



IPO Note

Afcom Holdings Limited

Recommendation: **APPLY**

Company Background -

- **Incorporation:** Afcom Holdings Limited was originally incorporated in 2013. The registered office is in Chennai, Tamil Nadu.
- **Industry:** The company operates in the Air Cargo Industry.
- **Business Model:** The company operates in only B2B model.
- **Employees:** As of February 2024, it has 47 employees of which 21 are crew.

Objects of the Issue -

- Capital Expenditure towards the leasing of 2 new aircrafts.
- Repayment of borrowings.
- Funding of working capital requirements of the Company.
- General Corporate Expenses.

Promoters Name -

Capt. Deepak Parasuraman, Kannan Ramakrishna, Wg. Cdr. Jaganmohan Mathena (Retd), Manjula Annamalai

Rationale for recommendation -

- ✓ It has a good P/E ratio of 10.65
- ✓ Market leader with no competition
- ✓ The management is competent to handle business operations
- ✓ The company is expanding its operations by leasing more aircrafts
- ✓ Unsustainable profit and EBITDA growth, but has a positive trajectory
- ✓ The management is experienced and educated

IPO Details

Opening Date	Aug 02, 2024
Closing Date	Aug 06, 2024
Allotment Date	Aug 07, 2024
Listing Date	Aug 09, 2024
Stock Exchange	BSE SME
Lot Size	1,200 Shares
Issue Price Per Share	₹ 102 - 108
Issue Size	₹ 73.83 Cr.
Fresh Issue	₹ 73.83 Cr.
Offer for Sale	-
Application Amt	₹1,29,600 (1,200 shares)

INDUSTRY - Air Cargo Industry

P/E Average of Peers - As per RHP there are no relevant peers

KPI's	KPIs (In Lakhs)		
	FY 22	FY 23	Feb 24
Revenue	4,827.40	8,414.42	13,369.97
EBITDA	951.83	1839.63	3253.13
Net Profit	514.80	1,358.62	2,310.37
RoNW	23.38%	18.53%	22.9%
ROCE	42.94%	24.99%	32.05%
P/E	24.71	13.60	32.43

Promoter Share Holding Pattern

Pre-Issue	Post Issue
58.94%	42.73%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	7.54	10.14
BVPS	55.98	36.95
P/E	14.33	10.65
P/BV	1.93	2.92
Mkt Cap (In Cr)	195	268

Lead Managers -

GYR Capital Advisors Private Limited

Registrar -

Link Intime India Private Limited

Business Overview -

Afcom Holdings Limited is a cargo airlines business that was incorporated in 2013 by Captain Deepak Parasuram, a veteran in the aviation industry. After due procedure, it obtained the NOC from the Ministry of Civil Aviation, India in 2017 to start its operations. It provides services to ASEAN countries, primarily Singapore. Its operations are handled majorly by General Sales & Service Agents (GSSAs). The promoters are well equipped with the knowledge and expertise to grow the business, which can help capitalise on future growth opportunities.

General Sales & Service Agents (GSSAs)

The GSSAs form the face of the business. They help the business in marketing and onboarding of freight forwarders, co-ordinate with their respective Custom Clearing Agents, and ensure a smooth handover of the custom cleared goods to the airline along with the required documentation. The GSSAs are paid a commission for their contribution, and which forms a major chunk of their pay to incentivise sales provided they ensure a minimum of 50% of the cargo volume to Afcom Holdings. Currently, it has entered into agreement with Air Logistics Group and Taylor Logistics Private Limited for the service. They cater to the far-eastern countries and India respectively.

Business Model



Aircrafts

The company has dry leased two Boeing 737-800s (BCF), of 22 tonnage capacity each, for a period of 8 years, that expire in March 2032. Two other Boeing aircrafts are also flown on a quasi-charter basis.

Revenue Bifurcation (top 90%)

Type of Cargo	FY 2022		FY 2023		29-02-2024	
	Amt	%	Amt	%	Amt	%
ODC	1,804.96	37.39%	3,462.53	41.15%	5,706.30	42.68%
General Cargo	1,829.10	37.89%	2,061.53	24.50%	3,016.27	22.56%
Hazardous	526.19	10.90%	1,724.11	20.49%	2,795.66	20.91%
Perishable	265.99	5.51%	499.82	5.94%	1,112.38	8.32%
Total	4,426.24	91.69%	7,747.99	92.08%	12,630.61	94.47%

The company earned about 92% of its revenue from export operations and the remaining 8% from domestic operations in STB 29/02/24.

Net Proceeds Utilization –

The company is utilizing its net proceeds are as follows –

Particulars	Amount in Lakhs
Capital Expenditure requirements towards leasing 2 new aircrafts	Upto Rs. 4,279.91
Repayment of borrowing	Upto Rs. 1,000.00
Funding of Working Capital requirements	Upto Rs. 800.00
General Corporate Expenses	Upto 25% of Gross Proceeds

Competition -

Market Competition: Low, in India there is no other corporation that engages solely in the air cargo industry. The only direct competition remains passenger aircrafts with their belly capacities. These are further subject to load factors of passenger cargo. This industry is highly fragmented and competitive.

Barriers to entry: Moderate, the logistics market is quite unorganised and can easily be captured. However, it also requires considerable experience, approvals from DGCA, and strict clearances.

Bargaining Power of Suppliers: Low, the absence of quick transportation from India restricts suppliers to accept the terms of the company.

Bargaining Power of Buyers: Moderate, customers – usually international – have a variety of suppliers to choose from, except for those goods that are exclusively exported from India.

Threat of Substitutes: Moderate, alternate modes of transport like cargo usually consume too many resources. Although maritime transport is quite widely used, it is not as efficient as air cargo from the time perspective.

Risk Factors -

The company derives 98% of its revenue from its top 5 customers in the last 3 financial years and STB 29/02/2024

Consistent negative cash flows in the last 3 financial years and STB 29/02/2024

The company has unsecured loans worth of Rs. 1,369.80 lakhs

There are outstanding litigations, on various direct and indirect tax matters, against the company, promoters, group company of worth Rs. 875.9 lakhs

Strategies -

- The company aims to grow through fleet and market expansion. From the IPO proceeds, it can lease 2 new aircrafts. Modernisation and rapid growth in the Indian economy stimulates the air cargo industry.
- By enhancing safety standards, it can maintain the efficiency of safely delivering cargo. It already has the necessary in-house quality control and assurance system, safety infrastructure, and X-ray machines that facilitate industry standard SOPs and protocols.
- Lease aircrafts through Global Leasing majors like Spectre Air Capital LLC and Flight Lease 737 Ltd. They are specialised in leasing Boeing Converted Freighters (BCF) to corporations all around the globe.

PEER ANALYSIS

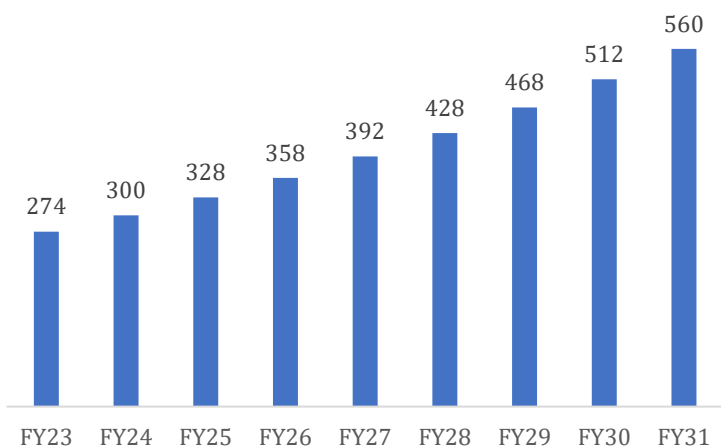
There are no listed peers of Afcom Holdings Limited.

Indian Logistics Industry -

Market Overview –

The logistics market size scaled up to \$274 Billion in FY23 and is expected to grow to \$560 Billion in FY31 at a CAGR of 15.5%. This is majorly because of the shift towards digital commerce and high demand accompanied with the need of quick consumption. E-commerce has contributed to 14% of the GDP. It has progressed from merely transport to an end-to-end solution for its customers providing value added services like packaging, labelling, inventory management, etc. A major chunk of the industry remains unorganised and fragmented, allowing newer participants to jump at the opportunity and add their own value to the global supply chain. If India can bring down its overall logistics cost to 9% of the GDP, Indian goods will become more competitive in the international markets leading straight to an economic boom for the nation – indicating better services, more job opportunities, and higher customer satisfaction.

Indian Logistics Industry Market Size in Billion USD



Source: statista

Indian Aviation -

As per the RHP, the Indian aviation industry is one of the fastest growing in the world, driven by rising demand for air travel, economic growth, and expanding infrastructure. Post-COVID, the sector has seen a remarkable recovery, with air traffic rebounding and surpassing pre-pandemic levels due to eased restrictions, increased vaccination rates, and the resumption of business and leisure travel. Government initiatives like the UDAN scheme have boosted regional connectivity, making air travel more accessible to the masses. Improved airport infrastructure and the launch of new routes have also contributed to the surge in domestic and international passengers. Despite challenges like high operational costs and fluctuating fuel prices, India's aviation industry is poised for significant growth, and it is expected to become the third-largest aviation market globally in the coming years.

In addition to passenger growth, the air cargo segment has experienced notable expansion, driven by a flourishing e-commerce market and increasing demand for efficient supply chain solutions. Logistics infrastructure developments, such as the establishment of dedicated freight corridors and enhanced highway connectivity, have strengthened air freight operations across the country. Furthermore, the government's emphasis on digitization through initiatives like Digital India and the National Logistics Portal is helping the sector streamline operations and reduce logistics costs.

As India's economy grows and the demand for faster, more efficient goods transportation rises, air cargo services are becoming essential for sectors such as e-commerce, manufacturing, and pharmaceuticals. The integration of advanced technologies such as AI and data analytics is further enhancing operational efficiency, allowing the aviation industry to better serve these sectors. These developments position the Indian aviation sector, especially the cargo industry, to continue playing a vital role in the country's economic growth while meeting the needs of an expanding digital and consumer-driven economy.

Key Management -

Key Management Persons Name -	Capt. Deepak Parasuraman
Age	56
Designation and No. of years of experience	Promoter, Chairman, and Managing Director, experience of 25 years in operating and managing businesses in the aviation/air cargo industry.
Qualification	Doctorate in Trade and Trade Barriers
Roles and Responsibility	-
Other Directorships	Redbird Flight Training Academy Pvt. Ltd., Avtech Forum
Key Management Persons Name -	Kannan Ramakrishnan
Age	53
Designation and No. of years of experience	Promoter and Whole Time Director, experience of 19 years in retail and luxury automobile industry
Qualification	Science Graduate from St. Joseph's College, Tiruchirappalli
Roles and Responsibility	-
Other Directorships	Flyaster Aviation Private Limited, Flysbs Aviation Private Limited
Key Management Persons Name -	Wg. Cdr. Jaganmohan Mathena (Retd)
Age	58
Designation and No. of years of experience	Promoter and Non-Executive Director, 13 rich years of experience in the air force. Continues to fly as a VVIP pilot both domestic and internationally
Qualification	Masters in Aviation Law and Air Transport Management from NALSAR, PG Diploma in Sustainable Global Enterprise and E-Marketing from IIM, Shillong
Roles and Responsibility	-
Other Directorships	Man Airways And Services Private Limited, Frontier Fusion Studios LLP
Key Management Persons Name -	Dr. Lalit Gupta
Age	65
Designation and No. of years of experience	Independent Director, significant experience in the Indian Aviation industry
Qualification	MTEch in Aeronautical Engineering from IIT Kanpur, Doctor of Science from Hindustan Institute of Technology & Science
Roles and Responsibility	-
Other Directorships	Redbird Flight Training Academy Private Limited, AAR Indamer Technics Private Limited, Avtech Forum
Key Management Persons Name -	Mr. Srinivasan Natarajan
Age	59
Designation and No. of years of experience	Independent Director, 20 years of experience in corporate law
Qualification	Company Secretariat
Roles and Responsibility	-
Other Directorships	-
Key Management Persons Name -	Ms. Rashmi Prithviraj
Age	49
Designation and No. of years of experience	Independent Director, more than 15 years of experience in design and manufacturing
Qualification	Bachelors in Interior Design
Roles and Responsibility	-
Other Directorships	Skinsense Private Limited

- The entire management is in its 50s well versed with the expertise necessary for carrying out operations in air cargo
- Capt. Deepak Parasuraman holds dual chairmanship – Chairman and Managing Director. This not only reduces diversity, but also concentrates power within only one director.
- Mr. PK Raghunathan is the Chief Financial Officer. He possesses a BSc. in Statistics and M.A. in Economics from University of Madras and an MBA from Loyola Institute of Business Administration. His experience extends to more than 23 years in various industries across different roles.

FINANCIAL SNAPSHOT

Statement of Profit and Loss

Amt in Lakhs.

Particulars	FY 21	FY 22	FY 23	Feb-24
Revenue from Operations	1,388.72	4,827.40	8,414.42	13,369.97
Other Income	0.00	39.57	75.70	46.42
Total Income	1,388.72	4,866.97	8,490.12	13,416.39
Expenses				
Direct Expenses	1,650.16	3,305.19	5,622.62	9,228.05
Employee Benefit Expenses	154.31	259.03	654.63	586.19
Finance Cost	7.38	148.54	94.29	180.62
Depreciation and Amortization Expense	2.98	4.72	5.67	6.94
Other expenses	182.47	311.35	297.54	302.60
Total Expenses	1,997.30	4,028.83	6,674.75	10,304.40
EBITDA	-598.22	951.83	1,839.63	3,253.13
EBITDA Margin	-43.08%	19.72%	21.86%	24.33%
Share of Profit of associates				
Profit/(Loss) before exceptional items and tax	-608.58	838.14	1,815.37	3,111.99
Profit/(Loss) before tax	-608.58	838.14	1,815.37	3,111.99
Tax Expense				
Current tax	-	139.90	459.80	804.53
Mat Credit Entitlement	-	-92.84	-	-
Deferred Tax	-188.28	276.26	-3.04	-2.91
Total Tax	-188.28	323.32	456.76	801.62
Profit/(Loss) for the year	-420.30	514.82	1,358.61	2,310.37
Net Profit Margin	-30.27%	10.66%	16.15%	17.22%

Statement of Assets and Liabilities

Amt in Lakhs.

Particulars	FY 21	FY 22	FY 23	Feb-24
EQUITY AND LIABILITIES				
1. Shareholders' funds				
Share Capital	212.77	249.88	1,760.38	1,802.13
Reserves and surplus	-549.95	1,931.78	5,570.19	8,285.58
Share Application Money Pending Allotment	-	20.00	-	-
Total Equity	-337.18	2,201.66	7,330.57	
3. Non-current liabilities				
Long-term borrowings	1,371.32	2.06	-	18.75
Deferred Tax Liabilities (Net)	-275.77	-	-	-
Long-term provisions	0.97	1.72	7.33	21.65
Total Non-current liabilities	1,096.52	3.78	7.33	40.40
4. Current liabilities				
Short-term borrowings	100.00	1.77	47.60	1,528.75
Lease Liabilities				
Total outstanding dues of MSME	-	-	-	-
Total outstanding dues of creditors other than MSME	-	114.72	147.21	261.07
Other Current Liabilities	40.59	145.51	379.91	205.68
Short-term provisions	-	47.07	372.78	806.14
Total Current liabilities	140.59	309.07	947.50	2,801.64
Total Liabilities	1,237.11	312.85	954.83	2,842.04
Total Equity and Liabilities	899.93	2,514.51	8,285.40	12,929.75

Particulars	FY 21	FY 22	FY 23	Feb-24
ASSETS				
1. Non-current assets				
Property, Plant & Equipment	26.91	26.20	25.99	42.46
Intangible Assets	-	0.28	-	-
Capital Work-In-Progress	-	-	1,222.04	1,222.04
Other Non-current Assets	1.00	1.65	529.51	604.74
Deferred Tax Asset (Net)	-	-0.48	2.56	5.47
Total Non-Current assets	27.91	27.65	1,780.10	1,874.71
2. Current assets				
Inventories	-	-	920.91	1,569.16
Trade Receivables	56.82	1,556.19	1,432.29	1,777.11
Cash & Cash equivalents	10.89	53.49	671.26	262.06
Short term loans and advances	76.53	61.84	646.65	2,907.16
Other Current Assets	727.78	815.34	2,834.19	4,539.55
Total Current assets	872.02	2,486.86	6,505.30	11,055.04
Total Assets	899.93	2,514.51	8,285.40	12,929.75

Cash Flow Statement Amt in Lakhs.

Particulars	FY 21	FY 22	FY 23	Feb-24
Net Cash Flow from Operating Activities	-1,322.15	-374.42	-1,894.22	-2,179.33
Net Cash Flow from Investing Activities	-20.45	-4.30	-1,227.47	-18.54
Net Cash Flow from Financing Activities	1,335.50	421.32	3,739.47	1,788.46

Key Ratios

<u>Per Share Data</u>	FY 22	FY 23	Feb 24	<u>Valuation Ratios (x)</u>	FY 22	FY 23	Feb 24
Diluted EPS	4.37	7.94	3.33	EV/EBITDA	2.26	3.65	3.50
BV per share	88.11	41.64	55.98	Market Cap / Sales	5.56	3.19	2.01
<u>Operating Ratios</u>				P/E	24.71	13.60	32.43
EBITDA Margins	19.72%	21.86%	24.33%	Price to Book Value	1.23	2.59	1.93
PAT Margins	10.66%	16.15%	17.22%	<u>Solvency Ratios</u>			
Inventory days	-	39.95	42.84	Debt / Equity	0.001740	0.01	0.15
Debtor days	117.66	62.13	48.52	Current Ratio	8.05	6.87	3.95
Creditor days	6	8	7	Quick Ratio	8.05	5.89	3.31
<u>Return Ratios</u>				Asset Turnover	1.92	1.02	1.03
RoCE	42.94%	24.99%	32.05%	Interest Coverage Ratio	6.38	19.45	17.97
RoE	23.38%	18.53%	22.90%				

LEAD MANAGER TRACK RECORD

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

GYR Capital Advisors Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Sathlokhar Synergys E&C Global Limited	92.93	140.00	Aug 06, 2024	339.90
2.	S A Tech Software India Limited	23.01	59.00	Aug 02, 2024	126.50
3.	Petro Carbon and Chemicals Limited	113.16	171.00	Jul 02, 2024	226.65
4.	Medicamen Organics Limited	10.54	34.00	Jun 28, 2024	55.80
5.	HOAC Foods India Limited	5.54	48.00	May 24, 2024	120.05
6.	ABS Marine Services Limited	96.29	147.00	May 21, 2024	230.85
7.	Naman In-Store (India) Limited	25.35	89.00	Apr 02, 2024	184.00
8.	Koura Fine Diamond Jewelry Limited	5.50	55.00	Mar 14, 2024	49.00
9.	Thaai Casting Ltd	47.20	77.00	Feb 23, 2024	155.00
10.	Maxposure Limited	20.26	33.00	Jan 23, 2024	92.05

The company has handled 32 mandates in the past four years (including the current year).

*CMP for the above-mentioned companies is taken as of 30th Oct 2024.

As per the offer document, the above-mentioned mandates have opened at a premium on the listing day and more than 87% of them have grown in market value.

Recommendation -

Afcom Holdings Ltd. has been operating since 2017 (assumed, since license were obtained) and is the sole operating entity in the air cargo industry, which is favourable at the moment. Its management appears to be extremely diversified and experienced. Although, they have incurred a negative free cash flow in the last 3 operating years, their financials are strong suggesting a potential growth in their profitability in the following years. D/E ratio remains at 0.15 which may indicate unproductive procurement of debt because it has been paid off in a very short time.

Leasing of aircrafts, remain their primary objective for raising funds in the public issue, which may contribute to the growth of the business while simultaneously promoting the growth of the industry and other smaller companies in the sector.

Thus, we have an **APPLY** recommendation for this IPO

Disclaimer

We are not registered research analysts with SEBI and are not subject to the regulations governing research analysts. This research report is for educational purposes only and should not be construed as investment advice. The information contained in this report is based on publicly available information and is believed to be reliable, but no representation or warranty, express or implied, is made as to its accuracy or completeness. Also, some of the employees of our organization may have or may in the future hold investments in the company that is the subject of this research report. This may create a conflict of interest, and you should be aware of this when considering the information contained in this report. You should consult with your financial advisor before making any investment decisions.

OUR WEBSITE:

www.tiareconsilium.com

OUR APP AVAILABLE ON:



CONNECT WITH US ON :

