

Retail Research	IPO Note
Sector: Specialty Cables	Price Band (Rs): 275 - 290
05 <sup>th</sup> January 2025	Recommendation: Subscribe

## Quadrant Future Tek Ltd.

### Company Overview:

**Quadrant Future Tek Ltd.** is a research-oriented company developing next-generation Train Control and Signalling Systems under the **KAVACH** project for the Indian Railways. It also operates a specialty cable manufacturing facility with an Electron Beam Irradiation Centre, producing cables for railway rolling stock and the naval defense industry. The facility supports the end-to-end production of Solar and EV cables and includes areas for manufacturing, testing and developing specialty cables and hardware for the Train Control and Signalling Division.

### Key Highlights

**1. Business division: (a) Specialty Cables Division:** The company's specialty cables division focuses on fire-safe, lightweight cables for industrial use, designed for rail vehicles, naval vessels, electric vehicles and renewable energy installations. The product range includes railway rolling stock cables, marine cables, solar PV cables, automotive cables and connectors. As of FY24, the division had an installed capacity of 1,887.6 metric tonne, with utilization rates of 49.2%. **(b) Train Control & Signalling Division:** The company operates a Railway Signalling & Embedded System Design center, developing Train Control Products, including the Train Collision Avoidance System and Electronic Interlocking System as part of the KAVACH project. This system, which meets SIL-4 safety standards using radio transmission and LTE technology, ensures interoperability and accident prevention as per RDSO guidelines. The company manages in-house design and manufacturing of both hardware and software.

**2. In-house design and product development capabilities for Rail Signalling Products & Solutions:** The company's Railway Signalling and Embedded System Design center in Bengaluru and Hyderabad employs 28 people, representing about 9.49% of their workforce as of Oct'24. These are specialized in developing advanced Automatic Train Protection systems that are cost-competitive and innovative. The company has created a software-driven Train Collision Avoidance System for Indian Railways, focusing on performance, reliability and autonomy. The company's 60,000 sq. ft. manufacturing facility in Basma, Mohali, Punjab, supports their Train Control and Signalling Division and produces a custom Train Collision Avoidance System that meets RDSO requirements.

**3. MOU with RailTel:** On May 1<sup>st</sup>, 2024, company signed a Memorandum of Understanding (MoU) with RailTel Corporation of India Limited to collaborate on KAVACH, an Automatic Train Protection System for railways in India and abroad. This exclusive partnership allows the company to supply KAVACH equipment as an Original Equipment Manufacturer (OEM). RailTel will ensure its partners do not pursue competing offers. It will lead stakeholder engagements in Indian Railways and other countries, while the company will handle technology maintenance, adhere to RDSO specifications and provide technical expertise for project execution and KAVACH tenders. The MoU remains in effect unless terminated by either party.

**Valuation:** The company is valued at FY24 P/E multiple of 79.0x at post issue capital of upper price band. The company's Revenue/EBITDA/PAT achieved CAGR of 20.6%/96.5%/175.2% to Rs 152 cr/Rs 37 cr/Rs 15 cr during FY22-FY24 period. Among peers, the company leads with an EBITDA margin of 24.1% in FY24 and its return ratios are equally competitive. The industry forecast indicates a robust growth for the Indian Specialty Cable and Train Control System market projected to expand at a CAGR of 9.8% and 12.7% from CY24E-CY30E period. Additionally, the strategic MoU signed with RailTel Corp. to provide KAVACH coupled with recent order win from Chittaranjan Locomotive Works (CLW) of Rs 978.6 cr, solidifies the company's position as a premier Original Equipment Manufacturer (OEM). Given these compelling factors, we recommend the investors to subscribe the issue.

Issue Details	
Date of Opening	7 <sup>th</sup> January 2025
Date of Closing	9 <sup>th</sup> January 2025
Price Band (Rs)	275 - 290
Fresh Issue (Rs cr)	290
Issue Size (Rs cr)	290
No. of shares	1,05,45,455 – 1,00,00,000
Face Value (Rs)	10
Post Issue Market Cap (Rs cr)	1,115 – 1,160
BRLMs	Sundae Capital Advisors Private Ltd.
Registrar	Link Intime India Private Ltd.
Bid Lot	50 shares and in multiple thereof
QIB shares	75%
Retail shares	10%
NIB shares	15%

Objects of Issue	
	Total amount to be funded from Net Proceeds (Rs cr)
Funding long-term working capital requirements of the Company (Specialty Cable Division)	149.7
Capital expenditure for development for Electronic Interlocking System	24.4
Prepayment or repayment of all or a portion of outstanding working capital term loan availed by the Company	23.6
General corporate purposes*	-
<b>Total proceeds from fresh issue</b>	<b>290.0</b>

\* To be finalised upon determination of the Issue Price and updated in the Prospectus prior to filing with the RoC. The amount utilised for general corporate purposes shall not exceed 25% of the Gross Proceeds.

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	2,80,00,000	93.3
Public & Others	20,00,000	6.7
<b>Total</b>	<b>3,00,00,000</b>	<b>100.0</b>

Post Issue @Lower Price Band	No. of Shares	%
Promoter & Promoter Group	2,80,00,000	69.1
Public & Others	1,25,45,455	30.9
<b>Total</b>	<b>4,05,45,455</b>	<b>100.0</b>

Post Issue @Upper Price Band	No. of Shares	%
Promoter & Promoter Group	2,80,00,000	70.0
Public & Others	1,20,00,000	30.0
<b>Total</b>	<b>4,00,00,000</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

Particulars (Rs cr)	FY22	FY23	FY24	1QFY25
Revenue from operations	104.3	152.8	151.8	65.1
EBITDA	9.5	26.4	36.6	0.8#
PAT	1.9	13.9	14.7	(12.1)
EBITDA Margin (%)	9.1	17.3	24.1	-
PAT Margin (%)	1.9	9.1	9.7	-
RoE (%)	12.4	47.3	33.3	-
RoCE (%)	6.6	22.1	21.0	-
P/E (x)*	448.0	62.6	59.3	-

Source: RHP, SSL Research

\*Valuation ratios are based on pre-issue share capital

# - Includes Share-based payment of Rs 2.11 cr.

## Risk Factors

- **Single manufacturing unit:** The business is dependent on the single manufacturing facility and is subject to certain risks in the manufacturing process. Any slowdown or shutdown in the manufacturing operations could have an adverse effect on the business, financial condition and results of operations.
- **Rapid change in technology:** The company's customers operate in industries with specific sectors and rapidly changing preferences and technologies, which include lower manufacturing costs. Disruptions in these sectors can negatively affect their business, financial condition and overall prospects.
- **Less experience in Train Control Systems:** The company has recently expanded into Train Control Systems, making it difficult to predict the performance and future prospects. A significant portion of the Net Proceeds from this Issue will be allocated here, as the company has not yet secured any contracts. Moreover, promoters lack experience in this segment of the railways industry. If the company cannot effectively scale and manage their business or implement strategies, it could adversely affect the quality of products and services.
- **Failure in delivering the product:** The company received a purchase order on December 12, 2024, from Chittaranjan Locomotive Works (CLW) for the supply and installation of On-board Kavach equipment for 1,200 locomotives, valued at Rs 978.6 cr, including taxes. Failure to meet obligations, such as timely delivery and maintenance, could negatively impact business, financial performance and future opportunities in similar tenders.

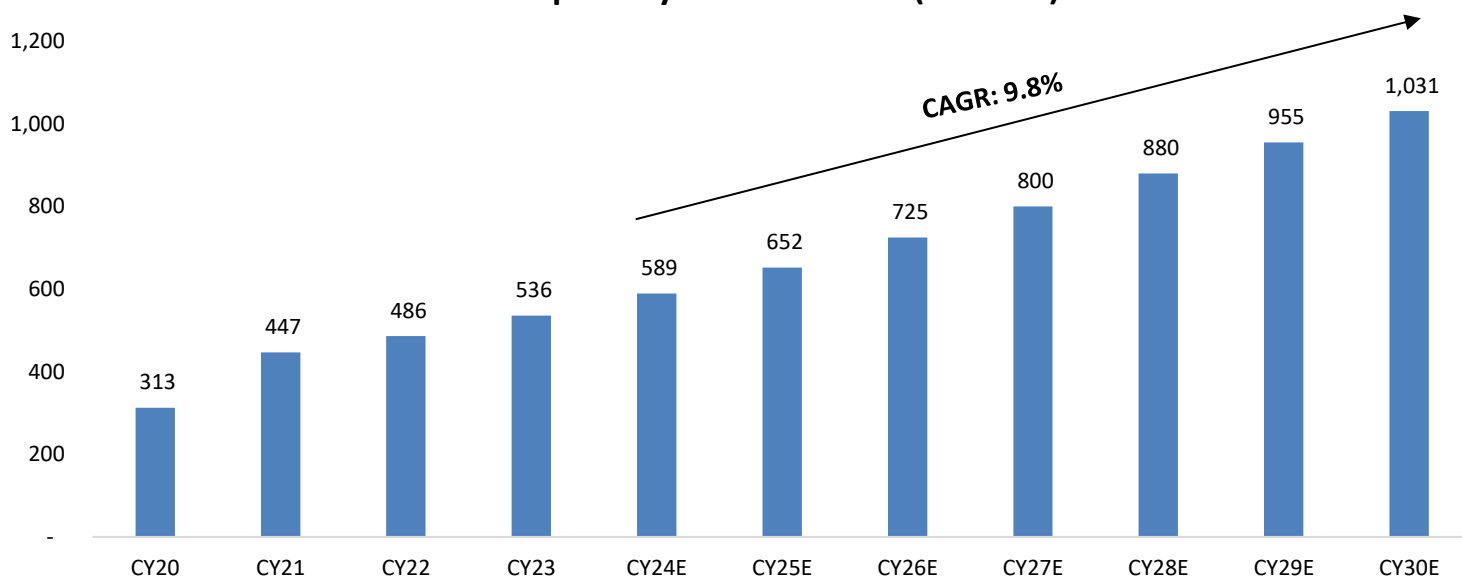
## Growth Strategies

- To continue focus on new products through constant research and development.
- Make in India and focus on indigenization.
- Expansion of business to other areas of Automatic Train Protection and railway safety.
- Continue to grow share of their business from non-promoter group companies.
- Expansion of cable business in new sectors.

## Industry Overview

**Indian Specialty Cable market is expected to grow at CAGR of 9.8% between CY24E-CY30E:** The domestic market size of specialty cables was valued at USD 536 mn in CY23 and it is expected to reach 589 mn in CY24E. For the projected period CY24E-CY30, the market is forecasted to register a CAGR of 9.8%. This is attributed to infrastructural developments in the country. Accordingly, the projected growth drivers include renewable power generation, expansion and revamping of transmission & distribution infrastructure, expansion & improvement in the railway network and increasing investments in metro projects.

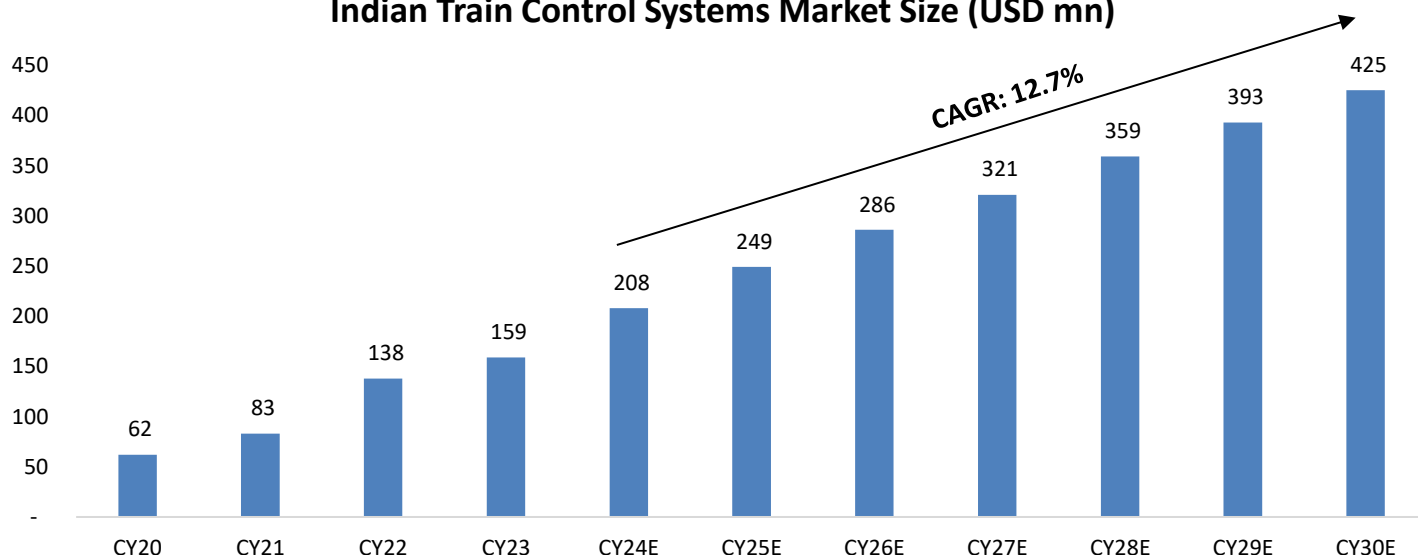
**Indian Specialty Cables Market (USD mn)**



Source: RHP, SSL Research

**Indian Train Control System market is expected to CAGR of 12.7% between CY24E-CY30E:** The Indian Train Control System market size was estimated to be valued at USD 159 mn in CY23, which is further expected to reach USD 208 mn in CY24E. For the forecast period CY24E-CY30E, the market anticipated to grow at a notable CAGR of 12.7%. Factors such as growing urbanization and rising population in India are leading to increasing demand for high-speed railway transit and network. Such growing demand bodes well for the train control system market for the coming years.

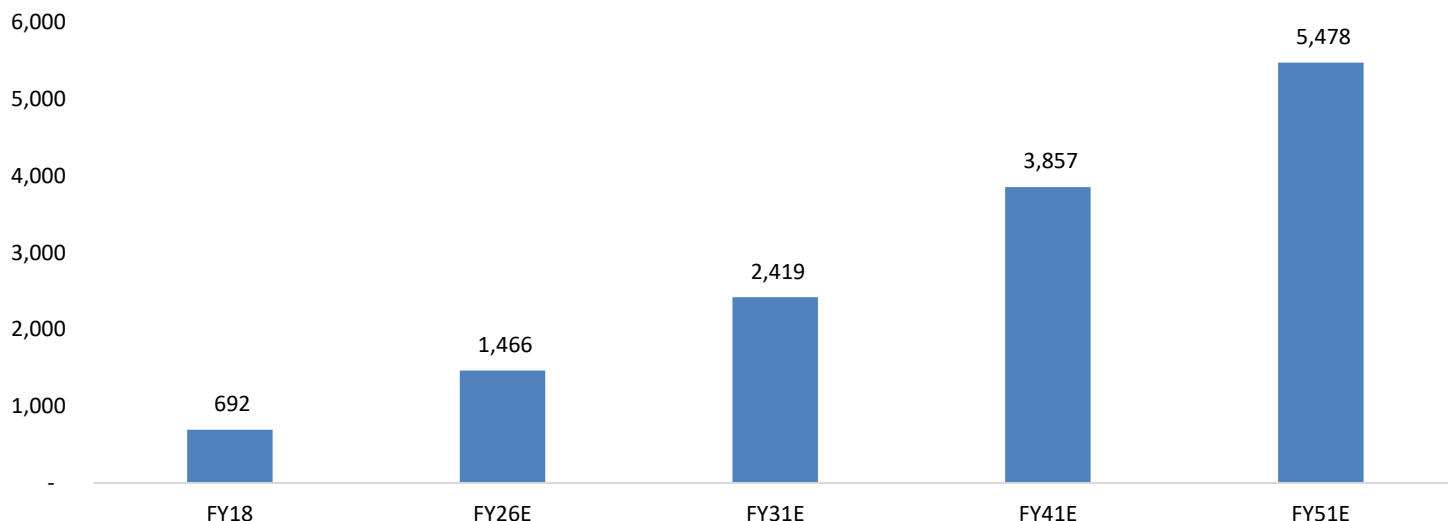
**Indian Train Control Systems Market Size (USD mn)**



Source: RHP, SSL Research

**Freight traffic is expected to reach 5,478 NTKM (Net Tonne Kilometers) by FY51E:**

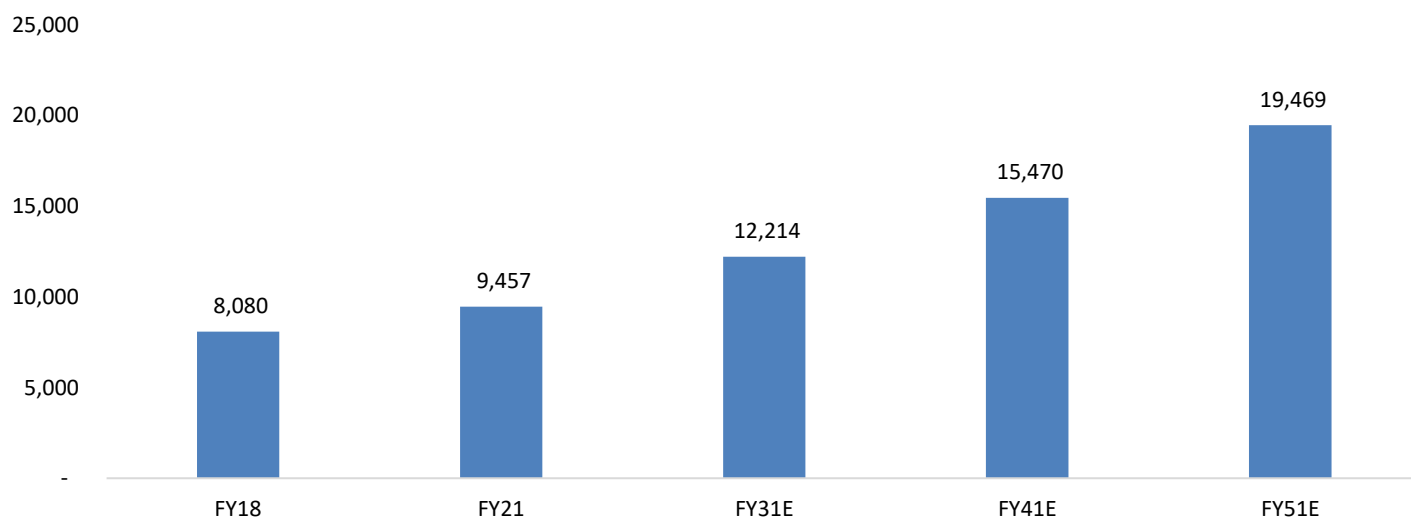
### Growth in Freight Traffic (NTKM)



Source: RHP, SSL Research

**Passenger traffic is expected to reach 19,469 mn in FY51E:**

### Passenger Traffic (in mn)



Source: RHP, SSL Research

**Projected growth in Locomotive & Wagons requirement:**

Particulars	FY18	FY26P	FY31P	FY41P	FY51P
No. of locomotive required (in thousands)	12.6	17.8	21.7	32.6	47.0
No. of wagons required (in lakhs)	2.8	4.0	5.4	7.8	10.6

Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY22	FY23	FY24
<b>Revenue from Operations</b>	<b>104</b>	<b>153</b>	<b>152</b>
<b>YoY growth (%)</b>	-	<b>46.6%</b>	<b>(0.7%)</b>
Cost Of Revenues (incl Stock Adj)	<b>80</b>	<b>110</b>	<b>88</b>
<b>Gross Profit</b>	<b>24</b>	<b>43</b>	<b>64</b>
<b>Gross margins (%)</b>	<b>23.3%</b>	<b>27.9%</b>	<b>42.2%</b>
Employee Cost	7	5	12
Other Operating Expenses	8	11	15
<b>EBITDA</b>	<b>9</b>	<b>26</b>	<b>37</b>
<b>EBITDA margins (%)</b>	<b>9.1%</b>	<b>17.3%</b>	<b>24.1%</b>
Other Income	0	0	0
Interest Exp.	3	3	4
Depreciation	3	4	10
<b>PBT</b>	<b>3</b>	<b>20</b>	<b>22</b>
Exceptional item	-	-	0
Tax	1	6	7
<b>PAT</b>	<b>2</b>	<b>14</b>	<b>15</b>
<b>PAT margin (%)</b>	<b>1.9%</b>	<b>9.1%</b>	<b>9.7%</b>
<b>EPS (Rs)</b>	<b>0.6</b>	<b>4.6</b>	<b>4.9</b>

BALANCE SHEET			
(Rs cr)	FY22	FY23	FY24
<b>Assets</b>			
Net Block	20	21	28
Capital WIP	2	-	-
Intangible Assets	0	0	53
Intangible Assets under development	31	48	-
Other Non-current Assets	0	2	3
<b>Current Assets</b>			
Inventories	24	19	20
Trade receivables	27	23	32
Cash and Bank Balances	0	1	1
Other Current Assets	8	5	6
<b>Total Current Assets</b>	<b>59</b>	<b>47</b>	<b>59</b>
<b>Current Liabilities &amp; Provisions</b>			
Trade payables	14	6	7
Other current liabilities	2	8	9
Short-term provisions	0	0	0
<b>Total Current Liabilities</b>	<b>16</b>	<b>15</b>	<b>16</b>
<b>Net Current Assets</b>	<b>43</b>	<b>33</b>	<b>43</b>
Assets Classified as held for sale	-	-	-
<b>Total Assets</b>	<b>97</b>	<b>104</b>	<b>127</b>
<b>Liabilities</b>			
Share Capital	10	10	10
Reserves and Surplus	6	19	34
<b>Total Shareholders' Funds</b>	<b>16</b>	<b>29</b>	<b>44</b>
Minority Interest	-	-	-
<b>Total Debt</b>	<b>81</b>	<b>74</b>	<b>82</b>
Long Term Provisions	0	1	1
Net Deferred Tax Liability	-	-	0
<b>Total Liabilities</b>	<b>97</b>	<b>104</b>	<b>127</b>

Cash Flow (Rs cr)	FY22	FY23	FY24
Cash flow from Operating Activities	(5)	30	18
Cash flow from Investing Activities	(32)	(20)	(21)
Cash flow from Financing Activities	36	(10)	3
Free Cash Flow	(36)	10	(3)

RATIOS			
	FY22	FY23	FY24
<b>Profitability</b>			
Return on Assets (%)	1.7	11.7	10.3
Return on Capital Employed (%)	6.6	22.1	21.0
Return on Equity (%)	12.4	47.3	33.3
<b>Margin Analysis</b>			
Gross Margin (%)	23.3	27.9	42.2
EBITDA Margin (%)	9.1	17.3	24.1
Net Profit Margin (%)	1.9	9.1	9.7
<b>Short-Term Liquidity</b>			
Current Ratio (x)	1.4	1.2	1.2
Quick Ratio (x)	0.9	0.7	0.8
Avg. Days Sales Outstanding	94	56	77
Avg. Days Inventory Outstanding	111	62	85
Avg. Days Payables	34	18	21
Fixed asset turnover (x)	5.3	7.3	5.4
Debt-service coverage (x)	0.1	0.3	0.3
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	5.2	2.5	1.9
Interest Coverage Ratio (x)	1.9	7.9	5.9
<b>Valuation Ratios*</b>			
EV/EBITDA (x)	100.3	35.7	26.0
P/E (x)	448.0	62.6	59.3
P/B (x)	55.8	29.6	19.7
EV/Sales (x)	9.1	6.2	6.3
Mcap/Sales (x)	8	6	6

\*Valuation ratios are based on pre-issue share capital

Source: RHP, SSL Research

## Peer Comparison – FY24

Particulars (Rs cr)	Quadrant Future Tek Ltd.	Kernex Micro Systems Ltd.	HBL Engineering Ltd.	Apar Industries Ltd.	Polycab India Ltd.
CMP (Rs)	290.0	1,383.0	624.0	10,951.0	7,208.0
Sales	151.8	20.0	2,233.0	16,153.0	18,039.0
EBITDA	36.6	(20.0)	423.0	1,568.0	2,492.0
Net Profit	14.7	(27.0)	280.0	825.0	1,803.0
Mcap	1,160.0	2,323.4	17,284.8	44,023.0	1,08,120.0
Enterprise Value	950.9	2,332.4	17,109.1	43,782.0	1,07,808.0
EBITDA Margin (%)	24.1	-	18.9	9.7	13.8
Net Profit Margin (%)	9.7	-	12.5	5.1	10.0
P/E (x)	79.0	-	61.7	53.4	60.0
EV/EBITDA (x)	26.0	-	40.4	27.9	43.3
EV/Sales (x)	6.3	116.6	7.7	2.7	6.0
RoE (%)	33.3	-	27.7	26.8	31.3
RoCE (%)	21.0	-	35.9	44.0	23.2

*For Quadrant Future Tek India Ltd., Market cap, P/E (x), EV/EBITDA (x) and EV/Sales (x) are calculated on post-issue equity share capital based on the upper price band.*

*CMP of peer companies is closing price of 03<sup>rd</sup> January 2025.*

*For Quadrant Future Tek Ltd, RoE (%), RoCE (%) are calculated on pre-issue basis.*

*Source: RHP, SSL Research*

**SBICAP Securities Limited**

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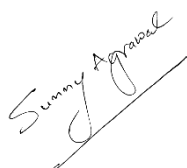
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