

Fidel Softech Limited

A REVIEW REPORT ON FIDEL SOFTECH LIMITED IPO

IPO Details

Opening Date	May 30, 2022
Closing Date	June 02, 2022
Stock Exchange	NSE SME
Status	Upcoming
Lot Size	3000 Shares
Issue Price	₹ 37 per share
Issue Size	36,48,000 shares of FV of ₹ 10 (aggregating up to ₹ 1,349.76 Lakh)
Application Amount	₹ 1,11,000

IPO Objective

- Funding the Working Capital requirements
- General Corporate Purposes

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	99,99,997	98.98 %
Public	1,02,563	1.02 %

Company Background

- Incorporated in the year 2003, it offers technology services with local language UI/UX.
- Its main line of business includes:
 - Localization/Language Services
 - IT/Tech Services
 - Consulting
- It provides Software development & Cloud infrastructure support services, localisation services, such as Translation, Interpretation, Content creation, Multilingual data creation, transcription & Annotation for training AI engines, Video subtitling and other video audio services, Data engineering, testing, scripting & tooling services and Consulting & Staffing services.
- It is ISO/IEC 27001: 2013 and ISO 9001: 2015 certified conforming to the Information Security Management System standard and Quality Management System standard
- As on 31st March 2022, it has 165 employees.

Promoter of the Company

1. Mr. Sunil Sudhakar Kulkarni
2. Mrs. Prachi Sunil Kulkarni

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Company Overview

Fidel Softech Limited is a LangTech consulting firm offering services with local language UI/ UX. The services offered by the Company includes IT services including Software development, Infrastructure & Cloud support, Localization including translation, interpretation, software localization & multilingual data creation and Consulting & Staffing services including training. The company is spread across the globe with presence in countries like Argentina, Belgium, China, Cyprus, Czech Republic, Dubai, Egypt, Germany, Hong Kong, Ireland, Italy, Japan, Kingdom of Saudi Arabia, Malaysia, Mauritius, Netherlands, New Zealand, Poland, Portugal, Russia, Singapore, South Africa, South Korea, Spain, Sweden, Taiwan, Ukraine, United Arab Emirates, United Kingdom, and United States of America. Given below is the list of services offered by the Company –

Localization/Language Services	IT /Tech Services	Consulting Services
1. Translation	1. Customized Software development & Support	1. Onsite Contingency staffing & interim support
2. Software Localization, Web site localization & Linguistic Testing	2. Product Development as a Service	
3. Transcription & Annotation	3. Cloud Infrastructure & Managed services support	
4. Vernacular data creation for AI engines and chatbots	4. Enterprise Application Implementation, Customization & Support (ServiceNow, Automation anywhere)	
5. Digitization (HTML & DTP)	5. Training & 3rd party technology solution Implementation & support	
6. Interpretation		
7. Localization engineering services		

Analysis

Established in 2003, company has a good track record of existence. There are no listed and big companies in India providing the same services as that of Fidel Softech Limited. The company has well established exports market offering in more than 20 countries across the globe. The company has a good

employee base with 165 employees working as on 31st March 2022. The company claims its employees to be well educated and trained in their respective area of work. Considering company's main line of business and details analysed from prospectus, it seems that the company has very good future prospect and can be the leading entity in its field in India as it provides a wide variety of services and all of them are very essential in today's market with organizations growing their digital presence. However, it is mentioned that the company operates in highly competitive market, which shows that the industry is fragmented, and elasticity of demand is very high. The customers have an edge with respect to bargaining power and the company must be very cautious about the same. Also, the threat of new entrant is very high with low barriers to entry.

So, if the company can overcome the constraint of high competition, it can be a good investment with company's wide range of services and good global presence.

Industry Charts

Exhibit 1: Global IT expected to grow at 11.2% in 2022 from 2021 and reach \$13818.9 billion in 2026

Global IT Market (USD bn)

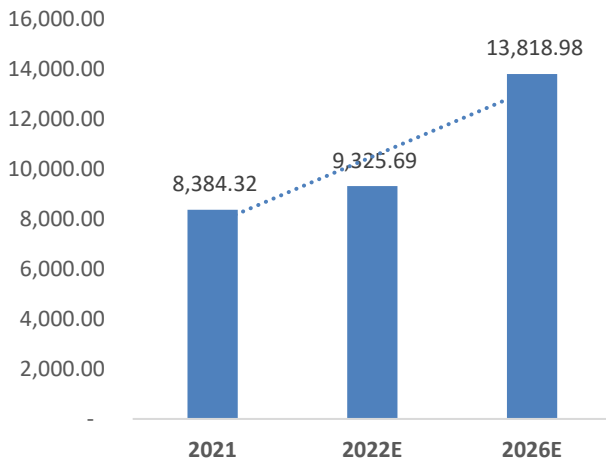


Exhibit 2: Global IT Industry worldwide from 2019-2022, by region

Market Share by Region

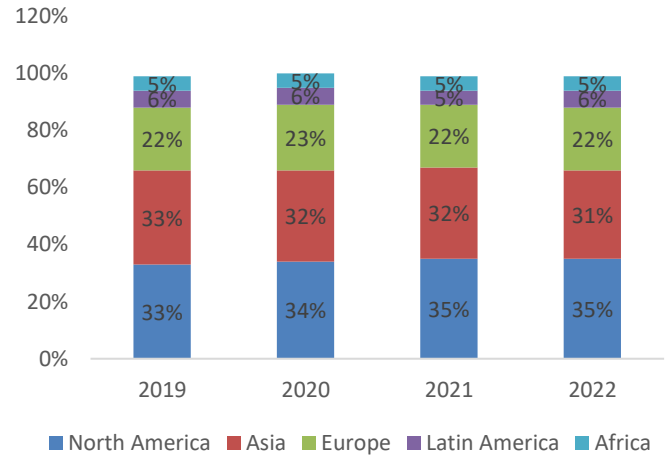


Exhibit 3: Indian IT and Business service Industry expected grow at 11.2% in 2025 from 1HY 2021

India IT and Business Service Industry (USD bn)

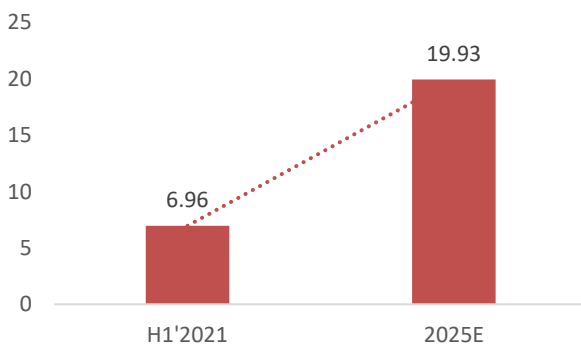
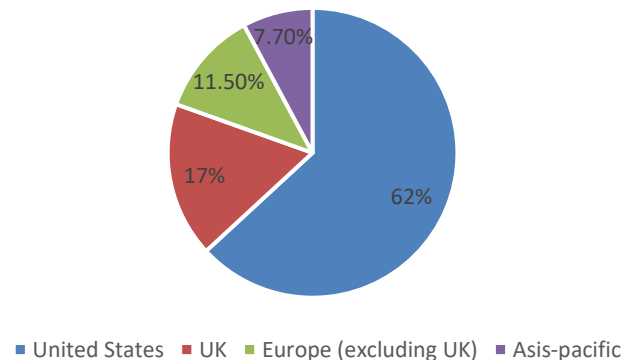


Exhibit 3: Indian IT and Business service Industry expected grow at 11.2% in 2025 from 1HY 2021

Indian IT Export Revenue



(Source: ibef, Prospectus, Statista and Business Today)

Investment Overview

IT Industry

The industry prospect of Information Technology always seems to be very good in this era of digitization. The global information technology (IT) market size is expected to grow from \$8,384.32 billion in 2021 to \$9,325.69 billion in 2022 at a compound annual growth rate (CAGR) of 11.2%. The growth in the market is mainly due to the companies rearranging their operations and recovering from the COVID-19 impact, which had earlier led to restrictive containment measures involving social distancing, remote working, and the closure of commercial activities that resulted in operational challenges. The IT market size is expected to reach \$13,818.98 billion in 2026 at a CAGR of 10.3%. The Indian IT & business service industry's revenue was estimated at ~US\$ 6.96 billion in the first half of 2021, an increase of 6.4% YoY. The export revenue of the IT industry is estimated at US\$ 150 billion in FY21. According to Gartner estimates, IT spending in India is estimated to reach US\$ 93 billion in 2021 (7.3% YoY growth) and further increase to US\$ 98.5 billion in 2022. The BPM sector in India currently employs >1.4 million people, while IT and BPM together have >4.5 million workers, as of FY21.

(Source: Prospectus)

Addressable Market for Fidel Softech

Company caters to both domestic and international markets. Situated in Pune, domestically, it caters to clients across Gujarat, Haryana, Himachal Pradesh, Karnataka, Kerala, Madhya Pradesh, Maharashtra, New Delhi, Odissa, Punjab, Rajasthan, Tamil Nadu, Telangana, Uttar Pradesh, Uttarakhand, and West Bengal. Internationally, company has executed projects in around Argentina, Belgium, China, Cyprus, Czech Republic, Dubai, Egypt, Germany, Hong Kong, Ireland, Italy, Japan, Kingdom of Saudi Arabia, Malaysia, Mauritius, Netherlands, New Zealand, Poland, Portugal, Russia, Singapore, South Africa, South Korea, Spain, Sweden, Taiwan, Ukraine, United Arab Emirates, United Kingdom, and United States of America. For the financial year ending 2022, 2021 and 2020, its revenue from exports contributed 86.09%, 86.89% and 82.40% respectively of its revenue from operations.

Competition

The industry, also mentioned by company in their prospectus, is very competitive. There are many companies both domestically and internationally which caters the same type of services and to similar regions as that the Fidel Softech Limited. This is the major constraint for the company. The company must be too cautious in this regard and the management should be strategically and tactically sound in such a competitive market. However, the company believes that with its in-house expertise and reputation with client they would be able to overcome and outperform their competitors in the upcoming times.

Peer Analysis

As of date, there are no listed peers of the company providing similar kind of services to its client. But it should be noted that, as it is a growing industry, we can soon see some company coming up with its Initial Public Offering or a big company may through various means offer same services as that of Fidel to its clients.

Promoters' Profile

Mr. Sunil Sudhakar Kulkarni



- **Sunil Sudhakar Kulkarni** is the Promoter and Chairman of the Company.
- He holds degree of Bachelor of Mechanical Engineering, Pune University, Pune, India in the year 1993 and has also completed a summer program in Technical Japanese for Materials Science and Related Engineering, Massachusetts Institute of Technology, in the year 1996.
- He has more than 20 years of experience in the field of Information Technology Consultancy.
- He is currently responsible for the overall management and marketing affairs of the Company.

Mrs. Prachi Sudhakar Kulkarni



- **Prachi Sunil Kulkarni** is the Promoter and Managing Director of the Company.
- She holds degree of Bachelor of Engineer (Computer Science), Dr. Babasaheb Ambedkar Marathwada University, Aurangabad, India in the year 1998.
- She has an experience of more than 20 years in financial domain in terms of functional and technical.
- She is responsible for product development, functional and technical department of the Company.

Analysis on the Company's Promoter and Board of Directors

The management team of the company is well versed and experienced. The **Chairman** of the company, **Mr. Sunil Sudhakar Kulkarni**, has more than 20 years of experience in the field of IT Consultancy. He is very well educated and has also undergone training in the field of Materials Science and Related Engineering. He seems to have a good grasp in the industry and with his experience he can set up the tone of growth for the company. The **Managing Director** of the company, **Mrs. Prachi Sudhakar Kulkarni** is also very well experienced with over 20 years of experience in the functional and technical department. She holds a degree in Computer Science Engineering and so seems to be well versed with the primary business of the company. Her experience also leads us to say that she has good knowledge of how the industry works and what the customer requires. The company has appointed Mr. Shyamak Sunil Kulkarni, son of the promoters, as a non-executive director of the company. He is currently studying Bachelors of Econometrics and Quantitative Economics from Purdue University, USA and does not look after the business. His field of study also does not seem to be in line with the company's core business and he is not experienced which leads to the fact that he is currently not a great driving force of the company.

The Independent Directors are well experienced and can guide the Board to very useful decisions but once again they are not part of the day-to-day operations of the company.

It can be concluded that, the promoters of the company are key part of the management and must be very sound and cautious while taking business decisions. The promoters are highly experienced, and the company is currently dependent on the decisions of its promoters which can also be risky. However, we believe that the promoters can carry its business to new heights with their level of education and experience.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st Mar 2022	As at 31st Mar 2021	As at 31st Mar 2020
Profit and Loss			
Revenue from operation	2,631.21	2,571.35	2,237.57
Other income	55.47	49.25	42.84
Total Revenue	2,686.68	2,620.60	2,280.41
Expenses	2,023.76	2,139.41	1,760.32
Depreciation and Amortisation Cost	18.22	14.67	77.05
Finance Cost	15.72	7.51	12.52
Total Expenses	2,057.70	2,161.59	1,849.89
PBT	628.98	459.01	430.52
EBITDA	607.45	431.94	477.25
EBITDA Margin	23.09%	16.80%	21.33%
Net Profit	456.50	345.01	314.75
Net Profit Margin	17.35%	13.42%	14.07%
Balance Sheet			
Total Borrowings	162.00	64.92	
Net Worth	1,488.19	1,031.68	686.67
Fixed Assets	14.33	25.29	76.01
Net Working Capital	1078.14	511.49	385.15
Financial Measures			
Receivables Turnover Ratio (x)	2.67	1.39	1.13
Payables Turnover Ratio (x)	1.23	1.75	1.16
Fixed Assets Turnover Ratio (x)	183.62	101.67	29.44
Return on Capital Employed	35.71%	38.05%	58.28%
Return on Equity	30.67%	33.44%	45.84%
Debt-Equity Ratio (x)	0.11	0.06	-

(The data has been taken and calculated from the financials given in the prospectus)

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The EBITDA of the company has grown from Rs. 477.25 lacs in 2020 to 607.45 lacs in 2022 growing at a CAGR of 12.81%. The EBITDA margin in 2022 was 23.09%.

Net Profit

The net profit of the company has grown from Rs. 314.75 lacs in 2020 to Rs. 456.50 lacs in 2022 growing at a CAGR of 20.32%.

Finance Cost.

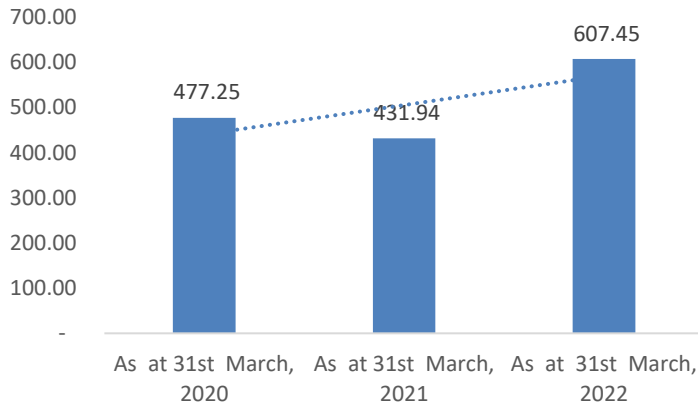
The finance cost of the company is due to short-term facilities availed from the bank to fund the day-to-day operations of the company.

Financial Measures/Ratios

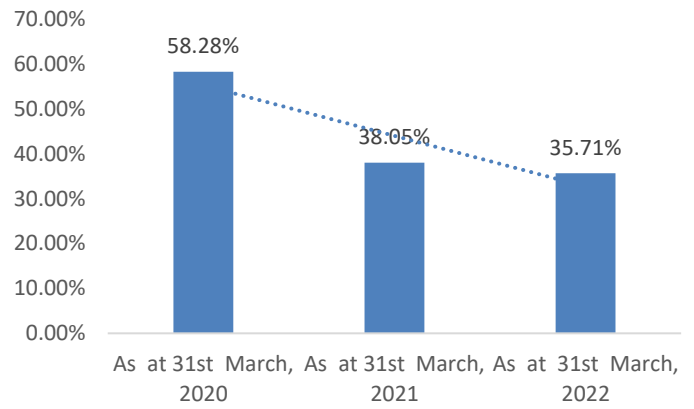
The financial ratios of the company look stable and good. The Days of Payables have been stable in past 3 Financial Years, however, the Days of Receivables has increased to 2.67 months highlighting a lack of efficiency of Company's Receivables department. Although the Return on Capital Employed has come down to 35.71% in 2022 from 58.28% in 2020, the ratio is still very good, but we would have to see the upcoming results and analyse whether the ratio is continuously falling and is unstable; Return on Equity has also come down to 30.67% in 2022 from 45.84% in 2020, here also the same thing can be thought of as that of ROCE. Although the EBITDA margin and Net Profit Margin fell in 2021, the company has reclaimed the margins to previous levels of 2020. This shows that the company is efficiently handling its operations and financial departments. The debt-equity ratio is only 0.11 times, it shows that the company is not utilizing the opportunity of debt-capital available in the market efficiently and we believe that the company could have taken more debt to fulfil its working capital gap.

Financial Graph

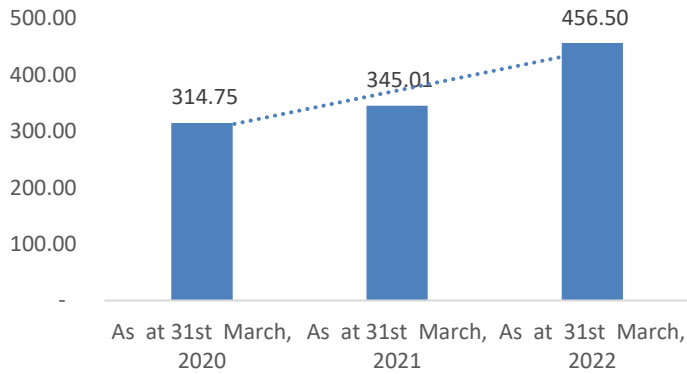
EBITDA (In lacs)



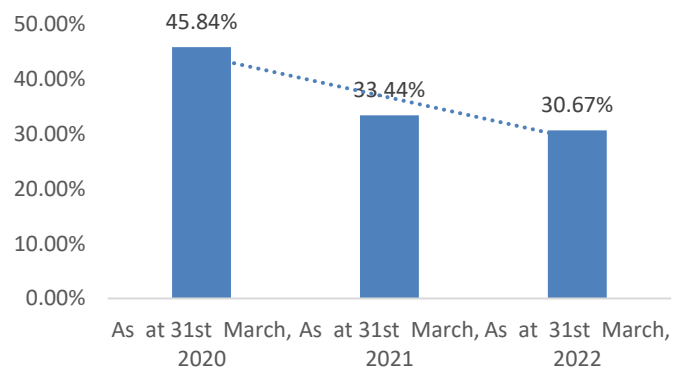
Return on Capital Employed



Net Profit (In lacs)



Return on Equity



Key Risk Factors

1. A former employee of the company has filed a case against the company alleging the termination to be illegal and based on false allegations and accordingly demanding for his reinstatement and for payment of an amount of Rs. 30,00,000/- towards compensation and damages for the hardship caused to him due to the termination. If this goes against the company, the company would be in huge liability.
2. The company has most of its revenues i.e., more than 85% of its revenue from exports, so the company is under the risk of foreign exchange fluctuations and geo-political relation of the countries.
3. The top 10 customers contribute 74.77% and top 5 customers contribute 78.18% of its total revenue, showing that it is highly dependent on these customers.
4. The present value of pension obligations calculated uses certain assumptions. There is a risk of these assumptions not falling in line and the company end up paying more in pension obligations. Also it is to be noted that the company has a defined benefit pension plan and pension obligations are not yet funded.
5. The services offered by the company takes a very long time and has to be as per the requirements of the clients. Since each client has different requirement and it takes time to deliver the client may forfeit the agreement and the company me end up incurring loss.

Track Record of Merchant Banker/Lead manager

The lead manager to the issue is Shreni Share Private limited and the previous issue details have been taken from the Prospectus. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Sr. No	Company Name	Issue Size in Cr.	Issue Price/Share	Listing date	CMP#
1.	Cospower Engineering Limited	2.04	51.00	March 30,2020	62.00
2.	KSolves India Limited	4.02	100.00	July 6, 2020	328.50
3.	Bodhi Tree Multimedia Limited	3.70	95.00	October 21, 2020	130.00
4.	Shine Fashions (India) Limited	1.60	40.00	November 2 2020	54.00
5.	Adjia Technologies Limited	2.00	74.00	March 15,2021	29.55
6.	Getalong Enterprise Limited	5.18	69.00	October 08, 2021	85.95
7.	DMR Hydroengineering & Infrastructures Limited	2.09	21.00	December 07, 2021	26.20
8.	Alkosign Limited	12.15	45.00	February 01, 2022	45.25
9.	QualityRO Industries Limited	2.70	51.00	February 09, 2022	55.00
10.	Ekennis Software Service Limited	2.88	72.00	March 07, 2022	98.40

#CMP is taken as on 27th May 2022

Recommendation

Based on the Business track record, Products/Services, Competitive Scenario, Management Background and Experience, Financial Measures, Peer Analysis and Industry Outlook, we would like to state that one **may apply** in the IPO. The Industry looks quite progressive and growth is on the cards. The company has performed well in the past and has efficiently maintained its global presence. However, the pure ratios are decreasing the ratios are still healthy. The bet can be taken on the Management and its financial performance. The application should be considering the long-term perspective.

Moreover, currently in view of Rising Inflation, Increasing Interest Rate, Employees layoffs and Business Cycles it is always advisable to do deep research on a company and its management before putting in a huge amount of money in it.

To Conclude, those who are high risk takers may apply for the IPO but if one is **risk averse, he/she should avoid** applying in the IPO and should see the management's performance in the coming years.

Disclaimer

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