

06th November 2023

Protean E-Gov Technologies Ltd – SUBSCRIBE

Investment Thesis

- Protean E-Gov Technologies Ltd. (Protean) is set to launch its initial public offering (IPO) on November 06, 2023. The offering is a complete offer for sale (OFS) and therefore, Protean will not directly receive any proceeds from the Offer. The company expects that the proposed listing will enhance its visibility and brand image.
- Protean a key IT-enabled solutions companies in India engaged in conceptualizing, developing, and executing nationally critical and population scale greenfield technology solutions. It collaborates with the government and has a vast experience in creating digital public infrastructure (DPC) and developing innovative citizen-centric e-governance solutions.
- The services of Protean are primarily bifurcated into the following categories along with the market share.

Services	Key Highlights	Market Share
Public Finance Management System and Taxation		
Pan Issuance	Over 446 mn PAN issued	45%
Tax Information Network (TIN)	2.1 mn deductors filed TDS electronically via TIN systems in FY23	58%
Social Security (as on 30th June 2023)		
National Pension Scheme (NPS)	16.56 mn Subscribers	94%
	AUM Rs. 90,85,774 mn	99%
Atal Pension Yojana (APY)	47.75 mn Subscribers	100%
	AUM Rs. 2,95,825 mn	

- Other services include a set of application programming interface ("API") that allows governments, businesses, startups and developers to utilize a unique digital infrastructure to prepare solutions that are presence-less, paperless and enable cashless service to deliver. Protean is appointed as a registrar for enrolling citizens for Aadhaar.

Revenue from business Verticals

- Over the past 3 years, the topline for Protean has grown at a steadily to Rs. 742.2 crs in FY23 from Rs. 603.1 crs in FY21. During Q1FY24, revenue growth for Protean is substantially up to Rs. 220.4 crs a jump of 40.6% Y-o-Y.

Particulars	FY21	FY22	FY23	Q1FY24
Revenue (Rs. in crs)	603.1	690.9	742.2	220.4
EBITDA (Rs. in crs)	133.7	203.1	159.6	34.1
PAT (Rs. in crs)	92.2	143.9	107.0	32.2
Cash flow from Operations (Rs. in crs)	100.1	94.3	137.0	220.4
Return on Capital Employed (%)	16.9	22.9	16.1	NA
Return on Equity (%)	13.8	18.3	12.5	NA

IPO Details

Issue Open Date	06 November 2023
Issue Close Date	08 November 2023
Price Band (Rs.)	Rs. 752 – Rs. 792
Issue Size*	Rs. 490 crs
Issue Size (Shares)	0.61 crs
Market Lot	18 Shares
Listing Exchanges	BSE
Face Value (Rs.)	Rs. 10/-

* At highest price band

Key Details

Fresh Issue*	NA
Issue Type	Book Building
Book Running Lead Manager	ICICI Securities Equirus IIFL Securities Nomura
Issue structure	Non-Institutional: 15% QIB: 50% Retail: 35%
Credit of Shares to Demat Account	16 November 2023
Issue Listing Date	17 November 2023

* At highest price band

- The EBITDA margin has expanded to 15.5% up by 166 bps in Q1FY24. Consequently, the EBITDA grew by 57.5% on Y-o-Y basis to Rs. 34.1 crs in Q1FY24.
- Rs. 220.4 crs of cash flow from operations was generated during Q1FY24 on back of healthy revenue growth and margin expansion.

Key Business Highlights

- **Leader in citizen-centric e-governance solutions.:** Protean is among the few players in India which is working towards creation of open digital ecosystems. For example, it is among the key and early contributors to the open-source community and protocols that are powering ONDC. This has translated in a market leadership position in e-governance services such as management of the TIN, PAN processing, NPS and Atal Pension Yojana.
- **Investment in advanced tech infrastructure:** To strengthen its competitive advantage, increase operating leverage, ensured scalability and improved functionality, Protean has continuously made investments. These have also helped them provide clients and other stakeholders with bespoke services.
- **Experienced team with strong governance and marquee investors:** Protean is backed and managed by a strong technocratic management team. Their collective industry experience has enabled Protean to anticipate and capitalize on changing market trends, manage, and grow operations and leverage and deepen client relationships.
- **Diversified, granular and annuity-based service offerings:** The diversified service offerings are spread across sectors such as tax administration, pension record keeping solutions, national identity and identity authentication solutions, education, and skill financing solutions. For example, under business-to-business, it has implemented e-KYC and e-Sign as a service. While under business-to-consumer services it has PAN enrolment. Under business-to-government services it has services like TIN and NPS.
- **Embracing disruptive tech and open-source solutions:** Striving to be one of the main contributors in creating and building 'Open Digital Ecosystems' across sectors which would be transparent, secure and enable a community of actors to unlock innovative, disruptive, and transformative solutions for society, based on a robust governance framework Protean would look to make good of the opportunity presented by using open APIs, open standards, open data and modular architecture.

Valuation

At the upper price band, Protean is priced at 29.9x FY23 EPS. There are no listed peers in this category, however, CDSL a larger player is present in a similar space, which is currently available at TTM PE of 51.8x. This represents a reasonable pricing, given the size of operations for Protean.

Therefore, considering the bright growth prospects, healthy financials, and optimistic industry outlook, we assign a **"SUBSCRIBE"** rating to IPO of Protean. Investors should subscribe to the IPO with a medium to long term horizon.

Risk & Concern

- Regulatory Risk
- Vulnerability to security breach.
- Concentrated verticals of business.

Graphs & Charts

Figure 1: Revenue Trend (FY23)

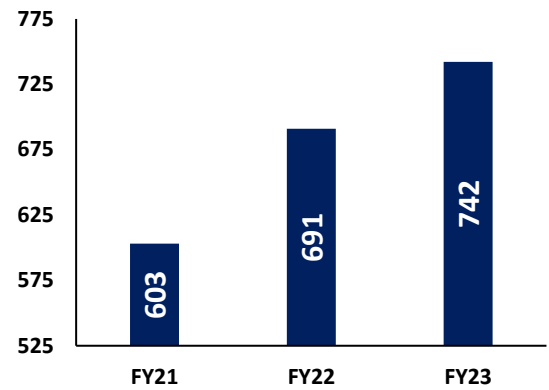


Figure 2: EBITDA and EBITDA Margin (FY23)

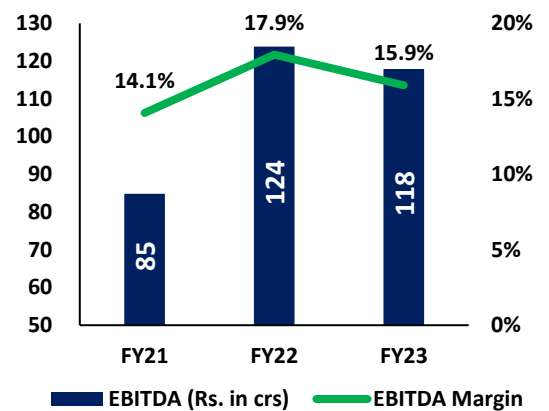
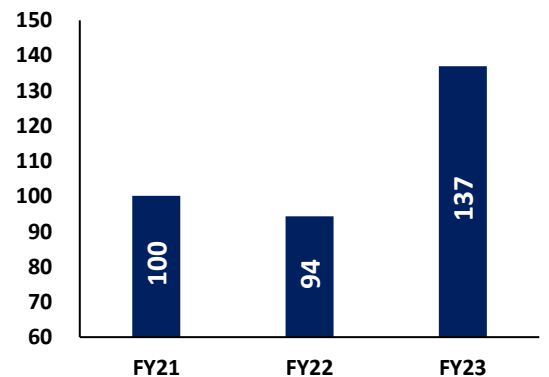


Figure 3: Cash Flow from Operations (FY23)



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