

Sigma Solve Ltd.

SSIS IPO GRADE 3.5/5 (Average)
24th September, 2020

Rating Overview

Based in Ahmedabad, Sigma Solve Ltd. was incorporated in the year 2010. Being an IT services provider, the company is primarily involved in providing enterprise software solutions. Some of the services that the company offers include digital marketing, e-commerce development, web development, CRM and CMS development, QA automation, and cloud computing, among others.

The company's 100% of the revenue is from export of services, and in order to provide hassle free payment facilities to their clients, they channelize their payment through "Sigma Solve Inc." (erstwhile group concern and now subsidiary company w.e.f. October 23, 2019), having their presence in Florida (USA), Atlanta (Home Office) and Australia (Home Office).

If we attribute FY20 earnings (on a consolidated basis) on fully diluted post issue equity, then asking price is at a P/E of around 9.53 against peers group average of 11.75, making it fully priced offer. Our overall fundamental rating of Sigma Solve is Average Financials. The offer price is fair and the company has high growth prospects. We initiate a subscribe recommendation for short and long term gains.

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

Sigma Solve Ltd. (SSL) (erstwhile known as Presha Software Pvt. Ltd.) is engaged in providing the IT and IT-enabled services and to accelerate the business opportunities of Sigma Solve Inc. (SSI), a Florida (USA) based IT Company which is a subsidiary.

At present, the company is having 51.04% stake in the subsidiary company i.e. Sigma Solve Inc. By additional investment of Rs. 0.70 cr., its stake will be approximately 60.00% of the total capital of the subsidiary company; as a result profit/loss earned by the subsidiary company will be forming part of SSL on a consolidated basis.

'Sigma' and 'Sigma Solve Inc.' (erstwhile group concern and now subsidiary company w.e.f. October 23, 2019) having their offices at Florida (USA), Atlanta (Home Office), and Australia (Home Office) jointly make efforts for new business acquisitions. Company's 100% of the revenue is from the export of services, and in order to provide hassle-free payment facilities to clients, SSL channelizes payment through 'Sigma Solve Inc.', having their presence in Florida (USA), Atlanta (Home Office) and Australia (Home Office). SSL does not have any identified customers being almost 100% of sales is booked by Sigma Solve Inc., and subsequently, 'Sigma' is charging on monthly basis to Sigma Solve Inc. for providing the execution facilities on per man-hour basis in conjunction with efficiency level achieved on monthly basis. Moreover, 'Sigma' also occasionally serves directly to clients.

Financial Performance

On the financial performance front, for the last three fiscals, on a standalone basis, SSL has posted turnover/net profits of Rs. 2.57 cr. / Rs. 0.23 cr. (FY18), Rs. 3.49 cr. / Rs. 0.35 cr. (FY19) and Rs. 5.69 cr. / Rs. 0.65 cr. (FY20). As the company has invested in its own subsidiary in October 2019, on the basis of consolidated performance, for fiscal 2019-20, it has posted a turnover of Rs. 10.97 cr. with a net profit of Rs. 1.94 cr.

For the last three fiscals, on a standalone basis, SSL has posted an average EPS of Rs. 2.76 and an average RoNW of 29.69%. On a consolidated basis, this figure stands at Rs.5.73 and 28.23% respectively.

The issue is priced at a P/BV of 2.53 on the basis of its NAV of Rs. 17.78 as on March 31, 2020, and at a P/BV of 1.94 on the basis of post-issue NAV of Rs. 23.23. (On a consolidated basis).

If we attribute FY20 earnings (on a consolidated basis) on fully diluted post issue equity, then asking price is at a P/E of around 9.53 against peers group average of 11.75, making it fully priced offer.

Summary of financial Information			
Particulars	For the year/period ended (Rs in Million)		
	31-Mar-20	31-Mar-19	31-Mar-18
Total Assets	498.25	226.25	112.17
Total Revenue	568.83	348.79	257.47
Profit After Tax	65.02	34.57	23.36

Issue Details

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To meet its plans for acquisitions and other strategic initiatives (Rs . 2.30 cr.), investment in a subsidiary (Rs. 0.70 cr.) and general corpus fund (Rs. 1.20 cr.) needs, SSL is coming out with a maiden IPO of 1101000 equity

shares of Rs.10 each at a fixed price of Rs. 45 per share to mobilize Rs. 4.95 cr. The issue opens for subscription on September 29, 2020, and will close on October 09, 2020. The market is surprised for such a long duration for the IPO subscription period. 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 26.78% of the post issue paid-up capital of the company. **The company will be spending Rs. 0.75 cr. for this IPO process. This indicates that the issue is pre-structured and will get through with arranged funds.**

The issue is solely lead managed by Beeline Broking Ltd. and Link Intime India Pvt. Ltd. is the registrar to the issue. **Nikunj Stock Brokers Ltd. is acting as a Market Maker for this company.** So far the company has raised entire equity at par and has issued bonus shares in the ratio of 100 shares for 1 share held in May 2019.

The average cost of acquisition of shares by the promoters is Rs. 4.15 per share. Post issue, SSL's current paid-up equity capital of Rs. 3.01 cr. will stand enhanced to Rs. 4.11 cr. With this IPO, the company is looking for a market cap of Rs. 18.50 cr.

Application Dates	Sep 29, 2020 – Oct 9, 2020
Issue Type	Book Built Issue IPO
Face Value	₹10 per equity share
IPO Price	₹45 per equity share
Market Lot	3000 Shares
Listing At	BSE, NSE
Issue Size	[.] Eq Shares of ₹10 (Up to ₹4.95 Cr)

Issue Timeline

Basis of Allotment Date	Oct 14, 2020
Initiation of Refunds	Oct 15, 2020
Credit of Shares to Demat Account	Oct 15, 2020
IPO Listing Date	Oct 19, 2020

Investment Strategy

SSL has posted growth in top and bottom lines for the last three fiscals. However, on the basis of P/E and P/BV parameters, the issue is fully priced. The issue expenses indicate the structured format of the IPO. Cash surplus, risk savvy investors may consider investment at their own risk.