

Retail Research	IPO Note
Sector: IT/ITES	Price Band (Rs): 243-256
19 th May, 2022	Recommendation: Subscribe (for long term horizon)

eMudhra Ltd – Play on digital security and paperless transformation story of India

Company Overview:

eMudhra Ltd is the largest licensed Certifying Authority (CA) in India engaged in the business of providing Digital Trust Services (DTS) and Enterprise Solutions (ES) to individuals and organisations functioning in various industries. Since its inception, the company has issued over 50 million digital signature certificates through a network of 88,457 channel partners spread across the country. As of Dec'21, the company has 1,43,406 retail customers and 626 enterprises.

Key Highlights:

- **India's largest Certifying Authority:** The company is India's largest CA having a market share of 37.9% in the digital signature certificates market space in FY21 growing from 36.5% in FY20. It is one of the largest players in the Indian DTS market with a market share of 17.8% and enjoys 19.0% market share in the Digital Transformation Solutions market in India for FY21.
- **One stop shop solution provider in secure digital transformation:** The company provides an integrated and complete product portfolio in secure digital transformation to enterprises, private customers, banks, financial institutions and public customers such as government. The company's Enterprise Solutions are majorly divided into three broad categories viz., eSignature workflow solutions for paperless office (emSigner), authentication solutions (emAS) and public key infrastructure solutions (emCA).
- **Technology backed infrastructure:** The company's product and solution offerings are backed by technological infrastructure including its data centres located in India and proposed to be set up in overseas locations supporting quality and security of its services and solutions.
- **Marquee and Diverse customer base:** eMudhra Ltd services marquee customers in private as well as in public sectors such as Infosys, TCS, Hindalco, Mashreq Bank, Baud Telecom Co., Cholamandalam MS General Insurance, Thales DIS CPL India Pvt Ltd, L&T Infotech, JSW Steel, etc.

Valuation:

At the upper and lower price band of Rs 256 and Rs 243, the stock is valued at a P/E of 49.4x/47.1x respectively of its 9MFY22 annualised earnings. Assuming 15%/20%/25% PAT CAGR during FY22-FY24E period, at upper price band, the business is available at a P/E of 37.3x/34.3x/31.6x FY24E earnings respectively. Over FY19-21 period, the company's sales, EBITDA and PAT have grown at a CAGR of 14%/12%/21% respectively. **With strong market share and robust customer retention ratio (96% & 88% in Digital Services and Enterprise Solutions respectively), we believe the company has first mover advantage and is well poised to encash on growth opportunity from the growing IT/Digitization space. In terms of end-users, Banking, Education and Manufacturing sectors are likely to drive growth for players like eMudhra. Investors can subscribe to IPO at cut-off price with long term investment horizon.**

Key Financials (Rs Crs)

Year	FY19	FY20	FY21	9MFY22 (Annualised)
Net Sales	101.6	116.5	131.6	183.0
EBITDA	32.2	31.9	39.9	65.7
Net Profit	17.4	18.4	25.4	40.5
EBITDA Margin (%)	31.7	27.4	30.3	35.9
Net Profit Margin (%)	17.2	15.8	19.3	22.1

Issue Details	
Date of Opening	20 th May 22
Date of Closing	24 th May 22
Price Band (Rs)	243 - 256
Issue Size (Rs cr)	400 – 413
Post issue Market Cap (Rs cr)	1905 – 1999 (at lower and upper price band)
No. of shares	Fresh Issue: 66,25,514 – 62,89,063 OFS: 98,35,394
Face Value (Rs)	5
BRLMs	IIFL Securities Ltd, Yes Securities Ltd, Indorient Financial Services Ltd
Registrar	Link Intime India Pvt Ltd
Bid Lot	58 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB (HNI) shares	15%

Objects of Issue	(Rs Cr.)
To repay/pre-pay borrowings availed by the company	35.0
To fund working capital requirements	40.2
To purchase equipment or fund other related costs for data centers proposed to be set-up in India and overseas locations	46.4
To fund product development expenditure	15.0
To invest in eMudhra INC for augmenting its business development, sales, marketing and other related costs for future growth	15.3
General corporate purposes	[●]

Shareholding Pattern		
Pre Issue	No. of Shares	%
Promoter & Promoter Group	5,68,43,956	79.2
Public & Others	1,49,39,353	20.8
Total	7,17,83,309	100

Post Issue @ Rs. 243 Per Sh.	No. of Shares	%
Promoter & Promoter Group	4,76,45,946	60.8
Public & Others	3,07,62,877	39.2
Total	7,84,08,823	100

Post Issue @ Rs. 256 Per Sh.	No. of Shares	%
Promoter & Promoter Group	4,76,45,946	61.0
Public & Others	3,04,26,426	39.0
Total	7,80,72,372	100.0

Source: RHP, SSL Research

Risk factors

- Heavy dependence on technological capabilities to carry out business activities.
- As a provider of identity and security solutions, the company is exposed to cyber-attacks which may result in customers curtailing or ceasing their use of company's solutions and loss of company reputation in the market.
- The company faces significant competition from both established and new companies offering trust services, digital security and paperless transformation solutions which may affect company's ability to add new customers, retain existing customers and grow its business.
- The company does not have a standard pricing for its products and solutions and has to quote prices on case to case basis. This may affect company's ability to attract new customers or retain existing customers if competitors introduce new products or reduce the price of their products/solutions.

Financial Snapshot

eMudhra Ltd.			
(Rs cr)	Pre Issue	Post Issue	
	FY21	9MFY22 (Annualised)	
Particulars		Price Band	
	256	243	256
Net Sales	131.6	183.0	183.0
Total Income	132.5	184.4	184.4
EBIDTA	39.9	65.7	65.7
PAT#	25.4	40.5	40.5
Equity Share Capital	35.9	39.2	39.0
No of Equity Shares	7.2	7.8	7.8
Face Value	5.0	5.0	5.0
EPS	3.5	5.2	5.2
CMP	256.0	243.0	256.0
Cash and Bank	7.7	174.6	174.6
Debt	30.8	44.7	44.7
Market Cap	1,837.7	1,905.3	1,998.7
BV per share (Rs)	16.2	38.6	38.7
PE(x)	72.5	47.1	49.4
P/BV (x)	15.8	6.3	6.6
Enterprise Value	1,860.7	1,775.4	1,868.8
Mcap/Sales (x)	14.0	10.4	10.9
EV/Sales (x)	14.1	9.7	10.2
EV/EBIDTA (x)	46.6	27.0	28.4
EBITDA Margins (%)	30.3	35.9	35.9
Net Margins (%)	19.3	22.1	22.1
ROE (%)	24.2	31.3	31.3
ROCE (%)	26.5	36.8	36.8
Debt/Equity	0.3	0.1	0.1
Net worth	116.6	302.5	302.5

adjusted for exceptional items

Peer Comparison

- As per RHP, eMudhra Ltd has no comparable listed peers available in India

Industry Overview

Global Digital Security and Paperless Transformation Market (\$ Mn.), FY 2016 – FY 2026

Digital Security and Paperless Transformation Market (\$ Mn.), Global, FY 2016 – FY 2026



Source: RHP

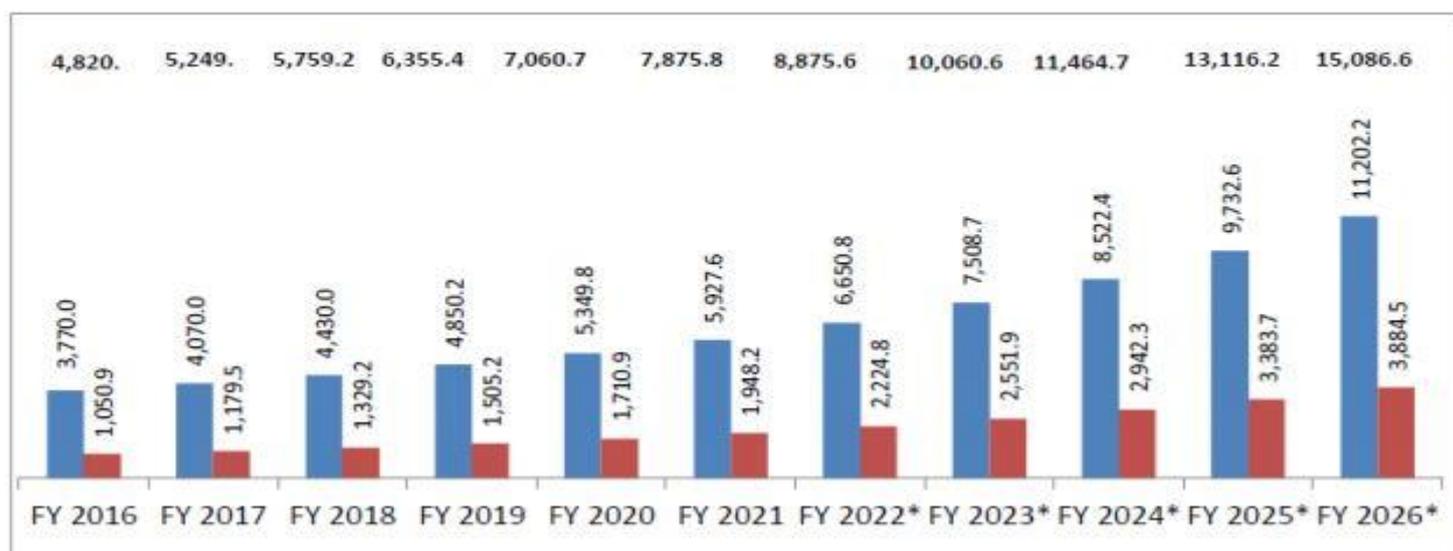
- Digital Security and Paperless Transformation includes (1) Digital Trust Services, (2) Digital Security Solutions, and (3) Paperless Transformation Solutions.
- The global Digital Security and Paperless Transformation market size is expected to grow at a CAGR of +17% between FY21-26E to reach US \$25.3 bn.

(1) Global Digital Trust Services Market (\$ Mn.), FY 2016 – FY 2026



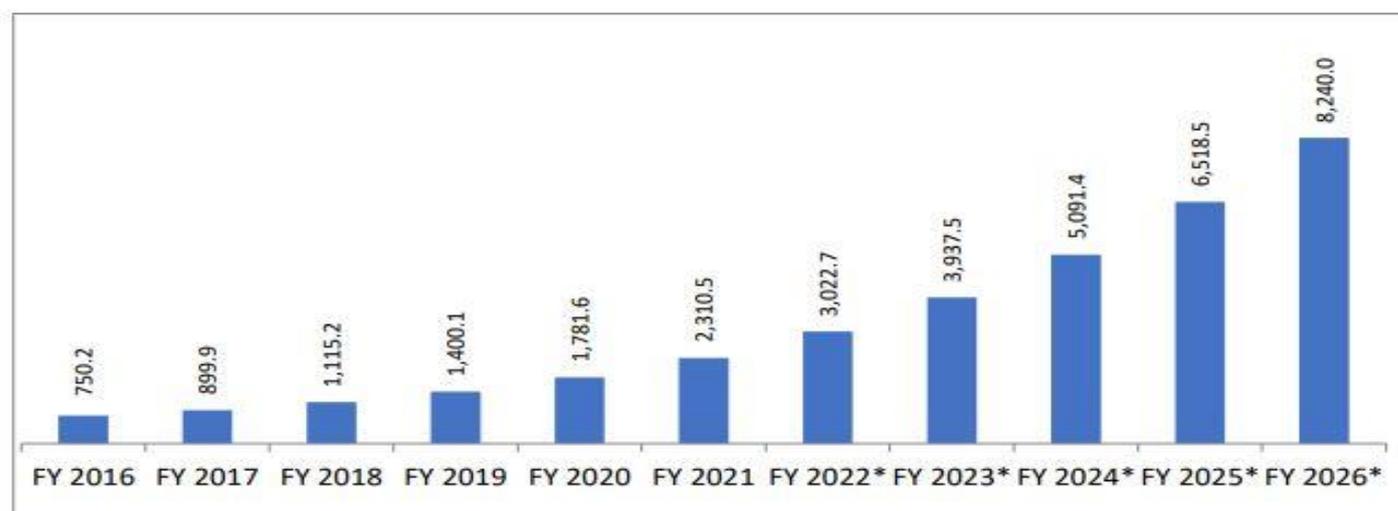
Source: RHP

- The global Digital Trust Services market which includes SSL/TLS certificates, Digital Signature Certificates and IoT device certificates is expected to grow at a CAGR of ~11% between FY21-26E to reach ~US \$2 bn
- IoT is the fast growing market and would push the need for device certificates the market of which is expected to grow in double digits in the next 5 years.

(2) Global Digital Security Solutions Market (\$ Mn.), FY 2016 – FY 2026**Global Digital Security Solutions Market (\$ Mn.),
FY 2016 – FY 2026**

Source: RHP

- The Digital Security Solutions market comprises of Identity and Access Management (IAM) and Public Key Infrastructure (PKI).
- Digital transformation, zero trust security architectures (owing to frauds around digital identity), and increasing acceptance of cloud technologies are the key growth drivers for market growth in the Digital Security Solutions space.
- The global Digital Security Solutions market size is expected to grow at a CAGR of ~14% between FY21-26E to reach US \$15.1 bn.

(3) Global Paperless Transformation Solutions Market (\$ Mn.), FY 2016 – FY 2026**Global Paperless Transformation Solutions Market (\$ Mn.),
FY 2016 – FY 2026**

Source: RHP

- Paperless office and work-process is expected to be future of global enterprises as companies aim to reduce manual interventions and automate customer and internal processes.
- The global Paperless Transformation Solutions market is expected to grow exponentially by a CAGR of 29% between FY21-26E to touch US \$8.2 bn.

SBICAP Securities Limited

(CIN): U65999MH2005PLC155485 | Research Analyst Registration No INH000000602

SEBI Registration No.: Stock Broker: INZ000200032 | CDSL: IN-DP-314-2017 | NSDL: IN-DP-NSDL-369-2014 | Research Analyst: INH000000602

Portfolio Manager: INP000004912 | IRDA/RW/IR2/2015/081 | IRDA/RW/IR1/2016/041 | IRDA: CA0103

Registered & Corporate Office: Marathon Futurex, B Wing, 12th Floor, N. M. Joshi Marg, Lower Parel, Mumbai-400013.

For any information contact us:

022-6854 5555**E-mail: helpdesk@sbicapsec.com | Web: www.sbisecurities.in****DISCLOSURES & DISCLAIMERS:**

Analyst Certification: The views expressed in this research report ("Report") accurately reflect the personal views of the research analysts ("Analysts") employed by SBICAP Securities Limited (SSL) about any and all of the subject issuer(s) or company(ies) or securities. This report has been prepared based upon information available to the public and sources, believed to be reliable. I/We also certify that no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

The Analysts engaged in preparation of this Report or his/her relative:-

- (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report.

The Analysts engaged in preparation of this Report:-

- (a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

Name	Qualification	Designation
Sudeep Shah	MBA (Finance)	DVP- Technical & Derivative Research
Sunny Agrawal	MBA (Finance)	DVP - Fundamental Research
Rajesh Gupta	PGDBM (Finance), MA (Bus. Eco)	AVP - Fundamental Research
Monica Chauhan	C.A.	Research Analyst - Equity Fundamentals
Bhagyashree Vivarekar	MBA (Finance)	Research Analyst - Equity Technicals
Gautam Upadhyaya	MBA (Finance)	Research Analyst - Equity Derivatives
Netra Deshpande	MMS (Finance)	Sr. Research Analyst - Currency & Commodity Fundamentals
Bhavin Parikh	MBA (Finance)	Research Analyst - Mutual Funds
Vinayak Gangule	BE (Information Technology)	Assistant Manager - Retail Research
Amit Chawda	B.Com	Research Analyst - Equity Technicals
Kalpesh Mangade	B.Com	MIS Analyst - Retail Research

For other Disclosures please visit: https://bit.ly/R_disclaimer02