

IPO Details	
Opening Date	September 27, 2023
Closing Date	October 03, 2023
Stock Exchange	NSE SME
Lot Size	4000 Shares
Issue Price	₹29 to ₹31 per share
Issue Size	Aggregating up to 47.03 Cr.
Fresh Issue	Aggregating up to 47.03 Cr.
Application Amount (@ upper band for retail Investors)	₹ 1,24,000

IPO Objective	
1.	Funding of expenditure relating to solutions development for digital transformation and water resources management solutions.
2.	Creation of new delivery centre including infrastructure thereof and upgrading existing facilities.
3.	Funding working capital requirements of the Company.
4.	General corporate purposes.

Pre-Issue Shareholding		
Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	3,17,80,960	77.49%
Public	92,30,960	22.51%

Promoter of the Company	
1.	Metikurke Ramaswamy Raman Subbarao
2.	Danavadi Krishnamurthy Arun
3.	Raghu Chandrashekhariah
4.	Sheshadri Yedavanahalli Srinivas
5.	Pushparaj Shetty
6.	Nagaraju Vineeth

Competitive Strengths	
1.	High quality standards.
2.	Value creation approach.
3.	Sustainability Focus.
4.	Customer centric Approach.
5.	Skilled and experienced team.

Company Background	
○	Canarys Automations Limited was incorporated in the year 1991 and has its registered office in Bengaluru, Karnataka.
○	Canarys is a leading IT solutions provider with over 30 years of existence in the industry.
○	The company provides software solutions for businesses in the space of Digitalization, Modernization, Automation and Intelligence.
○	Company operates across two verticals viz., Technology solutions and Water Resource Management Solutions.
○	As on September 20 th , 2023, the company had 326 employees on its payroll.

Market Capitalization (In Cr.)	
Pre-Issue	Post-Issue
₹127	₹174

Financial Summary (In Lacs.)			
For the Period Ended	Mar-21	Mar-22	Mar-23
Total Assets	2,003.04	4,753.57	6,377.89
Net Assets	1,258.17	1,683.44	2,537.91
Total Borrowings	-	879.33	1,415.61
Total Revenue	2,578.22	5,199.93	7,547.29
Profit After Tax	210.43	455.82	852.51

Tentative Timeline	
Opening Date	September 26, 2023
Closing Date	October 03, 2023
Basis of Allotment	October 06, 2023
Initiation of Refunds	October 09, 2023
Credit of Shares to Demat	October 10, 2023
Listing Date	October 11, 2023

Company Background and Analysis

Started in 1991, Canarys is a leading IT solutions provider with over 30 years of existence in the industry. Company's expertise lies in enabling digital transformation for businesses through its comprehensive range of software solutions in the space of Digitalization, Modernization, Automation and Intelligence.

The Company operates across two business verticals namely: -

1. **Technology solutions:** Company's technology solution offerings include multiple arrays of consulting solutions in Digitalization, Modernization, Cloudification, Automation, Transformation and Intelligence. Technology expertise includes DevOps Consulting (Azure, GitHub, Atlassian, GitLab, etc.), Cloud Consulting (Azure, AWS, GCP), Digital Enterprise Solutions using SAP, MS Dynamics 365, RPA, Digital Applications and Mobility Solutions.
2. **Water Resource Management Solution:** Company offers automation solutions to modernize irrigation water conservation, and improve water use efficiency, Turnkey flood risk assessment and mitigation, cloud-based water utilisation process automation for water sharing in rivers and canals and SCADA gate control systems.

Over the past 3 decades company has provided business applications to ~ 1000 customers. Besides India, company has serviced customers from more than 10 countries. These include – USA, UK, Canada, Germany, Singapore, Malaysia, Brunei, Australia, Srilanka and Indonesia. These customers come from diverse industries. This experience has enabled company to build experience and industry solutions for the following:



Apart from the above-mentioned services company has developed Industry specific and Technology specific solutions that showcase its technology capabilities to current and prospective clients. These Intellectual Property assets given below are listed on company's partner stores.



To conclude, the company has a good track record of existence in the industry, and operates across different geographies and provides solutions to a verity of industries. It also has an order book worth Rs. 5,793.00 Lacs as of August 31, 2023.

Business Strategies

1. International expansion.

Currently 50.54% of the Company's service revenue is currently from international customers. Besides working on strengthening the Sales & Marketing in US and APAC, company is also working on developing business in the geographies of Europe.

2. Market specific technology offerings.

Company intends to accelerate its solutions and service offering targeting specific needs of user community by identifying specific use cases which can accelerate the business growth.

Competitive Scenario and Peer Mapping

Competition

The company faces competition from offshore IT services providers in emerging outsourcing destinations with low wage costs or with a more favourable time zone for US customers as well as competition from large, global consulting and outsourcing firms and in-house IT departments of large corporations. The key competitive factors in the industry that company operates, include changing technologies, customer preferences and needs and the ability to rapidly deliver solutions supporting such evolving needs. There is no barrier to entry in the industry and the bargain power of the customers is relatively high.

Peer Analysis

The comparison of the key performance indicators of the listed peers as on Mar-21 is given below-

Particulars	Canarys Automations Limited	All E Technologies Limited	Happiest minds Limited
	31st Mar 2021	31st Mar 2021	31st Mar 2021
Net Profit Margin	8%	14%	21%
EBITDA Margin	13%	16%	25%
Return on Capital Employed	23%	16%	27%
Return on Equity	17%	16%	30%
EPS (INR)	1.16	4.11	11.71

The comparison of the key performance indicators of the listed peers as on Mar-22 is given below -

Particulars	Canarys Automations Limited	All E Technologies Limited	Happiest minds Limited
	31st Mar 2022	31st Mar 2022	31st Mar 2022
Net Profit Margin	9%	12%	18%
EBITDA Margin	13%	19%	24%
Return on Capital Employed	37%	24%	30%
Return on Equity	27%	17%	28%
EPS (INR)	2.08	5.93	13.21

The comparison of the key performance indicators of the listed peers as on Mar-23 is given below -

Particulars	Canarys Automations Limited	All E Technologies Limited	Happiest minds Limited
	31st Mar 2023	31st Mar 2023	31st Mar 2023
Net Profit Margin	11%	18%	16%
EBITDA Margin	17%	17%	24%
Return on Capital Employed	48%	10%	28%
Return on Equity	34%	11%	26%
EPS (INR)	3.92	6.14	15.11

Industry Overview

Exhibit 1: India's IT Market – A snapshot.

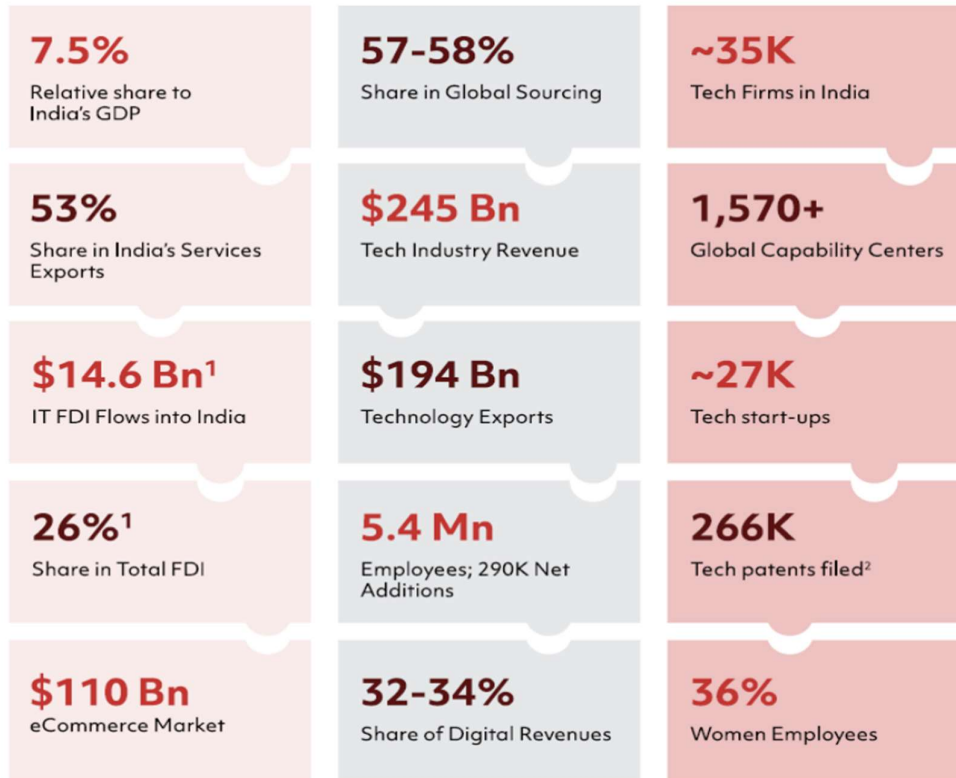
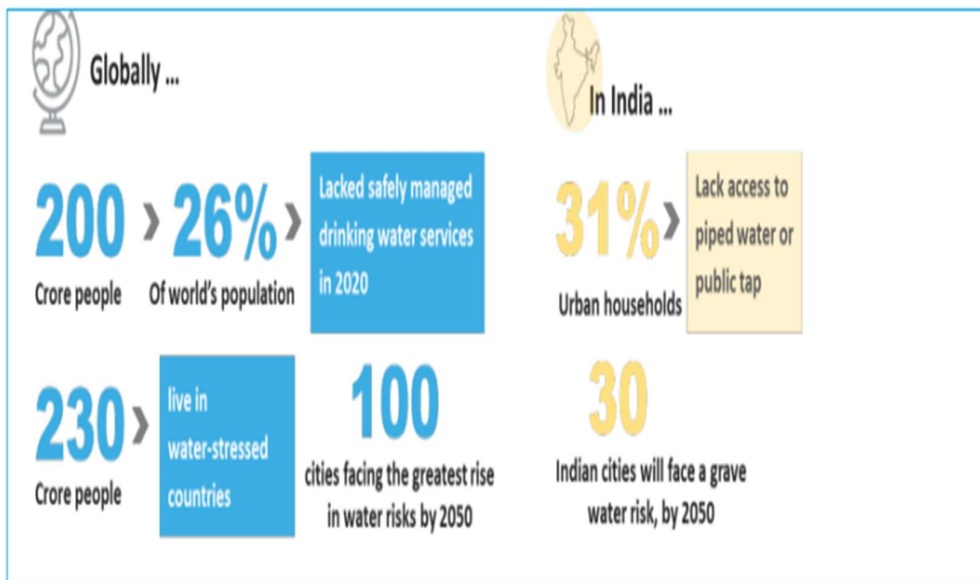


Exhibit 2: Status of drinking water services - Globally and India.



(Source: ibef.org)

India's technology industry

In FY2023, India's technology industry revenue including hardware is estimated to cross \$245 Bn (8.4% y-o-y growth), an addition of \$19 Bn over last year. Exports at \$194 Bn, are expected to grow at 9.4% in reported currency terms and 11.4% in constant currency terms. Domestic technology sector is expected to reach \$51 Bn, growing at 4.9% y-o-y. In rupee terms, domestic tech revenues are expecting a 13% y-o-y growth on the back of continued investments by enterprise and government. The industry continues to be a net hirer, adding 290K employees, taking the total employee base to ~5.4 Mn (5.7% y-o-y growth), strengthening its position as the "Digital Talent Nation" for the world.

Government Initiative for Water Resource Management

The Jal Jeevan Mission - Urban launched on 2nd February 2021 was rolled-out to provide a comprehensive and holistic approach to achieve a water-resilient future for India and tackle water risks which are more intense and frequently occurring. The main objective of Jal Jeevan Mission - Urban is universal coverage of water supply to all households through functional taps in all 4,378 statutory towns in accordance with SDG Goal- 6. However, it also prioritizes the rejuvenation of water bodies to augment sustainable fresh water supply, circular economy of water, technology Sub-Mission for water, IEC campaign about conservation of water. Central Water Commission has taken up a new initiative "Support for Irrigation Modernization Program (SIMP)" with technical assistance from the Asian Development Bank (ADB) to modernize Major / Medium Irrigation (MMI) projects in the country. Objective of the programme is to improve Water Use Efficiency, increase crop water productivity and ultimately increase farmer's income in the command area of the projects through application of national / international best practices

(Source: prospectus)

Key Managerial Personnel

Metikurke Ramaswamy Raman Subbarao, aged 61 years, is one of the Promoters and currently the Chairman and Managing Director of the company. He holds a Bachelor of Engineering in Electronics from B. M. S. College of Engineering, Bengaluru, Karnataka. He has work experience of more than 32 years in Software development, IEEE-488 based Test & Measuring instruments, Design & development of Microprocessor/Microcontroller based Controllers, vast programming expertise Spanning Machine, Assembly and High-Level Languages, Web based tools for data capturing, monitoring and analysing data. He is overseeing & controlling the overall administration and finance.

Danavadi Krishnamurthy Arun, aged 58 years, is one of the Promoters and Whole-time Director of the company. He holds a Bachelor of Engineering in Mechanical from Gulbarga University. He has work experience of more than 32 years in IT Industry. Currently managing operations by providing directions in implementing systems for business operations, overseeing operations of the company, taking care of legal & statutory compliance, customer & vendor contracts, accounts receivable & accounts payable & interacting with bank & other institutions.

Raghu Chandrashekhariah, aged 65 years, is one of the Promoters, Whole-time Director and Chief Financial Officer of the Company. He holds a Bachelor of Engineering in Electronics and Communications from University of Mysore. He has work experience of more than 31 years in Business Development, Customer and Talent acquisition.

Sheshadri Yedavanahalli Srinivas, aged 46 years, is one of the Promoter, Executive Director and Chief Executive Officer of the Company. He holds a Master's degree in Business Administration from Indian Institute of Technology, Bombay and Washington University in St. Louis. He has work experience of more than 20 years in strategy setting, leadership, and business transformation.

Pushparaj Shetty, aged 52 years, is one of the Promoters and Executive Director of the Company. He holds a Bachelor's degree in Engineering in Industrial Production from University of Mysore and a Post Graduate Degree in Management Sciences from Shri Dharmasthala Manjunatheshwara-Institute for Management Development, Mysore. He has work experience of more than 24 years in Water Resource Business including positive relationships with top water managers, Bid and Contract management. He leads the Water Resource Business of the Company.

Asha Sivashankar, aged 64 years, is the Independent Director of the Company. She holds a bachelor of Science (Honours Course) in Physics from University of Delhi. She is a Master of Science in Physics from Delhi University and also holds degree of Master of Arts in Applied and Professional Ethics from the University of Leeds, United Kingdom. She also holds the degree of Bachelor of Education from Annamalai University. She is an experienced Human Resource professional with over 20 years in diverse industries.

Ramesh Bhaskar Phatak, aged 61 years, is the Independent Director of the Company. He holds a Degree of Master of Science in System Science from Louisiana State University and Agricultural and Mechanical College. He has over 28 years of work experience. He has worked in Computer Science Department, Indian Institute of Science, Bengaluru. He worked in Motorola India Electronics Limited as Program Manager. He worked as R&D Vice President in Schneider-Electric India Private Limited. He has also worked in Intel India Private Limited.

Muralikrishnan Gopalakrishnan, aged 63 years, is an Independent Director of the Company. He holds a Bachelor of Engineering degree in Electrical Technology and Electronics from Indian Institute of Science, Bengaluru and also holds a Bachelor of Science in Physics from University of Calicut. He has over 32 years of work experience. In the past, he has acted in the capacity of a Chief Operating Officer to Sasken Network Engineering Ltd. Program Manager at Centre of Development of Telematics and Vice President of Communication Business Unit at Tata Elxsi Limited. He is currently the founder and Chief executive officer of Sounding board Business Solution Private Limited (OPC).

To conclude, the promoters of the company have a good experience in the industry that company operates in, the remaining directors also have good knowledge and experience in the different industry and in the fields which will help in the growth of the business.

Financial Snapshot

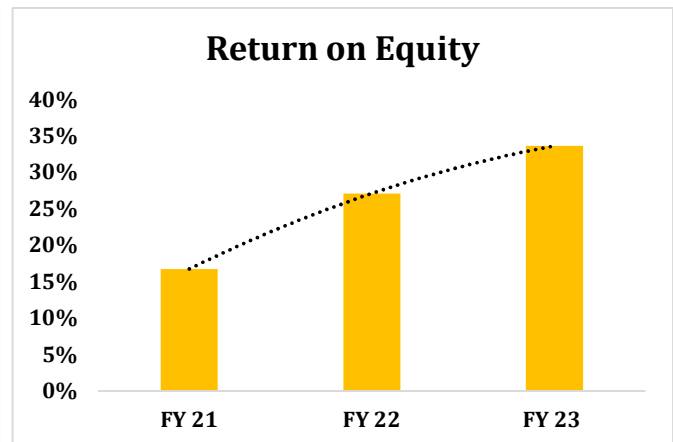
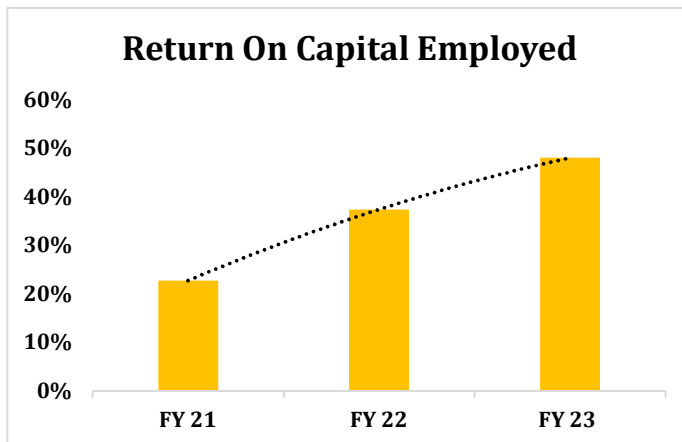
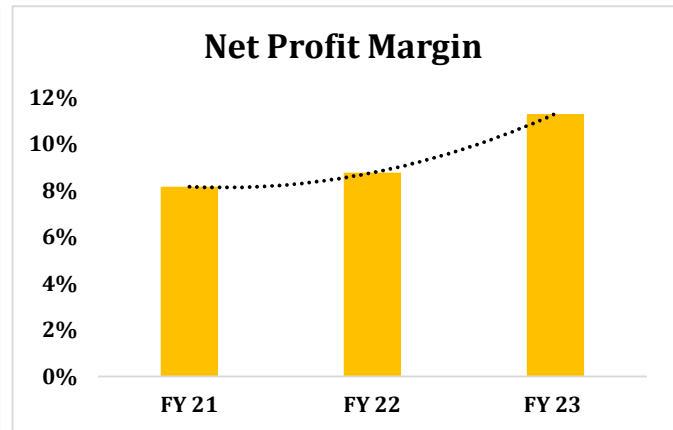
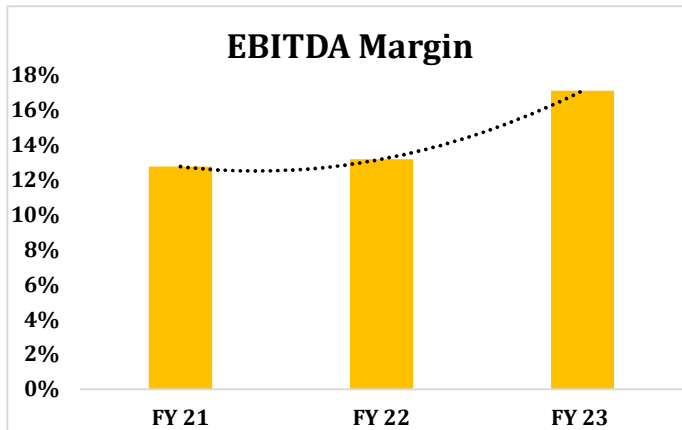
Profit and Loss Statement		(In Lacs.)		
Particulars	FY 21	FY 22	FY 23	
Revenue from Operations	2,561.72	5,150.90	7,451.94	
Other Income	16.50	49.03	95.35	
Total Income	2,578.22	5,199.93	7,547.29	
Expenses				
Purchases	546.93	1,944.31	1,897.24	
Changes in inventories	129.91	-327.29	98.45	
Employee benefits expense	1,206.51	1,976.05	3,045.31	
Finance costs	9.63	66.81	149.95	
Depreciation and Amortization expense	34.65	38.41	39.73	
Other expenses	351.52	878.64	1,136.26	
Total Expenses	2,279.15	4,576.93	6,366.94	
Earnings Before Interest, Taxes, Depreciation & Amortization	326.85	679.19	1,274.68	
EBITDA Margin	13%	13%	17%	
Profit/(Loss) before exceptional items and tax	299.07	623.00	1,180.35	
Less: Exceptional Items	-	-	-	
Profit/(Loss) before tax	299.07	623.00	1,180.35	
<u>Tax Expense</u>				
Current Year	80.06	168.77	326.46	
Deferred tax	8.58	-1.59	1.38	
Total Tax Expense	88.64	167.18	327.84	
Profit/(Loss) for the year	210.43	455.82	852.51	
Net Profit Margin	8%	9%	11%	

Balance Sheet		(In Lacs)		
Particulars	FY 21	FY 22	FY 23	
EQUITY AND LIABILITIES				
1. Shareholders' funds				
(a) Share Capital	711.27	928.04	928.04	
(b) Reserves and surplus	546.90	755.40	1,609.87	
Total Equity	1,258.17	1,683.44	2,537.91	
2. Non-current liabilities				
(a) Other Non-current Liabilities	3.30	3.30	3.30	
(b) Deferred Tax liability	8.58	6.99	8.38	
(c) Long-term provisions	17.80	22.79	26.60	
Total Non-current liabilities	29.68	33.08	38.28	
3. Current liabilities				
(a) Short-term borrowings	-	879.33	1,415.61	
(b) Trade payables				
(i) Due to MSME	-	830.90	720.73	
(ii) Due to Others	408.60	538.91	687.91	
(c) Other current liabilities	222.98	628.34	643.21	
(d) Short-term provisions	83.61	159.57	334.24	
Total Current liabilities	715.19	3,037.05	3,801.70	
Total Liabilities	744.87	3,070.13	3,839.98	
Total Equity and Liabilities	2,003.04	4,753.57	6,377.89	
ASSETS				
1. Non-current assets				

Balance Sheet				(In Lacs)
(a) Property, Plant and Equipment and Intangible assets				
(i) PPE	75.64	86.48	86.85	
(ii) Intangible assets	-	0.11	3.27	
(b) Non-current investments	119.17	12.21	122.34	
(c) Long-term loans and advances	5.73	12.61	12.61	
(d) Other Non-Current Assets	321.61	484.50	139.95	
Total Non-Current assets	522.15	595.91	365.02	
2. Current assets				
(a) Inventories	104.36	431.65	406.29	
(a) Trade receivables	1,036.79	2,590.60	4,263.74	
(b) Cash and cash equivalents	109.08	553.38	560.33	
(d) Short-term loans and advances	154.41	453.51	660.02	
(e) Other Current Assets	76.25	128.52	122.49	
Total Current assets	1,480.89	4,157.66	6,012.87	
Total Assets	2,003.04	4,753.57	6,377.89	

Cash Flow Statement				(In Lacs)
Particulars	FY 21	FY 22	FY 23	
Net Cash Flow from Operating Activities	-160.23	-265.10	-619.25	
Net Cash Flow from Investing Activities	-138.03	25.83	-178.15	
Net Cash Flow from Financing Activities	563.83	846.46	459.80	

Ratio Sheet			
Particulars	FY 21	FY 22	FY 23
Per Share Data			
Diluted EPS	1.16	2.08	3.92
BV per share	2.24	3.00	4.52
Operating Ratios			
EBITDA Margins	13%	13%	17%
PAT Margins	8%	9%	11%
Inventory days	14.87	30.59	19.90
Debtor days	147.72	183.57	208.84
Creditor days	272.68	257.15	271.00
Return Ratios			
RoCE	23%	37%	48%
RoE	17%	27%	34%
Valuation Ratios (x)			
EV/EBITDA	3.52	2.96	2.66
Market Cap / Sales	6.80	3.38	2.34
P/E	26.72	14.90	7.91
Price to Book Value	13.84	10.35	6.86
Solvency Ratios			
Debt / Equity	0.00	0.52	0.56
Current Ratio	2.07	1.37	1.58
Quick Ratio	1.92	1.23	1.47
Asset Turnover	1.28	1.08	1.17
Interest Coverage Ratio	30.34	9.59	8.24

Financial Charts

Key Risk Factors

1. The Company is dependent on few numbers of customers for sales i.e., top 10 (Top) clients contributed approximately 50.54% of company's revenue from operations based on Restated Consolidated Financial Statements for the year ended March 31, 2023. Loss of any of this large customer may affect its revenues and profitability.
2. There are outstanding legal proceedings involving the Company amounting to Rs. 72.77 Lacs. Any adverse decision in such proceeding may have a material adverse effect on the business, results of operations and financial condition.
3. Company has had negative cash flow from operating activity in all the previous fiscal years.

Track Record of Lead Manager

The lead manager to the issue is Indorient Financial Services Ltd. A table has been set below highlighting the details of the IPO of the 2 companies handled by the Lead Managers in recent times -

Indorient Financial Services Ltd-

Sr. No	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing date	CMP* (INR)
1.	eMudhra Limited	412.79	256.00	June 01, 2022	480.35
2.	Secmark Consultancy Limited	15.04	135.00	October 01, 2020	89.90

As per the offer document, Indorient Financial Services Ltd has had 2 mandates in the last three fiscal years and 1 opened at premium and one at discount.

*CMP for all the above-mentioned companies is taken as on 26nd September 2023.

Recommendation

The company has experienced exponential growth with respect to the various financial indicators as well as decent improvement in the balance sheet position in the last three Fiscals, i.e., company has seen an increase in its net worth.

The management outlook of the company is good, along with proper bifurcation of the roles and responsibilities of its top management.

The P/E on an annualised and Post IPO basis is around 5.62 times which seems to be fairly priced looking at the performance and size of the company.

The Company experienced considerable growth over the past three years and has expanded its operations and product portfolio. Company's total revenue grew at a CAGR of 43% between Fiscals 2021 and 2023, while restated profit after tax grew at a CAGR of 59.49% between Fiscals 2021 and 2023. Looking at the growth prospect and at given P/E one can **APPLY** for the IPO.

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