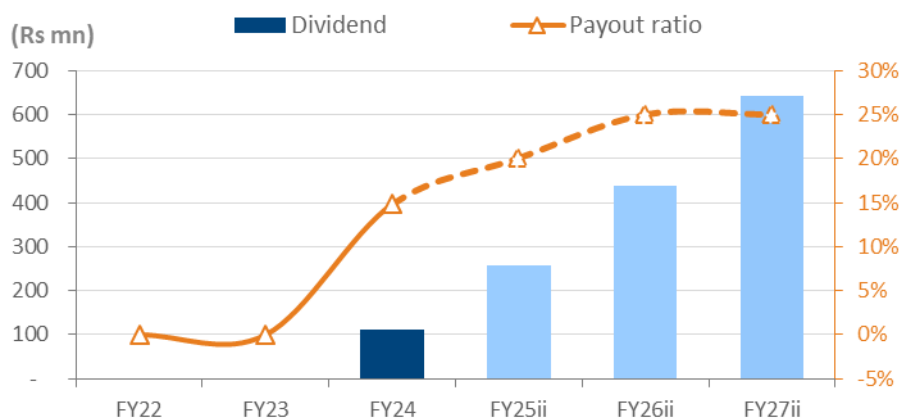
Source: Company, IIFL Research

Figure 47: Increase in equity drives moderation in return profile – albeit still >30%

Source: Company, IIFL Research

Competitive landscape

- Netweb's comprehensive solutions comprising both hardware & software make it the only Indian origin & Indian owned OEM in the HCS solutions space.
- It competes with several MNCs across categories – hardware-focussed players, software solution providers and comprehensive solution providers.

Figure 49: Netweb's presence spans across HCS categories

Segments	Netweb	IBM	Dell	HPE	ATOS	NVIDIA	NetApp	Nutanix	VMWare
HPC	✓	✗	✗	✓	✓	✗	✗	✗	✗
DC Server*	✓	✓	✓	✓	✗	✗	✗	✗	✗
HPS	✓	✗	✓	✓	✗	✗	✓	✗	✗
Private Cloud	✓	✗	✗	✗	✗	✓	✗	✓	✓
AI & EW	✓	✗	✗	✗	✗	✗	✗	✗	✗

Source: Company, IIFL Research, * Data Centre Servers

- Netweb's strategy to identify niche client requirements and devise customised solutions at affordable prices for the same has enabled it to establish presence in the industry otherwise dominated by larger players like Dell, Atos, IBM and the like.
- Netweb's key strengths vis-à-vis the competition include –
  - **Reliable solutions & bundled services** – It provides reliable solutions bundled with services ensuring limited downtime for customers.
  - **Customised solutions at affordable prices** – It provides tailor-made solutions based on client requirements for specifications at prices that are usually lower than that of the MNC competition.
  - **Local manufacturing set up** – Manufacturing of servers in India allows Netweb to participate in government programs with Make-in-India requirements.

Figure 50: Key players in the HPC market in India

Particulars	IBM	Atos	Lenovo	HPE	Netweb
No. of locations	20	7	NA	19	13
Manufacturing presence in India	NA	NA	Yes	NA	Yes
Business Strategy	Partnership & Alliances	Partnership & Alliances	Collaboration	Collaboration Partnerships	Collaboration
Key Products	IBM Power 9 Storage Servers Spectrum Symphony	BulSequana X, Nimbix, ThinkAI, Mobull	Lenovo Neptune, RDHX & TTM, ThinkSystem	HPE Cray EX2500, XD2000	Tyrone Camarero DIT400, SDI400
Key Partnerships	Airtel - 5G Infosys, Tech Mahindra, Wipro, RCS, HCL	CDAC - Quantum computing, AI & HPC	Rashi Peripherals	Sify Technologies, SAIL, Bokaro, ONGC	Intel, AMD, Samsung for R&D

Source: Company, IIFL Research

Figure 51: Key players in the Private Cloud & HCI market in India

Particulars	VMware	Nutanix	Suse	RedHat (IBM)	Netweb
No. of locations	6	6	1	4	13
Manufacturing presence in India	NA	NA	NA	NA	Yes
Business Strategy	M&A	Product Launch	Partnership	Partnership	Innovation & Alliance
Key Products	VMware HCI	Nutanix Cloud Hybrid multi-cloud infra	Cloud-native HCI, Harvester	RedHat Gloster, Ansible	Skylus HCI, KUBYTS platform, Skylus Cloud
Key Partnerships/ M&As	Carbon Black acquired in 2020	NA	Infosys	IBM, Bharti Airtel	NA

Source: Company, IIFL Research

Figure 52: Key players in the AI & Enterprise Workstations market in India

Particulars	NVIDIA	Netweb
No. of locations	1	13
Manufacturing presence In India	NA	Yes
Business Strategy	Partnership & Alliances	Partnership & Innovation
Key Products	NVIDIA RTX, DGX Data workstations	Tyrone Janus
Key Partnerships	IIT-H, Infosys, Tech Mahindra, TCS, HCL, Persistent Systems, LTI, Deutsche Bank	NVIDIA

Source: Company, IIFL Research

Figure 53: Key players in the Data Centre servers market in India

Particulars	HPE	Lenovo	IBM	Dell	Netweb
No. of locations	19	NA	20	8	13
Manufacturing presence in India	NA	Yes	NA	NA	Yes
Business Strategy	Collaboration & Partnerships	Investment	Partnership	Partnership	Partnership
Key Products	HPE ProLiant Alletra 4000 Apollo 4000	IdeaCentre AIO ThinkCentre Neo	Modular Micro DSS 8440 DSS 7000	Rack, tower, modular, rugged servers	Camarero series
Key Partnerships	Sify Technologies	NA	Newsprint & Paper Limited	PhonePay - Green data centers	Intel, AMD, NVIDIA

Source: Company, IIFL Research

Figure 54: Key players in the HPS (Storage) market in India

Particulars	HPE	NetApp	Hitachi	Dell	Netweb
No. of locations	19	2	2	8	13
Manufacturing presence in India	NA	NA	NA	NA	Yes
Business Strategy	Investment	Investment	M&A	Product Launch	NA
Key Products	All-Flash and Hybrid Storage, Data Storage Servers, Storage Networking	NetApp AFF A Series, EF-Series, AFF C190, All SAN Arrays, OS - ONTAP	Cloud Storage, Hybrid Cloud, VMware, Infrastructure	HCI appliance	FS2, Verta, Storage Array, Collectivo, ParallelStor

Source: Company, IIFL Research

Expensive valuations limit upside

- Netweb Technologies is a proxy to the increasing penetration of generative AI systems, supercomputers and data centres in India.

Figure 55: Netweb's 1YF PER Chart
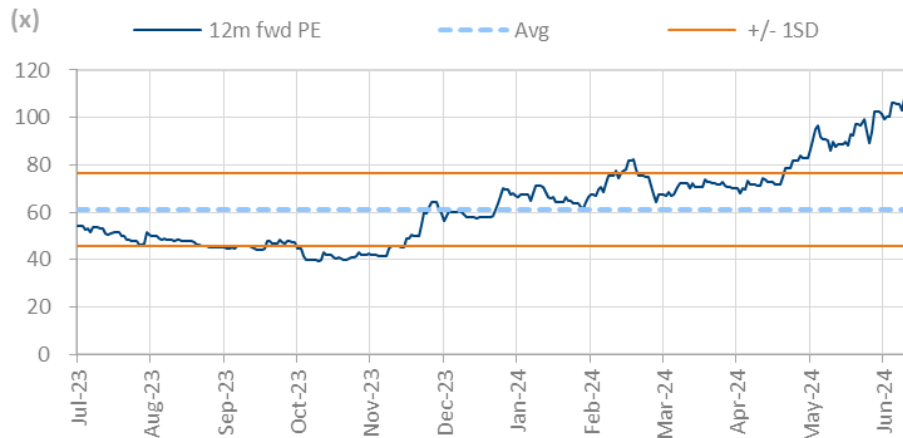
Source: Company, IIFL Research

Figure 56: Netweb's 1YF EV/EBITDA Chart
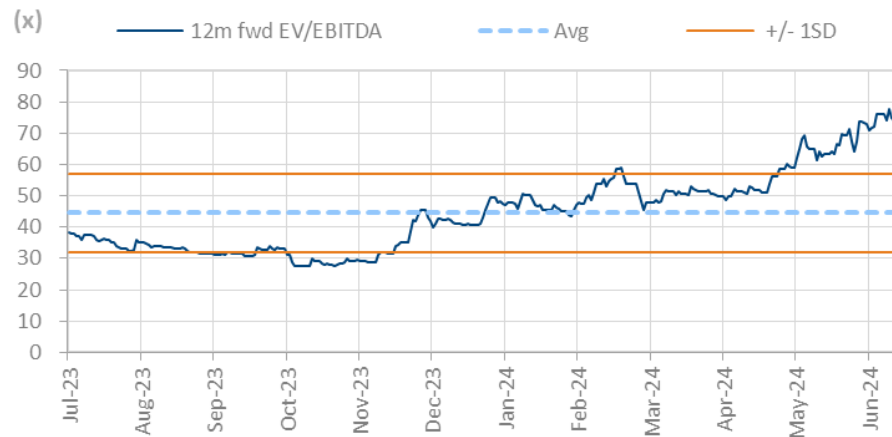
Source: Company, IIFL Research

- With all its major verticals under medium to long-term tailwinds, the stock has commanded a premium valuation, trading at an average 1YF PER of ~60x since listing. With the industry projected to grow at 14% Cagr over FY24-29ii, we expect Netweb to outpace industry.

Figure 57: Netweb's FY25ii/26ii EPS has seen 16/2% upgrade from the levels expected at the time of the IPO despite the slower than expected ramp up in switches & ORAN
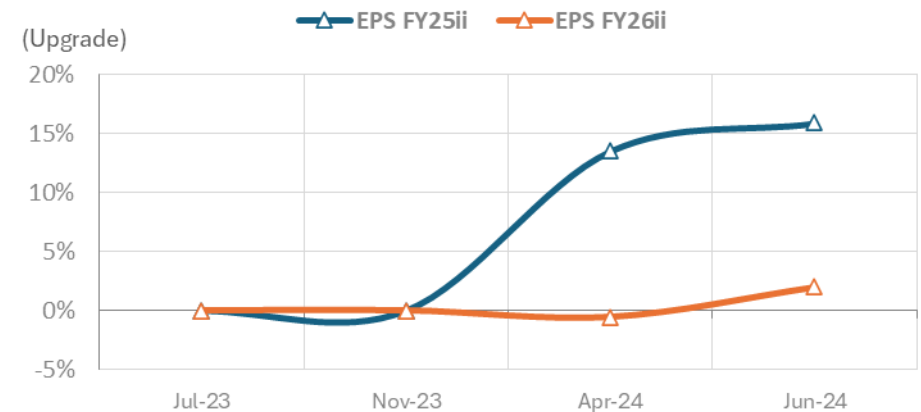
Source: Company, IIFL Research

- Despite the strong macros and earning upgrades, we struggle to find material upside at the current levels (1.7x 1YF PEG). However, the stock remains a quality bet on the fast-evolving ecosystem of generative AI & data centres in India.

Annexure 1 – Senior Management & BoD

Figure 58: Board of Directors

Name	Designation	Profile
Sanjay Lodha	Chairman & MD	• Founded Netweb Technologies in 1996 • Served on Board of Advisors for Intel for in 2020 & 2022 • BA (hons) in Economics & PG diploma in Management
Navin Lodha	Whole Time Director	• Leads West Zone of company's sales and Marketing Dept. • 15 + years of experience in sales and marketing • Holds B.Com
Vivek Lodha	Whole Time Director	• Leads East Zone of company's sales and Marketing Dept. • 15 + years of experience in sales and marketing • Holds bachelor's degree in commerce
Niraj Lodha	Whole Time Director	• Leads South Zone of company's sales and Marketing Dept. • 15 + years of experience in sales and marketing • Holds B.Com
Nrutyunjay Mahapatra	Whole Time Director	• Ex-Deputy MD at SBI & MD and Ex-CEO of Syndicate Bank • 40+ years of experience in Banking and Finance Sector • Holds Bachelors and Master's Degree in Physics
Jasjeet Singh Bagla	Independent Director	• Presently associated with IISER, Mohali • 23+ years of experience in Research and Academia • Bachelors & Master's Degree in Science, PhD in Physics
Romi Jatta	Independent Director	• Serves as Chairman of Global Logic, after retiring as its President & CEO in 2022. • 20+ years of Experience • Holds Bachelor's degree in Electronics Engineering

Source: Company, IIFL Research

Figure 59: Senior Management team

Name	Designation	Profile
Hemant Agarwal	CEO	• 20+ years of experience with the company • Holds B.Com from the University of Calcutta
Hridey Vikram	Chief Sales & Marketing Officer	• 11+ years of experience with the company • Previously associated with HCL Infosystems Limited • Holds a B.Tech (Information Technology)
Mukesh Golla	Chief R&D Offier	• 19+ years of experience with the company • Holds a B.Tech (CS & Engineering)
Prawal Jain	CFO	• 24+ years of experience in Accountancy and Finance • Holds B.Com and is a CA
Lohit Chhabra	Company Secretary	• 8+ years of experience in secretarial compliance • Holds B.Com and also holds a certificate of membership from the Institute of Company Secretaries of India

Source: Company, IIFL Research

Annexure 2 – IT Hardware PLI 2.0

- Addressing the shortcomings of its first iteration, GoI introduced a revamped the PLI scheme for IT hardware aimed at localising manufacturing of components and developing supply chains for the production of the Target Segments (TS) -
  - ○ Laptops
  - ○ Tablets
  - ○ All-in-One PCs (AIOs)
  - ○ Servers
  - ○ Ultra Small Form Factor (USFF)

Figure 60:IT PLI 2.0 to provide higher incentives for a longer duration

Particulars	IT PLI 1.0	IT PLI 2.0
Base Year	FY20	Flexible
Incentive Period	4 years	6 years
Rate of Incentive	1-4%	5-8%
Cumulative Incentive (Rs mn)	73,250	169,390

Source: Company, IIFL Research

- Global companies with a consolidated manufacturing revenue of over Rs50bn in TS or Rs100bn in any electronic hardware/components would be qualified to apply, while limits for their domestic counterparts are set at Rs100mn & Rs200mn respectively.
- Under the scheme, applications can be made under three categories – Global, Domestic & Hybrid, all with different qualification criteria and incentive limits. Both Global & Domestic companies shall have the option to apply under the Hybrid category.

Figure 61: Criteria & limits under application categories

(Rs mn)	Global	Hybrid	Domestic
Incremental investments over 6yrs	5,000	2,500	200
Incremental sales over 6yrs	150,000	75,000	5,000
Maximum cumulative incentive per applicant	45,000	22,500	5,000

Source: Company, IIFL Research

Eligibility criteria for claiming incentive

- In the event of shortfall (of up to 40%) in incremental investments, claimed incentives shall be reduced by half the shortfall percentage – applicant to receive the same in the year, in which it fulfils the criteria.

Figure 62: Incremental investment & sale requirements by categories

Category	Incremental Investment	Incremental Sales
Global	Y1: Rs0.5bn	Y1: Rs10bn
1) Laptops (Invoice value ≥ Rs30,000)	Y2: Rs1.5bn	Y2: Rs25bn
2) Tablets (Invoice value ≥ Rs15,000)	Y3: Rs2.5bn	Y3: Rs50bn
3) All-in-One PCs	Y4: Rs3.5bn	Y4: Rs100bn
4) Servers	Y5: Rs4.5bn	Y5: Rs120bn
5) Ultra Small Form Factor (USFF)	Y6: Rs5bn	Y6: Rs150bn
Hybrid	Y1: Rs0.25bn	Y1: Rs5bn
1) Laptops (Invoice value ≥ Rs30,000)	Y2: Rs0.75bn	Y2: Rs12.5bn
2) Tablets (Invoice value ≥ Rs15,000)	Y3: Rs1.25bn	Y3: Rs25bn
3) All-in-One PCs	Y4: Rs1.75bn	Y4: Rs50bn
4) Servers	Y5: Rs2.25bn	Y5: Rs60bn
5) Ultra Small Form Factor (USFF)	Y6: Rs2.50bn	Y6: Rs75bn
Domestic	Y1: Rs40mn	Y1: Rs0.5bn
1) Laptops	Y2: Rs80mn	Y2: Rs1bn
2) Tablets	Y3: Rs120mn	Y3: Rs2bn
3) All-in-One PCs	Y4: Rs150mn	Y4: Rs3bn
4) Servers	Y5: Rs180mn	Y5: Rs4bn
5) Ultra Small Form Factor (USFF)	Y6: Rs200mn	Y6: Rs5bn

Source: Company, IIFL Research

Localisation

- Applicants are required to localise PCB assembly in the first year – only TS sales in the manufacturing, of which, local PCBA used shall qualify for incentives. Thereafter, applicants shall be required to localise at least one component every subsequent year – rates of incentives vary, depending on the component localised.

Early Localization

- If an applicant localises more than one component/sub-assembly a year then such excess localisation shall be considered for compliance in the subsequent years.
- Localisation criteria to be applied on a product-by-product category viz. a company having applied for tablets & laptops fails to meet the requirement only for the former, can continue to claim incentives for the latter.

Figure 63: Rates of incentive for servers

#	Components/Sub-Assemblies (%)	Y1	Y2	Y3	Y4	Y5	Y6
1	Assembly of Server	3.00	2.00	2.00	1.00	1.00	-
2	PCBA of Servers	1.20	1.14	1.08	1.02	0.96	0.90
3	Add on Controllers assembled in India	0.41	0.39	0.37	0.35	0.33	0.31
4	Bare PCB	0.57	0.54	0.51	0.48	0.46	0.43
5	Memory Modules assembled in India	1.89	1.80	1.70	1.61	1.51	1.42
6	Solid State Drive (SSD) assembled in India	0.95	0.90	0.86	0.81	0.76	0.71
7	Power Adapter / SMPS	0.54	0.51	0.49	0.46	0.43	0.41
8	Cabinets / Chassis / Enclosures	1.49	1.42	1.34	1.27	1.19	1.12
9	Memory Modules for ATMP in India (over #5)	0.50	0.48	0.45	0.43	0.40	0.38
10	Memory Modules for ICs manufactured in India (over #5)	0.50	0.48	0.45	0.43	0.40	0.38
11	SSD for ATMP in India (over #6)	0.25	0.24	0.23	0.21	0.20	0.19
12	SSD for ICs manufactured in India (over #6)	0.25	0.24	0.23	0.21	0.20	0.19
13	SoC designed in India (IP ownership/Co-ownership in India) including but not limited to SHAKTI and VEGA (IC manufactured outside India)	3.78	3.59	3.40	3.21	3.02	2.84
14	SoC designed in India - for ATMP/ICs manufactured in India (over #13)	1.62	1.54	1.46	1.38	1.30	1.22

Source: Company, IIFL Research

Contract Manufacturing

- Brands availing contract manufacturing services shall be eligible to avail benefits under the scheme provided –
  - Incentives not claimed by the contract manufacturer.
  - Contract manufacturer segregates & separately accounts for investments undertaken with respect to the Brand.
  - Brand ensures compliance with localisation requirements.
- If the brand rescinds agreement with the contract manufacturer then it shall be required to exclude the manufacturer's gross block of investment from its own cumulative eligible investment from the date of termination.

Incentive ceiling

- Applicant companies would be required to project their annual incentive projection which would become the annual ceiling.
- To ensure coherence between projections & actual incentives claimed, the scheme provides for a 5% deduction in incentives allowed for a shortfall of 25-50% and a 10% deduction for shortfalls exceeding 50%.
- In case of savings i.e. incentive disbursals lower than planned, the same shall be distributed to the applicants whose actual sales exceed projections.

Annexure 3 – Telecom products PLI

- DoT notified PLI scheme for telecom & networking products in FY22. Under the scheme support to be provided to companies which engage in the manufacturing of –
  - ○ Core transmission equipment
  - ○ 4G/5G, Next Generation RAN and Wireless Equipment
  - ○ Access & CPE, IoT Access Devices and Other Wireless Equipment
  - ○ Enterprise Equipment: Switch and Router

Figure 64: Details of the PLI scheme for Telecom & Networking products

Particulars	
Base Year	FY22/FY23
Incentive Period	5 years
Rate of Incentive	**4-7%**
Additional incentive - products qualified for Design-led Manufacturing	**1%**
Cumulative Incentive (Rs mn)	**121,950**

Source: Company, IIFL Research

- Under the scheme, applications can be made under two categories – non-MSMEs and MSMEs (as defined under MSMED Act). Under the non-MSME category, applications can be made by both Global & Domestic companies.

Figure 65: Criteria & limits under application categories

(Rs mn)	Global	Domestic	MSMEs
Minimum global manufacturing revenue	100,000	2,500	100
Minimum incremental Investment threshold	1,000	1,000	100

Source: Company, IIFL Research

- Applicants shall have the flexibility of choosing the quantum of incremental investments to be made (subject to minimum thresholds). Eligible incremental sales and maximum incentives that can be claimed will be linked to the investment target set.

Figure 66: Incentive outlay and Eligibility threshold for MSMEs

Year	Incentive Rate	Cumulative Investment	Eligible Incremental Net Sales	
			Minimum	Maximum
1	7%	>= 20% of X	3*(20% of X)	20*(20% of X)
2	7%	>= 40% of X	3*(40% of X)	20*(40% of X)
3	6%	>= 70% of X	3*(70% of X)	20*(70% of X)
4	5%	>= X	3*X	20*X
5	4%		3*X	20*X

Source: Company, IIFL Research, X – Committed total investments, Additional incentive of 1% for products qualified under Design-led manufacturing

Figure 67: Incentive outlay and Eligibility threshold for Non-MSMEs

Year	Incentive Rate	Cumulative Investment	Eligible Incremental Net Sales	
			Minimum	Maximum
1	6%	>= 20% of X	3*(20% of X)	20*(20% of X)
2	6%	>= 40% of X	3*(40% of X)	20*(40% of X)
3	5%	>= 70% of X	3*(70% of X)	20*(70% of X)
4	5%	>= X	3*X	20*X
5	4%		3*X	20*X

Source: Company, IIFL Research, X – Committed total investments, Additional incentive of 1% for products qualified under Design-led manufacturing

- Based on eligibility, presently a total 42 companies have been approved under the scheme. Out of 42 companies, 17 companies are with design-led manufacturing products.

Disbursal of incentives

- For claiming incentives applicants will be required to submit claims for disbursement to PMA (Project Management Agency) within 9 months from the end of the specific FY.
- Upon verification of documents disbursements shall be made. Payments shall be restricted to 85% of eligible claim amount pending submission of reconciliation certificates, post which full disbursal will be made.

Annexure 4 – Understanding AI

- **Artificial Intelligence –** AI refers to the simulation of human intelligence in machines that are programmed to think and mimic human actions. It involves the _development of algorithms_ and systems that _enable computers to perform tasks that typically require human intelligence_, such as understanding natural language, recognizing patterns, learning from data, and making decisions.

Figure 68: Key terms in relation to AI
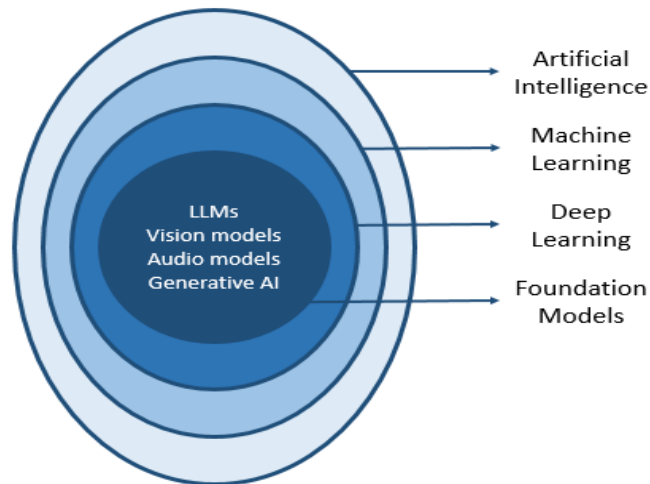
Source: IIFL Research

- **Machine Learning –** Machine learning is a subset of AI that focuses on the development of algorithms and statistical models that enable computers to _learn and improve from experience_ without being explicitly programmed. In machine learning, computers analyse and interpret large datasets to identify patterns and make predictions or decisions based on the data.

- **Deep Learning –** Deep learning is a subset of machine learning that _uses artificial neural networks with multiple layers_ to _analyse and interpret complex data_. Deep learning algorithms are particularly effective for tasks such as image and speech recognition, natural language processing, and other tasks that involve large amounts of unstructured data.

- **Foundation Models –** Foundation models are _large-scale pre-trained models_ that serve as the basis for various natural language processing tasks. These models, such as OpenAI's GPT (Generative Pre-trained Transformer) models, are _trained on vast amounts of data_ and can be fine-tuned for specific applications or downstream tasks, allowing developers to leverage their general understanding capabilities for a wide range of applications without needing to train a model from scratch.

Role of Supercomputers in building AI

- **Training deep learning models** - Deep learning models, especially those with many layers and parameters, require enormous computational resources for training. Supercomputers can accelerate this process by distributing the workload across multiple processors or nodes, significantly reducing training time.

- **Processing Big data** - AI algorithms often work with vast amounts of data, such as images, videos, and text. Supercomputers have high-speed data processing capabilities, allowing AI researchers to analyse and extract insights from massive datasets more efficiently.

- **Simulating complex systems** - Supercomputers can simulate complex systems, such as weather patterns, biological processes, or economic models. AI algorithms can then be applied to analyse the simulation results and make predictions or optimize outcomes.

- **Optimizing algorithms -** Supercomputers enable researchers to experiment with different AI algorithms and optimization techniques, helping to improve the performance and efficiency of AI systems.

- **Deploying AI applications** - In some cases, supercomputers are also used to deploy AI applications that require high-performance computing resources, such as real-time data processing or running AI models in parallel for large-scale inference tasks.

Background: Netweb Technologies is one of India's leading high-end computing solutions (HCS) provider, with fully integrated design and manufacturing capabilities. Established as a sole proprietorship in 1999 (incorporated as a company in 2016), over the last two decades Netweb has installed over 300 supercomputing systems, over 50 private cloud & HCI installations and 4,000+ AI systems and enterprise workstations. It has comprehensive capabilities in designing, developing, and integrating supercomputing systems, private cloud and HCI, data centre servers, AI systems and enterprise workstations and HPS.

Management

Name	Designation
Sanjay Lodha	Chairman & MD
Mukesh Golla	Chief R&D Officer
Hridey Vikram	Chief Marketing Officer
Prawal Jain	CFO

Customers: ISRO, HAL, Graviton, IITs, Akamai, Yotta
Competitiors: IBM, ATOS, Lenovo, HPE

FY24 Revenue

Assumptions

Y/e 31 Mar	FY22	FY23	FY24ii	FY25ii	FY26ii
Revenue YoY					
HPC	642	68	32	33	33
HCI	18	205	40	35	33
AI & EW	67	27	60	50	45
HPS	(36)	42	35	30	25
Data Centre	43	17	23	20	18
HCS & Software	175	38	75	65	50
Switches & 5G ORAN	(8)	18	18	15	13

Source: Company data, IIFL Research
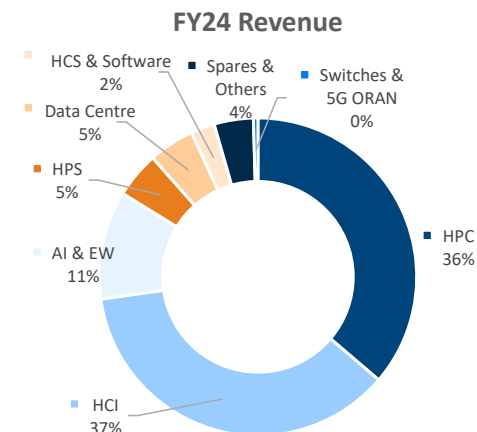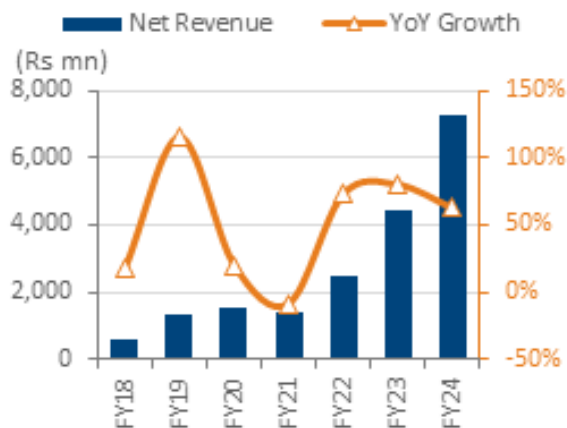
P/E

EV/Ebitda

Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Revenues	**4,450**	**7,241**	**10,905**	**15,217**	**22,008**
Ebitda	700	1,025	1,750	2,425	3,554
Depreciation and amortisation	(37)	(63)	(102)	(144)	(176)
Ebit	664	963	1,648	2,281	3,378
Non-operating income	7	119	125	131	138
Financial expense	(41)	(62)	(53)	(63)	(73)
PBT	630	1,020	1,720	2,349	3,443
Exceptionals	0	0	0	0	0
Reported PBT	630	1,020	1,720	2,349	3,443
Tax expense	(160)	(261)	(439)	(599)	(878)
PAT	469	759	1,281	1,750	2,565
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	**469**	**759**	**1,281**	**1,750**	**2,565**

Ratio analysis

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Per share data (Rs)					
Pre-exceptional EPS	9.2	13.5	22.7	31.1	45.5
DPS	0.0	2.0	4.5	7.8	11.4
BVPS	18.4	75.0	94.3	119.0	154.6
Growth ratios (%)					
Revenues	80.1	62.7	50.6	39.5	44.6
Ebitda	102.4	46.4	70.7	38.6	46.6
EPS	16.1	46.1	68.8	36.6	46.6
Profitability ratios (%)					
Ebitda margin	15.7	14.2	16.0	15.9	16.1
Ebit margin	14.9	13.3	15.1	15.0	15.4
Tax rate	25.5	25.6	25.5	25.5	25.5
Net profit margin	10.5	10.5	11.7	11.5	11.7
Return ratios (%)					
ROE	68.0	29.4	26.8	29.1	33.3
ROCE	64.0	38.4	36.2	39.2	44.7
Solvency ratios (x)					
Net debt-equity	0.2	(0.5)	(0.4)	(0.4)	(0.4)
Net debt to Ebitda	0.2	(2.1)	(1.3)	(1.1)	(0.9)
Interest coverage	16.3	15.5	31.3	36.2	46.3

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Cash & cash equivalents	136	2,216	2,335	2,667	3,096
Inventories	541	1,147	1,770	2,478	3,586
Receivables	1,515	1,838	2,803	3,924	5,678
Other current assets	189	399	594	832	1,203
Creditors	1,034	1,266	1,918	2,685	3,885
Other current liabilities	329	520	744	1,042	1,508
Net current assets	**1,019**	**3,814**	**4,841**	**6,175**	**8,170**
Fixed assets	237	429	495	551	556
Intangibles	15	18	18	18	18
Investments	0	0	0	0	0
Other long-term assets	26	77	90	107	126
Total net assets	**1,297**	**4,339**	**5,444**	**6,851**	**8,870**
Borrowings	304	16	20	20	20
Other long-term liabilities	57	95	107	121	136
Shareholders equity	**937**	**4,228**	**5,317**	**6,710**	**8,714**
Total liabilities	**1,297**	**4,339**	**5,444**	**6,851**	**8,870**

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Ebit	664	963	1,648	2,281	3,378
Tax paid	(160)	(261)	(439)	(599)	(878)
Depreciation and amortization	37	63	102	144	176
Net working capital change	(323)	(683)	(907)	(1,002)	(1,567)
Other operating items	54	102	65	80	80
Operating cash flow before interest	271	184	469	904	1,189
Financial expense	(41)	(62)	(53)	(63)	(73)
Non-operating income	7	119	125	131	138
Operating cash flow after interest	**237**	**240**	**541**	**972**	**1,254**
Capital expenditure	**(133)**	**(186)**	**(250)**	**(200)**	**(180)**
Long-term investments	(17)	(1,406)	(111)	(115)	(118)
Others	(38)	1,149	(64)	(325)	(527)
Free cash flow	**50**	**(203)**	**115**	**332**	**429**
Equity raising	0	2,571	0	0	0
Borrowings	11	(288)	4	0	0
Dividend	0	0	0	0	0
Net chg in cash and equivalents	61	2,080	119	332	429

Source: Company data, IIFL Research

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Name, Qualification and Certification of Research Analyst: Hardik Rawat(Chartered Accountant), Renu Baid Pugalia(MMS), Gaurav Uttrani(Chartered Accountant)

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BUY - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.

SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

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