

IPO Details		Company Background					
<b>Opening Date</b>	Jan 18, 2024	<ul style="list-style-type: none"> <li>Qualitek Labs Limited was originally incorporated in the year 2018 and had its registered office in New Delhi, India.</li> <li>The company is primarily engaged in the business of providing testing, inspection, homologation, certification and consultancy services to various industries viz the automotive, defence, metals &amp; metallurgy, environment and water, minerals, food &amp; agriculture, pharma &amp; healthcare.</li> <li>The Company is NABL Accredited Lab and is managing/servicing labs in the following geographical locations and operating retail outlets such as Pune and Bhubaneshwar.</li> <li>As of 12<sup>th</sup> January 2024, the Company had 144 employees on its payroll.</li> </ul>					
<b>Closing Date</b>	Jan 22, 2024						
<b>Stock Exchange</b>	BSE SME						
<b>Lot Size</b>	1,200 Shares						
<b>Issue Price</b>	₹ 100 per share						
<b>Issue Size</b>	Aggregating up to 19.64 Cr.						
<b>Fresh Issue</b>	Aggregating up to 19.64 Cr.						
<b>Offer for Sale</b>	-						
<b>Application Amount</b>	₹ 1,20,000						
IPO Objective		Market Capitalization (In Cr.)					
Funding capital expenditure for installation of plant and machinery and expansion of laboratories.		<b>Pre-Issue</b>	<b>Post-Issue</b>				
Repayment of unsecured loans to promoters.		₹ 54	₹ 74				
Funding of working capital requirements.							
General corporate purposes.		Financial Summary (In Lacs)					
Pre-Issue Shareholding			<b>For the Period Ended</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23</b>	<b>Sep-23</b>
<b>Category</b>	<b>No. of Shares</b>	<b>% of Total Shares</b>	<b>Total Assets</b>	1,459.88	2,219.86	3,955.61	4,409.68
Promoter & Promoter Group	54,07,498	100.00 %	<b>Net Assets</b>	-22.96	189.61	986.52	1,187.46
Public	2	Negligible	<b>Total Borrowings</b>	1,121.82	1,728.68	2,344.67	2,499.59
Promoter of the Company			<b>Total Revenue</b>	637.44	1,201.73	1,935.13	1,250.74
1	Alok Kumar Agarwal		<b>Profit After Tax</b>	46.11	113.57	296.91	200.93
2	Antaryami Nayak		Tentative Timeline				
3	Kamal Grover		<b>Opening Date</b>	Jan 18, 2024			
4	TIC Services Private Limited		<b>Closing Date</b>	Jan 22, 2024			
Competitive Strengths			<b>Basis of Allotment</b>	Jan 23, 2024			
1	Experienced promoters and management team		<b>Initiation of Refunds</b>	Jan 24, 2024			
2	Established brand name		<b>Credit of Shares to Demat</b>	Jan 24, 2024			
3	Customer-centric services		<b>Listing Date</b>	Jan 25, 2024			
4	Robust technical capability with strong IT infrastructure						

### Company Background and Analysis

Qualitek Labs Limited was originally incorporated on May 17<sup>th</sup>, 2018. The company is primarily engaged in the business of providing testing, inspection, homologation, certification and consultancy services to various industries viz the automotive, defence, metals & metallurgy, environment and water, minerals, food & agriculture, pharma & healthcare. The Company has commenced its business operation of providing services to its clients from a testing laboratory, which was set up in Pune in the year 2018. Later in the year 2022, the Company expanded and established the second laboratory in Bhubaneswar.

The company's Lab Testing Services are as follows –

1. Automotive Testing
2. Defence Product Testing
3. Metals and Metallurgy Testing
4. Mineral Testing
5. Environment and Water Testing
6. Food and Agriculture Testing
7. Pharma and Healthcare

The company is NABL Accredited Lab and is managing/servicing labs in the following geographical location and operating retail outlets such as –

1. Pune
2. Bhubaneswar

The company is in the process of establishing the following two new testing laboratories –

1. Noida - Type of Testing Services: Automotive, electronics, textiles, consumer products, mining, oil & gas
2. Pune - Type of Testing Services: environmental testing, metal & metallurgy, packaging testing, IP testing, onboard diagnostic testing.

The company's major products and products revenue bifurcation as per geography and testing type is given below: -

(Amount in Lacs)

Particulars	Mar-21		Mar-22		Mar-23		Aug-23	
	Amt	%	Amt	%	Amt	%	Amt	%
<b>Bhubaneswar</b>								
Environment and Water	2.25	0.35	20.00	1.67	143.26	7.49	82.58	6.61
Food and Agricultural	0.07	0.01	12.96	1.08	31.40	1.64	18.08	1.45
Minerals	0.17	0.03	31.07	2.60	66.10	3.45	76.00	6.09
Pharma and Healthcare	-	-	9.04	0.76	19.45	1.02	13.05	1.04
<b>Total (A)</b>	<b>2.49</b>	<b>0.39</b>	<b>73.07</b>	<b>6.11</b>	<b>260.21</b>	<b>13.60</b>	<b>189.71</b>	<b>15.19</b>
<b>Pune</b>								
Automotive	626.48	98.44	1,020.02	85.25	1,412.15	73.79	1,009.91	80.86
Defence Product	5.23	0.82	63.53	5.31	224.15	11.71	45.50	3.64
Metal and Metallurgy	2.21	0.35	39.95	3.34	17.17	0.90	3.80	0.30
<b>Total (B)</b>	<b>633.92</b>	<b>99.61</b>	<b>1,123.50</b>	<b>93.89</b>	<b>1,653.47</b>	<b>86.40</b>	<b>1,059.21</b>	<b>84.81</b>
<b>Total (A+B)</b>	<b>636.41</b>	<b>100.00</b>	<b>1,196.57</b>	<b>100.00</b>	<b>1,913.68</b>	<b>100.00</b>	<b>1,248.92</b>	<b>100.00</b>

To conclude, Qualitek Labs Limited was incorporated in 2018 and has decent experience in the industry. The company generates the majority of its revenue from the Automotive sector and operates in a very concentrated market by generating the majority of its revenue generated from Pune. The company is raising total gross proceeds of Rs. 1,964 Lakhs. The company is expanding by opening two new laboratories in Noida, and Pune.

### **Business Strategies**

**1. Develop cordial relationships with the suppliers, customers and employees -**

The company believes in maintaining good relationships with its suppliers and customers. The Company is establishing strong, mutually beneficial long-term relationships with suppliers and customers.

**2. Expanding the geographical reach and scope of services -**

This company intends to expand its services in other geographies where they have the availability of talent to execute and provide services in the most cost-effective and efficient manner to the customers.

**3. Information Technology -**

The Group Company developed LIMS (Laboratory Information Management System), which enables them to undertake sample registration, sample booking, sample test master creation & and updation, capacity planning, test results updation, etc, and now the company is in the process of enhancing the features of the LIMS to include inventory management, resource allocation, store receipts etc. to make it an ERP solution.

**4. Service Portfolio -**

The company have consistently focused on expanding and optimising its service range to offer utility and value for money. The company seeks to introduce services other than existing ones to cater to the evolving requirements of the customer base and cover newer customer segments.

## Competitive Scenario and Peer Mapping

### Competition

The Testing Inspection and Certification (TIC) market is highly competitive including a few organised and unorganised players in the market. The industry segment in which the company operates is fragmented. The industry in which the company operates has fewer barriers to entry. The bargaining power with the customers is high in the sector in which the company operates. The bargaining power with the suppliers is also high in the sector in which the company operates.

### Peer Analysis

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

Particulars	Qualitek Labs Limited	Choksi Laboratories Limited
	31st Mar 2023	31st Mar 2023
Net Profit Margin	16%	9%
EBITDA Margin	28%	30%
Return on Capital Employed	21%	10%
Return on Equity	30%	15%
EPS (INR)	7.45	4.61

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

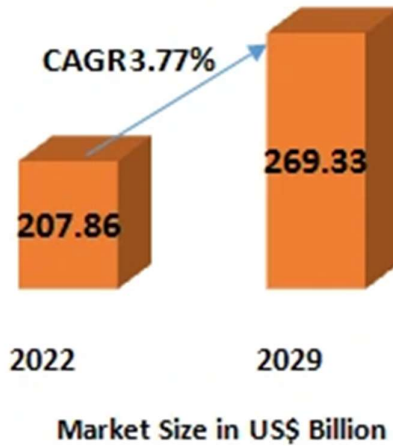
Particulars	Qualitek Labs Limited	Choksi Laboratories Limited
	31st Mar 2022	31st Mar 2022
Net Profit Margin	9.49%	0.70%
EBITDA Margin	19%	30%
Return on Capital Employed	72%	7%
Return on Equity	60%	1%
EPS (INR)	7.97	0.30

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

Particulars	Qualitek Labs Limited	Choksi Laboratories Limited
	31st Mar 2021	31st Mar 2021
Net Profit Margin	7.26%	-10.2%
EBITDA Margin	16.3%	16.0%
Return on Capital Employed	1763.0%	-1.0%
Return on Equity	-200.8%	-14.7%
EPS (INR)	65.87	-3.75

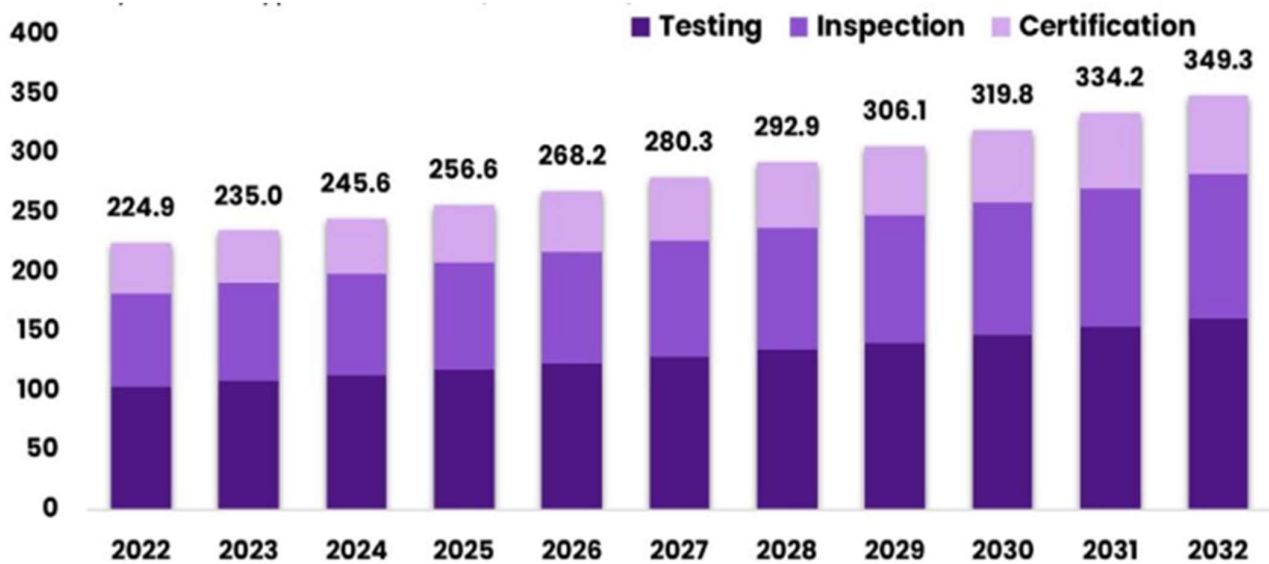
**Industry Overview**

Exhibit 1: Testing, Inspection, and Certification Market Size in US\$ Billion.



(Source: maximizemarketresearch.com)

Exhibit 2: Global Testing, Inspection, and Certification Market Size, by Service Type, 2022-2032 (USD Billion)



(Source: market.us)

### **Testing, Inspection and Certification Market Overview -**

The Indian testing, inspection, and certification (TIC) market size was valued at USD 26 million in 2021 and is projected to reach USD 47 million by 2030, registering a CAGR of 6.9% during the forecast period (2022-2030).

Highlights:

- a) Testing dominates the market by service sourcing type.
- b) Infrastructure dominates the market by application.
- c) The in-house segment dominates by sourcing type.

India's testing, inspection, and certification (TIC) market is a quickly expanding industry offering services to several sectors, including manufacturing, the automobile, aerospace, medical, food and beverage.

The government's emphasis on quality and safety requirements, the rising need for certification services, and the expansion of the manufacturing and automotive industries are some of the main factors driving the TIC market in India. The implementation of numerous rules and guidelines by the Indian government, including BIS, FSSAI, and BEE, has raised the demand for testing and certification services.

The market is also adopting new technologies like IoT, AI, and machine learning to deliver enhanced testing and inspection services. Environmental testing and certification services are in greater demand due to the increased emphasis on sustainability and the environment.

The need for TIC services has expanded due to the Indian government's implementation of several regulations and standards relating to quality, safety, and environmental protection. As an illustration, the Bureau of Indian Standards (BIS) has established obligatory certification programs for several goods, such as appliances, machinery, and electronics, which demand testing and certification by recognized laboratories. Similar rules have been established for food safety in India by the Food Safety and Requirements Authority of India (FSSAI), which mandates that food enterprises get licenses and adhere to several safety and quality requirements. The TIC sector plays a critical role in assuring compliance with these standards, and these rules have raised the demand for testing and certification services.

India is experiencing an increased need for certification services due to expanding consumer awareness, globalization, and the requirement for compliance with international standards. Consumers are becoming more concerned about the quality and safety of goods and services. They look for certifications like ISO, HACCP, and CE to ensure they purchase goods that adhere to high standards. Similar to how trade is becoming more globally interconnected, Indian companies are trying to sell their goods abroad, necessitating meeting several foreign standards and certifications. As a result, there is an increasing need for certification services, and the TIC sector is playing a crucial role in meeting this demand for Indian firms.

(Source: prospectus)

## Key Managerial Personnel

**Alok Kumar Agarwal**, aged 54 years, is one of the Promoters and Non-Executive Director of the Company. He is a qualified Chartered Accountant, Insolvency Professional and a successful entrepreneur with over 27 years of experience. He is involved in business-related advisory services. He is responsible for strategic investment, management of funds, expansion, getting new businesses and setting up appropriate control mechanisms in the business.

**Kamal Grover**, aged 44 years, is one of the Promoters and Whole-Time Director of the Company. He has completed his bachelor's in mechanical engineering and a postgraduate diploma in marketing management. He has an experience of more than 20 years. He is currently responsible for the entire Sales of TIC Service Group of Companies including Interstellar Testing Centre Private Limited and the Company.

**Antaryami Nayak**, aged 52 years, is one of the Promoters and Managing Director of the company. He is a qualified cost accountant and has vast experience in the corporate world particularly in the testing, inspection and certification Sectors. He is currently the Director of TIC Services Private Limited and is responsible for Interstellar Testing Centre Private Limited and the Company.

**Sulabh Jain**, aged 29 years, is the Independent Director of the Company. He is a Commerce graduate and an associate member of the Institute of Company Secretaries of India. He now has 7 years of experience as a company secretary.

**Shubhangi Agarwal**, aged 33 years, is the Independent Director of the Company. She is a Commerce graduate and an associate member of the Institute of Company Secretaries of India and is a consultant and advisor in Corporate Law with more than 7 years of work experience. She is the founder of M/s Shubhangi Agarwal & associates established in the year 2017.

**Manish Wahi**, aged 30 years, is the Independent Director of the Company. He is a qualified Chartered Accountant and has more than 4 years of experience as a consultant and advisor in laws relating to direct tax, indirect tax and statutory audit. He is the founder of M/s Manish Wahi & Associates, established in 2018.

To conclude, the company has 4 promoters, out of which 3 are individual promoters and they have vast experience in the industry in which the company operates and in the fields which help in the growth of the business. The Directors of the company have good experience in fields which help in the growth of the company.

## Financial Snapshot

<b>Profit and Loss Statement</b>				
<b>(In Lacs)</b>				
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>	<b>Sep-23</b>
Revenue from Operations	635.49	1,196.57	1,913.66	1,248.92
Other Income	1.95	5.16	21.47	1.82
<b>Total Income</b>	<b>637.44</b>	<b>1,201.73</b>	<b>1,935.13</b>	<b>1,250.74</b>
<b>Expenses</b>				
Direct Expenses	150.81	189.43	424.73	259.40
Employee benefits expense	128.14	335.63	365.67	252.83
Finance costs	1.08	31.92	69.65	47.97
Depreciation and Amortization expense	34.79	49.84	84.44	59.02
Other expenses	253.17	440.49	593.42	361.87
<b>Total Expenses</b>	<b>567.99</b>	<b>1,047.31</b>	<b>1,537.91</b>	<b>981.09</b>
<b>Earnings Before Interest, Taxes, Depreciation &amp; Amortization</b>	<b>103.37</b>	<b>231.02</b>	<b>529.84</b>	<b>374.82</b>
<b>EBITDA Margin</b>	<b>16%</b>	<b>19%</b>	<b>28%</b>	<b>30%</b>
<b>Profit/(Loss) before tax</b>	<b>69.45</b>	<b>154.42</b>	<b>397.22</b>	<b>269.65</b>
Tax Expense				
Tax Expenses for the current year	-	3.08	79.20	64.54
Deferred Tax	23.34	37.77	21.11	4.18
Total Tax Expense	23.34	40.85	100.31	68.72
<b>Profit/(Loss) for the year</b>	<b>46.11</b>	<b>113.57</b>	<b>296.91</b>	<b>200.93</b>
<b>Net Profit Margin</b>	<b>7%</b>	<b>9%</b>	<b>15%</b>	<b>16%</b>

<b>Balance Sheet</b>				
<b>(In Lacs)</b>				
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>	<b>Sep-23</b>
<b>EQUITY AND LIABILITIES</b>				
<b>1. Shareholders' funds</b>				
Share Capital	1.00	46.00	540.75	540.75
Reserve and Surplus	(23.96)	143.61	445.77	646.71
<b>Total Equity</b>	<b>(22.96)</b>	<b>189.61</b>	<b>986.52</b>	<b>1,187.46</b>
<b>2. non-current liabilities</b>				
Long Term Borrowings	25.07	19.88	1,033.69	973.45
Deferred Tax Liabilities (Net)	0.58	38.34	59.46	63.64
Long Term Provisions	1.20	3.32	6.67	9.79
<b>Total non-current liabilities</b>	<b>26.85</b>	<b>61.54</b>	<b>1,099.82</b>	<b>1,046.88</b>
<b>3. Current liabilities</b>				
Financial Liabilities				
Short-term borrowings	1,096.75	1,708.80	1,310.98	1,526.14
Trade payables				
Due to MSME	179.58	68.66	95.45	113.58
Due to Others	54.65	81.55	271.85	316.73
Other Current Liabilities	124.72	109.40	188.28	214.09
Short-term Provisions	0.29	0.30	2.71	4.80
<b>Total Current liabilities</b>	<b>1,455.99</b>	<b>1,968.71</b>	<b>1,869.27</b>	<b>2,175.34</b>
<b>Total Liabilities</b>	<b>1,482.84</b>	<b>2,030.25</b>	<b>2,969.09</b>	<b>3,222.22</b>
<b>Total Equity and Liabilities</b>	<b>1,459.88</b>	<b>2,219.86</b>	<b>3,955.61</b>	<b>4,409.68</b>
<b>ASSETS</b>				
<b>1. non-current assets</b>				
Property, Plant and Equipment				
Tangible Assets	633.36	756.81	1,366.50	1,356.71
Capital Work in Progress	447.15	447.15	1,485.20	2,025.17



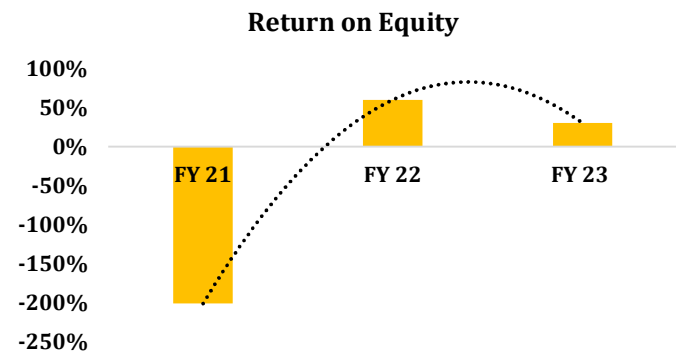
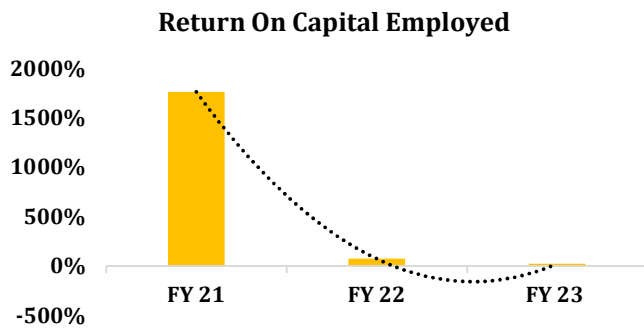
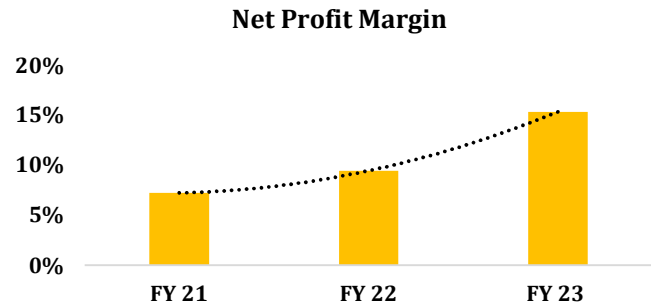
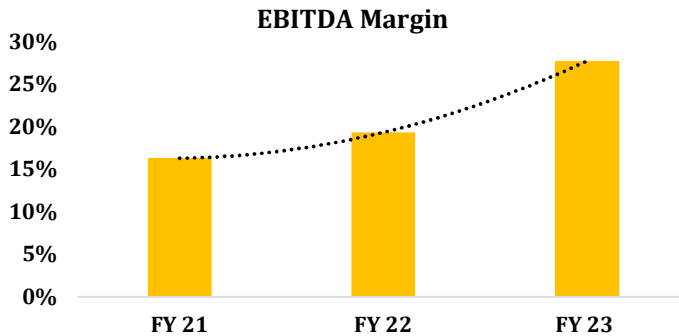
<b>Balance Sheet</b>				<b>(In Lacs)</b>
Non-Current Investment	0.70	0.70	-	-
Long-Term Loans and Advances	72.23	166.05	110.93	127.42
Other non-current assets	26.70	86.94	133.95	131.21
<b>Total non-current assets</b>	<b>1,180.14</b>	<b>1,457.65</b>	<b>3,096.58</b>	<b>3,640.51</b>
<b>2. Current assets</b>				
Trade receivables	120.23	219.28	582.57	611.31
Cash and Bank Balances	13.14	101.86	34.58	3.00
Short-term loans and advances	145.38	439.93	230.50	150.11
Other Current Assets	0.99	1.14	11.38	4.75
<b>Total Current assets</b>	<b>279.74</b>	<b>762.21</b>	<b>859.03</b>	<b>769.17</b>
<b>Total Assets</b>	<b>1,459.88</b>	<b>2,219.86</b>	<b>3,955.61</b>	<b>4,409.68</b>

<b>Cash Flow Statement</b>				<b>(In Lacs)</b>
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>	<b>Sep-23</b>
Net Cash Flow from Operating Activities	135.03	-511.94	717.86	450.65
Net Cash Flow from Investing Activities	-606.68	-173.29	-1,731.47	-589.20
Net Cash Flow from Financing Activities	481.92	673.94	1,046.35	106.95

<b>Ratio Sheet</b>				
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>	<b>Sep-23*</b>
<b>Per Share Data</b>				
Diluted EPS	65.87	7.97	7.45	5.47
BV per share	-0.31	2.57	13.38	45.50
<b>Operating Ratios</b>				
EBITDA Margins	16.27%	19.31%	27.69%	30.01%
PAT Margins	7.23%	9.45%	15.34%	16.13%
Debtor days	69.06	66.89	111.12	89.57
Creditor days	566.90	289.43	315.65	303.57
<b>Return Ratios</b>				
RoCE	1763%	72%	21%	15%
RoE	-	60%	30%	12%
<b>Valuation Ratios (x)</b>				
EV/EBITDA	10.50	7.86	6.22	7.72
Market Cap / Sales	11.60	6.16	3.85	2.95
P/E	1.52	12.55	13.42	18.27
Price to Book Value	-	38.88	7.47	2.20
<b>Solvency Ratios</b>				
Debt / Equity	-48.86	9.12	2.38	2.10
Current Ratio	0.19	0.39	0.46	0.35
Quick Ratio	0.19	0.39	0.46	0.35
Asset Turnover	0.44	0.54	0.48	0.28
Interest Coverage Ratio	63.50	5.68	6.39	6.58

\*Ratio sheet for Sep-23 is annualized.

## Financial Charts



## Key Risk Factors

1. The company or some of the Promoters and the Group Company is involved in certain legal proceedings amounting to Rs. 15.60 lakhs. Any adverse decision in such proceedings may render them liable to liabilities/penalties and may adversely affect the business and the results of operations.
2. The company has had negative operating cash flow for the FY ended 2022. Sustained negative cash flow could adversely impact the business, financial condition and results of operations.
3. Two of the group companies have incurred losses (out of which one is also for FY ended 2021) for the FY ended 2022, and 2023. The third group company has incurred a loss for the FY ended 2022.
4. The company's major operations are concentrated in Pune, Maharashtra and any adverse factors affecting the state could have an adverse impact on the business, results of operations and financial condition for the period ending on March 31, 2023, and September 30, 2023, respectively, the company have generated revenue of 86.40%, and 84.81% from Pune, Maharashtra respectively.
5. Majority of the revenue for the company is generated from Automotive testing and adverse factors affecting the automotive sector as a whole could have an adverse impact on the business.

### Track Record of Lead Manager

The lead manager to the issue is Oneview Corporate Advisors Private Limited. A table has been set below highlighting the details of the IPO of the previous companies handled by the Lead Manager in recent times.

#### Oneview Corporate Advisors Private Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Eastern Logica Infoway Limited	16.94	225.00	January 17, 2023	1,194.65

The company has had 1 mandate in the past three years including the current Year.

\*CMP for the above-mentioned companies is taken as of 17<sup>th</sup> January 2024.

As per the offer document, from the above-mentioned mandates, the mandates have opened at a premium on the listing date.

## **Recommendation**

The company has been in the industry since 2018 and is relatively new to the industry. The company's management overview is satisfactory. The company also faces significant competition in the industry.

The P/E on an annualized and post-IPO basis is 18.27 times which seems to be fully priced by looking at the performance of the company and the sector. The Sector P/E is 39.1 times.

The company has seen an increase in the top line of its financials, but the margins have seen a hike which may or may not sustain going forward. The company has also had negative operating cashflows for FY 2022 and its group companies have faced negative PAT over the years details of which are provided in the "Risk Factor" of this report. The company has carried forward loss for FY 2021 assuming by looking at the Reserves and Surplus, the company also operates in a very concentrated market which does not make it attractive. However, the company is raising the proceeds for the expansion of its facility and repayment of certain borrowings which may yield good growth to the company in the near future. But for now, we recommend **AVOID** applying to this IPO.

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