

November 27, 2023

COMPANY UPDATE | Sector: Information Technology

Emudhra Ltd

Revenue growth outlook remains robust

Profitable company with 25% + revenue growth outlook led by Trust Services and the Enterprise solutions. Leader in Trust services in India with 37% market share in digital signature certificates(DSCs. Enterprise solutions to be key driver of revenue growth led by expansion into the US and Europe. The Pandemic has accelerated the shift towards digitalization thus boosting the adoption of paperless solutions and digital signature globally

Enterprise business

- Revenue growth outlook remains robust at (30% +CAGR) led by the expansion of Enterprise business (that includes Cyber security ad paperless solutions) in foreign markets of the US, Europe and Middle East
- Clients base includes marquee customers such as HDFC Bank, SBI, TCS, RBI, Abu Dhabi Bank, Tata Steel, etc.
- As of Q2FY24, Enterprise revenue split between Cyber Security and Paperless solutions is 74:26. Enterprise Revenue split between India and International is 55:45.
- Acquisition of Ikon Tech is expected to strengthen its cyber security solutions and drive sales in the US market.

Trust business

- The pricing pressure in the DSC segment is over and the segment is expected to grow at 15-20% CAGR, primarily led by volume driven growth.
- Low penetration and rapid adoption of DSCs continue to drive higher volume of sales. It sold 2.9mn DSCs in FY23 vs 2.4mn in FY22
- Other subsegments such as eSign, SSL and device certificates are also witnessing improving traction.

Operating margin

- EBITDA margin has stabilized at around 30% after being under pressure over last 1.5 years(due to pricing pressure in Trust business and expansion related costs in the Enterprise business).
- EBITDA margin is expected to improve to ~33% by FY26 led by positive operating leverage.

Other

- The focus remains on organic driven growth and any acquisition will be done only to strengthen its current solutions portfolio to capitalize on strong demand environment
- Its current R&D activities include developing new use cases of PKI technology and activities related to post quantum cryptography

View and valuation

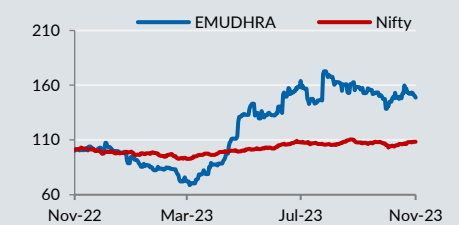
- We maintain BUY recommendation on Emudhra Ltd. We estimate revenue CAGR growth of ~41.8% over FY23-FY26E, with average EBITDA margin of 32.0% during the period. Our one year target price is Rs 586, based on PER of 28x on FY26E EPS. The current valuation remains attractive as it trades at PE of 21.8x on FY26E EPS. The company continues to benefit from rapid adoption of PKI based solutions.

Reco	: BUY
CMP	: Rs 455
Target Price	: Rs 586
Potential Return	: + 29%

Stock data (as on Nov 24, 2023)

Nifty	19,795
52 Week h/l (Rs)	535 / 207
Market cap (Rs/USD mn)	35909 / 431
Outstanding Shares (mn)	78
6m Avg t/o (Rs mn):	84
Div yield (%):	0.3
Bloomberg code:	EMUDHRA IN
NSE code:	EMUDHRA

Stock performance



	1M	3M	1Y
Absolute return	7.3%	-11.7%	48.3%

Shareholding pattern (As of Sep'23 end)

Promoter	57.7%
FII+DII	12.8%
Others	29.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	586	556

Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	9.8	15.1	20.9
EPS (Old)	9.8	15.0	NA
% change	0.0%	0.4%	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	3,794	5,274	7,056
YoY Growth	52.5%	39.0%	33.8%
EBIDTA	1,139	1,699	2,382
YoY Growth	30.5%	49.1%	40.2%
PAT	749	1,168	1,627
YoY Growth	21.5%	55.9%	39.3%
ROE	17.7%	23.3%	26.6%
EPS	9.8	15.1	20.9
P/E	46.5	30.3	21.8
BV	58	70	87
EV/EBITDA	30.7	20.6	14.6

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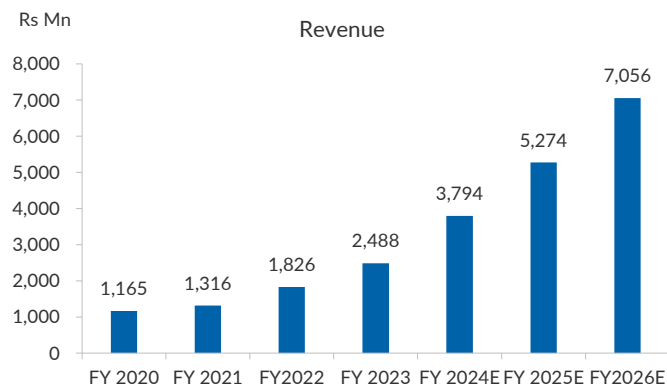
PARTH GHIYA, Associate

INVESTMENT RATIONALE

- Profitable company with 25%+ revenue growth outlook led by Trust Services and the Enterprise solutions. Leader in Trust services in India with 37% market share in digital signature certificates(DSCs). Enterprise solutions to be key driver of revenue growth led by expansion into the US and Europe. The Pandemic has accelerated the shift towards digitalization thus boosting the adoption of paperless solutions and digital signature globally.
- Being a software solution provider, it has strong operating leverage and that should help to drive EBITDA margin going ahead from ~30% for FY24. Utilizes asset light model and has robust return on equity at around 20%+. It is a net debt free company and the cashflow from operation remains strong and will help it to achieve higher scale in India and overseas. The working capital situation at around ~50 days remain in control.
- Trust services segment is on strong footing in India and has around 100k channel partners for driving its growth. It has leading market share in the Digital Signature certificate market in India, led by strong focus on customer service and strong brand recall. Rising penetration of DSCs in use cases such as income tax filing, GST filings, etc. would drive future growth. Other businesses which comprise SSL/TLS/device certificates, although small in size, are expected to pick up momentum going forward.
- Enterprise segment is expected to see strong traction and would grow faster than the Trust services led by expansion in the US and Europe. It has partnership with almost all big system integrators like TCS, Infosys, etc. (~600 system integrators) that would help to drive the sales of enterprise solutions. It has marquee list of clients for its enterprise solutions that includes HDFC Bank, ICICI Bank, SBI, TCS, Infosys, Tata Steel, etc. and this shows the strength of its offerings.
- Promoter, V Srinivasan, has ~35 years of experience in the information technology industry. He is a board member of European Cloud Signature Consortium, Chairman of Asia PKI Consortium and ex-Chairman of India PKI Forum. Emudhra is the only Indian company accredited by WebTrust, that makes its digital signatures recognized by all browsers. Recognized by Apple, Adobe, and other document processing companies.
- Strong revenue growth outlook and improving margin trajectory makes it credible play in the IT solutions provider space. Trades at PER of 21.8x on FY26E. Revenue / EBITDA /PAT are expected to grow at CAGR of 41.8%/39.7%/38.2% over FY23-FY26E. **We maintain BUY rating with target price of Rs 586, valued at Target PER of 28x on FY26EPS, arrived after considering its growth, return ratios, and trading multiple of listed peers.**

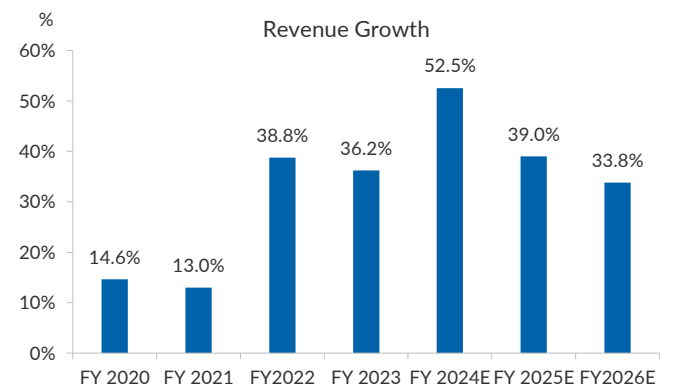
STORY IN CHARTS

Exhibit 1: Revenue growth outlook remains strong



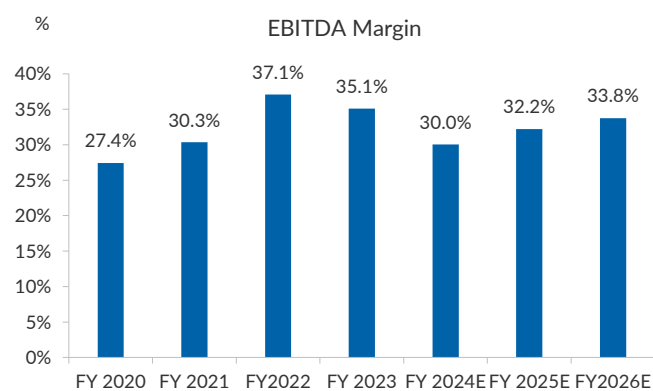
Source: Company, YES Sec

Exhibit 2: FY24 to report robust revenue growth



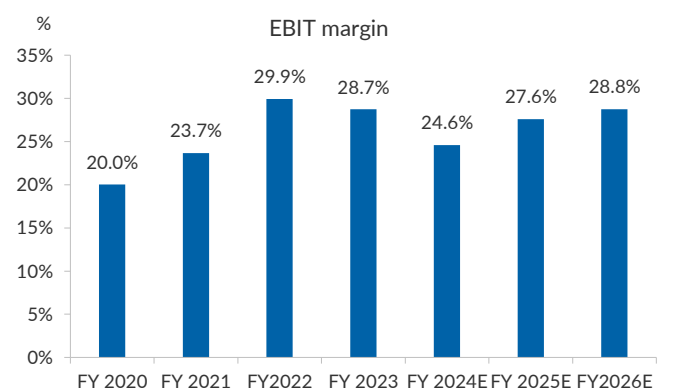
Source: Company, YES Sec

Exhibit 3: EBITDA margin expected to improve from FY25



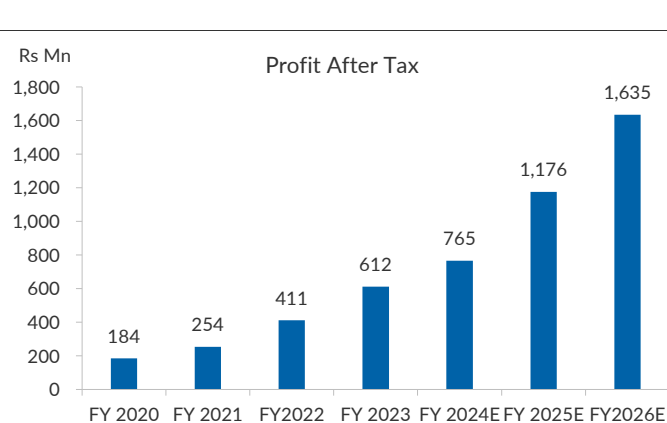
Source: Company, YES Sec

Exhibit 4: EBIT margin remains robust



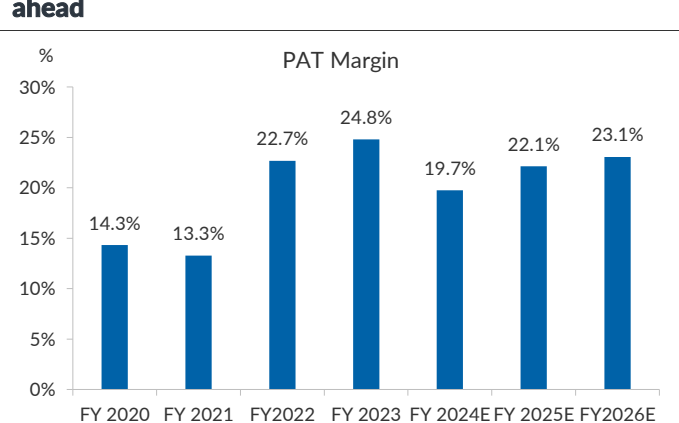
Source: Company, YES Sec

Exhibit 5: PAT to maintain current growth trend



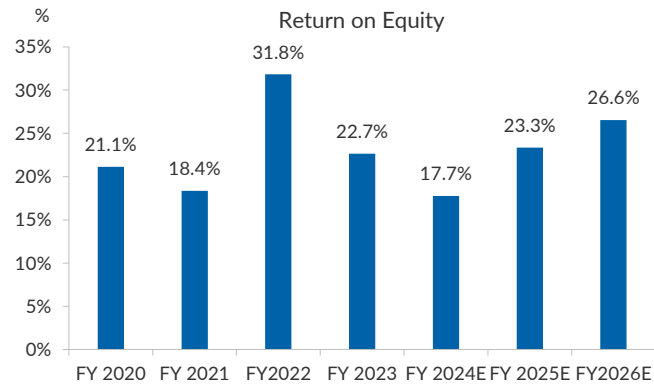
Source: Company, YES Sec

Exhibit 6: PAT margin to improve above 20% going ahead



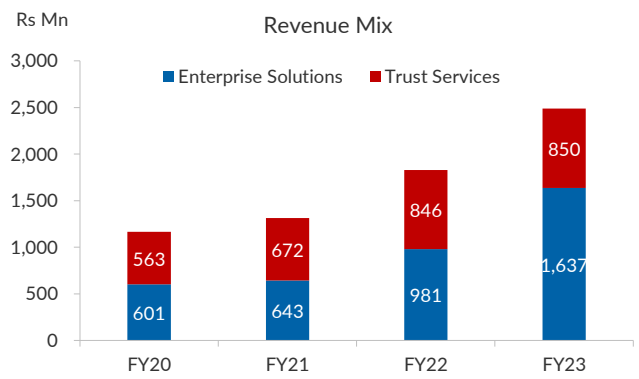
Source: Company, YES Sec

Exhibit 7: Return on Equity expected to increase with growing scale



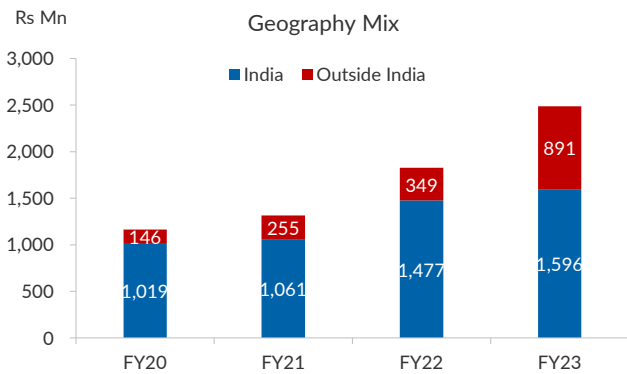
Source: Company, YES Sec

Exhibit 8: Enterprise business continues to grow faster



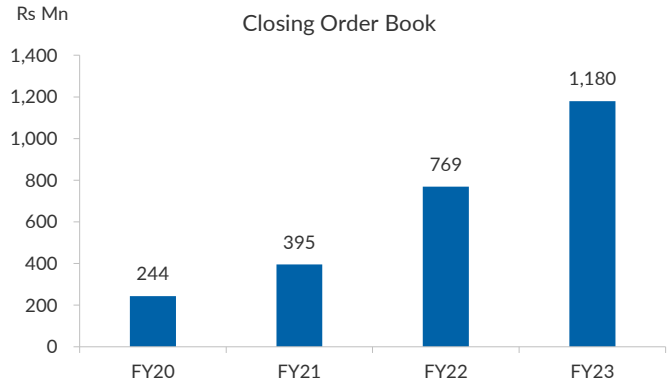
Source: Company, YES Sec

Exhibit 9: International revenue share continues to rise



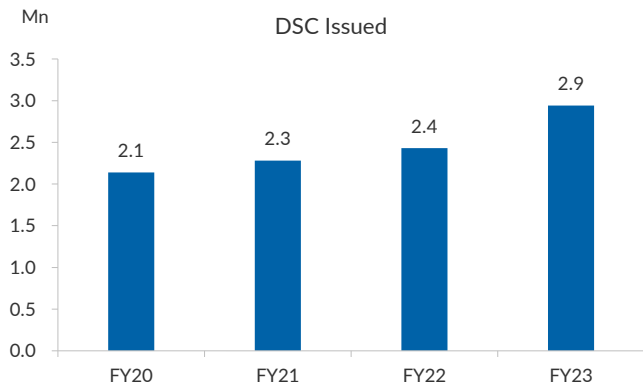
Source: Company, YES Sec

Exhibit 10: Order book remains robust for the company



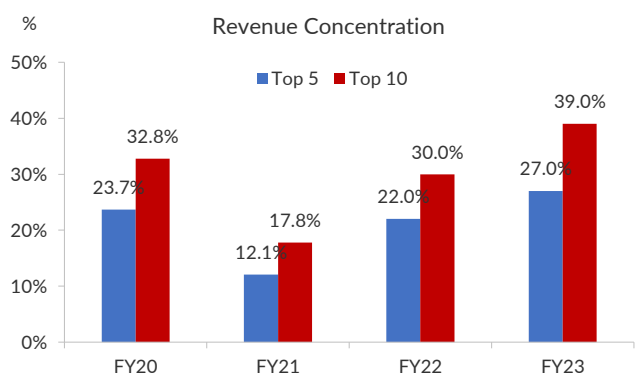
Source: Company, YES Sec

Exhibit 11: 2.9mn DSCs were issued in FY23



Source: Company, YES Sec

Exhibit 12: Revenue concentration remains reasonable



Source: Company, YES Sec

FINANCIALS

Exhibit 13: Balance Sheet

Balance sheet(Rs mn)	FY 2021	FY2022	FY 2023	FY 2024E	FY 2025E	FY2026E
Property, plant and equipment [PPE]	657	659	915	1,015	1,115	1,215
Capital work-in-progress	45	249	366	329	297	267
Intangible assets[some of the assets may get regrouped into PPE]	455	591	727	654	523	419
Right-of-Use Assets	134	105	85	42	21	11
Investments	138	0	0	0	0	0
Other non-current assets	37	79	24	16	12	8
Total Non-current assets	1,466	1,683	2,116	2,058	1,968	1,919
Inventories	7	21	10	10	10	10
Investments	1	0	209	105	52	26
Trade receivables	149	442	672	739	813	895
Cash and cash equivalents with company	77	133	670	703	738	775
Loan	31	31	0	0	0	0
Other financial assets	188	282	921	1,450	2,443	3,736
Total current assets	453	909	2,483	3,008	4,058	5,442
Total assets	1,919	2,591	4,599	5,066	6,026	7,362
Equity share capital	351	351	375	375	375	375
Other equity	723	1,177	3,541	4,157	5,099	6,409
Non-controlling intersts	93	13	8	9	11	12
Total equity	1,166	1,541	3,924	4,541	5,485	6,796
Borrowings	221	198	0	0	0	0
Lease Liabilities	128	103	62	37	22	13
Deferred tax liabilities (Net)	14	18	26	27	28	30
Provision	33	27	28	30	33	37
Other non-current liabilities	15	3	0	0	0	0
Total Non-current liabilities	410	349	115	95	84	80
Borrowings	87	346	157	47	47	47
Lease Liabilities	26	24	35	36	38	40
Trade payables	35	144	182	151	166	182
Other financial liabilities	66	29	58	60	63	67
Provision	93	44	40	42	44	46
Other current liabilities	36	114	90	94	99	104
Total current liabilities	343	701	560	430	457	486
Total liabilities	753	1,050	675	525	541	566
Total equity and liabilities	1,919	2,591	4,599	5,066	6,026	7,362

Source: Company, YES Sec

Exhibit 14: Income Statement

(Rs mn)	FY 2021	FY2022	FY 2023	FY 2024E	FY 2025E	FY2026E
Revenue	1,315.9	1,826.4	2,487.6	3,794.4	5,274.2	7,056.4
Operating expenses	129.1	119.9	300.6	825.1	1,024.6	1,270.2
Cost of goods sold	187.1	297.1	298.7	398.0	568.5	652.4
Employee benefit expenses	417.1	468.2	643.6	921.5	1,318.6	1,764.1
Other expenses	183.4	264.2	371.7	510.5	663.9	987.9
EBITDA	399.3	677.0	873.1	1,139.2	1,698.7	2,381.9
Depreciation	87.7	130.7	158.5	206.1	243.0	352.8
EBIT	311.6	546.3	714.6	933.1	1,455.7	2,029.0
Interest paid	8.4	52.7	33.9	14.3	15.9	16.3
Other income	8.6	11.0	53.0	26.9	30.2	31.4
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0
PBT	311.8	504.6	733.8	945.6	1,469.9	2,044.2
Tax	58.2	93.2	121.8	180.3	294.0	408.8
PAT for the year	253.6	411.4	611.9	765.3	1,175.9	1,635.3
Minority interest	79.0	-2.7	-4.8	16.0	8.0	8.0
PAT attributable to shareholders	174.6	414.1	616.7	749.4	1,167.9	1,627.3
EPS	3.2	5.3	7.8	9.8	15.1	20.9

Source: Company, YES Sec

Exhibit 15: Cash Flow Statement

Cash Flow(Rs mn)	FY 2021	FY2022	FY 2023	FY 2024E	FY 2025E	FY2026E
Profit before tax	311.8	504.6	733.8	945.6	1,469.9	2,044.2
Adjustments to reconcile profit/(loss) before tax to net cash flows:	-	-	-	-	-	-
Depreciation and amortisation expense	87.7	130.7	158.5	206.1	243.0	352.8
Working capital changes	42.9	(316.3)	(423.6)	(606.6)	(1,032.4)	(1,338.2)
Others	(4.6)	(57.7)	17.7	-	-	-
Income taxes refund/(paid)	(28.3)	(45.3)	(150.7)	(180.3)	(294.0)	(408.8)
Net Cash flow from operating Activities (A)	409.4	216.0	335.6	364.9	386.5	650.0
Purchase of PPE/intangible assets,net	(206.0)	(467.1)	(620.6)	(154.4)	(158.0)	(307.9)
Goodwill con solidation	(1.1)	-	-	-	-	-
Others	(263.7)	90.1	(446.6)	-	-	-
Net cash used in investing activities (B)	(470.8)	(377.0)	(1,067.2)	(154.4)	(158.0)	(307.9)
Dividend payout	-	(2.7)	(94.8)	(149.9)	(233.6)	(325.5)
Others including fresh issue of securities	46.6	162.5	1,369.7	(27.0)	40.3	19.3
Net cash used in financing activities(C)	46.6	159.8	1,274.9	(176.9)	(193.3)	(306.2)
Impact from foreign exchange difference on translation(D)	-	6.6	44.0	-	-	1.0
Net increase in cash and cash equivalents(E=A+B+C+D)	(14.7)	5.4	587.2	33.5	35.2	36.9
Cash and cash equivalents at the beginning of the financial year E)	91.9	77.1	82.5	669.7	703.2	738.5
Cash and cash equivalents at the end of the year (D+E) (Refer Note 6C)	77.1	82.5	669.7	703.2	738.5	775.4

Source: Company, YES Sec

Exhibit 16: Ratio Analysis

Growth(%)	FY 2021	FY2022	FY2023	FY 2024E	FY 2025E	FY2026E
Revenue Growth	13.0%	38.8%	36.2%	52.5%	39.0%	33.8%
EBITDA Growth	25.0%	69.6%	29.0%	30.5%	49.1%	40.2%
EBIT Growth	33.5%	75.3%	30.8%	30.6%	56.0%	39.4%
Net Profit Growth	4.8%	137.1%	49.0%	21.5%	55.9%	39.3%
Profitability Ratios(%)						
EBITDA Margin	30.3%	37.1%	35.1%	30.0%	32.2%	33.8%
EBIT margin	23.7%	29.9%	28.7%	24.6%	27.6%	28.8%
Net Profit margin	13.3%	22.7%	24.8%	19.7%	22.1%	23.1%
RoE	18.4%	31.8%	22.7%	17.7%	23.3%	26.6%
RoCE	16.8%	23.6%	18.0%	16.1%	21.3%	24.4%
Liquidity Ratios						
Net debt/Equity (x)	0.2x	0.3x	-0.1x	-0.1x	-0.1x	-0.1x
Current ratio (x)	1.3x	1.3x	4.4x	7.0x	8.9x	11.2x
Valuation Ratios						
PER(x)	NA	NA	58.2	46.5	30.3	21.8
Price/Book(x)	NA	NA	9.1	7.9	6.5	5.2
EV/EBITDA(x)	NA	NA	40.2	30.7	20.6	14.6

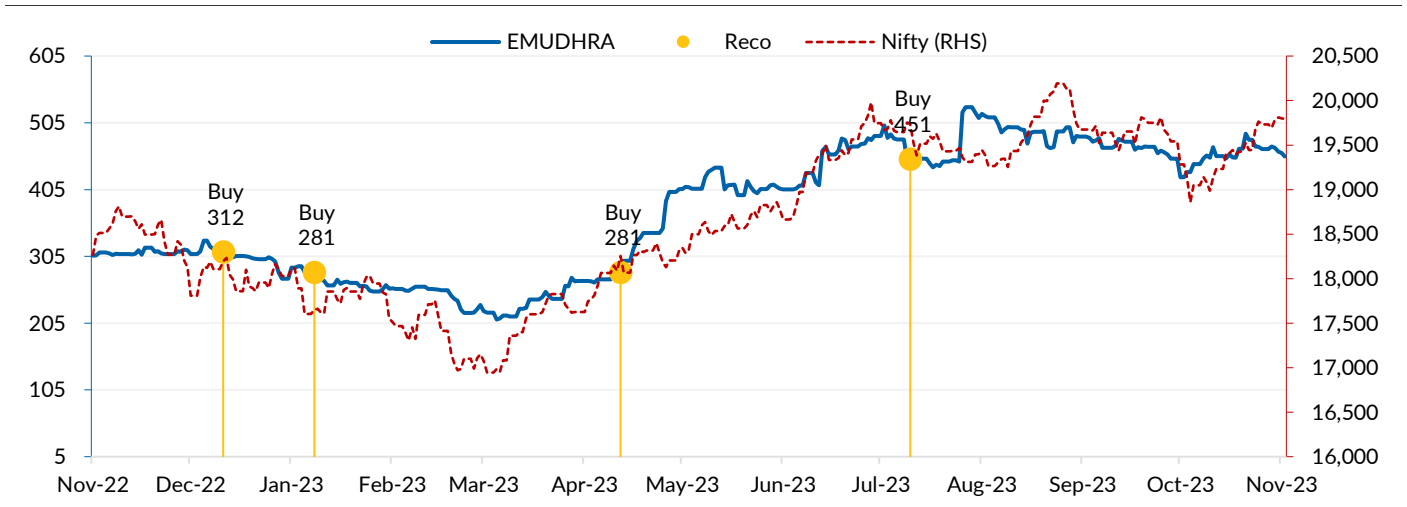
Source: Company, YES Sec

Exhibit 17: Dupont Analysis

Dupont Analysis	FY 2021	FY2022	FY2023	FY 2024E	FY 2025E	FY2026E
Net margin(%)	13.3%	22.7%	24.8%	19.7%	22.1%	23.1%
Asset turnover (x)	0.8x	0.8x	0.7x	0.8x	1.0x	1.1x
Leverage factor (x)	1.8x	1.7x	1.3x	1.1x	1.1x	1.1x
Return on Equity(%)	18.4%	31.8%	22.7%	17.7%	23.3%	26.6%

Source: Company, YES Sec

Recommendation Tracker



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9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

Analyst
Signature

Analyst
Signature

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.