

IPO NOTE



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QUADRANT FUTURE TEK LIMITED

06.01.2025



Canara Bank Securities Ltd
A Wholly Owned Subsidiary Of Canara Bank



- ◆ The Company was incorporated as 'Quadrant Cables Pvt. Ltd' on September 18, 2015, in Mohali, Punjab. The name of the company was changed to 'Quadrant Future Tek Pvt. Ltd', in October 2021 and Subsequently changed to 'Quadrant Future Tek Limited' on conversion to a public limited company.
- ◆ Quadrant is a research-oriented company, engaged in developing new generation Train Control and Signalling Systems under the KAVACH project of the Indian Railways that offers the highest level of safety and reliability to rail passengers and also possesses a Speciality cable manufacturing facility with an Electron Beam Irradiation Centre.
- ◆ The speciality cables manufactured by their Company are used in the Railways rolling stock and the Naval (Defence) industry.
- ◆ Their facility also possesses end-to-end infrastructure capabilities for the production of Solar & EV Cables. For the Speciality Cable division, their Company had an installed capacity of 1,887.60 metric tonnes as on September 30, 2024, 1,887.60 metric tonnes as on March 31, 2024, 1,638.00 metric tonnes as on March 31, 2023 and 1,500.72 metric tonnes as on March 31, 2022, which was utilised at a capacity of 25.03% (not annualised), 49.42%, 54.26% and 57.62% respectively.
- ◆ Their Company has one facility for manufacturing, testing, researching, and developing speciality cables and also for manufacturing the hardware required for the Train Control & Signalling Division, which is situated at Village Basma Tehsil Banur, Distt Mohali.
- ◆ As of October 31, 2024, the company had 295 employees at its manufacturing facility, Railway Signalling & Embedded System Design centre and corporate function.

Issue Details	
Price Band (in ₹ per share)	275-290
Issue size (in ₹ Crore)	290.00
Fresh Issue (in ₹ Crore)	290.00
OFS (in ₹ Crore)	NA
Issue open date	07-01-25
Issue close date	09-01-25
Tentative date of Allotment	10-01-25
Tentative date of Listing	14-01-25
Total number of shares (lakhs)	105.45-100.00
No. of shares for QIBs (75%) (lakhs)	79.09-75.00
No. of shares for NII (15%) (lakhs)	15.82-15.00
No. of shares for S-HNI (33%) (lakhs)	5.27-5.00
No. of shares for B-HNI (66%) (lakhs)	10.55-10.00
No. of shares for retail investors (10%) (lakhs)	10.55-10.00
No of shares for Employee Reservation (lakhs)	NA
Minimum order quantity	50.00
Face value (in ₹)	10.00
Amount for retail investors (1 lot) (in ₹)	13750-14500
Maximum no. of shares for Retail investors at Lower Band	700 (14 lots)
Maximum no. of shares for Retail investors at Upper Band	650 (13 lots)
Maximum amount for retail investors at lower band - upper band (in ₹)	192500-188500
Minimum no. of shares for sHNI (2 Lakhs) at upper band	700 (14 lots)
Maximum no. of shares for sHNI (10 Lakhs) at upper band	3400 (68 lots)
Minimum number of shares for bHNI at upper band	3450 (69 lots)
Exchanges to be listed on	BSE & NSE

Promoters

- MOHIT VOHRA
- AMIT DHAWAN
- AMRIT SINGH RANDHAWA
- RUPINDER SINGH
- VISHESH ABROL

Objects of the Offer

- ◆ Funding long-term working capital requirements of the Company upto 149.72Cr
- ◆ Capital expenditure for the development of Electronic Interlocking System Estimated utilization from Net Proceeds upto 24.37Cr
- ◆ Prepayment or repayment of all or a portion of outstanding working capital term loan availed by the Company upto 23.61Cr
- ◆ General corporate purposes.



BRIEF FINANCIALS

PARTICULARS (Rs. Cr) *	H1FY25	FY24	FY23	FY22
Share Capital [^]	30.00	10.00	10.00	10.00
Net Worth	34.17	44.11	29.42	15.60
Revenue from Operations	65.13	151.76	152.80	104.25
EBITDA	0.81	36.66	26.54	9.50
EBITDA Margin (%)	1.25	24.15	17.36	9.12
Profit/(Loss) After Tax	(12.05)	14.69	13.81	1.89
EPS (in Rs.)	(4.02)	4.90	4.61	0.63
Net Asset Value (in Rs.)	11.39	14.70	9.81	5.20
Total borrowings	98.01	81.61	73.99	80.68
P/E [#]	NA	59.18	NA	NA
P/B [#]	25.46	19.73	NA	NA

*P/E & P/B ratio based on closing market price as of January 03rd, 2025, at the upper price and of IPO, financial details consolidated audited results as of FY24.

Profit & Loss Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
INCOME			
Revenue from operations	104.26	152.80	151.76
Other Operating Revenue	0.03	0.14	0.07
Total Income	104.29	152.95	151.82
YoY Growth (%)	-	46.56%	-0.69%
Cost of Materials consumed	88.48	102.84	92.82
Cost of Materials consumed-% of Revenue	84.83%	67.24%	58.28%
Changes in inventories of stock in trade	-8.47	7.40	-5.14
Changes in inventories of stock in trade-% of Revenue	-8.12%	4.84%	-3.38%
Employee benefit expenses	7.00	5.38	12.42
Employee Expenses-% of Revenue	6.71%	3.52%	8.18%
Other expenses	7.78	10.78	15.05
EBIDTA	9.51	26.55	36.67
EBIDTA Margin (%)	9.12%	17.36%	24.15%
Depreciation and amortisation expense	3.20	3.71	10.28
EBIT	6.31	22.84	33.47
EBIT Margin (%)	6.05%	14.93%	22.05%
Finance cost	3.36	2.91	4.49
Profit before tax	2.95	19.93	21.92
Tax expenses			
Current tax	1.03	6.10	6.84
Deferred Tax	-0.02	-0.07	0.37
Total tax expenses	1.01	6.03	7.21
Profit for the year	1.94	13.90	14.71
PAT Margin (%)	1.86%	9.10%	9.70%
Earnings per share			
Basic earnings per share (₹)	0.63	4.61	4.90

Cashflow Statement

Particulars (In Crores)	FY2022	FY2023	FY2024
Cash generated from operating activities	-3.94	31.34	26.38
Income tax paid (net of refunds)	0.65	1.45	7.90
Net cash generated from operating activities	-4.59	29.89	18.49
Net cash used in investing activities	-31.78	-20.02	-21.43
Net cash used in financing activities	36.39	-9.59	3.12
Net increase/(decrease) in cash and cash equivalents	0.01	0.28	0.18
Balance as at beginning	0.24	0.25	0.53
Cash and cash equivalent as at year end	0.25	0.53	0.71

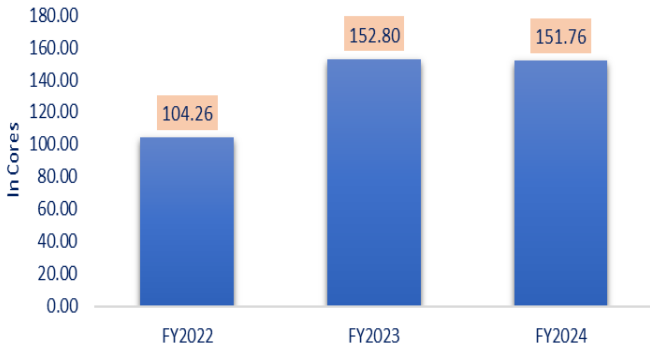
Balance Sheet

Particulars (In Crores)	FY2022	FY2023	FY2024
Assets			
Non-current assets			
Property, Plant and Equipment	19.57	20.90	27.99
Capital work in progress	2.44	-	-
Other Intangible assets	0.00	0.00	52.63
Intangible assets under development	31.02	48.45	-
Right of Use Assets	-	-	-
Financial Assets			
Trade Receivables	-	1.22	2.77
Other Financial Assets	0.17	0.51	0.15
Deferred Tax Assets (Net)	0.18	0.26	-
Other Non Current Assets	-	-	-
Total non-current assets	53.38	71.35	83.54
Current assets			
Inventories	24.33	18.65	20.42
Financial Assets			
Trade receivables	26.81	23.26	32.04
Cash and cash equivalents	0.08	0.20	0.24
Bank balances other than	0.17	0.33	0.48
Other Financial assets	0.26	0.31	0.55
Current Tax Assets (Net)	0.41	0.61	0.27
Other Current asset	7.33	4.12	5.29
Total current asset	59.39	47.47	59.28
Total assets	112.77	118.82	142.82
Equity and liabilities			
Equity			
Equity Share Capital	10.00	10.00	10.00
Other Equity	5.61	19.42	34.11
Total equity	15.61	29.42	44.11
Liabilities			
Non-Current liabilities			
Financial Liabilities			
Borrowings	55.84	48.88	47.55
Other financial liabilities	0.00	0.00	0.00
Provisions	0.23	0.53	0.85
Deferred tax liabilities (Net)	0.00	0.00	0.11
Other non-current liabilities	-	-	-
Total Non-Current liabilities	56.07	49.41	48.51
Current liabilities			
Financial liabilities			
Borrowings	24.85	25.12	34.06
Trade payables	-	1.51	3.00
Due to MSME	-	1.51	3.00
Due to other than MSME	13.84	4.89	3.71
Other financial liabilities	0.75	0.99	1.85
Provisions	0.05	0.04	0.19
Other current liabilities	0.69	1.89	2.89
Current Tax Liabilities (Net)	0.91	5.57	4.51
Total Current liabilities	41.09	39.99	50.20
Total liabilities	97.16	89.40	98.71
Total equity and liabilities	112.77	118.82	142.82

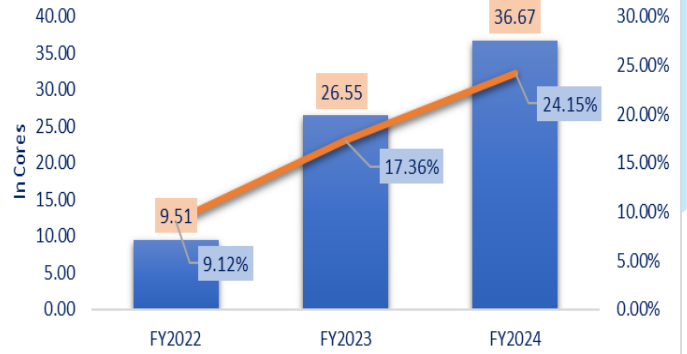


PERFORMANCE THROUGH CHARTS

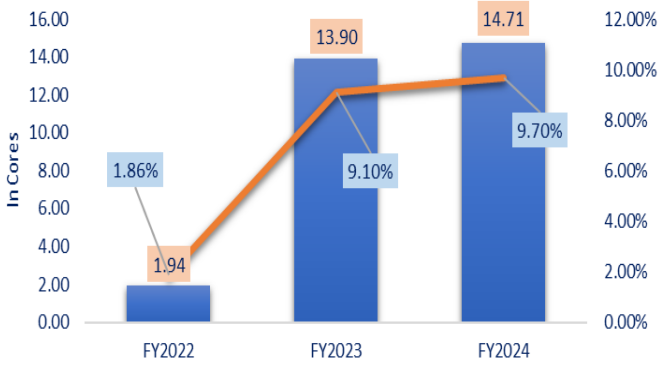
REVENUE HAS GROWN BY 21% CAGR 2 YR



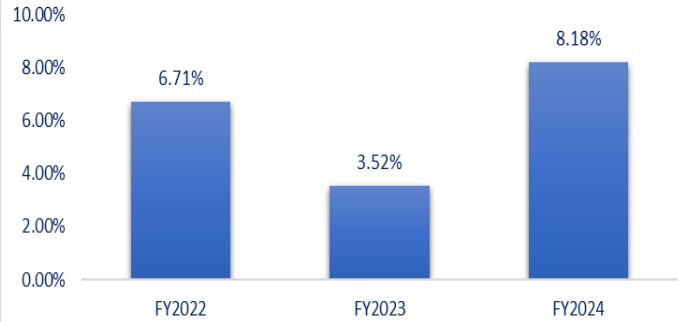
EBIDTA GREW SIGNIFICANTLY BY 96% CAGR 2 YR



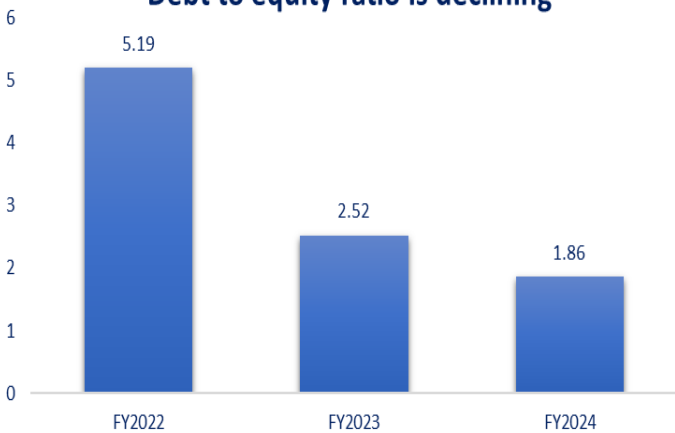
PAT GREW BY 175% CAGR 2 YR



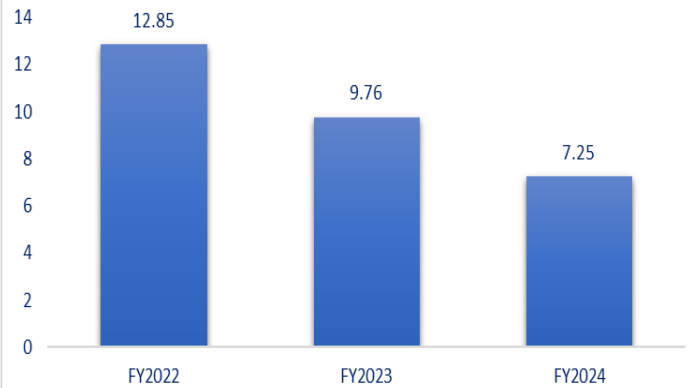
EMPLOYEE EXPENSE AS % TO REVENUE IS INCREASING



Debt to equity ratio is declining



Bid/Tenders success ratio (Value of Tenders) is declining



INDUSTRY REVIEW

Railways

- The railway sector is consistently evolving. Railways are one of the key consumer segments in the speciality cable industry. Wherein, speciality cables are used in signalling and control systems, power supply and communication systems.
- Among the rail transit cables, speciality cables with DC tractions, flame-retardant, fire-resistance, green environment friendly and self-temperature control cables are used in railway construction.

KAVACH – Automated Train Protection (ATP) System

- The Union Ministry of Railways is set to accelerate the deployment of Kavach 4.0, an indigenous anti-collision system, by issuing tenders for its installation in 20,000 locomotives.
- Two bulk tenders for 10,000 locomotives each are expected soon, with one closing by October 2024. The goal is to cover all geographical areas and locomotive types within four years, with new locomotives already coming equipped with Kavach 4.0.
- Tenders have also been issued for Kavach installation on major railway sections, including the Delhi-Chennai and Mumbai-Chennai routes (3,300 Rkm), as well as 5,000 Rkm of automatic sections. Additionally, a plan is in place to implement Kavach at 8,000 stations to enhance communication between trains and stations, further improving safety.

Indian Railways targets to Implement Kavach across 44,000 km by the year 2029.

- In her interim budget for fiscal 2024-25, Finance Minister Nirmala Sitharaman allocated ₹2.55 lakh crore to Indian Railways, a 5.8% increase from the ₹2.41 lakh crore for fiscal 2023-24.
- The revised estimates for 2023-24 stood at ₹2.43 lakh crore, highlighting a strong commitment to strengthening railway infrastructure. As part of these efforts, Sitharaman announced the conversion of 40,000 regular rail bogies to Vande Bharat standards to enhance passenger experience, improve speeds, and reduce travel time.

Indian Train Control System Industry

- India has a wide track length of over 1,28,305 km as of March 2022. Despite, such an extensive railway network, the legacy signalling and safety solutions have outlasted their useful lives. Even though, the landmass of the railway network increases, the concerns related to achieving a higher operating ratio and increasing accidents need careful attention.
- In FY23, 48 train accidents were reported which included 36 derailment cases, 6 collisions and 4 fire accidents. This marks an increase in accidents compared to the previous year FY22 (34 accidents). Such a situation alarms a need to focus on more contemporary solutions in signalling and train management as well as control.

Indian Interconnect Products Industry.

- The Indian interconnect products industry refers to the sector involved in the design, manufacturing, and distribution of various interconnect solutions.
- Interconnect products play a critical role in facilitating electrical and electronic connections between different components or devices.
- These components enable the flow of signals, power, and data within electronic systems. The industry encompasses a wide range of products and technologies, including connectors and wire harnesses.
- Further, electrical connectors and wire harnesses play a critical role in many electrical assemblies.
- A wire harness is a collection of cables or wires used to transmit electrical power, signals, and data, while connectors, also known as electrical connectors, are end components used to join wire.



COMPETITIVE STRENGTHS OF THE COMPANY

They have in-house design and product development capabilities powering their Rail Signalling Products & Solutions.

- The focus of the Indian Railways is to increase the capacity utilization of existing assets, including rolling stock, track infrastructure, traction power, and signalling & telecommunications. By increasing the Train speeds, more passenger & cargo trains can be run on the same infrastructure which may help Indian Railways to improve its revenues and profitability, reduce passenger travel time & enhance passenger travel experience.
- Achieving safety over high-speed and high-density rail networks of Indian Railways makes it imperative to implement Automatic Train Protection systems such as Train Collision Avoidance Systems to prevent dangerous train collisions caused by human errors or limitations and equipment failures by providing an additional layer of enhanced safety in the operations.

Unique technology for the manufacture of cables that meets the stringent requirements for multiple industries, namely Railways, Naval Defence, Renewable Energy & Electric Vehicle sectors.

- They offer a wide range of speciality cables for railways as well as the defence sector. They have a range of speciality cables meeting the requirements of their customers where Fire & Safety, Light Weight & Long-Term performance are of utmost importance.
- They believe that offering high-quality products and operational execution focused on continual improvement supports their ability to offer a wide range of products for varied applications.

Advanced manufacturing facilities with a diverse range of power and control cables with a focus on innovation and cost competitiveness

- They are one of the few manufacturers in India approved by RDSO, DGQA and the Indian Register of Shipping with in-house capabilities of manufacturing and supply of Single Core / multi-core Control & Power Cables, Signalling Cables for use in Railway Coaches, Locomotives & EMU and also for the supply of Single Core/Multi-Core, Screened/Un-Screened & Power Cables for Naval Ships.
- Their Railway Signalling & Embedded System Design team and technological capabilities have helped them in diversifying their products in the speciality cables segment. They made their first supply of cable for Naval Ships during the Fiscal 2022 with an insignificant turnover of ₹ 30.45 million later increased to ₹ 369.16 mn, representing 24.16% of the total sales during the Fiscal 2023 Their competitive edge lies in Railway Signalling & Embedded System Design team, product innovation and quality.
- They manufacture their products within their manufacturing facility located at Basma, Distt. Mohali, Punjab.
- They have developed systems throughout their production process to ensure the quality and reliability of their products and meet the standards of RDSO, DGQA and Indian Register of Shipping.
- Their manufacturing facility is accredited with quality management system certificates for compliance with ISO 9001:2015, 14001:2015 and 9001:2015 requirements.

Global emergence of market for Speciality cables in renewable energy and electric vehicles and supply of such Speciality cables to OEMs with high global market penetration

- There is a growing thrust on adopting electric vehicles (EVs) across the globe amid increasing carbon emissions which have serious repercussions including global warming. As India is significantly dependent on crude oil imports and various cities in India are facing pollution menace, the Indian government has also acknowledged the need to promote EVs.
- The EV market in India has been witnessing steady growth. The sales of electric cars, two-wheelers, and three-wheelers have been increasing in recent years, driven by government incentives, decreasing battery costs, and the introduction of new EV models by domestic and international manufacturers.

RISK FACTORS

Their company experienced litigation among promoters over the removal of board members due to a conflict of interest with International Switchgears Private Limited. The dispute escalated to NCLT but was resolved amicably through a settlement agreement. However, there is no assurance that similar issues won't arise, potentially affecting business operations.

- Historically, a dispute arose among the four promoter groups regarding International Switchgears Private Limited's competing activities and alleged misuse of their Company's technical know-how.
- This led to proceedings for board member removal and a petition in NCLT. Following multiple hearings, the dispute was resolved through a Settlement Agreement on February 1, 2023.
- Additionally, a Non-Compete Agreement was signed on October 21, 2024, restricting promoters from engaging in competing businesses.
- Despite these measures, future conflicts of interest may arise, potentially impacting their business operations.

One Company, along with Vivek Abrol, Promoter & Director of their Company and Mohan Krishan Abrol have filed a settlement application under the Securities and Exchange Board of India (Settlement Proceedings) Regulations, 2018 for delayed compliance under Regulation 54 of the SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018. Any adverse outcome of such settlement application may impact their reputation.

- On September 12, 2024, Vivek Abrol received a transfer of 4,00,000 equity shares of face value ₹ 10 each of their Company as a gift from Mohan Krishan Abrol, his father, for nil consideration.
- In terms of Regulation 54 of the SEBI ICDR Regulations, all transactions in securities by the promoter and promoter group between the date of filing of the draft offer document and the date of closure of the issue shall be reported to the stock exchange(s) by the Issuer Company, within twenty-four hours of such transactions.
- The fact of the transfer was informed to the Company by Vivek Abrol vide his letter dated October 14, 2024, and the same was informed to the stock exchanges on the same date.

Their business is dependent on their single manufacturing facility, and they are subject to certain risks in their manufacturing process. Any slowdown or shutdown in their manufacturing operations could have an adverse effect on their business, financial condition and results of operations.

- They have a single manufacturing facility situated in Basma, Mohali, Punjab which is equipped with advanced equipment, modern technology and an automated PCB assembly line.
- The said manufacturing facility caters to both the business divisions of their Company, i.e. Speciality Cables Division and Train Control & Signalling Division and the entire manufacturing and supply is dependent on this facility. However, their manufacturing facility is subject to various operating risks, including the breakdown or failure of equipment and performance below expected levels of output or efficiency.
- They have provisioned the redundancy in most of their production & test equipment, however, high capex equipment like Electron Beam Accelerator and polymer compounding line currently do not have a backup.
- Any significant malfunction or breakdown of the Electron Beam Accelerator or polymer compounding line, their automation systems, or any other equipment/machinery may entail 38 significant repair and maintenance costs and cause delays in their operations.

PEER COMPARISON

Name of the company	Revenue from Operations (in Cr.)	Face Value (Rs per share)	EPS (in Rs)	NAV (Per share Rs)	RoNW (%)	P/E*	P/B*
Quadrant Future Tek Limited	151.82	10.00	4.90	14.70	33.31	59.18	19.73
Kernex Micro Systems Limited	19.59	10.00	(16.61)	63.61	(24.16)	NA	21.75
HBL Power Systems Limited	2233.35	1.00	10.07	44.03	22.87	62.02	14.18
Apar Industries Limited	16152.98	10.00	212.10	965.01	20.80	51.63	11.35
Polycab India Limited	18039.44	10.00	118.93	544.95	21.90	60.61	13.23

*P/E & P/B ratio based on closing market price as of January 03rd 2025, at the upper price and of IPO, financial details consolidated audited results as of FY24.

KEY BUSINESS INSIGHTS

Railway Safety Leadership: Quadrant Future Tek Limited significantly contributes to the Indian Railways' KAVACH project, recognized as the most cost-efficient railway safety system globally. Installation costs are approximately ₹70 lakhs per kilometre and ₹50 lakhs per locomotive, including a 15-year warranty and an 11-year annual maintenance contract (AMC).

Key Client and Orders: Railtel is among its major clients, with the company securing an order for 1,200 locomotives, scheduled for completion by November 2024.

Technological Advancement: The KAVACH system supports train speeds up to 250 km/h, ensuring compatibility with future upgrades from the current maximum speed of 180 km/h.

Cable Manufacturing Expertise: The company produces high-performance cables characterized by high melting points, lightweight design, non-toxicity, and durability. These cables are also cross-sold to the naval, defence, and electric vehicle (EV) sectors, enhancing cost efficiency and safety.

Backward Integration: Quadrant has implemented backward integration for polymer compounding, copper processing, and electronic manufacturing services (EMS) to optimize costs and maintain supply chain control.

Order Book and Margins: The engineering, procurement, and construction (EPC) order book stands at ₹850 crore, with the cables division achieving strong EBIT margins ranging from 16% to 24%.

OUR VIEW

Quadrant Future Tek Limited (QFTL), founded in 2015, is a key player in India's rail modernization through its significant involvement in the KAVACH project, which is recognized as the world's most cost-efficient railway safety system. QFTL is strategically poised to benefit from India's railway expansion, currently holding orders for 1,200 locomotives, with a strong future pipeline supported by over 18,000 locomotives in operation and an annual addition of 1,500 locomotives.

The company has diversified into specialized cable manufacturing and integrated backwards into polymer compounding, copper processing, and electronic manufacturing services (EMS). This enhances cost efficiency and market adaptability. The cables, utilized in the railway, defence, and electric vehicle (EV) sectors, exhibit superior durability and lightweight properties, contributing to EBIT margins ranging from 16% to 24% in the cables division.

In H1, the revenue contribution from the existing business segment is in a downward trend, which has added to the losses. Despite recent losses in H1, attributed also to the depreciation from the KAVACH project and employee stock ownership plan (ESOP) expenses. QFTL's focus on research and development (R&D) and innovation costs remain non-capitalized. The company's return on equity (RoE) stands at 33%, compared to the industry average of 21%, indicating strong operational performance. In the long run, QFTL envisions targeting the developing nations of the African continent, providing cost-effective solutions.

QFTL is currently valued at a price-to-earnings (P/E) ratio of 59x based on FY24 earnings, in line with industry peers also at a P/E of 59x, reflecting its growth potential. As QFTL scales operations, enhances integration and broadens its market reach, the company is well-positioned for sustainable growth.

Despite slower product adaptation by the total addressable market, QFTL has strategic positioning and a robust pipeline, therefore we recommend **SUBSCRIBE**, QFTL for long-term gains.

Sources: Company website and red herring prospectus

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(A Wholly Owned Subsidiary of Canara Bank)



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