

AAA Technologies Ltd.

SSIS IPO GRADE 5/5 (Subscribe)
29th September, 2020

Rating Overview

Incorporated in 2000, AAA Technologies is an IT and Information Security Auditing & Consulting Company. The company offers a wide range of IT auditing services such as Information System Audit, Cyber Security, IT Assurance & Compliance, Information Security, and IT governance services.

Its product and service portfolio covers IT services and auditing operating systems, networking, IDS, web application, ERP, core banking, ATM, forensic, websites, computer crime investigations, etc. AAA Technologies offer its services across industries such as banking, financial institutions, insurance, NBFCs, government, Panchayats, municipalities, stockbrokers, education, Travel & Transport, Hospitality, Manufacturing, Healthcare, Power, etc.

If we attribute FY20 earnings on fully diluted post issue equity, then asking price is at a P/E of around 9.7, making it a reasonably priced IPO. ATL is a debt-free and dividend-paying company and for the last three fiscals, it has paid a constant dividend of 30%. Our overall fundamental rating of AAA Tech is Great Financials. The offer price is fair and the company has high growth prospects. We initiate a subscribe recommendation for short and long term gains. Investors looking for a listing pop may avoid.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

Business Overview

AAA Technologies Ltd. (ATL) is an information technology and information security auditing and consulting company offering platform that enables organizations to identify the issues of corporate governance of the information system in a computerized environment and execute security controls to safeguard information related system. ATL offers IT audit services like information system audit, cybersecurity, IT assurances and compliance, information security and IT governance to BFSI, Government, Regulatory agencies and public and private sectors organizations.

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The company has kept its focus on information security auditing and consulting keeping in view the vast scope of work in the existing and untapped areas. ATL has been able to build its resources capable of auditing operating systems, networking, IDS, web application, ERP, ATM, core banking, forensic, websites, computer crime investigations etc. ATL is an ISO 9001:2015 and ISO 27001:2013 accredited company. It has a team of 64 people located at its Mumbai and Delhi offices.

ATL is one of the 5 companies empanelled/working closely with NISCI (National Informatics Centre Services Inc) and CERT-In (Computer Emergency Response Team). It operates in a largely untapped market, indicating huge growth business potential. This segment has huge entry barriers for new entrants; on account of the sensitive nature of assignments. 'Digital India' initiative of Government of India to accelerate cybersecurity and information technology audit augurs well for ATL. An ever-growing list of cyber frauds and hacking a strong impetus to demand Information technology audit and consulting.

ATL's client list includes renowned names from BFSI, Government, Education, Hospitality, Manufacturing, Healthcare, Refineries, Travel, Infrastructure, Telecom sectors as well as Stock Exchanges, Regulatory Authorities etc.

Financial Performance

On the financial performance front, for the last three fiscals, on a standalone basis, ATL has posted turnover/net profits of Rs. 10.40 cr. / Rs. 1.00 cr. (FY18), Rs. 10.47 cr. / Rs. 2.06 cr. (FY19) and Rs. 14.25 cr. / Rs. 3.70 cr. (FY20). ATL has posted growth in its bottom lines for all these years.

For the last three fiscals, on a standalone basis, ATL has posted an average EPS of Rs. 4.60 and an average RoNW of 31.80%. The issue is priced at a P/BV of 1.68 on the basis of its post-issue NAV of Rs. 25.05.

If we attribute FY20 earnings on fully diluted post issue equity, then asking price is at a P/E of around 9.7, making it a reasonably priced IPO. ATL is a debt-free and dividend-paying company and for the last three fiscals, it has paid a constant dividend of 30%.

Summary of financial Information			
Particulars	For the year/period ended (Rs in Million)		
	31-Mar-20	31-Mar-19	31-Mar-18
Total Assets	1,420.38	942.83	1002.56
Total Revenue	1,424.74	1,047.49	1,040
Profit After Tax	369.80	206.02	99.97

Issue Details

To meet its plans for expansion and development of business operations across various cities in India (Rs. 5.54 cr.), working capital and security deposit for bank guarantee (Rs. 3.93 cr.), general corporate funds (Rs. 0.06 cr.) needs, ATL is coming out with a maiden IPO of 2436000 equity shares of Rs.10 each at a fixed price of Rs. 42 per share to mobilize Rs. 10.23 cr. The issue opens for subscription on September 30, 2020, and will close on October 05, 2020. Minimum application is to be made for 3000 shares and in multiples thereon, thereafter. Post allotment, shares will be listed on NSE SME Emerge platform.

Issue constitutes 28.49% of the post issue paid-up capital of the company. The company will be spending Rs. 0.70 cr. for this IPO process.

The issue is solely lead managed by Chartered Finance Management Ltd. and Link Intime India Pvt. Ltd. is the registrar to the issue. NNM Securities Pvt. Ltd. is acting as a Market Maker for this company. Having issued initial equity at par, the company has raised further equity in the price range of Rs. 42 to Rs.100 between March 2009 and August 2020. It has also issued bonus shares in the ratio of 19 shares for 2 shares held in August 2020.

The average cost of acquisition of shares by the promoters is Rs. 1.72, Rs. 6.19 and Rs. 9.52 per share. Post issue, ATL's current paid-up equity capital of Rs. 6.12 cr. will stand enhanced to Rs. 8.55 cr. With this IPO, the company is looking for a market cap of Rs. 18.50 cr.

Application Dates	Sep 30, 2020 – Oct 5, 2020
Issue Type	Book Built Issue IPO
Face Value	₹10 per equity share
IPO Price	₹42 per equity share
Market Lot	3000 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹10.23 Cr)

Issue Timeline

Basis of Allotment Date	Oct 8, 2020
Initiation of Refunds	Oct 9, 2020
Credit of Shares to Demat Account	Oct 12, 2020
IPO Listing Date	Oct 13, 2020

Investment Strategy

ATL has posted growth in bottom lines for the last three fiscals. On the basis of P/E and P/BV parameters, the issue appears reasonably priced. Being the first mover in the segment, this issue may get fancy post listing. Investors may consider an investment with a long term perspective.