

**Company is well-positioned for future growth**

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**Issue Offer**

**Fresh Issue of 41,20,000 equity shares upto INR 2060 Mn and OFS of 85,00,000 shares by Promoters group of INR 4,250 Mn taking the total issue size at INR 6,310 Mn.**

**Issue Summary**

Price Band (INR)	475-500
Face Value (INR)	2
Implied Market Cap (INR Mn)	27,520
Market Lot	30
Issue Opens on	July, 17, 2023
Issue Close on	July, 19, 2023
No. of share pre-issue	5,09,23,980
No. of share post issue	5,50,43,980
Listing	NSE / BSE

**Issue Break-up (%)**

QIB Portion	≤ 50
NIB Portion	≥15
Retail Portion	≥35

**Book Running Lead Managers**

Equirus Capital Private Ltd  
IIFL Securities Ltd

**Registrar**

Link Intime India Pvt Ltd

**Shareholding Pattern**

	Pre-Issue	Post-Issue
Promoters	97.8%	77.9%
Public & Others	2.2%	22.1%

**Objects of the issue**

- Repayment/prepayment of outstanding borrowings
- Funding long-term working capital requirements
- Funding capital expenditure requirements
- General corporate purposes

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**Aryaa Gupta**

**Established in 1999, Network Technologies is an Indian owned and controlled OEM specializing in high-end computing. The company has manufacturing facilities located in Faridabad, Haryana with 16 offices located across the country. Recently, in 2023, the company installed AIRAWAT which is India's largest and fastest AI Supercomputing System. Netweb has also been into manufacturing and designing motherboards since 2018.**

**Investment Rationale**

**India's Leading HCS provider:** The company is one of India's leading HCS provider, with fully integrated design and manufacturing capabilities. It continues to operate in a rapidly evolving and technologically advanced industry with high entry barriers. In the HPC segment, it has been successful in building Supercomputers like PARAM Ambar which is deployed at ISRO. This enhances their expertise and gives them a good stand in the market. The company provides the complete hardware stack, middleware and application porting in migration services leading to no dependence on third-party organizations.

**Expand geographic footprint in EMEA:** The company caters to many Indian multinational companies. It now aims to expand and grow their global presence in EMEA by offering 5G products and solutions. The 5G market in European and African countries is expected to grow at a CAGR of 45.7% between FY23 and FY29. These new networks are aiding in the transformation of business and manufacturing in addition to enabling cutting-edge new consumer services and fostering economic growth. The revenue from operations in foreign currency for FY23 stood at INR 4.63 Mn whereas the capital expenditure in foreign currency was INR 4.42 Mn.

**Significant product development and innovation through R&D:** The industry in which the company operates is R&D intensive and relies significantly on technically qualified resources. The company's R&D team's in-depth understanding of high-end computing solutions enable them to stay at the forefront of technological evolution and anticipate and envision the future needs of the market. Its R&D Facilities have enabled them to increase their product lines. The company also specializes in independent designing and innovation of new products and solutions offerings and provide services tailored to specific customer requirements.

**Long-standing relationships with Customers:** During FY23, the company catered to 2,011 customers out of which 317 were repeat customers. Repeat Customers contributed INR 3,999 Mn or 90.68% of the revenue from operations.

**Comprehensive Product Segments:** The company's revenue comprises six distinct product segments: Supercomputers & High-Performance Computing, Private Cloud, AI systems, PS solutions, Data Centre Servers, and Software & Services. A comparative analysis reveals that none of the global OEMs possess all six product lines within their offerings. The company differentiates itself by providing a comprehensive suite of hardware stack, middleware, and application porting in migration services, thereby eliminating reliance on third-party organizations. Additionally, the company aims to enhance its product portfolio by introducing 5G and private 5G solutions.

**Valuation and View**

Netweb Technologies has demonstrated exceptional performance in the FY23 and has positioned itself strongly among its peers. It is one of the few players in India that provides a comprehensive range of high-performance computing products and solutions. Over the past three years, repeat customers have contributed approximately 85% of the company's revenue. With its presence in government, defense, higher education, and research sectors, Netweb Technologies is well-positioned for future growth. The company also has ambitions to expand its product portfolios and manufacturing facilities in order to establish a global presence. With a PE of 59.7x at the upper band of INR 500, we recommend that investors **Subscribe to the issue for the long term.**

**Exhibit 1: Financial Performance**

Particulars	FY21	FY22	FY23
Net Sales	1427.9	2,470.30	4,449.72
EBIT Margin	9.06%	13.30%	14.90%
EBITDA Margin	10.01%	14.00%	15.70%
ROCE	35.5%	51.6%	64.4%
ROE	46.4%	67.9%	68%
EPS	1.62	4.41	9.22
P/E	340.6	124.8	59.7

Source: RHP, Arihant Capital Research

### Industry Overview

- The Indian IT Industry market was USD 201,000 Mn in FY22. The market is expected to be USD 225,000 Mn in FY23 and is forecasted to reach USD 372,706 Mn by FY29 with a CAGR of 8.8% over the forecast period (FY2023-2029). Implementation of government schemes like "Make in India" and PLI Schemes are some of the elements that will contribute to the expansion of the IT industry in India.
- The China Plus One Plan is expected to benefit the Indian IT sector in the future. Tech companies are slowly shifting production away from China - The shift is in response to growing concerns about the geopolitical tensions and pandemic-induced supply chain disruptions in the last few years. Apple has been ramping up production of iPhones in India as it looks to widen its manufacturing capabilities and reduce dependence on China. Foxconn will build a new 300-acre facility in Bengaluru, India, as part of an ongoing effort to pivot away from China. It is expected to invest about \$700 million for the same.

### Indian Oil and Gas

- The Indian Oil & Gas industry is expected to grow with a CAGR of over 3% by FY 2027, as the Government of India plans to invest INR 7.5 trillion (US\$ 102.49 billion) on oil and gas infrastructure as announced by Prime Minister Mr. Narendra Modi in February 2021.
- Oil & Gas companies are increasingly relying on powerful computers/supercomputers to process complex data faster and that enables these companies to cut costs while boosting productivity and success rates of projects. Supercomputers and technology is use for seismic analysis for advance algorithms, stimulation and safety.

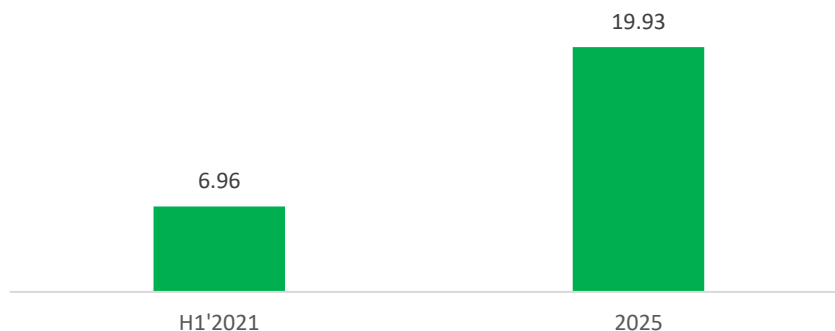
### Automobile

- The Indian automobile industry is expected to grow at approximately at 8-10% till 2027. As the automobile industry is crucial to both macroeconomic expansion and technological advancement. Currently, the automobile industry contributes 7.1% of India's GDP and 49% of its manufacturing GDP.
- Growth in the automobile industry in India is expected to get driven with the use of high-performance computing solutions such as supercomputers and AI.

### BFSI

- The Indian BFSI sector is expected to grow at a CAGR of 27-30% till 2025. The rate of global adoption of fin-tech is highest in India. The market for Indian fin-tech is expected to be worth \$50 billion in 2021 and \$150 billion by 2025. India has 23 fin-tech startups that, as of July 2022, have achieved "Unicorn Status" with a valuation of over \$1 Bn.
- Growth in the BFSI industry in India is expected to get driven with the use of high-performance computing solutions, such as supercomputers and AI. Algorithmic trading is expected to revolutionize stock market trading in India.

**Exhibit 2: Market size of IT industry in India (US\$ billion)**



**Exhibit 3: Key Strengths and Strategies**

Key Strengths	Details
Leading OEM of HCS in India	The company is India's leading Indian origin owned and controlled OEM for HCS with integrated design and manufacturing capabilities. The company is also one of the few OEMs in India eligible to seek production linked incentives in terms of the Government of India's IT Hardware PLI Scheme for the manufacture of servers and the Telecom and Networking PLI Scheme for the manufacture of networking and telecom products.
Long standing relationship with a marquee and diverse customer base	During FY23, the company catered to 2,011 customers out of which 317 were repeat customers. Repeat Customers contributed ₹3,999.04 Mn or 90.68% of the revenue from operations.
Experienced Board and Senior Management	The company has an experienced board and strong management team led by persons with significant experience in the information technology industry. The workforce or trained and skilled engineers facilitate in meeting the constantly evolving demands of the industry. The company's average involuntary attrition rate of its employees in the FY23, FY22 and FY21 was nil
Significant product development and innovation through R&D	The industry in which the company operates is R&D intensive and relies significantly on technically qualified resources. The product innovation through its dedicated R&D Facilities has helped them thrive in the current markets and compete with the ever-evolving technology.

Source: RHP, Arianth Capital Research

**Exhibit 4: Key Strategies**

Key Strategies	Details
Expand and augment product portfolio	The Indian telecommunications market has grown exponentially and is expected to grow at a CAGR of 9.4% between 2020 to 2025. Over the years, the company has sharpened its technical capabilities to create a wide-ranging product portfolio comprising of Supercomputing solutions, private cloud and HCI, and enterprise storage solutions. They have developed their cloud suite in-house based on the brand 'Tyrone Skylus' which insulates them from third party reliance. Currently, they are working to expand their portfolio to include reduced instruction set computer architecture based HCS systems.
Expand geographic footprints in EMEA (i.e., Europe, Middle East and Africa)	Over the years, the company has been aiming to compete successfully in a highly competitive market like India. It plans to expand and grow its geographical footprint in EMEA by offering the following HCS, (i) private cloud and HCI, (ii) HPC solutions, (iii) AI systems and enterprise workstations, and (iv) 5G products and solutions, where the company has already established its footprints. Further, the 5G market in European and Africa countries is expected to grow at a CAGR of 45.7% between Fiscal 2023 and Fiscal 2029. Additionally, in FY23, the company incurred an expenses (excluding capital expenditure) of INR 1,914.92 Mn in foreign currency (primarily USD) constituting 42.03% of its revenue from operations. The Indian Rupee has been steadily depreciating against the USD and has between April 3, 2020 and March 31, 2023, depreciated by over 8.43%, and executing projects in overseas markets will also result in increased foreign exchange revenue which will be a natural hedge against foreign currency expenses.
Deepen their penetration across verticals	Currently, the company's HCS offerings cater to various Application Industries such as information technology enabled services, entertainment and media, BFSI, and government entities including the defense, education and research development institutions.

Source: RHP, Arianth Capital Research

**Key Risks**

- The company’s success is dependent on its long-term relationship with its customers. The company is mainly reliant on its top 10 customers. They generally do not enter long-term contracts with customers since it exposes them to risks coming from the inability to retain their established customers as their clients.
- Most of the company's revenue comes from the activities of a few of its HCS solutions. Losses or declines in demand may have a negative impact on their business, revenue from manufacturing operations, and financial conditions.
- The company does not have any similar listed peer companies in India or abroad that provide HCS products for performance comparison, thus investors must rely on their own evaluation of the company's accounting ratios for the purposes of investing in this offer.
- The current order book stands at INR 902.05 Mn which is not a necessarily indicative of a future growth. Though, they might generate future revenues, there is no guarantee that they will be realized on time or be profitable.

**Exhibit 5: Management**

Key Management Personnel	Description
Sanjay Lodha	Sanjay Lodha is the Promoter, Chairman and Managing Director of the company. He has been on Board of Advisors for Intel for the year 2020 and 2022. he holds a bachelor degree in Economics and PG diploma in business management.
Navin Lodha	Navin Lodha is the Promoter and WTD of the company. He has 15+ years of experience in sales and Marketing and leads the West Zone of the company’s Sales and Marketing department. He holds a bachelors degree in commerce.
Vivek Lodha	Navin Lodha is the Promoter and WTD of the company. He has 15+ years of experience in sales and Marketing and leads the East Zone of the company’s Sales and Marketing department. He holds a bachelors degree in commerce.
Niraj Lodha	Niraj Lodha is the Promoter and WTD of the company. He has 15+ years of experience in sales and Marketing and leads the South Zone of the company’s Sales and Marketing department. He holds a bachelors degree in commerce.
Hemant Agarwal	Hemant Agarwal is the Chief Operating Officer of the company. He has been associated with the company for over 20 years. He holds a bachelors’ degree in commerce from the University of Calcutta.
Prawal Jain	Prawal Jain is the Chief Financial Officer and the Chief Human Resource Officer of the company. He holds a bachelors’ degree in commerce from Hemwati Nandan Bahuguna Garhwal University, Srinagar (Garhwal) and is a chartered accountant. He has 24+ years of experience in Accounting and Finance.
Hirdey Vikram	Hirdey Vikram is the Chief Sales and Marketing Officer of the company. He holds a bachelors’ degree of technology (information technology) from the Punjab Technical University, Jalandhar. Prior to his association with the Company, he was associated with HCL Infosystems Limited.
Mukesh Golla	Mukesh Golla is the Chief Research and Development Officer of the company. He holds a bachelor’s degree in technology (computer science and engineering) from the Jawaharlal Nehru Technological University, Hyderabad. He is responsible for managing the product engineering and research and development department of the company.
Lohit Chhabra	Lohit Chhabra is the Company Secretary and Compliance Officer of the company. He holds a bachelors’ degree in commerce from the University of Delhi and a certificate of membership from the Institute of Company Secretaries of India. Prior to his association with the Company, he was associated with CMR Green Technologies Limited from the year 2014 till 2023.

Source: RHP, Arihant Capital Research

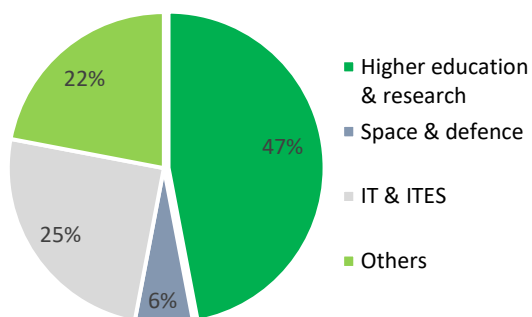
## Peer Comparison

Exhibit 6: Comparison of listed Industry Peers

FY23	Netweb	Syrma SGS	Kaynes	Dixon
Revenue	4,449.72	20,483.88	11,261.14	121,920.10
Gross Margin	27%	25%	31%	10%
EBITDA Margin	16%	11%	16%	4%
PAT Margin	11%	6%	8%	2%
ROCE	64.42	14.59	21.15	23.54
ROE	68%	12%	16%	22%
EV/EBITDA	40.4	35.3	46.9	50.6
P/E	59.7x	59.72x	76.77x	103x

Exhibit 7: Revenue Mix

Revenue Breakdown by industry



FY23-Revenue Breakdown

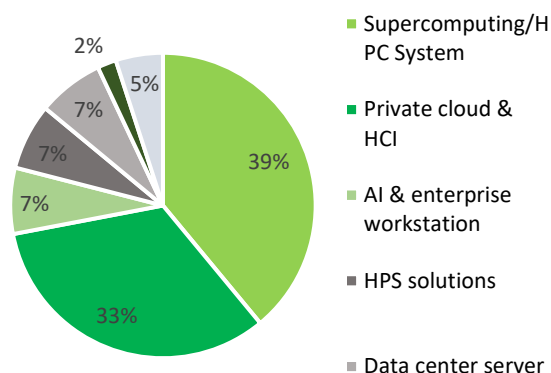
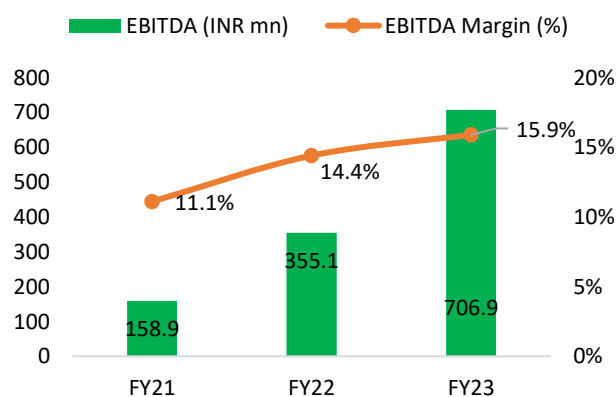
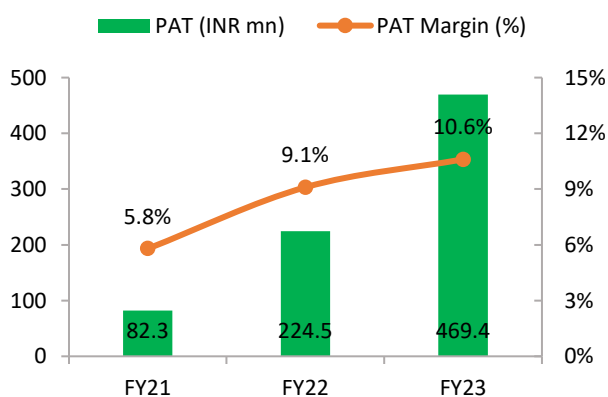


Exhibit 8: PAT and EBITDA trend



Source: RHP, Arianth Capital Research

## Financial Statements

Income Statement Summary			
Y/e 31 Mar (INR mn)	FY21	FY22	FY23
<b>Total Revenue</b>	<b>1427.9</b>	<b>2,470.30</b>	<b>4,449.72</b>
Cost of materials	1061.6	1864.58	3243.65
Employee cost	127.4	152.05	293.53
Other expenses	95.05	107.71	212.39
<b>EBITDA</b>	<b>143.85</b>	<b>345.96</b>	<b>700.15</b>
<b>EBITDA Margin (%)</b>	<b>10.01%</b>	<b>14%</b>	<b>15.7%</b>
Depreciation	14.52	16.38	36.57
Other income	15.04	9.08	6.78
Interest	33.33	36.42	40.73
<b>PBT</b>	<b>111</b>	<b>302.24</b>	<b>629.63</b>
Taxes	28.71	77.74	160.27
<b>PAT</b>	<b>82.3</b>	<b>224.5</b>	<b>469.36</b>
Basic EPS (in INR)	1.62	4.41	9.22
Diluted EPS (in INR)	1.62	4.41	9.07

### Balance Sheet Summary

Y/e 31 Mar (INR Mn)	FY21	FY22	FY23
Share Capital	56.58	56.58	101.85
Reserve & Surplus	161.59	387.12	834.81
<b>Net worth</b>	<b>218.17</b>	<b>443.70</b>	<b>936.66</b>
<b>Total Loans &amp; Lease Liabilities</b>	<b>305.38</b>	<b>344.84</b>	<b>356.03</b>
Other non-current liabilities.	12.09	12.62	15.97
Trade payable	425.89	532.88	1,033.67
Other Current Liab	140.42	152.02	317.17
<b>Total Current Liab.</b>	<b>566.31</b>	<b>684.90</b>	<b>1,350.84</b>
<b>Total Equity &amp; Liab.</b>	<b>1,101.95</b>	<b>1,486.06</b>	<b>2,659.50</b>
Fixed Assets & CWIP	65.86	108.86	236.50
Intangible Assets	-	-	14.98
Financial Assets	31.72	29.42	10.00
Investments	-	-	-
Other non Curr. assets	19.20	14.16	16.38
Inventories	292.19	383.15	540.74
Cash & cash equivalent	20.24	20.26	70.92
Bank	51.32	55.17	65.22
Debtors	557.48	778.05	1,515.32
Other Current assets	63.94	96.99	189.44
<b>Total Assets</b>	<b>1,101.95</b>	<b>1,486.06</b>	<b>2,659.50</b>

Source: RHP, Arihant Capital Research

<b>Cash Flow Statement</b>				
<b>Y/e 31 Mar (INR mn)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	
EBITDA	143.85	345.96	700.15	
Provisions and Others	3.01	4.02	24.73	
<b>Op Profit before Working Capital</b>	<b>146.86</b>	<b>349.98</b>	<b>724.88</b>	
Change in Working Capital	-235.66	-251.27	-322.97	
Less: Tax	9.87	46.84	130.59	
<b>Cash Flow from Operations</b>	<b>-98.67</b>	<b>51.87</b>	<b>271.32</b>	
Addition to assets	-15.7	-53.75	-132.64	
(Purchase)/ Sale of investments	0	0	-0.1	
(Investment)/ Withdrawal of deposits	-5.11	-3.85	-10.05	
Interest & Dividend Received	2.16	2.94	2.58	
<b>Cash Flow from Investing</b>	<b>-18.65</b>	<b>-54.66</b>	<b>-140.21</b>	
Proceeds from borrowings	185.38	121.02	38.68	
Repayment of borrowings	-38.81	-85.85	-70.38	
Repayment of lease liabilities	-3.95	-5.23	-7.95	
Dividend & Interest paid	-25.04	-27.13	-40.8	
<b>Cash Flow from Financing</b>	<b>117.58</b>	<b>2.81</b>	<b>-80.45</b>	
<b>Net Change in Cash</b>	<b>0.26</b>	<b>0.02</b>	<b>50.66</b>	
Cash at beginning	19.98	20.24	20.26	
Cash at end	20.24	20.26	70.92	

<b>Y/e 31 Mar (INR mn)</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23</b>	
EBIDTA Margin%	10.01%	14.00%	15.70%	
EBIT Margin%	9.06%	13.30%	14.90%	
Profit Margin%	5.76%	9.09%	10.55%	
<b>Return Ratios(%)</b>				
ROE %	38%	51%	50%	
ROCE %	28%	43%	52%	
<b>Gearing Ratios</b>				
Debt / Equity	1.31	0.73	0.3	
<b>Turnover Ratios</b>				
Debtors (Days)	143	115	124	
Creditors (Days)	109	79	85	
Inventory (Days)	75	57	44	
<b>WC Cycle</b>				
Assets Turnover (in times)	21.68	22.69	17.69	
<b>Valuation Ratios</b>				
EPS	1.62	4.41	9.22	
EV/EBITDA	196.5	81.8	40.4	
P/E	340.6	124.8	59.7	
P/BV	128.5	63.2	29.9	

Source: RHP, Aриhant Capital Research

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BUY	>20%
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HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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