

Olatech Solutions Limited

A REVIEW REPORT ON OLATECH SOLUTIONS LIMITED IPO

IPO Details

Opening Date	Aug 12, 2022
Closing Date	Aug 19, 2022
Stock Exchange	BSE SME
Lot Size	4000 Shares
Issue Price	₹ 27 per share
Issue Size	7,00,000 Equity Shares
Application Amount	₹ 1,08,000

IPO Objective

- Funding Working Capital Requirements
- General Corporate Purposes

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	15,08,800	92.00 %
Public	1,31,200	8.00 %

Company Background

- Company was incorporated in the year 2014 in Raigarh.
- Company is engaged in business of Data Centre, Telecom, Enterprise and IT Software Solutions in the Operating Support System and Business Support System.
- Company caters to both domestic and export market.
- The solutions offered by the company are through its registered trademark "Ephiphany".
- As on 31st March 2022, the company had a total of 10 employees.

Promoter of the Company

1. Mr. Amit Kumar Singh

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Company Overview

Olatech Solutions Limited was incorporated in the year 2014 in Raigarh, Maharashtra. The company is engaged in the business of Data Centre, Telecom, Enterprise and IT Software solutions in the Operating Support System and Business Support System. Company has a registered trademark “Ephiphany” under which it delivers most of its services.

Analysis

Being incorporated in the year 2014, the company has a decent track record of existence. Company operates in IT Industry which is a highly fragmented industry. The products/services mainly provided by the company are – Own Software Services, System Integration Services, Data Centre Services and Managed Services. These services are not unique and is provided by a large number of small and big vendors.

The company has just generated revenue of Rs. 262 lacs in FY'22 which if considered with the industry players is very less and also the same has been continuously falling over the years. Although the company has been targeting the export market as well but the same is in a raw stage. Company's sales through exports was 9.56%, 5.07% and 27.16% respectively for the year ended March 31, 2020, 2021 and 2022 respectively. The company is currently exporting only to two countries viz. Singapore and Hongkong.

Below table provides the summary of its revenue for past 3 years

(Amount in Lakh)

Particulars	For the Financial Year ended					
	2021-22		2020 - 2021		2019 - 2020	
	Amount	% of Total Income	Amount	% of Total Income	Amount	% of Total Income
Revenue from operations	253.31	96.63	546.72	99.54	833.44	99.77
Other income	8.85	3.37	2.52	0.46	1.92	0.23
Total Income	262.15	100.00	549.23	100.00	835.35	100.00
Profit after Tax	35.00	13.35	12.32	2.24	51.58	6.17

To conclude the company is operating into the segment which is highly fragmented. The company has not been able to generate enough profits for its shareholders in the recent years and also the same is decreasing over years which is a matter of concern.

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)

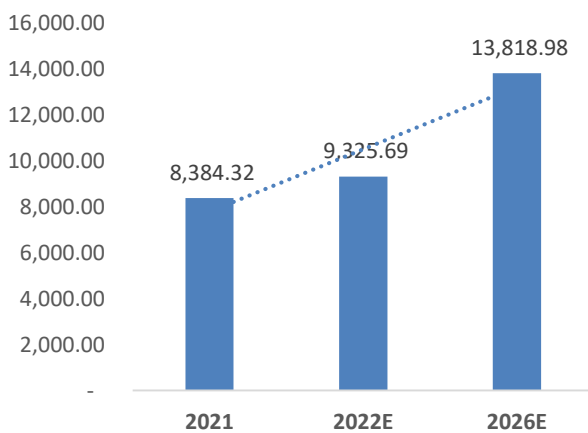


Exhibit 2: Global IT Industry worldwide from 2019-2022, by region

Market Share by Region

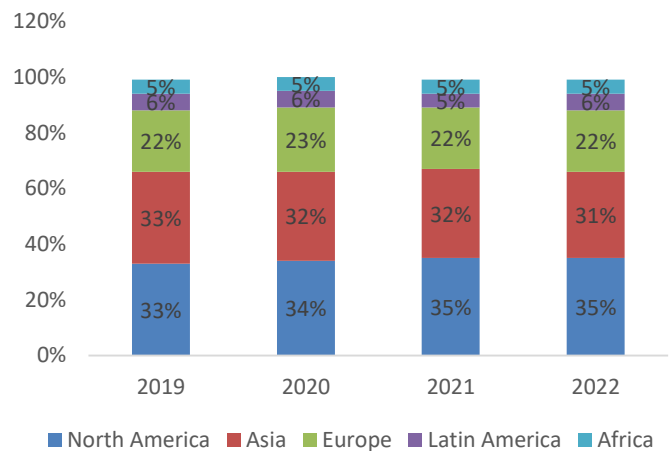


Exhibit 3: Indian IT and Business service Industry expected grow at 11.2% in 2025 from 1HY 2021

India IT and Business Service Industry (USD bn)

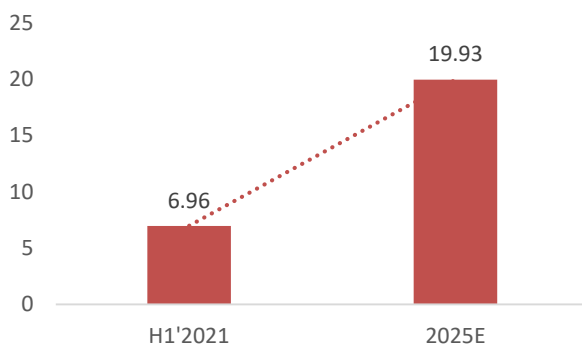
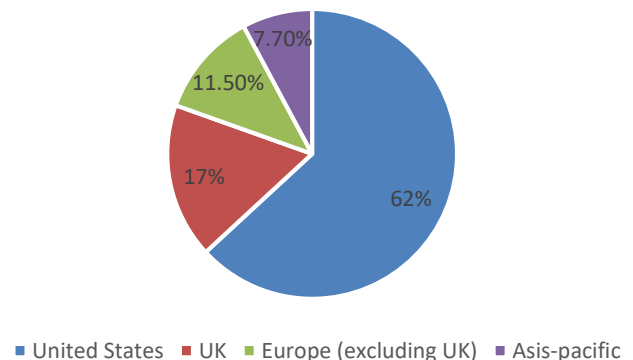


Exhibit 3: Indian IT and Business service Industry expected grow at 11.2% in 2025 from 1HY 2021

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: ibef.org)

Addressable Market for Olatech Solutions Limited

Company has its registered office in Maharashtra and has been mainly operating in the domestic market. However, the company has started targeting the export market and is currently servicing to Singapore and Hongkong. The company in coming times can target other export countries as well.

Competition

The industry, also mentioned by company in their prospectus, is very competitive. The company faces competition from a large number of organized and unorganized companies in its segment providing wide range of services to its clients. It operates in a highly unorganized and fragmented market. There are no high barriers to entry which makes the threat of new entrant very high. Also because of high competition, the bargaining power of the supplier is very low and everything depends upon the quality of goods or services one provides.

Peer Analysis

The company has listed 2 peer companies in its prospectus viz. Sterlite Technologies Limited and Megasoft Limited. A comparison of the same has been depicted in the table below –

Company	Olatech Solutions Limited	Sterlite Technologies Limited	Megasoft Limited
Net Profit (INR Cr)	0.35	42.69	4.62
EBITDA (INR Cr)	0.59	594.14	8.37
Return on Capital Employed	28.65%	6.97%	2.05%
Return on Equity	21.31%	2.18%	2.50%
EPS (INR)	1.52	2.00	1.00
P/E* (Times)	17.74	74.00	41.90

***P/E has been calculated as on 02/08/2022**

On Post IPO Basis

The company has although performed good when compared to its peers but the ratios and profits are declining from past 3 years. Also the company has mentioned only 2 peers but there are many companies providing the type of products and services that the company provides. These companies such as Infosys, TCS, Siemens etc. are very large in size and are reputed companies with great track record. These companies can at any time acquire other such service providing companies and capture the market share.

Promoters' Profile

Mr. Amit Kumar Singh



- **Mr. Amit Kumar Singh** is the Promoter, Chairman and Managing Director of the company.
- He has been associated with the company since its inception.
- He holds Bachelor's Degree in Electronics & Communication, from Dr. K N Modi Institute of Engineering & Technology, Modinagar CH. Charan Singh University, Meerut.
- He has more than 20 years of experience in Telecommunications, Sales and Marketing.

Analysis on the Company's Promoter and Board of Directors

Mr. Amit Kumar Singh is the Promoter, Chairman & Managing Director of the Company. He has been associated with the Company as Director since inception. He holds Bachelor's Degree in Electronics & Communication, from Dr. K N Modi Institute of Engineering & Technology, Modinagar CH. Charan Singh University, Meerut. He has around twenty years of experience in Telecommunications, Sales and Marketing field. He has worked with ZTE Telecom India Pvt Ltd, Nokia Siemens Networks Pvt. Ltd, MTNL, Huawei Telecommunications (India) Co Pvt Ltd, Mavenir Systems Private Limited, Elite Core Technologies Private Limited, etc. under various positions in sales and marketing.

Mr. Navneet Kakkar is the Non-Executive Director of the Company and is on Board w.e.f. from January 22, 2019. He was previously appointed as Chief Operating Officer of the company. He has completed his Bachelor's Degree of Engineering in Computer Science & Engineering from Chaudhary Charan Singh University, Meerut. He has twenty-one years of experience in Radio Access Network & Transmission operations, installation & commissioning of switches, operations & maintenance & software development. He worked with Kothari Info-Tech Limited, Tata Communications Transformation Services Ltd, as Senior Manager-Network Operations & posted as Circle Head for ROM Circle. He has experience in handling network operations, transmission operations, infra maintenance, node creation/configuration, BTS/Node B maintenance, BSC/RNC maintenance, wireline maintenance & switch maintenance.

From the above details, it can be seen that the management of the company is well experienced and educated. They have worked with reputed firms and have gained enough insights about the industry. However, it is to be noted that Mr. Navneet, although experienced, is a Non-Executive Director of the company, which means that the day-to-day operations and decisions of the company is dependent on a single person, Mr. Amit Kumar, which is not a positive thing for the company. Also the promoter holds the Chairman position of the Board which is not considered good looking at the Corporate Governance side of the company.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2020	As at 31st March, 2021	As at 31st Mar 2022
Profit and Loss			
Revenue from operation	833.44	546.72	253.31
Other income	1.92	2.52	8.85
Total Revenue	835.36	549.24	262.16
Expenses	759.44	522.50	203.34
Depreciation and Amortisation Cost	6.18	9.56	11.75
Finance Cost	0.03	0.52	0.14
Total Expenses	765.65	532.58	215.23
PBT	69.71	16.66	46.93
PBT Margin	8.36%	3.05%	18.53%
EBITDA	75.92	26.74	58.82
EBITDA Margin	9.11%	4.89%	23.22%
Net Profit	51.58	12.32	35.00
Net Profit Margin	2.25%	6.19%	13.82%
Balance Sheet			
Total Borrowings	0.01	0.01	0.01
Net Worth	116.96	129.28	164.28
Fixed Assets	29.59	28.93	17.18
Net Working Capital	38.51	59.3	124.89
Financial Measures			
Inventory Turnover Ratio	-	-	-
Receivables Turnover Ratio	15.61	40.92	2.47
Payables Turnover Ratio	6.47	45.27	1.37
Fixed Assets Turnover Ratio	28.17	18.90	14.74
Return on Capital Employed	59.63%	13.29%	28.65%
Return on Equity	44.10%	9.53%	21.31%
Debt-Equity Ratio	0.00	0.00	0.00

(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 fallen from Rs. 75.92 lacs in 2020 to Rs. 58.82 lacs in 2022 at a CAGR of 11.98%. However, The EBITDA Margin has grown from 9.11% in FY 20 to 23.22% in FY22 showing that the company has been able to reduce its operating cost over the years. However, the same has been unstable as in 2020 it was 9.11%, in 2021 it fell to 4.86% and again in 2022 it rose to 23.22%, so sustainability of such a margin in near future is in question.

Net Profit

The net profit of the company has fallen from Rs. 51.58 lacs in 2020 to Rs 35.00 lacs in 2022 at a CAGR of 17.63% The net profit margin has grown from 6.19% in 2020 to 13.82% in 2022 showing a better management of non-operating costs. However, like EBITDA, the Net Profit also does not seem to be sustainable as it has been fluctuating in the recent years.

Finance Cost.

The finance cost of the company is mainly towards the unsecured short term borrowing. It is to be noted that the company has paid Rs. 14,000 of interest on Rs. 10,000 of loan which is little surprising.

Financial Measures/Ratios

The financial ratios of the company have been unstable.

RoCE of the company has fallen to 28.65% in FY 22 from 59.63% in FY 20, which is almost a fall of 50%. If we take into consideration the new capital introduced through IPO, the RoCE is expected to fall more.

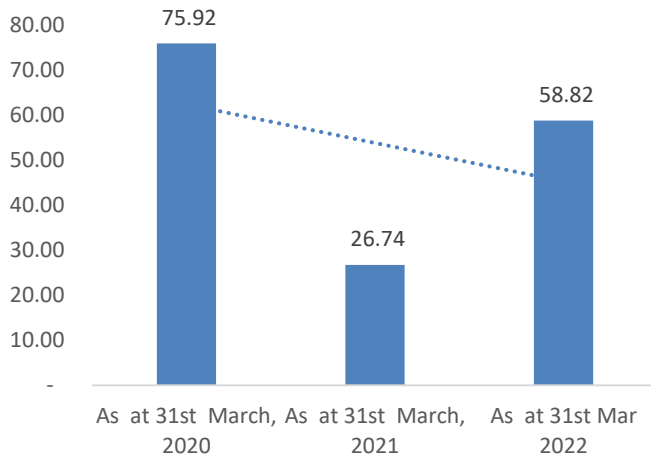
Return on Equity (ROE) of the company has grown from 44.10% in FY 20 to 21.31% in FY 22 at a CAGR of 30%. The same is expected to fall with new capital being introduced.

The Receivables and Payables Turnover ratio has come down drastically in FY'22 from FY'21 as evident from the table above. The turnover ratios have been fluctuating drastically and so it is quite difficult to comment upon the same.

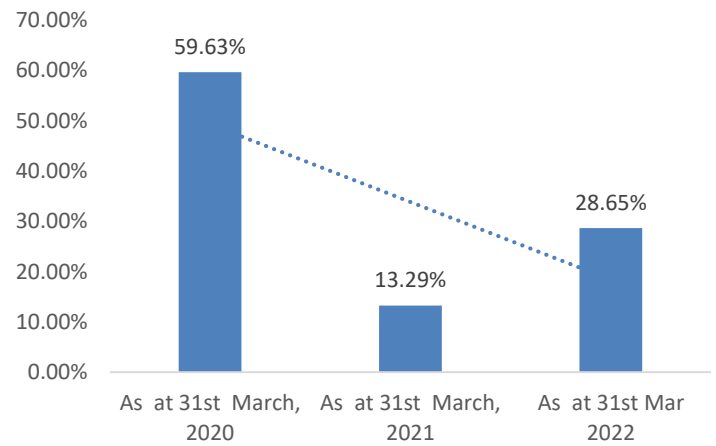
The company has almost no Debt. Looking at the issue size the company could have looked for part finance of loan and would have tried to decrease its Weighted Average Cost of Capital.

Financial Graph

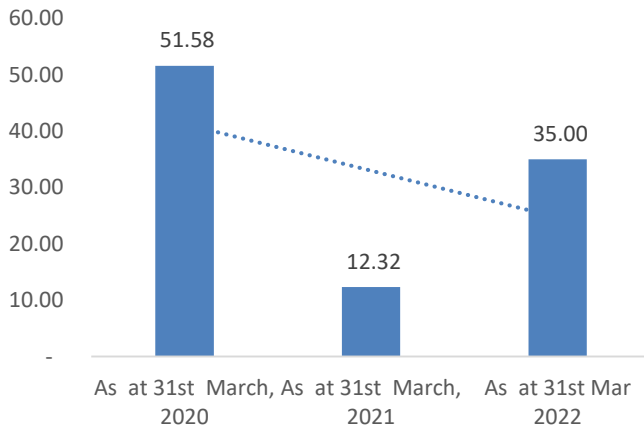
EBITDA (In Lacs)



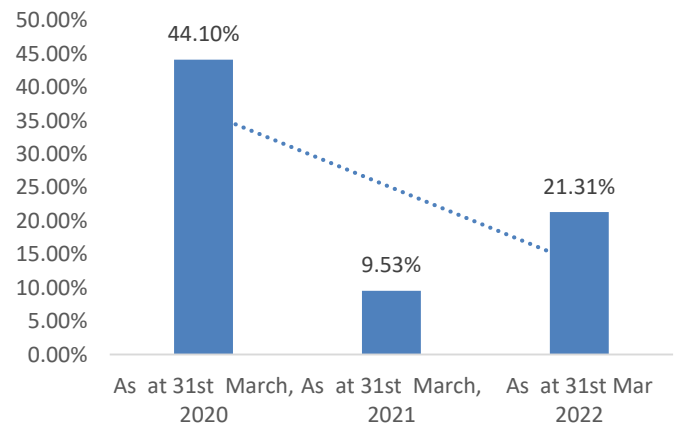
Return on Capital Employed



Net Profit (In Lacs)



Return on Equity



Key Risk Factors

1. There are 2 legal proceedings involving the Company, Directors, Promoter and Group Companies in which one litigation amount to Rs. 31.80 lacs and the amount of other litigation is not yet known, an adverse outcome in which, may have an adverse impact on the reputation, business, financial condition, results of operations and cash flows.
2. The product/service segment of the company is prone to cyber-attacks, so any breach of data of its clients would adversely affect the reputation and business of the company.
3. The company operates in a very fragmented market.
4. The operations of the company depends upon one person i.e. its Managing Director.

Track Record of Merchant Banker/Lead manager

The lead manager to the issue is Shreni Shares 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	101.55
2.	KSolves India Limited	4.02	100.00	July 6, 2020	384.95
3.	Bodhi Tree Multimedia Limited	3.70	95.00	October 21, 2020	150.30
4.	Shine Fashions (India) Limited	1.60	40.00	November 2 2020	49.00
5.	Adjia Technologies Limited	2.00	74.00	March 15,2021	29.00
6.	Getalong Enterprise Limited	5.18	69.00	October 08, 2021	68.00
7.	DMR Hydroengineering & Infrastructures Limited	2.09	21.00	December 07, 2021	24.50
8.	Alkosign Limited	12.15	45.00	February 01, 2022	48.75
9.	Quality RO Industries Limited	2.70	51.00	February 09, 2022	52.70
10.	Ekennis Software Service Limited	2.88	72.00	March 07, 2022	102.00
11.	Fidel Softech Limited	13.50	37.00	June 10, 2022	52.70
12.	SKP Bearings Limited	30.80	70.00	July 13, 2022	81.70

#CMP is taken as on 11th August 2022

This is the 13th IPO of the Lead Manager, out of the last 10 listings, 1 opened at par and rest all at premium.

Recommendation

The company has a decent track record of existence as it has been in the business since the year 2014. The product segment of the company has been in focus and has been growing in the last few years. But the market is very competitive and there are numerous players providing the same products and services as that of the company.

The revenue and profits of the company has been decreasing over the years in absolute terms. In the recent years when the IT Industry has shown a very good result, the company has failed to perform. This shows that the company has not been able to capture the opportunity and has not been able to compete with its competitors.

Also the company's management, although experienced, is negative from corporate governance point of view.

The sector P/E is around 68 times and the company is getting listed at 17.74 P/E on post IPO basis which is quite fair considering the size of the company.

Considering all these factors, one **should avoid** applying in the IPO.

Disclaimer

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.

We believe an SME company needs 2-3 years to show its true potential and therefore our recommendations are for Long-term investment and not for listing gains.