

# Emudhra Ltd

## Strong performance led by expansion of the Enterprise business in foreign markets

### Result Synopsis

Emudhra (EMUDHRA) reported inline financial performance for the quarter. The sequential revenue growth and EBITDA margin for the quarter were as per estimates. It reported sequential revenue growth of 20.8% QoQ, led by Trust Services (up 48.2% QoQ) and Enterprise solutions (up 10.6% QoQ). The Enterprise segment continues to maintain robust growth trajectory led by strong traction in Middle East, the US and APAC. The international revenue mix continues to increase led by the expansion of Enterprise business in foreign markets. The pricing pressure in the Trust services business is largely over and the segment has returned to normal growth trajectory. EBITDA margin for the quarter declined by 47 bps QoQ to 29.3% for the quarter on account of higher operational expenses incurred in expanding its presence in the foreign markets of the US and Europe.

The demand environment remains strong led by rising digitalization across sectors. We expect Enterprise segment to grow faster than Trust Services, driving the overall growth of the company. Its strong portfolio of enterprise solutions and deep relationships with system integrators should help to drive the Enterprise business. The EBITDA margin is expected to improve in medium term going ahead led by positive operating leverage. We estimate revenue CAGR of 45.8% over FY23-25E with average EBITDA margin of 31.1%. We maintain our BUY rating on the stock with revised target price of Rs 556/share at 37x on FY25E EPS. The stock trades at PER of 46.6x/30.4x on FY24E/FY25E EPS

### Result Highlights

- Reported revenue of Rs 963.0mn (up 20.8% QoQ, up 64.6% YoY). The sequential growth was led by 10.6% QoQ increase in Enterprise business, while its Trust Services revenue grew by 48.2% QoQ.
- EBITDA margin declined by 47 bps QoQ to 29.3% for the quarter, led by higher operating expenses (up 25.0% QoQ to Rs 241 mn).
- Enterprise Revenue split between India and International is 55:45. Enterprise revenue split between Cyber Security and Paperless is 74:26.
- Trust service revenue split between channel and retail is 70:30.
- PAT increased by 14.6% QoQ to Rs 187.6mn.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Sales	963	861	NA	11.8%	NA
EBITDA	283	259	NA	9.1%	NA
EBITDA Margin (%)	29.35%	30.08%	NA	-74 bps	NA
Adjusted PAT	184	178	NA	3.1%	NA

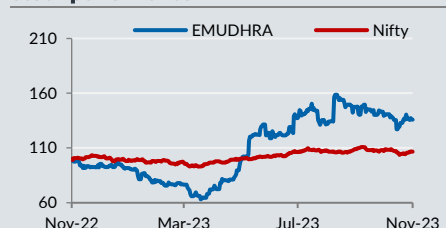
Source: Company, YES Sec

Reco	: <b>BUY</b>
CMP	: Rs 453
Target Price	: Rs 556
Potential Return	: + 22.7%

### Stock data (as on November 09, 2023)

Nifty	19,395
52 Week h/l (Rs)	535 / 207
Market cap (Rs/USD mn)	35382 / 425
Outstanding Shares (mn)	78
6m Avg t/o (Rs mn):	81
Div yield (%):	0.3
Bloomberg code:	EMUDHRA IN
NSE code:	EMUDHRA

### Stock performance



	1M	3M	1Y
Absolute return	-2.6%	2.4%	35.7%

### 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	556	552

### Δ in earnings estimates

	FY24E	FY25E
EPS (New)	9.8	15.0
EPS (Old)	10.6	16.7
%Change	-7.7%	-10.1%

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	2,488	3,794	5,274
YoY Growth	36.2%	52.5%	39.0%
EBITDA	873	1,137	1,695
YoY Growth	29.0%	30.3%	49.0%
PAT	617	752	1,173
YoY Growth	49.0%	21.9%	56.0%
ROE	22.7%	17.8%	23.5%
EPS	7.8	9.8	15.0
P/E	58.2	46.6	30.4
BV	50	58	70
EV/EBITDA	40.2	30.7	20.6

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## Exhibit 2: Quarterly snapshot Console: Sequential dip in margin during the quarter

Particulars(Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	YoY	QoQ	H1FY23	H1FY24	YoY
Revenue	584.9	612.4	768.1	797.5	963.0	64.6%	20.8%	1,107.1	1,760.5	59.0%
EBITDA	217.5	212.3	237.6	237.7	282.6	29.9%	18.9%	423.2	520.3	22.9%
EBITDA Margin	37.2%	34.7%	30.9%	29.8%	29.3%	-784 bps	-47bps	38.2%	29.6%	-867bps
D&A	39.7	39.9	39.4	47.1	52.3	31.8%	11.1%	79.1	99.5	25.7%
EBIT	177.8	172.4	198.2	190.6	230.2	29.5%	20.8%	344.1	420.8	22.3%
EBIT Margin	30.4%	28.1%	25.8%	23.9%	23.9%	-648bps	1bps	31.1%	23.9%	-717bps
Other Income net	13.8	11.4	21.7	9.8	4.0	-70.8%	-58.8%	19.8	13.9	-30.2%
Finance Costs	4.4	3.8	16.0	2.6	3.9	-11.9%	51.0%	14.1	6.5	-53.8%
PBT	187.1	180.1	203.9	197.8	230.4	23.1%	16.5%	349.8	428.2	22.4%
Total Tax Expenses	22.4	27.9	45.9	34.1	42.7	90.6%	25.3%	48.0	76.8	60.1%
Profit / Loss	164.7	152.1	158.0	163.7	187.6	13.9%	14.6%	301.9	351.4	16.4%
Minority Interest	-1.7	-1.1	-0.3	8.0	4.0	-332.6%	-49.7%	-3.5	12.0	NA
PAT after MI	166.4	153.2	158.3	155.8	183.6	10.3%	17.9%	305.3	339.4	11.2%

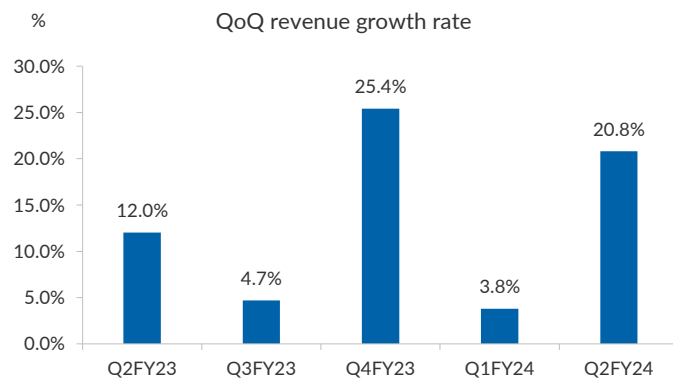
Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Incremental revenue contribution from Ikon Tech LLC was ~Rs 10 crore. EBITDA Margin was a little softer on account of acquisition related cost.
- Q2 is seasonally strong quarter for Trust business (DSC), and this led to increase in Indian Trust revenue. Both increase in volumes and increase in DSC prices led to growth.
- EBITDA and PAT margin were maintained despite increased investment into overseas market growth and ESOP expenses of about INR 10 million.
- Margins may be under pressure due to geographic expansion, however, may be around 30% for FY24.
- One of the deals included rolling out of integrated access management and authentication platform for a very large Bank in India.
- Continued deal wins in India across BFSI for emSigner, eSign and eStamping for process automation and paperless transformation in lending, onboarding and other workflows.
- 2 Large Deals have been signed in Africa geography. In Middle East, most of the banks are working with Emudhra.
- Customer addition may have remained muted, but the repeat business has a higher ticket size.
- Implemented emCA suite of products for a large eGovt customer focussed on delivery of citizen services.

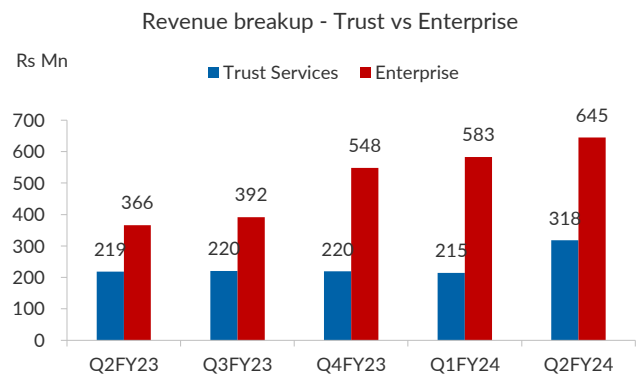
## STORY IN CHARTS

**Exhibit 3: Revenue Growth in the quarter was led by Trust Business Solutions**



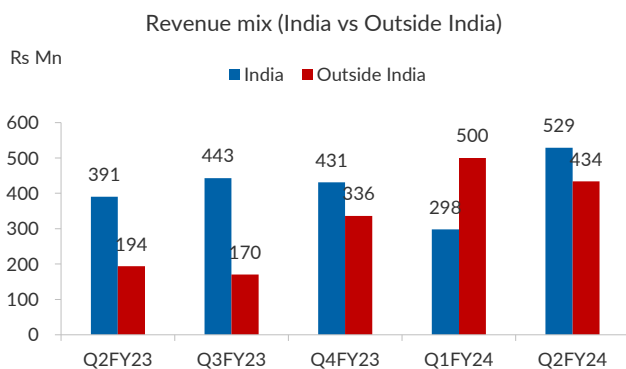
Source: Company, YES Sec

**Exhibit 4: Enterprise business is major contributor to revenue**



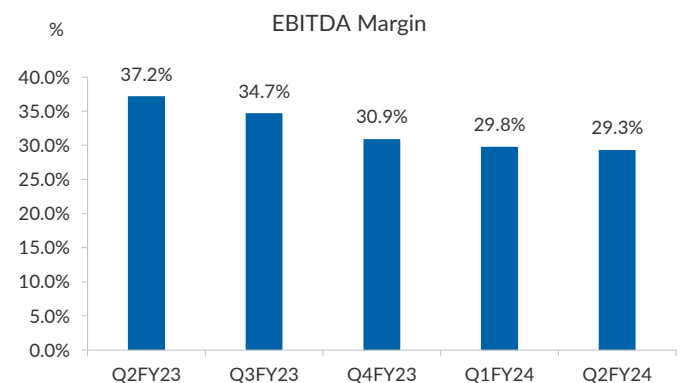
Source: Company, YES Sec

**Exhibit 5: International business is a key driver of revenue growth**



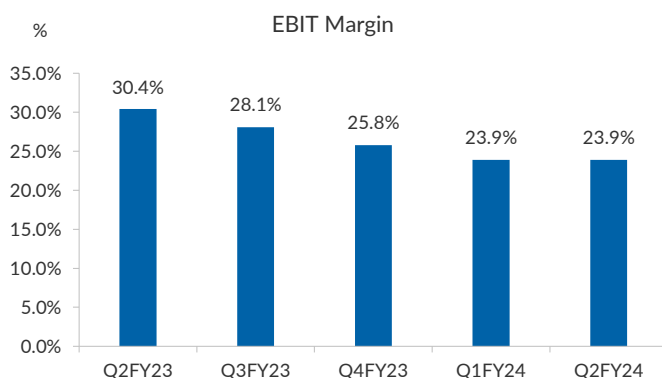
Source: Company, YES Sec

**Exhibit 6: Sequential dip in EBITDA margin due to higher operational cost**



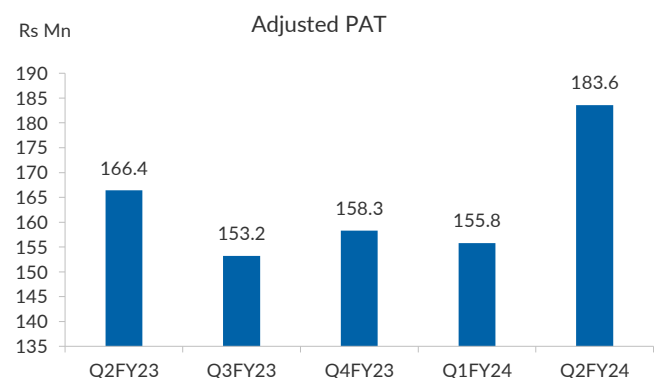
Source: Company, YES Sec

**Exhibit 7: EBIT margin remained flat sequentially**



Source: Company, YES Sec

**Exhibit 8: PAT (after MI) remained robust for the quarter**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 9: Balance Sheet

Balance sheet(Rs mn)	FY 2020	FY 2021	FY2022	FY 2023	FY 2024E	FY 2025E
Property, plant and equipment [PPE]	150	657	659	915	1,074	1,046
Capital work-in-progress	405	45	249	366	0	0
Intangible assets[some of the assets may get regrouped into PPE]	423	455	591	727	381	309
Right-of-Use Assets	0	134	105	85	42	21
Investments	1	138	0	0	0	0
Other non-current assets	16	37	79	24	16	12
Total Non-current assets	994	1,466	1,683	2,116	1,514	1,388
Inventories	15	7	21	10	10	10
Investments	1	1	0	209	0	0
Trade receivables	234	149	442	672	655	910
Cash and cash equivalents with company	92	77	133	670	703	738
Loan	31	31	31	0	0	0
Other financial assets	169	188	282	921	2,151	2,981
Total current assets	541	453	909	2,483	3,520	4,640
Total assets	1,535	1,919	2,591	4,599	5,034	6,028
Equity share capital	351	351	351	375	375	375
Other equity	478	723	1,177	3,541	4,154	5,093
Non-controlling intersts	41	93	13	8	15	15
Total equity	870	1,166	1,541	3,924	4,544	5,482
Borrowings	269	221	198	0	0	0
Lease Liabilities	0	128	103	62	37	22
Deferred tax liabilities (Net)	16	14	18	26	27	28
Provision	22	33	27	28	0	0
Other non-current liabilities	16	15	3	0	0	0
Total Non-current liabilities	324	410	349	115	64	51
Borrowings	125	87	346	157	0	0
Lease Liabilities	0	26	24	35	36	38
Trade payables	78	35	144	182	193	251
Other financial liabilities	37	66	29	58	60	63
Provision	61	93	44	40	42	44
Other current liabilities	40	36	114	90	94	99
Total current liabilities	342	343	701	560	426	495
Total liabilities	665	753	1,050	675	490	546
Total equity and liabilities	1,535	1,919	2,591	4,599	5,034	6,028

Source: Company, YES Sec

## Exhibit 10: Income Statement

(Rs mn)	FY 2020	FY 2021	FY2022	FY 2023	FY 2024E	FY 2025E
Revenue	1,164.5	1,315.9	1,826.4	2,487.6	3,794.4	5,274.2
Operating expenses	130.9	129.1	119.9	300.6	825.1	1,024.6
Cost of goods sold	246.8	187.1	297.1	298.7	400.0	572.5
Employee benefit expenses	292.2	417.1	468.2	643.6	921.5	1,318.6
Other expenses	175.2	183.4	264.2	371.7	510.5	663.9
EBITDA	319.4	399.3	677.0	873.1	1,137.2	1,694.7
Depreciation	86.0	87.7	130.7	158.5	206.1	243.0
EBIT	233.4	311.6	546.3	714.6	931.1	1,451.7
Interest paid	6.7	8.4	52.7	33.9	14.4	16.0
Other income	3.5	8.6	11.0	53.0	26.9	30.2
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0
PBT	230.2	311.8	504.6	733.8	943.6	1,465.8
Tax	45.8	58.2	93.2	121.8	179.9	293.2
PAT for the year	184.4	253.6	411.4	611.9	763.7	1,172.7
Minority interest	17.7	79.0	-2.7	-4.8	12.0	0.0
PAT attributable to shareholders	166.7	174.6	414.1	616.7	751.7	1,172.7
EPS	2.4	3.2	5.3	7.8	9.8	15.0

Source: Company, YES Sec

## Exhibit 11: Cash Flow Statement

Cash Flow(Rs mn)	FY 2020	FY 2021	FY2022	FY 2023	FY 2024E	FY 2025E
Profit before tax	230.2	311.8	504.6	733.8	943.6	1,465.8
Adjustments to reconcile profit/(loss) before tax to net cash flows:	-	-	-	-	-	-
Depreciation and amortisation expense	86.0	87.7	130.7	158.5	206.1	243.0
Working capital changes	(40.1)	42.9	(316.3)	(423.6)	(1,210.9)	(1,010.8)
Others	(3.0)	(4.6)	(57.7)	17.7	-	-
Income taxes refund/(paid)	(40.8)	(28.3)	(45.3)	(150.7)	(179.9)	(293.2)
Net Cash flow from operating Activities (A)	232.4	409.4	216.0	335.6	(241.0)	404.9
Purchase of PPE/intangible assets,net	(228.5)	(206.0)	(467.1)	(620.6)	388.8	(121.6)
Goodwill con solidation	(51.9)	(1.1)	-	-	-	-
Others	(6.6)	(263.7)	90.1	(446.6)	-	-
Net cash used in investing activities (B)	(287.0)	(470.8)	(377.0)	(1,067.2)	388.8	(121.6)
Dividend payout	-	-	(2.7)	(94.8)	(150.3)	(234.5)
Others including fresh issue of securities	123.1	46.6	162.5	1,369.7	36.2	(13.5)
Net cash used in financing activities(C)	123.1	46.6	159.8	1,274.9	(114.2)	(248.1)
Impact from foreign exchange difference on translation(D)	-	-	6.6	44.0	-	-
Net increase in cash and cash equivalents(E=A+B+C+D)	68.6	(14.7)	5.4	587.2	33.6	35.2
Cash and cash equivalents at the beginning of the financial year E)	23.3	91.9	77.1	82.5	669.7	703.3
Cash and cash equivalents at the end of the year (D+E)	91.9	77.1	82.5	669.7	703.3	738.5

Source: Company, YES Sec

## Exhibit 12: Ratio Analysis

Growth(%)	FY 2020	FY 2021	FY2022	FY2023	FY 2024E	FY 2025E
Revenue Growth	14.6%	13.0%	38.8%	36.2%	52.5%	39.0%
EBITDA Growth	-0.9%	25.0%	69.6%	29.0%	30.3%	49.0%
EBIT Growth	-1.6%	33.5%	75.3%	30.8%	30.3%	55.9%
Net Profit Growth	-5.6%	4.8%	137.1%	49.0%	21.9%	56.0%
Profitability Ratios(%)						
EBITDA Margin	27.4%	30.3%	37.1%	35.1%	30.0%	32.1%
EBIT margin	20.0%	23.7%	29.9%	28.7%	24.5%	27.5%
Net Profit margin	14.3%	13.3%	22.7%	24.8%	19.8%	22.2%
RoE	21.1%	18.4%	31.8%	22.7%	17.8%	23.5%
RoCE	16.0%	16.8%	23.6%	18.0%	16.1%	21.4%
Liquidity Ratios						
Net debt/Equity (x)	0.3x	0.2x	0.3x	-0.1x	-0.2x	-0.1x
Current ratio (x)	1.6x	1.3x	1.3x	4.4x	8.3x	9.4x
Valuation Ratios						
PER(x)	NA	NA	NA	58.2	46.6	30.4
Price/Book(x)	NA	NA	NA	9.1	7.9	6.5
EV/EBITDA(x)	NA	NA	NA	40.2	30.7	20.6

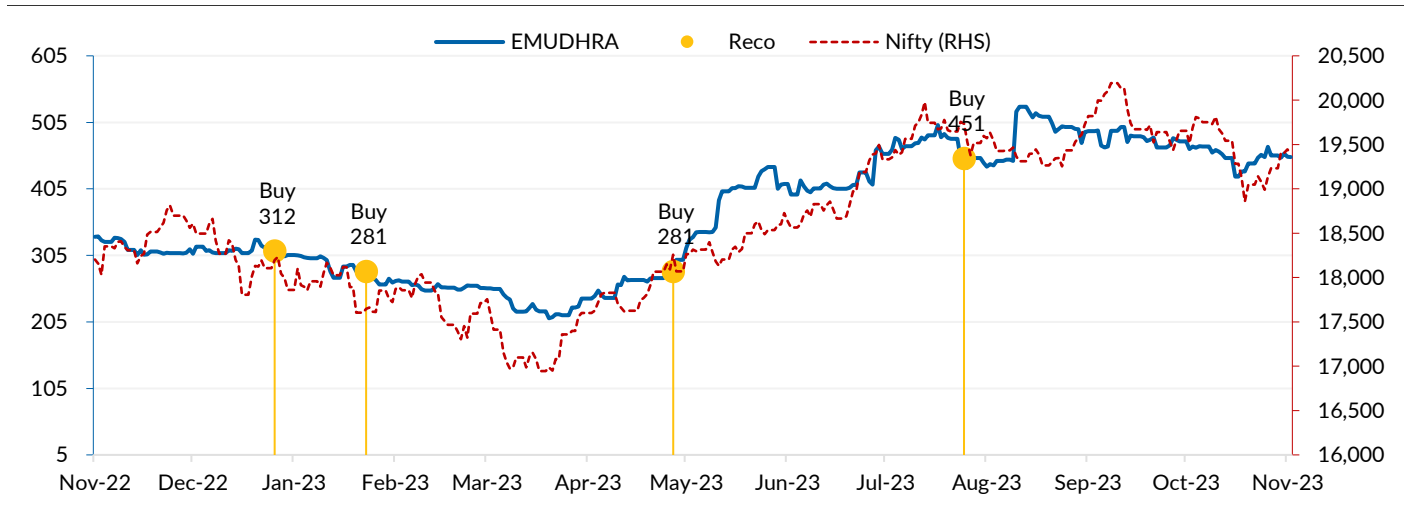
Source: Company, YES Sec

## Exhibit 13: Dupont Analysis

Dupont Analysis	FY 2020	FY 2021	FY2022	FY2023	FY 2024E	FY 2025E
Net margin(%)	14.3%	13.3%	22.7%	24.8%	19.8%	22.2%
Asset turnover (x)	0.9x	0.8x	0.8x	0.7x	0.8x	1.0x
Leverage factor (x)	1.7x	1.8x	1.7x	1.3x	1.1x	1.1x
Return on Equity(%)	21.1%	18.4%	31.8%	22.7%	17.8%	23.5%

Source: Company, YES Sec

## Recommendation Tracker



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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.