

27<sup>th</sup> March 2024

## Netweb Technologies – BUY

**CMP** : Rs. 1,595.0  
**Target Price** : Rs. 1,917.0  
**Upside** : 20%+  
**Stop Loss** : Rs. 1,378.0 (Closing basis)

### Investment Thesis

- Netweb Technologies India Ltd. (Netweb Technologies) is amongst leading OEM for high-end computing solutions (HCS) where it designs, manufacture and deploy its HCS comprising proprietary middleware solutions, end user utilities and pre-compiled application stack. Its deep expertise in system design and architecture has helped it innovate and build bespoke solutions. Further, its proprietary designs are cloud native which, in addition to technological benefits, are capable of catering to the evolving needs of customers.
- Netweb Technologies is one of the few players in India who can offer a full stack of product and solution suite with comprehensive capabilities in designing, developing, implementing and integrating high performance computing solutions. It is also OEM to build Supercomputing systems, private cloud and HCI, data centre servers, AI systems and enterprise workstations, and HPS solutions under the 'Make in India' initiative of the Government of India. Netweb Technologies is also one of the few OEMs in India eligible to seek 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.
- Netweb Technologies is highly focused on R&D as the industry in which it operates is R&D intensive and relies significantly on technically qualified resources. It continued to build its R&D capabilities to improve its systems design and architecture and expand its products and solutions suite. R&D team's in-depth understanding of high-end computing solutions, ability to meet the advanced technological challenges and constant efforts at innovation enable Netweb Technologies to stay at the forefront of technological evolution and anticipate and envision the future needs of its customers and the market. Its product innovation through its dedicated R&D Facilities has helped it thrive in the current markets and compete with the ever-evolving technology. We believe its product and process innovations is a key factors going forward and its continued investment in R&D is essential to better utilizing any future opportunities.

### Financials

- Netweb Technologies' revenue and PAT grew by CAGR of 41.8% and 129.0%, respectively during FY20-23 led by strong demand and its focus on innovation through R&D.

Standal. (Rs.Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,428	2,470	4,450	6,230	7,226
EBITDA	144	346	700	840	991
EBITDA Margin (%)	10.1%	14.0%	15.7%	13.5%	13.7%
PAT	82	225	469	610	702
EPS (Rs.)	1.5	4.0	8.3	10.8	12.5
P/E (x)	1092.4	400.5	191.5	147.3	128.1
RoE (%)	30.0%	44.9%	50.8%	15.3%	16.1%

### Stock Data

Market Cap (Rs. Mn)	89,965
Market Cap (\$ Mn)	1,077.4
Shares O/S (in Mn)	112.7
Avg. Volume (3 month)	123,000
52-Week Range (Rs.)	1,892.60 / 500.00

### Shareholding Pattern

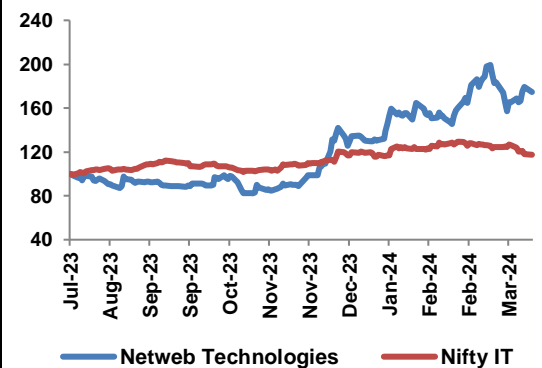
Promoters	75.45%
FII's	9.69%
Institutions	8.05%
Others (incl. body corporate)	6.81%

### Key Ratios

Div Yield	0.0%
TTM PE	156.4x
ROE	14.8%
TTM EPS (Rs.)	10.2/-

### Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	-6.1%	29.6%	NA
NIFTY IT	-7.0%	-1.5%	NA



- Netweb Technologies has reported 74.8% QoQ and 41.9% YoY growth in revenue to Rs.2,534mn in Q3FY24 led by higher growth in Private cloud & HCI and AI & Enterprise Workstations segment.
- EBITDA of Netweb Technologies grew by 78.1% QoQ and 9.9% YoY to Rs.343mn. However, EBITDA margin declined by 394bps YoY and improved by 25bps QoQ. On the margin front, the management highlight that margin for Netweb Technologies needs to be seen on an annual basis as it deal in highend compute segment wherein the margins may vary quarter-to-quarter.
- Deal pipeline of Netweb Technologies is very strong at Rs.32,322mn, while Rs.3,024mn is already been qualified as L1 bids. Current order book of Rs. 3,391mn gives good revenue visibility.

## Key Business Highlights

- Netweb Technologies is one of India's leading OEM in the space of HCS providing Supercomputing systems, private cloud & hyperconverged infrastructure (HCI), data centre servers, AI systems & enterprise workstations and high performance storage (HPS / Enterprise Storage System) solutions.
- Netweb Technologies has undertaken installations of over 300 Supercomputing systems, over 50 private cloud and HCI installations along with over 4,000 accelerator / GPU based AI systems and enterprise workstations and HPS solutions with throughput storage of up to 450 GB/ sec.
- Netweb Technologies cater to marquee clients across various industries such as IT & ITES, BFSI, media & entertainment, national data centres and government entities. Under government entities, Netweb Technologies caters to defence sector, educational / research institutions such as IIT Jammu, IIT Kanpur, NMDC Data Centre, JNU, IIT Naya Raipur, etc.
- Netweb Technologies has recently forayed into two new product lines i.e., Network Switches and 5G ORAN Appliances which are critical to the data center industry and telecommunication industry for enabling 5G services.

## Valuation

Tyrone Skylus based private cloud and HCI offerings have emerged as an efficient product offering and has enabled Netweb Technologies to compete with foreign HCI OEMs, virtualization ISVs, private cloud platforms and general computing rigs. Since inception, Netweb Technologies has undertaken installations of over 50 private cloud and HCI to marquee customers such as Graviton, Akmai, A.P.T. Portfolio and Yotta Data.

Netweb Technologies is setting up a manufacturing facility for SMT line (surface mount technology) to eliminate dependency on third party for the purpose of manufacturing server motherboards and related printed circuit board (PCB) assemblies for its products. It proposes to continue to expand product portfolio by offering 5G and private 5G solutions and network switches, particularly having focus on the BFSI segment which is expected to emerge as the largest industry vertical for enterprise networking in India by 2027. It has already forayed into this market and received approval to participate in and seek production linked incentives under, the Telecom and Networking PLI Scheme under the category of manufacturing of switches, 5G edge and enterprise equipment and 5G RAN equipment. Netweb Technologies proposes to also expand portfolio to include reduced instruction set computer architecture based HCS systems.

With leading OEM for HCS, full stack of product and solution suite with comprehensive capabilities, highly focused on R&D, undertaken installations of over 50 private cloud and HCI to marquee customers and setting up a manufacturing facility for SMT line to eliminate dependency on third party, we are assigning **BUY** rating to Netweb Technologies India Ltd. (Netweb Technologies) and value at 154.0x FY25E EPS of Rs.12.50 to arrive at target price of Rs.1,917.00, an upside of ~20.0%+.

## Risk & Concern

- A significant proportion of Netweb Technologies' orders are from government which award the contract through a process of tender. Any failure to secure tenders or lower the bid may impact business growth or margin going ahead.
- Netweb Technologies incur significant expenditure on components and it rely heavily on their top 10 vendors for components. Any adverse change in relationship with such vendors or a significant increase in their component cost may adversely impact its margins.

## Graphs & Charts

Figure 1: Net Sales Trend

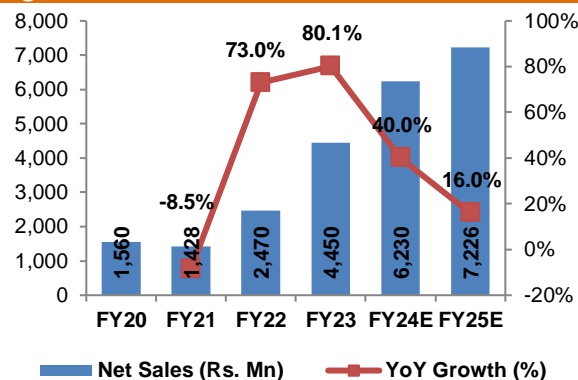


Figure 2: EBITDA & EBITDA Margin Trend

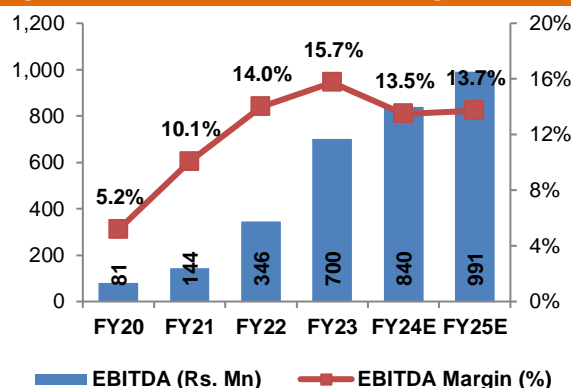


Figure 3: PAT Trend

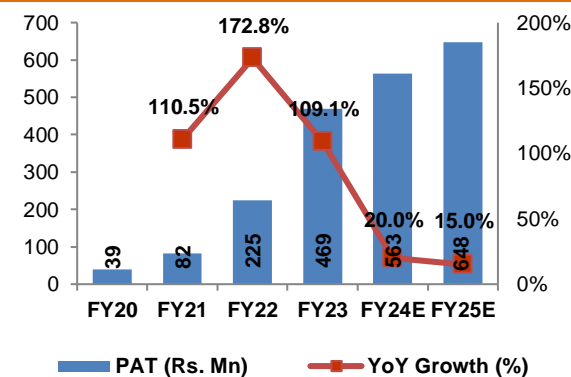
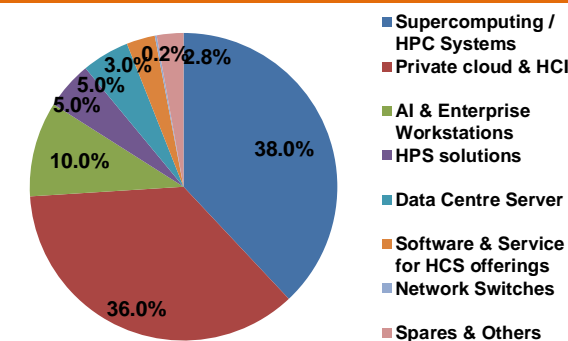


Figure 4: Product-wise Revenue (9MFY24)



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