



### IPO Details

<b>Opening Date</b>	Sep 02, 2022
<b>Closing Date</b>	Sep 07, 2022
<b>Stock Exchange</b>	BSE SME
<b>Lot Size</b>	2000 Shares
<b>Issue Price</b>	₹ 56 per share
<b>Issue Size</b>	54,00,000 Equity Shares
<b>Application Amount</b>	₹ 1,12,000

### IPO Objective

Funding Working Capital Requirement  
General Corporate Purpose

### Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	1,46,57,059	100%
Public	280	Negligible

### Promoter of the Company

1 Mr. Sukrit Bharati

### Competitive Strengths

- 1 Infrastructure and Integrated Manufacturing Facility
- 2 Culture of innovation and highly experienced and young management
- 3 Constant focus on developing new and innovative products
- 4 Economies of Scale
- 5 R&D and product design capabilities lead to ODM business generation
- 6 Availability of Performance Linked Incentives
- 7 Strong relationships with a diverse top-tier customer base

### Company Background

- Company was established in the year 2015 in Maharashtra.
- Company is into the Consumer Durables Industry primarily engaged in Electronic Manufacturing Services (EMS), Original Equipment Manufacturer (OEM) and Original Design Manufacturer (ODM).
- Company has 2 modern and state-of-art manufacturing units established in Nashik.
- Key customers of the company include leading brands in Air Conditioning and Water Heater Segments.
- Company is expected to be benefitted from the Government's PLI Scheme.
- As on 30<sup>th</sup> June 2022, the company had 98 permanent employees and around 135 labourers on contract basis.

### Financial Summary

For the Period Ended	(In Lacs)		
	Jun-22	Mar-22	Mar-21
<b>Total Assets</b>	13,350.85	12,555.51	7,898.69
<b>Net Assets</b>	2,538.68	2,126.34	1,332.32
<b>Total Borrowings</b>	7,108.23	6,800.26	5,142.56
<b>Total Revenue</b>	7,399.61	20,028.20	11,551.30
<b>Profit After Tax</b>	412.34	394.01	208.33



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## Company Overview

Virtouso Optoelectronics Limited was incorporated in the year 2015 and is situated in Maharashtra. Company has two manufacturing units at Nashik and is engaged in manufacturing of Electronic Manufacturing Services (EMS), Original Equipment Manufacturer (OEM) and Original Design Manufacturer (ODM) for its reputed clients. The company's product base includes – i) Split Air Conditioner, ii) Water Heaters, iii) LED Lighting Products and iv) Other Miscellaneous products such as injection moulding components for air conditioners.

## Analysis

Established in the year 2015, company's track record of existence is not that good but has been operating in a prospective segment of consumer durables expected to grow at a CAGR of 21.12% from FY 21 to FY 26. As mentioned in the website, the company offers its products and services to various reputed clients on both OEM basis and ODM basis.

Under OEM, the company gets order from the customers upon which the company's R&D team analyses the order and take into account the necessary steps to be taken and provide suggestions to the client if any addition could be done. The company procures raw materials from the client specified vendors. Once the material is received the production starts and the finished good is delivered to the client after necessary quality inspection.

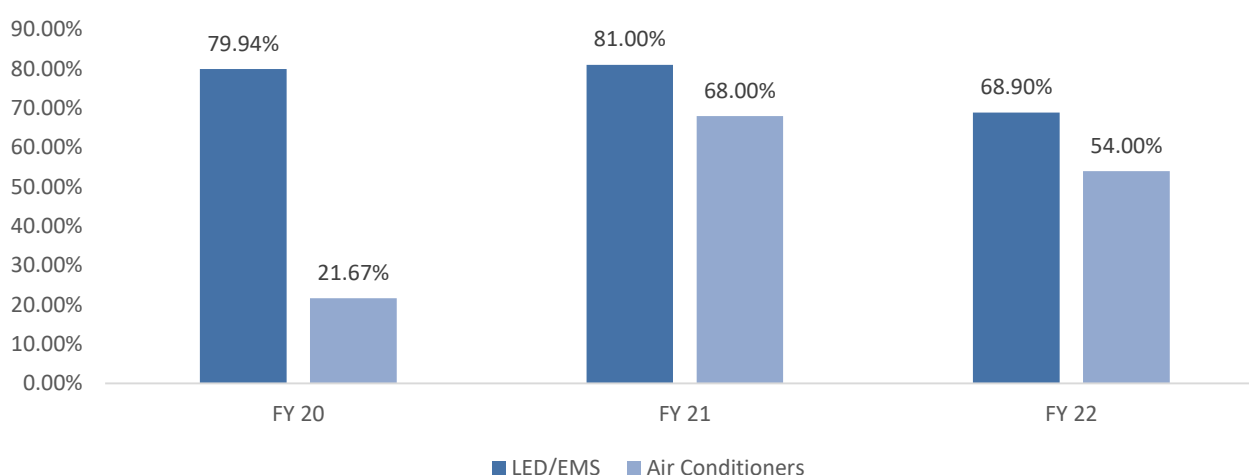
Under ODM, the company control the entire manufacturing process of a product from the initial stage of designing and are responsible for all the aspects of manufacturing, including planning and sourcing of raw materials and components. Under ODM, the company sells its products to its customers who in turn markets and sells them in their own brand name. However, warranties with any defect on the raw materials and workmen affecting the end use of the product is provided by the company.

The company has a greater share of revenue through its OEM products but is targeting to focus more on the ODM products as it commands higher margin for the company. The ODM products requires a good and experienced R&D and currently the company has 8 members in its R&D team which is expected to increase if the



company has to be successful in achieving its ODM target. The company is well aware of this and claims to have a R&D centre located in Nashik which is well equipped with latest equipment.

The company has one unit where it manufactures EMS and LED Lighting products and in other unit is manufactures Air Conditioner. The total area of both the units are 16,305 square meters with an aggregate capacity to produce 1,00,00,000 units of LED/EMS and 6,00,000 units of Air Conditioners. The capacity utilization summary has been given in the chart below –



From the above chart is it evident that the company has under-utilised its capacity in 2022 from 2021 because of new capacity being added in form of Plant & Machinery and Factory Building resulting in reduced percentage of capacity utilised.

The revenue of the company has been growing over the years with an increase of around 74% in FY 2022 and 48% in FY 2023 (annualized) as the company has been continuously focusing on increasing its Total Capacity and R&D team. With enough capacity still being left to be utilised the revenue growth is on cards for the company.



## Industry Charts

Exhibit 1: Indian Appliances and Electronics Market Expected to grow at a CAGR of 21.12% from FY 21 to FY 25

### Indian Appliances and Electronics Industry (US\$ Bn)



Exhibit 2: Sector Composition of Indian Consumer Durables

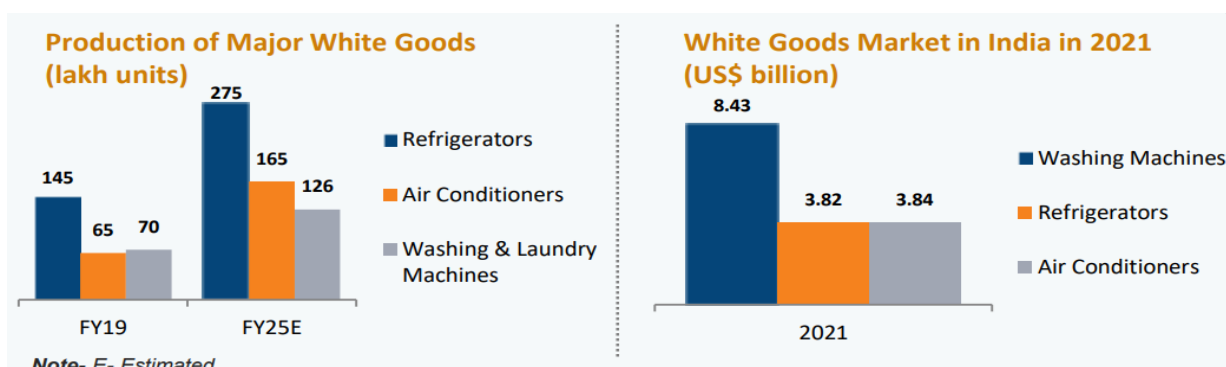
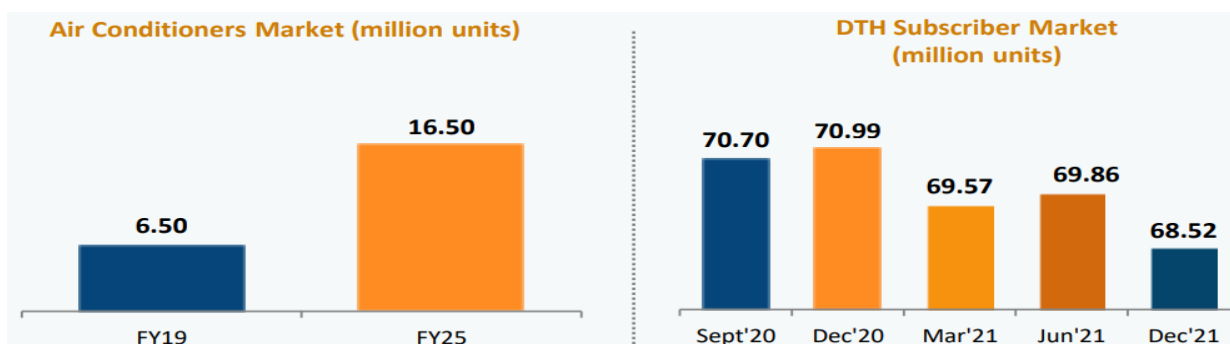


Exhibit 3: Key Trends in Indian Consumer Durables



(Source: ibef.org)



## Investment Overview

### **Consumer Durables Industry**

The Indian consumer durables market is broadly segregated into urban and rural markets and is attracting marketers from across the world. The sector comprises of a huge middle class, relatively large affluent class and a small economically disadvantaged class. Global corporations view India as one of the key markets from where future growth is likely to emerge. The growth in India's consumer market would be primarily driven by a favourable population composition and increasing disposable income.

Indian appliance and consumer electronics (ACE) market is expected to increase at 9% CAGR to reach Rs. 3.15 trillion (US\$ 48.37 billion) in 2022. Demand growth is likely to accelerate with rising disposable income and easy access to credit. Increasing electrification of rural areas and wide usability of online sales would also aid growth in demand. The government anticipates that the Indian electronics manufacturing sector will reach US\$ 300 billion (Rs. 22.5 lakh crore) by 2024-25.

In November 2021, 42 companies were selected under the PLI Scheme for White Goods with a committed investment of Rs. 4,614 crores (US\$ 580.6 million), which is expected to create additional direct employment for 44,000 people. In April 2022, 19 companies filed applications for the PLI Scheme for White Goods in the 2nd round of applications, with committed investments of Rs. 1,548 crores (US\$ 194.79 million).

(Source: ibef.org)

### **Addressable Market for Virtuoso Optoelectronics Limited**

The company focuses on client retention and as per the prospectus the company has been able to do so. Currently the company is selling its products to both domestic and international market and in coming times it aims to increase its global presence by targeting more of the export market.

### **Competition**

Company operates in a highly competitive environment. The industry is filled with various organized and unorganized players in the industry. There are various



reputed manufacturers such as Dixon Technologies, Amber Enterprises and also may mid-sized companies who are offering EMS, OEM and ODM product services to various clients. Moreover, the competition is not only domestic but also from China as most of the parts required in production of consumer durables are either imported or manufactured in China at a cheaper cost. In addition, for OEM products, the companies could set up their own manufacturing units or get into backward integration posing a competition for the company from its customers itself.

### **Peer Analysis**

As Mentioned in the prospectus, the company has 2 competitors viz. Dixon Technologies India Limited and Amber Enterprises India Limited. A summary on key figures as compared to these companies is given in the table below –

<b>Company</b>	<b>Virtuoso Optoelectronics Limited</b>	<b>Dixon Technologies Limited</b>	<b>Amber Enterprise India Limited</b>
Net Profit (INR Cr)	4.12	190.17	109.19
EBITDA (INR Cr)	10.76	382.92	308.62
Return on Capital Employed	14.02%	18.31%	8.79%
Return on Equity	16.24%	19.08%	6.30%
EPS (INR)#	8.09	36.68	41.20
P/E* (Times)	6.92	111.50	54.77

### **# Annualized and Post-IPO Basis**

#### **\*As on 30/08/2022**

Dixon Technologies and Amber Enterprises, although in the same product line segment, are very large in size when compared to Virtuoso. So the peer comparison can't be performed on apple-to-apple basis.



## Promoters' Profile and Management Analysis

### Mr. Sukrit Bharati



- **Mr. Sukrit Bharati** is the Promoter and Managing Director of the Company.
- He is in the line of business from 6 years.
- He has done Masters in Science - Engineering Technology from BITS Pilani and diploma courses in Management subjects from Harvard Business School and NMIMS, Mumbai.
- He looks after the management and operations of the company and promotes expansion and innovation of the company.

### Analysis on the Company's Promoter and Board of Directors

**Mr. Sukrit Bharati**, Promoter and Managing Director, of the company is the guiding force behind the business decisions of the company. He is having more around 6 years of experience in in the business line. He has done Masters in Science - Engineering Technology from BITS Pilani and diploma courses in Management subjects from Harvard Business School and NMIMS, Mumbai.

**Mr. Vishrut Bharati** is a Non- Executive Director of the company. He has completed his Bachelor of Business, Administration (BBA) from Maharashtra Institute of Technology, Pune. He has been associated with the company since its inception and brings in 6 years of experience.

**Mr. Sajid Shaikh** is the CFO of the company and has joined the company since October 2021. He has done Bachelors' of Science and Masters of Science in Botany from University of Poona. Contrast to his educational background he has 25 years of experience in the finance field and has worked at Mavin Switchgears & Control Private Limited, ICICI Bank, AMP Sanmar Life Insurance Ltd etc

To conclude, the Promoter of the company, Mr. Sukrit has a very good education background being graduated in the relevant field of business and also has completed diploma in Management from Harvard and NMIMS, Mumbai giving him





good knowledge of Management and Business Administration. However, the decisions of the business are entirely dependent on him as he is the only executive director in the company. The company has also appointed Mr. Sajid Shaikh as its CFO who has 25 years of experience in the finance industry and can take good financing decision for the company. Overall, apart from the dependency of the company on a single personnel, the management outlook is good.



## Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2021	As at 31st March, 2022	As at 30th June, 2022
<b>Profit and Loss</b>			
Revenue from operation	11,525.66	20,017.24	7,381.87
Other income	25.64	10.96	17.73
Total Revenue	11,551.30	20,028.20	7,399.60
Expenses	10,285.82	18,035.94	6,323.46
Depreciation and Amortisation Cost	234.97	513.70	241.25
Finance Cost	740.96	905.50	262.41
Total Expenses	11,261.75	19,455.14	6,827.12
PBT	289.55	573.06	572.48
PBT Margin	2.51%	2.86%	7.76%
EBITDA	1,265.48	1,992.26	1,076.14
EBITDA Margin	10.98%	9.95%	14.58%
Net Profit	208.33	394.01	412.34
Net Profit Margin	1.81%	1.97%	5.59%
<b>Balance Sheet</b>			
Total Borrowings	5,142.56	6,800.26	7,108.23
Net Worth	1,332.32	2,126.34	2,538.68
Fixed Assets	2,667.59	5,037.87	4,984.39
Net Working Capital	1156.04	-12.81	679.86
<b>Financial Measures</b>			
Inventory Turnover Ratio	2.75	2.72	0.84
Receivables Turnover Ratio	10.70	22.54	10.89
Payables Turnover Ratio	10.12	5.68	2.17
Fixed Assets Turnover Ratio	4.32	3.97	1.48
Return on Capital Employed	26.42%	28.56%	14.02%
Return on Equity	15.64%	18.53%	16.24%
Debt-Equity Ratio	3.86	3.20	2.80

(The data has been taken and calculated from the financials given in the prospectus)



### **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)**

The EBITDA of the company has grown from Rs. 1,265.48 lacs in 2021 to 1,992.26 lacs in 2022 and to Rs. 1,076.14 lacs up to June'22 (Rs. 4,306.96 if annualised). The revenue in 2022 was Rs. 20,017.24 lacs in 2022 and Rs. 7,381.87 lacs up to June'22 with EBITDA already being Rs. 1,076.14 lacs which is little extra-ordinary and surprising. The EBITDA margin in 2022 fell to 9.95% from 10.98% in 2021 and again rose to 14.58% up to June'22 showing inconsistency and unsustainability in the margin.

### **Net Profit**

The net profit of the company has grown from Rs. 208.33 lacs in 2021 to Rs. 394.01 lacs in 2022 and Rs. 412.34 lacs up to June'22 (Rs. 1,649.36 if annualised). Generating more revenue in just 3 months than the entire previous year with just 37% of the previous year's revenue is again surprising and raises eye-brows. The net profit margin from being around 2% in FY 21 and FY 22 suddenly rose to 5.59% up to June'22 is super normal and unsustainable.

### **Finance Cost.**

The company has incurred finance cost mainly on the Term Loan and Working Capital Loan availed from banks. With increase in secured loans the finance cost has been increasing over the years.

### **Financial Measures/Ratios**

RoCE of the company up to June'22 was 14.02% vs 28.56% in FY 22. The RoCE of 14.02% is on 3-month basis, if we annualise it and take into consideration the effect of new capital being introduced in the form of IPO and also the repayment of loan with extra loan been added this year, the RoCE is going to increase slightly till the end of the year and is estimated to be around 30% in FY23.

ROE of the company up to June'22 was 16.24% vs 18.53% in FY 22. The ROE of 16.24% is on 3-month basis, if we annualise it and take into consideration the effect of new capital being introduced in the form of IPO, the ROE is going to increase till the end of the year and is estimated to be around 22% in FY23.



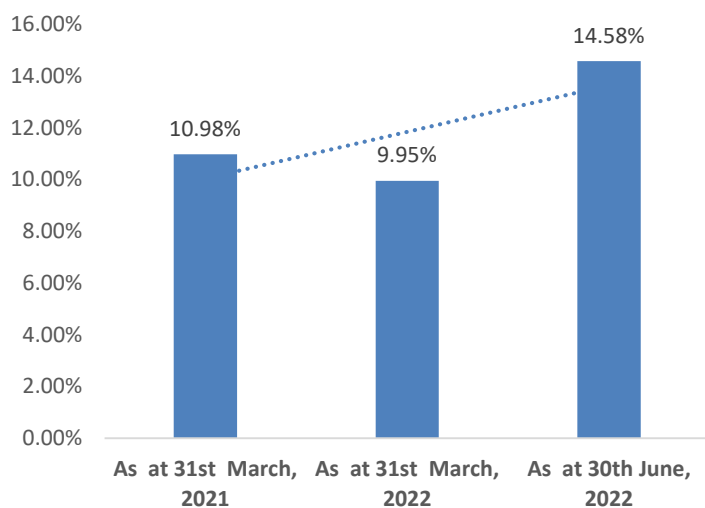
The company's Inventory and Receivables Turnover Ratios have decreased showing inefficient management of the same while the company has been able to manage its payable efficiently as evident from the Payables Turnover ratio in the table above.

The company has debt-equity ratio of around 2.80 up to June'22. The same has decreased from FY 22 despite of increase of loans this year and the reason for the same can be attributed to increase in equity base because of super-normal increase in profits. The ratio is expected to further come down with new equity capital being introduced through IPO but not to a greater extent looking at the debt-track record of the company.

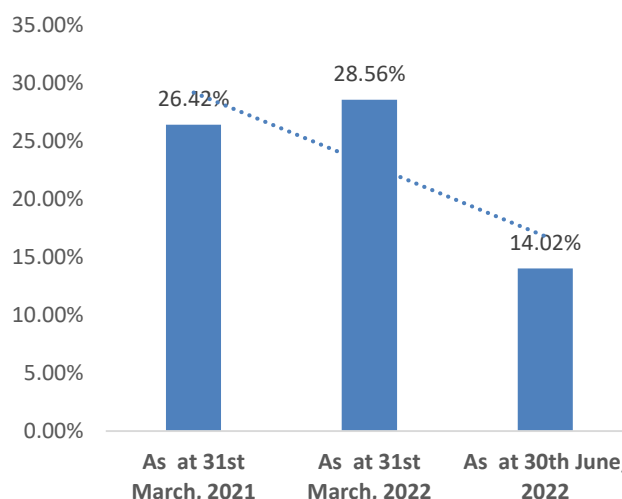


## Financial Charts

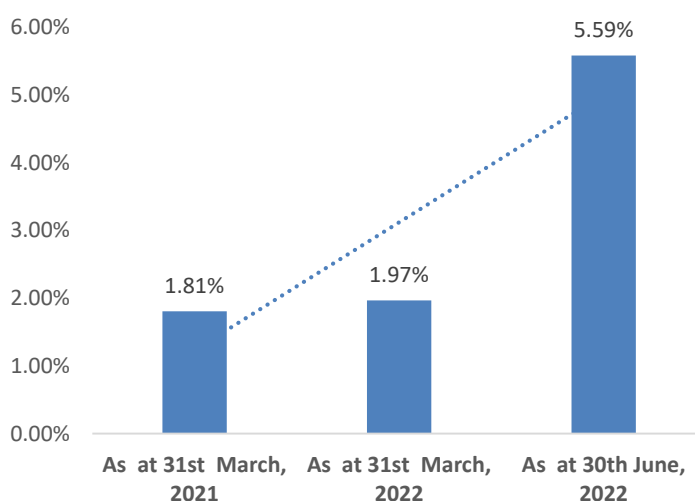
### EBITDA Margin



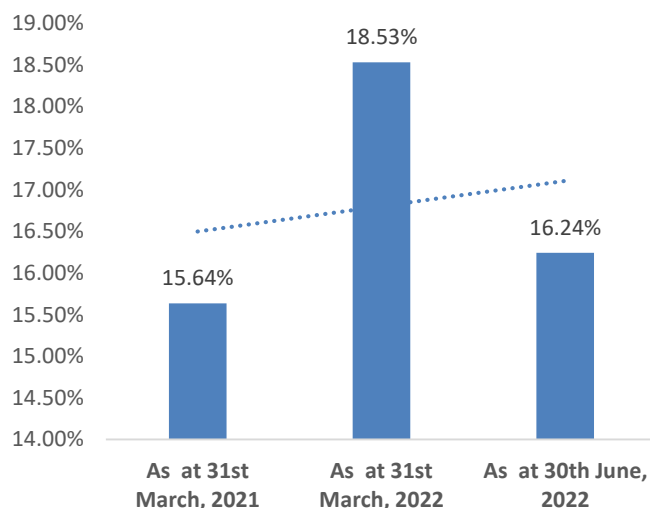
### Return on Capital Employed



### Net Profit Margin



### Return on Equity





## Key Risk Factors

1. Company and Group Company are involved in certain litigations including tax related litigations totalling to an amount of Rs. 2,790.42 lacs, which if determined against them, can affect financial conditions of the company.
2. The company's top 5 customers contribute more than 80% of revenue showing higher dependency on them.
3. The company's group company Starlite Components Limited has been incurring losses consistently from past 3 years and also has been performing poorly in the stock market.
4. Company is entirely dependent on a single personnel, its Promoter.



## Track Record of Lead Manager

The lead manager to the issue is Fedex Securities Private Limited the previous issue details have been taken from the prospectus. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Company	Issue Size (In Cr)	Issue Closing Date	IPO Price/share (INR)	CMP# (INR)
DC Infotech and Communications Limited	10.80	December 27, 2019	45.00	41.35
Atam Valves Limited	4.50	October 06, 2020	40.00	215.00
Rangoli Tradecomm Limited	45.14	March 22, 2021	207.00	22.70
Rajeshwari Cans Limited	4.03	April 15, 2021	20.00	22
Kuberan Global Edu Solutions Limited	1.16	May 05, 2021	20.00	8.01
Aashka Hospitals Limited	101.64	September 01, 2021	121.00	38.85
Euro Panel Products Limited	45.15	December 24, 2021	70.00	100.00
Wherrelz IT Solutions Limited	2.011	December 29, 2021	171.00	115.15
Sunrise Efficient Marketing Limited	16.69	April 12, 2022	121.00	118.20
Le Merite Exports Limited	48.00	May 09, 2022	75.00	69.00
Kesar India Limited	15.82	July 12, 2022	170.00	244.50

**#CMP is taken as on 30<sup>th</sup> August 2022**

Out of the last 10 listings of Fedex Securities, 3 opened at par and rest at premium.



## Financial Snapshot

The company has been into the business since 2015, showing a decent track record of existence. Company is into the consumer durables industry and the future prospect of the industry is good with estimated CAGR of around 21% in coming years.

The revenue of the company has shown good strengths, however, the bottom line has grown surprisingly surpassing the last year's figures in just 3 months which raises questions.

The company's management has good education background with decent experience but again the company's business decision is entirely dependent on a single personnel.

The company is getting listed at a post-bonus annualised PE of 6.92 times and we don't annualise it, the current PE post bonus comes to 27.70 times. The PE is below the industry peers but looking at the size of the company is seems to be fairly priced.

To conclude, such a growth in company's profit provides a negative outlook. However, its recent capacity increase, product base and industry prospects makes the company looks attractive at this price. So if you are **risk averse** you **should avoid** applying in the IPO, but if you a **risk taker** you **may apply** in IPO.





## **Disclaimer**

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.

**We believe an SME company needs 2-3 years to show its true potential and therefore our recommendations are for Long-term investment and not for listing gains.**