

IPO Note

Virtual Galaxy Infotech Limited

Recommendation: **AVOID!**

Company Background -

- **Incorporation:** Virtual Galaxy Infotech Limited was originally incorporated on Sept 12, 1997. The registered office is located at Nagpur, Maharashtra.
- **Business Activity:** The company provides end-to-end software solutions and IT services, specializing in core banking, ERP, and e-governance for the BFSI and public sectors.
- **Revenue Stream:** The company generates majority of the revenue from sale of E-Banker.
- **Human Resource:** The company has 329 permanent employees as on May 03, 2025.

Objects of the Issue -

- Capital expenditure towards setting up additional development facility in Nagpur, Maharashtra
- Repayment/ prepayment of certain borrowings availed by the Company
- Investment in procuring GPU, server & storage system at Data Centre
- Funding of expenditure related to enhancement, maintenance and upgrading existing products through manpower hiring
- Funding for business development and marketing activities
- General Corporate Purposes

Promoters Name -

Avinash Narayanrao Shende and Sachin Purushottam Pande

Rationale for recommendation -

The company has a long-standing presence in the IT sector and appears fairly valued. However, the sharp rise in FY24 profits is driven by capitalized expenses, raising doubts about long-term sustainability. Management control is concentrated among two promoters, and there are significant contingent liabilities. Given these risks, we recommend to **avoid** this IPO.

IPO Details

Opening Date	May 09, 2025
Closing Date	May 14, 2025
Allotment Date	Mar 15, 2025
Listing Date	May 19, 2025
Stock Exchange	NSE SME
Lot Size	1,000 Shares
Issue Price Per Share	₹135 to ₹142 per share
Issue Size	₹93.29 Cr
Fresh Issue	₹93.29 Cr
Offer for Sale	-
Application Amt	₹1,42,000(1,000 shares)

INDUSTRY - IT Industry

Avg PE ratio as per RHP - 141.82

	KPIs (In Lakhs)			
KPI's	FY 22	FY 23	FY 24	Dec-24
Revenue	4,332.02	5,968.03	6,350.45	10,124.72
EBITDA	915.67	1,192.76	3,136.09	4,550.46
Net Profit	40.21	71.77	1,653.95	2,741.50
RoCE	9.21%	10.73%	33.39%	25.64%*
ROE	2.00%	3.52%	39.95%	19.38%*
P/E	591.67	330.23	14.17	9.68*

*Annualized

Promoter Share Holding Pattern

Pre-Issue	Post-Issue
87.95%	64.72%

Valuation Parameters

Particulars	Pre-Issue	Post Issue*
EPS	10.02	14.67
BVPS	38.03	75.69
P/E	14.17	9.68
P/BV	3.73	1.88
Mkt Cap (In Cr)	259.84	353.13

*Annualized

Lead Managers -

Smart Horizon Capital Advisors Private Limited

Registrar -

Maashitla Securities Limited

Business Overview -

Virtual Galaxy Infotech Limited provides 'Software as a Service' (SaaS) - based technology solutions including core banking software, ERP implementation, custom software development, and IT services for the BFSI, ERP, and E-Governance sectors. The company serves clients such as banks, NBFCs, microfinance institutions, and government bodies.

Its services cover consultation, design, implementation, monitoring, and ongoing support. The main product, E-Banker, is a core banking solution offered both as an on-premises system and as a SaaS model. Other products include IBS-ERP for small and mid-sized businesses, e-APMC for agricultural market committees and government use, and newer offerings like V-Pay (digital payments), V-SOC, E-Autopsy Software, VGST, and LOS (Loan Origination System).

Revenue Model:

The company includes a One-Time Cost, which can be settled in one or multiple instalments, and Annual Recurring Charges which is generally spread over 5-year period. The revenue streams include sale of products, SaaS and sale of hardware and related services.

Order Book:

The company's order book as of Dec-24 has 51 ongoing projects in Karnataka, Madhya Pradesh, Maharashtra, Telangana, Goa, Rajasthan and export. The total amount of order book is Rs. 4,729.08 lakhs.

Services Offered-

I. Software Development

1. **E-banker** - A web-based core banking system used by financial institutions for real-time transactions and centralized operations.
2. **Integrated Business Suite - ERP**- An ERP software that connects all departments like finance, HR, and supply chain to streamline business operations.
3. **E-APMC – e-Trading Platform for Agri-Commodities** - A web-based system for e-auctions and office tasks in APMCs, designed to match government rules and ease daily work.
4. **V-PAY** - A digital payment platform that supports various payment methods like UPI, Aadhaar Pay, and bill payments.
5. **V-SOC (Virtual Security Operations Centre)**- A service that provides secure network connectivity and IT management support for better system safety and performance.
6. **E- Autopsy Post-Mortem Department Automation** - Software that automates tasks in hospital post-mortem departments for better record-keeping and management.
7. **VGST**- A GST compliance tool for filing returns, e-invoices, and eWay bills, integrated with the GST network.
8. **LOS (Loan Origination system)**- A system to manage loan applications, KYC, approvals, disbursements, and documentation.

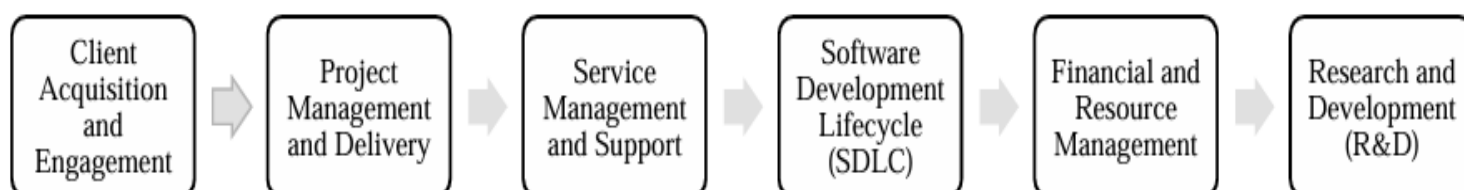
II. System Integration

The company provides end-to-end IT infrastructure solutions tailored to businesses of all sizes and industries. From integrating storage, networking, and computing resources to managing performance and connectivity, turnkey services are customized to ensure IT investments deliver efficient business outcomes.

III. Data Centre Services

1. **Data Management** – It includes data storage, data security, backup and archiving solutions.
2. **Disaster Recovery** – It is designed to protect businesses from unexpected system failures and data loss in order to ensure that businesses can quickly recover and resume operations.
3. **Cloud Services** – It provides cloud services offering cloud hosting services, storage, backup and recovery of data. It also has migration services as well.

Business Process-



Revenue Bifurcation:

Particulars	FY 2022		FY 2023		FY 2024		Dec-2024	
	Amt	%	Amt	%	Amt	%	Amt	%
E- Banker	2,750.95	64.54%	3,801.29	65.00%	4,210.48	68.50%	7,956.27	78.58%
ERP	170.09	3.99%	273.21	4.67%	313.66	5.101%	639.34	6.31%
E- Governance	70.56	1.66%	150.64	2.58%	198.99	3.24%	43.39	0.43%
V- Pay	25.60	0.60%	33.49	0.57%	20.25	0.33%	31.10	0.31%
V SOC	263.70	6.19%	274.40	4.69%	284.63	4.63%	272.43	2.69%
E- Autopsy	0.47	0.01%	0.09	0.00	0.47	0.01%	0.47	0.00
V-GST	5.54	0.13%	4.90	0.08%	7.97	0.13%	6.46	0.06%
Sale of Hardware and related Services	975.43	22.88%	1,310.38	22.41%	1,109.94	18.06%	1,175.36	11.61%
Total	4,262.34	100%	5,848.40	100%	6,146.39	100%	10,124.72	100%

Business Strategies –

1. The company plans to develop a new office at Mihan SEZ, Nagpur to expand infrastructure, increase capacity, and operate as an export-oriented unit for global services.
2. The company aims to grow its customer base by expanding operations across more Indian states and entering international markets such as Africa and Asia-Pacific.
3. The company is focused on professionalizing its operations and recruiting skilled personnel to support future growth.
4. The company plans to strengthen its market presence by promoting its diversified product offerings, adding customized solutions, and expanding support services.
5. The company is committed to increasing operational efficiency through process optimization, technology adoption, and a focus on quality and accountability.

Competition -

1. **Market Competition:** The industry is competitive where the key factors of competition primarily comprise of Solution quality, brand value, distribution network, etc.
2. **Geographic Competition:** The company faces competition majorly from international manufacturers.
3. **Barriers to entry:** Low barriers to entry.
4. **Threat of Substitutes:** High threat of substitutes.
5. **Bargaining Power of Buyers:** The bargaining power is high with the customers.
6. **Bargaining Power of Suppliers:** The bargaining power is low with the suppliers.

Risk Factors –

The company is highly dependent on top 10 customers for their revenue generation constituting to 79.94%, 68.02%, 72.22% and 81.14% for FY22, FY23, FY24 and Dec-24 respectively.

The company is highly dependent on top 10 suppliers for the raw material constituting to 78.25%, 85.53%, 57.99% and 81.56% for FY22, FY23, FY24 and Dec-24 respectively.

The company has 16 cases against it for taxation matters amounting to Rs. 1,796.34 lakhs approx.

The directors/ promoters have 12 cases against them for taxation matters amounting to Rs. 52.55 lakhs.

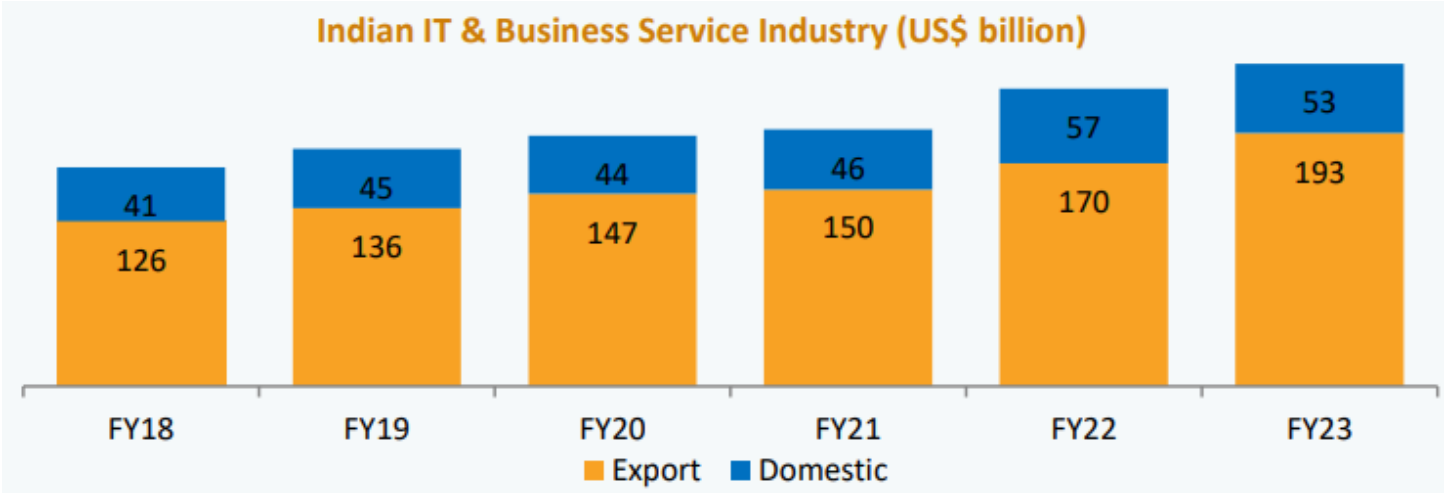
The group companies have 48 cases for tax matters amounting to Rs. 335.95 lakhs.

The company has contingent liabilities amounting to Rs. 4,082.65 lakhs as of Dec-24.

INDUSTRY OVERVIEW -

Indian IT Industry –

India’s Information Technology (IT) and Business Process Management (BPM) sector has established itself as a cornerstone of the national economy, contributing approximately **7.5%** to the GDP in FY23, with projections to reach **10% by 2025**. The sector recorded revenue of **US\$ 245 billion** in FY23, achieving **15.5% YoY growth**, driven by increasing digital transformation, global outsourcing demand, and enterprise cloud adoption. IT exports rose to **US\$ 199 billion** in FY24, with IT services comprising over **53%** of total exports. The industry supported direct employment of **5.4 million professionals**, adding **2.9 lakh new jobs** in FY23, highlighting a strong talent ecosystem. With India's IT spending forecasted to grow at a **CAGR of 11.1%**, reaching **US\$ 138.6 billion** in 2024, and the public cloud services market expanding at a **23.4% CAGR** to **US\$ 17.8 billion by 2027**, the sector offers long-term scalability and resilience.



The Indian IT industry benefits from a favourable policy environment and rising global investor interest. Notable government initiatives include the launch of the **IndiaAI Mission in March 2024**, allocating **Rs. 10,300 crore (US\$ 1.2 billion)** to boost AI innovation and talent. The **PLI Scheme 2.0 for IT Hardware**, with an outlay of **Rs. 17,000 crore (US\$ 2.06 billion)** is designed to strengthen domestic electronics manufacturing. The proposed **Telecommunications Bill 2022** aims to modernize digital infrastructure, while enhanced **cybersecurity protocols by CERT-In** are improving operational resilience. Cumulative FDI inflows in the computer software and hardware segment have surpassed **US\$ 102.9 billion**, positioning it as the second-largest recipient of FDI. With these structural tailwinds, the Indian IT sector remains a key driver of economic growth, digital innovation, and attractive returns for long-term investors.

Government Initiatives –

- In March 2024, The Cabinet approved an allocation of over Rs. 10,300 crore (US\$ 1.2 billion) for the IndiaAI Mission, marking a significant step towards bolstering India’s AI ecosystem.
- The government prioritizes cybersecurity, hyper-scale computing, AI, and blockchain. With data costs at Rs. 10/GB (\$0.12/GB), India ranks among the world's cheapest.
- Cabinet approved PLI Scheme – 2.0 for IT Hardware with a budgetary outlay of Rs. 17,000 crore (US\$ 2.06 billion).
- In September 2022, the new Telecommunications Bill 2022 was published for public consultation by the Ministry of Communications as a move toward creating a new telecom framework in India.

Key Management -

Key Management Persons Name -	Sachin Purushottam Pande
Age	53
Designation and No. of years of experience	Promoter, Managing Director and CTO, 26+ years of experience in IT industry
Qualification	Bachelor's in engineering, Master's in Business Administration and Diploma in Computer Technology.
Other Directorships	Anupamtantra Technologies Private Limited, Sip Fund Private Limited, Paynext Private Limited, Quintet Corps Private Limited etc,

Key Management Persons Name -	Avinash Narayanrao Shende
Age	53
Designation and No. of years of experience	Promoter, Chairman, Executive Director and CFO, 26+ years of experience in IT industry.
Qualification	Bachelor's in Engineering and Master's in Business Administration
Other Directorships	Anupamtantra Technologies Private Limited, Paynext Private Limited, Virtual Galaxy Fintech Private Limited etc.

- The overall management of the company is decent.
- The promoter and management have good experience in the industry.
- Asit Oberoi, Jaideep Narayan Pawar, Banupriya Nikhil Thakur and Ayush Munnalal Sharma are Non-Executive Independent Directors of the Company. They have relevant experience in their respective fields.
- **Anjali Vinay Padhye (CS and Compliance Officer)**, aged 47 years, holds a Master's degree in Commerce and Post Graduate Diploma in Financial Management. She has 12+ years of experience.

FINANCIAL SNAPSHOT**Statement of Profit and Loss**

Amt in Lakhs.

Particulars	Consolidated FY 22	Consolidated FY 23	Consolidated FY 24	Standalone Dec-24
Revenue from Operations	4,332.02	5,968.03	6,350.45	10,124.72
Other Income	11.72	8.44	7.21	12.33
Total Income	4,343.74	5,976.47	6,357.66	10,137.05
Expenses				
Purchases of stock-in-trade	2,271.83	3,220.99	2,003.57	4,201.15
Change in Inventories of finished goods, WIP	-	-2.85	-3.37	2.49
Employee Benefit Expenses	771.32	1,123.30	781.58	784.11
Finance Cost	263.20	275.43	248.38	187.77
Depreciation and Amortization Expense	486.14	603.17	600.46	502.77
Other expenses	373.20	433.83	432.58	586.51
Total Expenses	4,165.69	5,653.87	4,063.20	6,264.80
EBITDA	915.67	1,192.76	3,136.09	4,550.46
EBITDA Margin	21.14%	19.99%	49.38%	44.94%
Profit/(Loss) before tax	178.05	322.60	2,294.46	3,872.25
Tax Expense				
Current tax	87.96	137.41	636.81	1,150.81
Deferred Tax	86.82	159.53	-6.48	-20.06
Total Tax	174.78	296.94	630.33	1,130.75
Profit/ Loss from continuing operations	3.27	25.66	1,664.13	2,741.50
Less: Share of minority interest	-36.94	-46.11	10.18	-
Profit/(Loss) for the year	40.21	71.77	1,653.95	2,741.50
Net Profit Margin	0.93%	1.20%	26.04%	27.08%

Statement of Assets and Liabilities

Amt in Lakhs.

Particulars	Consolidated FY 22	Consolidated FY 23	Consolidated FY 24	Standalone Dec-24
EQUITY AND LIABILITIES				
1. Shareholders' funds				
Share Capital	1,100.02	1,100.02	1,100.02	1,829.86
Reserves and Surplus	914.30	939.96	3,040.18	6,755.95
Total Shareholder's Fund	2,014.32	2,039.98	4,140.20	8,585.81
Share application money pending allotment	-	-	42.85	-
Total Equity	2,014.32	2,039.98	4,183.05	8,585.81
NON-CURRENT LIABILITIES				
Long-term Borrowings	2,538.60	3,179.06	3,116.29	2,264.34
Deferred Tax liability	85.70	245.22	244.45	223.63
Long Term Provisions	23.14	31.92	51.07	63.90
Total Non-current liabilities	2,647.44	3,456.20	3,411.81	2,551.87
CURRENT LIABILITIES				
Short-term Borrowings	1,017.16	706.04	747.68	1,048.66
Trade Payables				-
(a) Total outstanding dues of MSME	-	-	-	-
(b) Total outstanding dues of creditors other than MSME	411.06	1,460.64	1,788.97	565.07
Other Current Liabilities	599.83	632.01	918.37	372.92
Short-term Provisions	89.82	140.78	642.78	1,479.03
Total Current liabilities	2,117.87	2,939.47	4,097.80	3,465.68
Total Liabilities	4,765.31	6,395.67	7,509.61	6,017.55
Total Equity and Liabilities	6,779.63	8,435.65	11,692.66	14,603.36

Particulars	Consolidated FY 22	Consolidated FY 23	Consolidated FY 24	Standalone Dec-24
ASSETS				
NON-CURRENT ASSETS				
Property, Plant and Equipment	1,571.10	2,379.03	1,890.53	1,602.61
Intangible assets	922.57	1,103.41	1,181.05	1,178.96
Intangible assets under development	1,423.35	505.88	1,270.28	1,741.27
Capital Work in Progress	655.83	900.23	3,049.06	6,068.88
Non-Current Investments	-	-	-	-
Other Non- current Assets	238.52	219.98	219.48	330.16
Total Non-Current assets	4,811.37	5,108.53	7,610.40	10,921.88
CURRENT ASSETS				
Current Investments	134.53	197.08	216.17	215.44
Inventories	4.55	7.40	10.77	8.28
Trade Receivables	1,217.59	2,334.43	2,534.68	2,060.92
Cash & Cash equivalents	67.62	99.51	38.52	15.06
Short Term Loans and Advances	397.30	505.75	976.29	1,266.29
Other Current Assets	146.66	182.94	305.86	115.48
Total Current assets	1,968.25	3,327.11	4,082.29	3,681.47
Total Assets	6,779.62	8,435.64	11,692.69	14,603.35

Cash Flow Statement				Amt in Lakhs.
Particulars	Consolidated FY 22	Consolidated FY 23	Consolidated FY 24	Standalone Dec-24
Net Cash Flow from Operating Activities	1,184.59	936.39	2,840.48	2,839.08
Net Cash Flow from Investing Activities	-504.19	-958.42	-3,111.91	-3,808.35
Net Cash Flow from Financing Activities	-637.55	53.92	210.43	968.86

Key Ratios

<u>Per Share Data</u>					<u>Valuation Ratios (x)</u>				
FY 22	FY 23	FY 24	FY 25*		FY 22	FY 23	FY 24	FY 25*	
Diluted EPS	0.24	0.43	10.02	14.67	EV/EBITDA	6.01	4.88	2.55	0.59
BV per share	18.31	18.55	38.03	75.69	Market Cap / Sales	3.61	2.62	2.46	2.62
<u>Operating Ratios</u>					P/E	591.67	330.23	14.17	9.68
EBITDA Margins	21.14%	19.99%	49.38%	44.94%	Price to Book Value	7.75	7.66	3.73	1.88
PAT Margins	0.93%	1.20%	26.04%	27.08%	<u>Solvency Ratios</u>				
Inventory days	0.38	0.45	0.62	0.42	Debt / Equity	1.77	1.90	0.93	0.17
Debtor days	102.87	143.16	146.08	112.02	Current Ratio	0.93	1.13	1.00	1.00
Creditor days	66.22	165.97	326.80	149.00	Quick Ratio	0.93	1.13	0.99	0.99
<u>Return Ratios</u>					Asset Turnover	0.64	0.71	0.54	1.15
RoCE	9.21%	10.73%	33.39%	25.64%	Interest Coverage Ratio	1.63	2.14	10.21	21.56
RoE	2.00%	3.52%	39.95%	19.38%					

*Annualized

INTERPRETATION –

- The top line has increased consistently over the years. It increased by 37.77% in FY23 which was majorly due to significant increase in orders received and revenue recognized. Then it increased by 6.41% in FY24 which was due to revenue generated from orders placed in the previous year.
- The net profit increased over the years by 78.49% in FY23 and saw a huge jump in FY24 by 2,204.51% which was majorly due to decrease in purchase of stock in trade (due to addition of BOT projects/ mobility solutions) and decrease in employee benefit expenses (due to capitalization of salary of employees).
- The EBITDA and PAT margins saw a huge jump in FY24 which was due to overall decrease in expenses.

PEER ANALYSIS -

Particulars	Virtual Galaxy Infotech Limited			Veefin Solutions Limited			Network People Services Technologies Limited			Trust Fintech Limited		
	FY 22	FY23	FY24	FY 22	FY23	FY24	FY 22	FY23	FY24	FY 22	FY23	FY24
NP Margin	0.93%	1.20%	26.04%	13.89%	29.49%	29.65%	7.77%	15.83%	20.51%	7.4%	17.7%	35.4%
EBITDA Margin	21.14%	19.99%	49.38%	16.79%	38.67%	43.82%	19.57%	30.06%	33.57%	12.9%	26.2%	50.9%
RoCE	9.21%	10.73%	33.39%	7.15%	11.53%	7.43%	8.88%	29.17%	58.88%	11.2%	20.1%	37.0%
ROE	2.00%	3.52%	39.95%	9.67%	9.70%	6.00%	6.87%	22.77%	46.35%	8.8%	14.8%	27.7%
EPS(INR)	0.24	0.43	10.02	0.63	2.60	3.62	0.51	3.36	13.77	0.81	2.42	7.32
P/E	591.67	330.23	14.17	-	-	84.81	51.63	53.64	82.69	-	-	-

LEAD MANAGER TRACK RECORD -

The lead manager to the issue is **Smart Horizon Capital Advisors Private Limited**.

A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Manager in recent times –

Smart Horizon Capital Advisors Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Desco Infratech Limited	30.75	150.00	Apr 01, 2025	257.15
2.	Beezaasan Explotech Limited	59.93	175.00	Mar 03, 2025	234.05
3.	Maxvolt Energy Industries Limited	54.00	180.00	Feb 19, 2025	219.50
4.	Rikhav Securities Limited	88.82	86.00	Jan 22, 2025	70.56

The company has handled 4 mandates in the last three years (including current year).

*CMP for the above-mentioned companies is taken as of 06th May 2025.

As per the offer document, the above-mentioned mandates all have opened at a premium on the listing day.

Recommendation -

Virtual Galaxy Infotech Limited has been in the industry since 1997 and has vast experience in the industry.

The P/E on a post-IPO annualized basis is around 9.68 times which makes it fairly priced.

The company's management overview is decent but it is highly condensed with two key promoters holding multiple roles and bearing most responsibilities, making the business heavily dependent on them.

The company's top line has remained increased over the years. The EBITDA, bottom line and profitability margins have seen a huge jump in FY24 which was due to decrease in purchase of stock and employee benefit expenses (the salary of employee has been capitalized). This capitalization has led to improved reported profitability in FY24. However, there is no certainty that these capitalized expenses will translate into future economic benefits. Without a proven track record of successful product commercialization, this raises concerns about the sustainability of earnings.

The company has high concentration for customers and suppliers and loss of any may have adverse effect on the business operations.

The contingent liabilities of Rs. 4,082.65 lakhs are very high and the tax litigation against the company of Rs. 1,796.34 lakhs are also quite high. The industry is also highly competitive and fragmented.

Thus, investors can **AVOID** to this IPO.

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