



Slone Infosystems Limited

IPO Note

Recco – **AVOID**



IPO Details	
Opening Date	May 3, 2024
Closing Date	May 7, 2024
Stock Exchange	NSE SME
Lot Size	1,600 Shares
Issue Price	₹79 per share
Issue Size	Aggregating up to 11.06 Cr.
Fresh Issue	Aggregating up to 11.06 Cr.
Offer for Sale	-
Application Amount	₹1,26,400

IPO Objective	
1.	Capital Expenditure towards purchase of Laptops, Desktops, SSD and RAM.
2.	Repayment/prepayment of certain borrowings availed by the Company and;
3.	General corporate purposes.

Pre-Issue Shareholding		
Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	38,46,813	99.43%
Public	22,200	0.57%

Promoter of the Company	
1.	Rajesh Srichand Khanna
2.	Manisha Rajesh Khanna
3.	Mohit Rajesh Khanna

Competitive Strengths	
1.	Wide range of offerings with capability to provide customized and integrated IT solutions.
2.	Wide presence in domestic Market with diverse base of customers.
3.	Experienced management and operational team.
4.	Strong relationship with customers.

Company Background	
○	Incorporated in December 2022, Slone Infosystems Limited has its registered office in Mumbai, Maharashtra, India.
○	The company provides IT hardware solutions. It sells and rents various IT equipment, such as laptops, desktops, servers, and workstations. Additionally, it offers IT solution services to corporate clients, including managing cloud servers and servicing IT equipment.
○	The company has served clients across various industries including BPO, Media company, pharm company, infotech company, etc.
○	As of April 2024, the company had a total of 8 employees on it's payroll along with 6 contractual employees.

Market Capitalization (In Cr.)	
Pre-Issue	Post-Issue
₹ 3,057	₹ 4,163

Financial Summary (In Lacs.)				
For the Period Ended	Mar-21	Mar-22	Mar-23	Dec-23
Total Assets	929.42	1,167.37	1,190.72	1,978.58
Net Assets	645.00	716.26	484.86	1,584.44
Total Borrowing	451.33	481.12	274.03	392.12
Total Revenue	1,100.21	2,578.79	3,022.14	3,407.06
Profit After Tax	27.53	38.29	74.65	284.71

Tentative Timeline	
Opening Date	May 3, 2024
Closing Date	May 7, 2024
Basis of Allotment	May 8, 2024
Initiation of Refunds	May 9, 2024
Credit of Shares to Demat	May 9, 2024
Listing Date	May 10, 2024



Company Background and Analysis

Established in 1999, SAM Computers by Mr. Rajesh Srichand Khanna who used to provide IT hardware solutions. It transitioned to Slone Infosystems Pvt. Ltd. on Dec. 29, 2022, acquiring SAM's business via a Slump Sale Agreement in March 2023, and converting to Slone Infosystems Limited on Dec 12, 2023.

The company is an IT hardware solutions company, offering tailor-made solutions to clients' needs, providing flexibility and cost-effectiveness. The company's business operates in segments, viz, :1. Sale of Laptop, Computer & Computer Peripherals, 2. Sale of other IT-related products, 3. IT Service solutions; and 4. Rental Services.

Product Portfolio:

Laptops: High, Economical, and Basic configurations catering to various work environments.

Desktops: High, Economical, and Customized systems with upgradable options.

Computer Peripherals: Input/output devices and accessories.

Servers: Rack-mount, Tower, and Blade servers for efficient data management.

LED Monitors, Firewalls, Printers, CCTV hardware, and other peripherals are also available for rent.

Services include IT equipment installations, consulting, support, and IT equipment rental. Marketing strategies focus on providing comprehensive solutions, customer-centric services, continuous updates, and timely support.

The breakup of product-wise revenue for the stub period ended December 31, 2023, and for the financial years ended March 31, 2023, March 31, 2022, and March 31, 2021, is provided herein below:

(Amount in Lakhs)

Particulars	Mar-21		Mar-22		Mar-23		Dec-23	
	Amt	%	Amt	%	Amt	%	Amt	%
Laptops	1,716.05	50.37	1,553.68	60.25	603.16	54.82	1,755.06	58.07
Desktops	365.17	10.72	282.16	10.94	129.17	11.74	350.50	11.60
Computer Peripherals, spares	235.18	6.90	187.08	7.25	73.18	6.65	225.18	7.45
Data Servers	193.41	5.68	115.41	4.48	39.57	3.60	149.75	4.96
LED Monitor	109.50	3.21	82.50	3.20	60.22	5.47	78.50	2.60
Firewall equipment	112.60	3.30	92.40	3.58	45.05	4.09	100.05	3.31
Revenue from IT Equipment Installations, IT Consulting and Support	511.86	15.02	-	-	-	-	-	-
Revenue from IT Equipment Rental Services	163.29	4.79	265.56	10.30	149.86	13.62	363.10	12.01
Total	3,407.06	100.00	2,578.79	100.00	1,100.21	100.00	3,022.14	100.00

To conclude, the company is fairly new to the industry and seems to derive most of its revenue from the sale of IT Hardware.



Business Strategies

- **Customer Base Expansion:** The company aims to maintain long-standing relationships with existing customers while expanding its customer base through targeted marketing and enhanced service offerings.
- **Focus on Emerging Technologies:** The company aims to be constantly updated in terms of new technologies and market trends allowing it to provide clients with the latest IT hardware, strengthening relationships and adding value to their systems.
- **Resource Optimization:** The company's investment in technical process improvement and increased service activities aims to optimize resource utilization. Regular analysis identifies bottlenecks, enabling efficiency improvements and optimal resource allocation.



Competitive Scenario and Peer Mapping

Competition

The IT sector exhibits significant fragmentation and lacks entry barriers, fostering an environment conducive to new entrants with innovative business models. Competition arises from both organized and unorganized players within the industry, focusing on key attributes such as service quality, customer support, pricing, and timely delivery. Established players in the IT sector, equipped with superior resources and experienced teams, pose additional competition. New entrants often employ aggressive pricing strategies to expand their customer base. Some competitors benefit from distinct competitive advantages, including longer operational histories, broader product portfolios, extensive supplier networks, larger user bases, strong brand recognition, and ample financial resources for investments and acquisitions. Intensified competition may lead to pricing pressures and diminished profitability, potentially hindering sustainable revenue growth and market share retention for the company. In this dynamic landscape, bargaining power with suppliers and customers fluctuates. Suppliers face pressure from options, customers wield power due to offerings and pricing. Strong relationships and customer focus are crucial.

Peer Analysis

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

Particulars	Slone Infosystems Ltd.	Brisk Technovision Ltd.	Benchmark Computer Solutions Ltd.
	31st Mar 2023	31st Mar 2023	31st Mar 2023
Net Profit Margin	2.50%	0.83%	8.08%
EBITDA Margin	1.82%	2.13%	12.72%
Return on Capital Employed	-0.17%	15.66%	11.47%
Return on Equity	14.52%	7.07%	12.19%
EPS (INR)	4.05	9.95	4.07

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

Particulars	Slone Infosystems Ltd.	Brisk Technovision Ltd.	Benchmark Computer Solutions Ltd.
	31st Mar 2022	31st Mar 2022	31st Mar 2022
Net Profit Margin	1.48%	4.98%	6.67%
EBITDA Margin	2.13%	6.84%	9.87%
Return on Capital Employed	0.43%	48.21%	12.01%
Return on Equity	16.74%	35.71%	11.68%
EPS (INR)	-	5.50	1.66

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

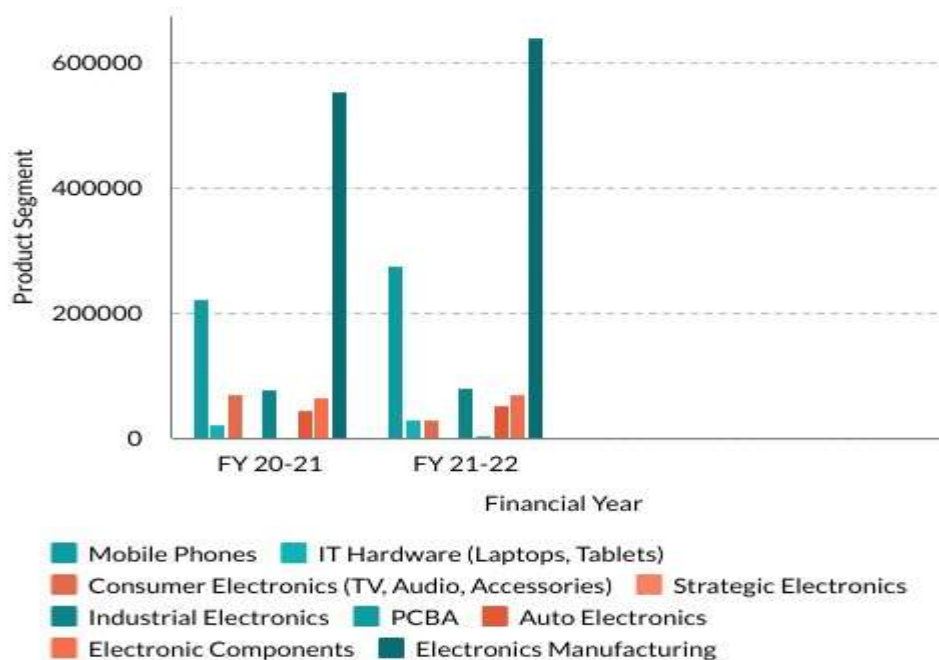
Particulars	Slone Infosystems Ltd.	Brisk Technovision Ltd.	Benchmark Computer Solutions Ltd.
	31st Mar 2021	31st Mar 2021	31st Mar 2021
Net Profit Margin	2.50%	0.83%	8.08%
EBITDA Margin	1.82%	2.13%	12.72%
Return on Capital Employed	-0.17%	15.66%	11.47%
Return on Equity	14.52%	7.07%	12.19%
EPS (INR)	-	0.70	1.94



Industry Overview

Electronics Hardware Industry -

Exhibit 1 : The production profile of the electronics sector for 2020-21



(Source: Industry Associations)

Market Growth

- The Indian electronics hardware industry is experiencing significant growth, with a Compound Annual Growth Rate (CAGR) of 15% between 2016-17 and 2021-22.
- The industry is driven by a large domestic market, skilled workforce, and government initiatives like 'Make in India' and 'Digital India' that promote domestic manufacturing.

Industry Segments

- Mobile Phones are the dominant segment, accounting for nearly half of the industry's production value (2020-21).
- IT Hardware (laptops, tablets) is another key segment with consistent growth.
- Other segments include Consumer Electronics (TVs, Audio), Strategic Electronics, Industrial Electronics, Wearables, Hearables, PCBA, Auto Electronics, LED Lighting, and Electronic Components.

Trends

- There's a growing focus on reducing reliance on imports and increasing domestic manufacturing of electronic goods.
- Demand for IT hardware is rising due to factors like remote work and the National Education Policy 2020.
- Emerging technologies like AI, ML, and IoT are driving demand for specialized ICT hardware

(Source: prospectus)



Key Managerial Personnel

Rajesh Srichand Khanna, aged 52 years, is one of the Promoters and Managing Director of the Company. He has completed his Bachelors of Commerce from University of Bombay. He commenced his career in 1993 as an accountant for private limited companies. In 1999, he founded M/s SAM Computers, specializing in trading and renting IT equipment, accumulating nearly 25 years of industry expertise.

Mohit Rajesh Khanna, aged 24, is one of the Promoters and Chief Financial Officer of the Company. He is also a Whole Time Director. He holds a Bachelor's in Management Studies from Smt. Mithibai Motiram Kundnani College of Commerce and Economics, University of Mumbai. He is responsible for financial management, strategic planning, and operational oversight. With prior experience as Accounts Head at M/s SAM Computers, he brings expertise in accounts, finance, and business development.

Manisha Rajesh Khanna, aged 53 Years, is one of the Promoters and Non-Executive Director in the Company. She is an Undergraduate. She is Proprietor of M/s Nutty Delite Dry Fruits & Spices, Sole Proprietorship engaged in dealing in dry fruits and spices of all kinds.

Rajesh Krishana Vyas, aged 54 years, is an Independent Director at the Company. Holding a Masters of Management Studies degree from the University of Bombay, he brings over 29 years of extensive experience in Digital Marketing, AI, Data & Analytics, Financial Analysis, Project Management, and Strategic planning. He co-founded Incometech and Fintech companies and held key positions within fintech organizations.

Krupesh Arvind Bhansali, aged about 46 years, serves as an Independent Director at the Company. He is a qualified Chartered Accountant, Insolvency Professional, and Registered Valuer. He holds a Master in Business Finance and certifications including Certified Fraud Examiner (CFE), Certified Information Systems Auditor (CISA), and Diploma in Information System Audit (DISA).

To conclude, the company has 3 promoters, and one of them has vast experience in the industry. Two of them bring a blend of extensive industry experience and fresh perspective to the company. Their combined expertise in IT hardware, finance, and business development promises a strong foundation for strategic growth and operational efficiency. However, the limited experience of one promoter raises a potential concern about decision-making depth and ability to navigate industry challenges.



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Financial Snapshot

Profit and Loss Statement				(In Lacs)
Particulars	FY 21	FY 22	FY 23	Dec-23
Revenue from Operations	1,100.21	2,578.79	3,022.14	3,407.06
Other Income	57.23	80.34	55.26	27.80
Total Income	1,157.44	2,659.13	3,077.40	3,434.86
Expenses				
Purchases of Stock in Trade	1,044.44	2,496.48	2,780.41	2,671.27
Changes in Inventories of WIP, Finished Goods & Stock in Trade	-	-	-14.27	-134.46
Employee benefits expense	23.09	22.77	36.54	88.54
Finance costs	21.16	33.86	33.83	23.48
Depreciation and Amortization expense	21.13	51.76	67.86	65.71
Other expenses	12.64	4.68	87.12	334.85
Total Expenses	1,122.46	2,609.55	2,991.49	3,049.39
Earnings Before Interest, Taxes, Depreciation & Amortization	20.04	54.86	132.34	446.86
EBITDA Margin	1.82%	2.13%	4.38%	13.12%
Profit/(Loss) before tax	34.98	49.58	85.91	385.47
Tax Expense				
Current Tax	4.24	9.39	16.96	97.02
Deferred Tax	3.21	1.90	-5.70	3.74
Total Tax Expense	7.45	11.29	11.26	100.76
Profit/(Loss) for the year	27.53	38.29	74.65	284.71
Net Profit Margin	2%	1%	2%	8%

Balance Sheet				(In Lacs)
Particulars	FY 21	FY 22	FY 23	Dec-23
EQUITY AND LIABILITIES				
1. Shareholders' funds				
Share Capital	189.61	228.70	184.55	386.90
Reserves and surplus	-	-	25.94	800.61
Total Equity	189.61	228.70	210.49	1,187.51
2. Non-current liabilities				
Long Term Borrowings	451.33	481.12	274.03	392.12
Deferred tax liability/ (Assets) (Net)	3.21	5.11	-	3.14
Long term Provisions	0.85	1.33	0.34	1.67
Total Non-current liabilities	455.39	487.56	274.37	396.93
3. Current liabilities				
(a) Financial liabilities				
Short-term borrowings	-	-	-	-
Trade payables	274.78	440.03	407.50	250.54
Other current liabilities	5.40	1.69	279.38	27.27
Short-term provisions	4.24	9.39	18.98	116.33
Total Current liabilities	284.42	451.11	705.86	394.14
Total Liabilities	739.81	938.67	980.23	791.07
Total Equity and Liabilities	929.42	1,167.37	1,190.72	1,978.58
ASSETS				
1. Non-current assets				



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Balance Sheet					(In Lacs)
Property Plant & Equipment					
a) Tangible Assets	324.85	358.59	93.93	227.94	
b) Intangible Assets	0.04	0.02	-	-	
Deferred Tax Assets (Net)	-	-	0.60	-	
Other Non-Current Assets	-	-	5.03	7.61	
Total Non-Current assets	324.89	358.61	99.56	235.55	
2. Current assets					
Current Investments	28.01	59.36	-	-	
Inventories	-	-	14.27	148.73	
Trade receivables	428.29	622.79	273.51	764.10	
Cash and cash equivalents	8.55	15.45	16.59	387.11	
Short-term loans and advances	134.00	92.93	777.68	388.24	
Other Current Assets	5.68	18.23	9.11	54.85	
Total Current assets	604.53	808.76	1,091.16	1,743.03	
Total Assets	929.42	1,167.37	1,190.72	1,978.58	

Cash Flow Statement					(In Lacs)
Particulars	FY 21	FY 22	FY 23	Dec-23	
Net Cash Flow from Operating Activities	-103.94	61.82	110.57	-237.59	
Net Cash Flow from Investing Activities	-67.12	-85.48	196.81	-199.71	
Net Cash Flow from Financing Activities	175.48	30.58	-306.24	807.81	

Ratio Sheet				
Particulars	FY 21	FY 22	FY 23	Dec-23*
Per Share Data				
Diluted EPS*	-	-	4.05	7.29
BV per share	3.60	4.34	3.99	45.41
Operating Ratios				
EBITDA Margins	1.82%	2.13%	4.38%	13.12%
PAT Margins	2.38%	1.44%	2.43%	8.40%
Inventory days	-	-	1.72	12.00
Debtor days	142.09	88.15	33.03	61.67
Creditor days	96.03	64.33	53.49	25.79
Return Ratios				
RoCE	-0.17%	0.43%	13.30%	21.20%
RoE	15%	17%	35%	16%
Valuation Ratios (x)*				
EV/EBITDA	31.56	12.66	3.54	4.03
Market Cap / Sales	3.78	1.61	1.38	0.92
P/E	-	-	19.51	10.84
Price to Book Value	21.95	18.20	19.78	1.74
Solvency Ratios				
Debt / Equity	2.38	2.10	1.30	0.33
Current Ratio	2.13	1.79	1.55	4.42
Quick Ratio	2.13	1.79	1.53	4.05
Asset Turnover	1.18	2.21	2.54	1.72
Interest Coverage Ratio	-0.05	0.09	1.91	16.23

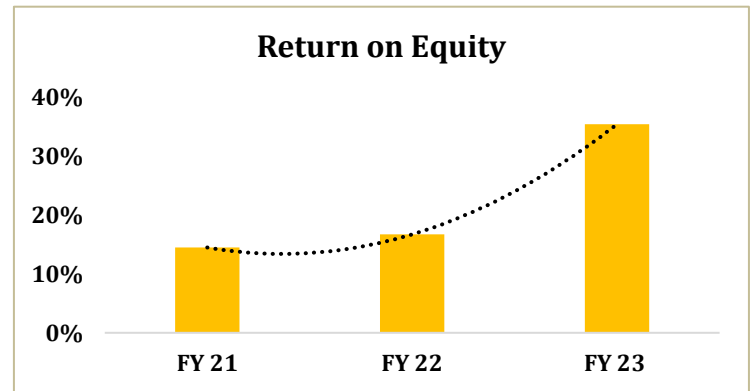
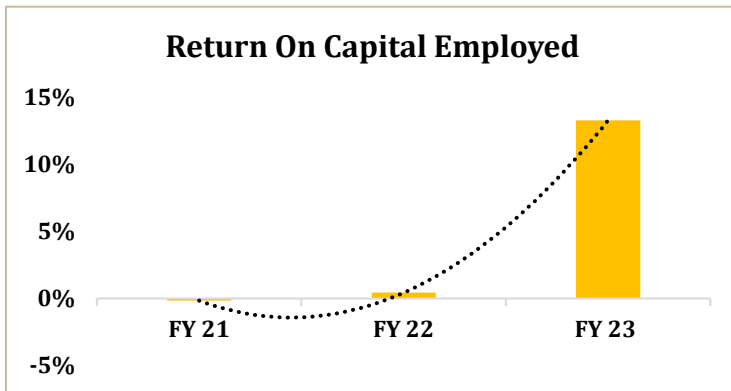
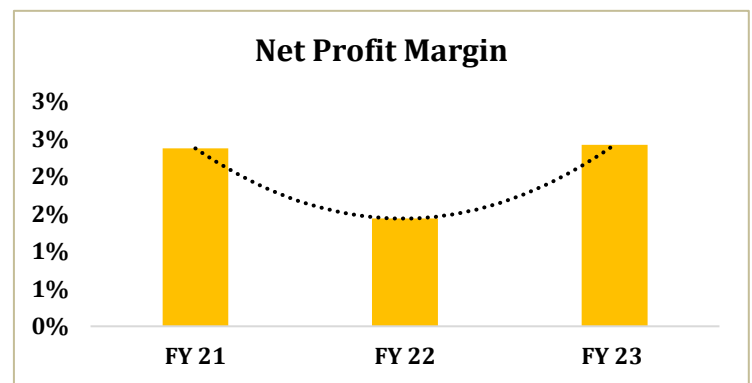
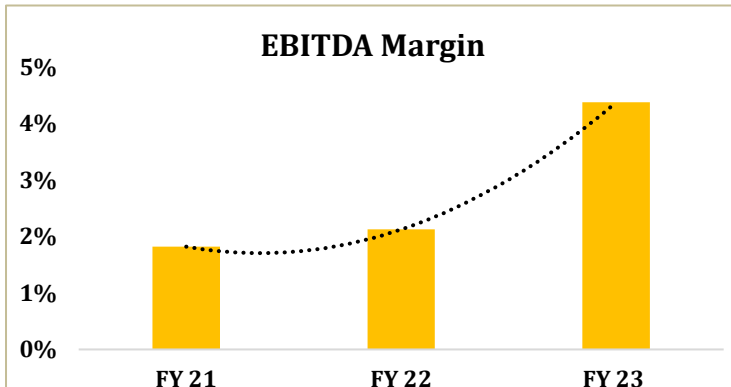
*Annualized Figures

*Valuation Ratios are calculated using issue price

*EPS for FY 21 and 22 is not provided as the company was a sole proprietorship during that period.



Financial Charts



Key Risk Factors

1. The Income from the Top 3 customers contributed to 89.73%, and 92.35% for the Period Ended December, and FY March 2023 respectively. The loss of any one or more of such customers may have a material effect on the business operations and profitability.
2. Top 2 Suppliers accounted for 66.57% and 62.2% of total purchases for the Period Ended December and FY March 2022 respectively. The loss of any one or more such suppliers may have a material effect on the business operations and profitability.
3. The company doesn't have long-term contracts with its customers or suppliers, along with its limited operating history, it makes it difficult to ascertain its future prospects.
4. The company has had negative operating cashflows in FY 2021 as well as December FY 2023.
5. The company's business operations are majorly concentrated in the Maharashtra region and any adverse developments affecting their operations in Maharashtra could have a significant impact on their revenue and results of operations.

Track Record of Lead Manager

The lead manager to the issue is Jawa Capital Service Private Limited. As per the Offer Document, this is the Company's first mandate.



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Recommendation

The company has been in the industry since 2022 and is relatively new to the industry. Only one of the promoters has a significant amount of experience related to the field.

The P/E on a post-IPO and annualised basis is around 10.84 times which makes it fairly priced by looking at the performance of the company and sector. The Sector P/E is 244 times.

The company operates in a competitive environment. The business is not unique. While the company has seen a slight improvement across its profitability ratios, it is not enough to gauge whether it would be sustainable or not. The company has also had negative operating cash flows in the past. Thus, at the current P/E, we recommend to **AVOID** this IPO.



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