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IPO Report

04th Mar'24

Snapshot

EmCompany is one of the leading integrated marketing service groups in India, offering a single-window solution for creative, media, data analytics and market research services. Company is ranked 8th in terms of estimated operating revenue among the integrated marketing communications services groups operating in India. Company offer a comprehensive range of services in the following interrelated and complementary business segments: (i) Integrated Marketing Communications, (ii) Customer Data Analytics and Marketing Technology (“Customer Data Analytics and MarTech”); and (iii) FullService Market Research (including customer experience measurement) and Syndicated Studies (“Full-Service Market Research”).

VALUATION

Company is bringing the issue at price band of Rs 270-288 per share at p/e multiple of 46x on annualized H1FY24 PAT basis.

Company is integrated marketing services provider serving clients for 50 years. Company has 15 year track record in the data analytics and marketing technology segment, with a proven ability of producing digital content at scale, a leader in the business of market research. Company’s well established brands across segments with experienced Promoters and a professional senior management. Company has well diversified customer base with long standing relationships; and established internal infrastructure for efficient delivery of services. Hence ,looking after all above we recommend “Subscribe” on issue

Price Band (Rs./Share)	270-288
Opening date of the issue	04th Mar '2024
Closing Date of the issue	06th Mar '2024
No of shares pre issue	44,457,140 Eq Shares
Issue Size	Rs 408-424 Cr
Fresh issue	Rs 173 Cr
Offer For Sale	87,00,000 Equity Shares
No of Shares	15138270-14733883 Eq Sh
Face Value (Rs/ share)	Rs 5/share
Bid Lot	50
Employee Discount	Rs 27/share

BIDDING DETAILS

QIBs (Including Anchor)	75% of the offer (Approx 10834896 Eq Shares)
Non-Institutional	15% of the offer (Approx 2166979 Eq Shares)
Retail	10 % of the offer (Approx 1444652 Eq Shares)
Lead managers	SBI Capital Markets, IIFL Securities, Motilal Oswal
Registrar to the issue	KFin Technologies Ltd

WHAT WE LIKE

Integrated marketing services provider serving clients for 50 years

Company is one of the leading integrated marketing service groups in India, offering a single-window solution for creative, media, data analytics and market research services and have grown its businesses organically based on its response to market trends and client requirements progressively over the last five decades.

Well diversified customer base with long standing relationships

Company’s business model was built and continues to evolve around its clients and their specific marketing and advertising requirements and are the central focus of how company structure its service offerings and allocate its resources. Company have catered to over 4,000 client organisations over the years and have served over 380 clients in the six months ended September 30, 2023. Company have a well-diversified client base covering leading brands across multiple industry verticals. Company is focused on the BFSI, automotive, FMCG/consumer durables/retail/e-commerce sectors and possess deep domain expertise across various kinds of client organisation structures, which include private sector business groups, other private companies, multinational companies, public sector enterprises, central government ministries and NGOs.

Well established brands across segments with experienced Promoters and a professional Senior Management

The R K Swamy brand was established by its founder, R K Swamy in 1973. Through the efforts, reputation, guidance and experience of its Promoters, company have established the brands, “R K Swamy” and “Hansa”, in the field of marketing services in India. The long-standing experience of company’s Promoters has contributed significantly to company’s market position. Company’s Promoters have held leadership positions on various industry forums.



COMPANY BACKGROUND

Company have a track record of over five decades, and have been serving leading companies such as Aditya Birla Sun Life AMC Limited, Cera Sanitaryware Limited, Dr. Reddy's Laboratories Limited, E.I.D.— Parry (India) Limited, Fujitsu General (India) Private Limited, Gemini Edibles and Fats India Limited, Havells India Limited, Hawkins Cookers Limited, Himalaya Wellness Company, Hindustan Petroleum Corporation Limited, ICICI Prudential Life Insurance Company Limited, IFB Industries Limited, Mahindra and Mahindra Limited, Oil and Natural Gas Corporation Limited, Royal Enfield (a unit of Eicher Motors), Shriram Finance Limited, Tata Play Limited, Ultratech Cement Limited, and Union Bank of India. Company is a data driven integrated marketing services provider and all segments of company's business use digital initiatives extensively. During Fiscal 2023 and the six months ended September 30, 2023, company released over 818 and 438 creative campaigns, respectively on behalf of company's clients across various media outlets, handled over 97.69 and 140.05 terabytes (cumulatively for Fiscal 2023 and the six months ended September 30, 2023) of data and have conducted over 2.37 million and 1.44 million consumer interviews across quantitative, qualitative and telephonic surveys. Company aim to provide the highest levels of professional service to meet the continuous needs of its clients and aim to continue growing company's capabilities with an unyielding focus on the needs of its clients. Company's solutions and offerings are serviced by over 2,533 employees spread across 12 offices and 12 field locations across twelve cities, across company's three business segments. Driven by its clients' continuous demand for more effective and efficient marketing services, company strive to pursue a contrarian strategy by providing a wide range of advertising and marketing services under a unified management.

Company's business segments, and the services provided thereunder, are as follows:

The Integrated Marketing Communications business segment includes: (a) creative and digital content; (b) media (including digital); (c) events and activation planning, buying and executing; and (d) others including public relations, social media management, pharmaceutical communication.

The Integrated Marketing Communications business segment has evolved from traditional advertising as the landscape of advertising has expanded with the advent of new channels that have gained significant popularity in recent years. Social media advertising has become a prominent avenue, with platforms such as Facebook, Instagram, Twitter, and LinkedIn offering targeted advertising options, sponsored posts, and collaborations with influencers. Company's creative advertising teams create interactive and engaging campaigns for its clients, through which its clients are able to connect with a wide range of audiences and offer these consumers unique and memorable brand experiences.



INVESTMENT RATIONALE

<p><i>15 year track record in the Data Analytics and Marketing Technology segment, with a proven ability of producing digital content at scale, a leader in the business of market research</i></p>	<p>Company commenced a standalone customer data analytics business in 2008 through its subsidiary Hansa Customer Equity. Company have serviced over 200 clients since 2008. Company have built this business organically and offer a comprehensive suite of services under its Customer Data Analytics and MarTech segment. The Analytics India Magazine has recognised Hansa Customer Equity as one of the ‘top 50 companies in India for data scientists to work for’ in 2022. Further, Hansa Customer Equity has been designated as a seasoned vendor in the penetration index quadrant for data science and has been ranked eighth in the maturity quadrant, by the Analytics India Magazine in 2022. Company deploy various technologies to improve the operational efficiencies of its business such as AI-driven insights to identify clients’ problems through machine learning, in-house algorithms and multiple analytical techniques, and help them achieve better business results. Company offer an array of solutions, including Marketing Automation Platforms, Media Planning Tools, Customer Relationship Management (“CRM”) Systems, Data Analytics Tools, AI and machine learning tools. The Customer Data Analytics and MarTech business was approximately ₹ 115 billion in Fiscal 2023 and is expected to grow at a CAGR of 13-15% to approximately ₹ 200-230 billion by Fiscal 2028. Company produce digital marketing content at scale both in terms of volume and languages. Company have produced digital content across 18 languages and produced over 2,828, 1,963 and 1,507 videos for distribution across client-owned and/or paid digital platforms, during the fiscals 2023, 2022 and 2021, respectively. The Integrated Marketing Communications business was approximately ₹ 135-145 billion in Fiscal 2023 and is expected to grow at a CAGR of 14-16 % to approximately ₹ 260-280 billion by Fiscal 2028.</p>
<p><i>Well established brands across segments with experienced Promoters and a professional Senior Management</i></p>	<p>The R K Swamy brand was established by company’s founder, R K Swamy in 1973. Through the efforts, reputation, guidance and experience of company’s Promoters, company have established the brands, “R K Swamy” and “Hansa”, in the field of marketing services in India. The long-standing experience of company’s Promoters has contributed significantly to its market position. Company’s Promoters have held leadership positions on various industry forums. Company’s professional engagement with such leading academic institutions and industry organizations allows it to retool its offerings in line with the latest development in the marketing, digital and analytics industries. .</p>
<p><i>Established internal infrastructure for efficient delivery of services</i></p>	<p>Company offer its clients with an established infrastructure to support all their marketing and advertising needs. Company’s marketing and client services network in India spans across 12 Indian cities, 12 offices and 12 field locations in India, as of September 30, 2023. Company have also recently set up foreign subsidiaries in Dubai and Bangladesh to serve clients in Middle East, North Africa and South Asia and have started to offer Full-Service Market Research services. In India, company have a ‘national data-collection field infrastructure’, spread over 17 cities, which as of September 30, 2023 comprised 1,350 individuals (of which 47 individuals are field executives, 1 is on third party payroll and 1,302 are engaged as freelancers). Company’s team based in India will provide support infrastructure to its foreign office locations. Company’s in-house analysis teams are trained in data tabulation, classification and scrutiny, and have been equipped with the latest technology such as, Sawtooth Choice-Based Conjoint (CBC), Isotab, SurveyToGo, Isoquick, Latent Gold, and Qualtrics. Company have established CATI and customer experience centres with over 1,700 seats across 10 locations as of September 30, 2023, equipped with the state of art equipment. The extensive in-house physical, digital and human support infrastructure enables company to respond quickly to varying requirements of company’s clients. This helps company in deepening its relationships, differentiating itself and increasing relevance for company’s clients.</p>



OBJECTS OF OFFER

Fresh Issue

The net proceeds of the Fresh Issue, i.e., gross proceeds of the Fresh Issue less Company's share of the Offer related expenses ("Net Proceeds") are proposed to be utilized in the following manner:

1. Funding working capital requirements of company;
2. Funding capital expenditure to be incurred by the Company for setting up a digital video content production studio ("DVCP Studio");
3. Funding investment in IT infrastructure development of Company, and Material Subsidiaries, Hansa Research and Hansa Customer Equity;
4. Funding setting up of new customer experience centres ("CEC") and computer aided telephonic interview centres ("CATI") of Company; and
5. General corporate purposes.

RISKS

Company's business is concentrated around key clients, which account for a significant amount of company's revenue. If company fail to retain these clients, or diversify its client base or if company's key clients reduce their marketing budgets, its business, revenue growth, results of operations, cash flows and financial condition may be materially and adversely affected.

Source:RHP

INDUSTRY OVERVIEW

Key growth drivers for digital marketing in India

Increasing prominence of digital OOH

Currently, digital OOH is at a very nascent stage in India and comprises only 5-10% of the OOH industry as the capital expenditure required for digital outdoor paraphernalia/infrastructure is very high and currently being undertaken by large players in metro cities on a small scale.

Growing importance of user-generated content in advertising

The utilisation of user-generated content (UGC) for marketing and advertising has witnessed substantial growth in recent years, primarily driven by the emergence of social media and messaging platforms where individuals willingly create content using their mobile devices.

Increasing spend on programmatic digital media advertising

The use of digital media programmatic buying in Integrated marketing communication is witnessing a significant surge, driven by its inherent advantages and capabilities. Advertisers are increasingly drawn to programmatic buying due to its ability to reach their target audience efficiently and effectively through advanced targeting capabilities.

Growing popularity of short duration videos Given the diminishing attention spans and the demand for quick and efficient information consumption, short videos have emerged as a convenient and captivating format of video content. While videos under 60 seconds are 166 particularly effective, especially for entertainment-oriented content, users are also engaging with videos up to 120 seconds that provide relevant, educational, and meaningful content.

Increasing popularity of live stream and video commerce

The utilisation of live streaming and video commerce has witnessed a noticeable surge in recent times. Live streaming enables brands and individuals to reach out to their audience in real time, foster interactive and engaging experiences and host live events, product launches, tutorials, and behind-the-scenes content, and establish an authentic and immediate connection with their target audience.

Integrated marketing communication industry undergoing a demand shift

The advertising industry is witnessing a discernible shift in demand from traditional advertising channels to digital platforms in recent years due to evolving consumer behaviour, increasing accessibility of smartphones and technological advancements. Furthermore, companies have also realised the benefits of digital advertising such as precise targeting capabilities, real-time analytics, and the ability to reach a vast and diverse audience. Consequently, businesses are allocating substantial portions of their advertising budgets to digital channels including social media, search engines, mobile apps, and video streaming services to effectively engage with their target audience and perform crucial data analysis in real time. Additionally, considering continued growth of internet usage and the surging popularity of digital platforms, the demand for digital advertising is anticipated to maintain its upward trajectory.



Consolidated Financials

(Rs in Mn)

Financials	FY21	FY22	FY23	H1FY24
Total Revenue (A)	1735.46	2344.13	2926.13	1410.97
Total Expenditure (B)	1543.94	2005.49	2370.07	1215.82
EBIDTA	191.52	338.64	556.06	195.15
EBIDTA Margin	11.04	14.45	19.00	13.83
Other Income	96.74	105.58	73.00	14.54
Depreciation	150.40	138.90	147.16	74.33
EBIT	137.86	305.32	481.90	135.36
Interest	91.10	58.36	56.10	26.71
PBT	46.76	246.96	425.80	108.65
Exceptional	0.00	0.00	0.00	0.00
PBT	46.76	246.96	425.80	108.65
Tax	15.99	54.45	113.22	29.34
PAT	30.77	192.51	312.58	79.31
NPM	1.77	8.21	10.68	5.62
ROE%	3.13	17.20	22.20	5.41
EPS	0.69	4.33	7.03	1.57
Eq Cap	40.80	40.80	44.46	222.29
Net Worth	33.00	163.49	452.31	510.74

(Source: RHP)

Peer Comparison

Company Name	Face value	P/E	Revenue from operations (Rs in Mn)	EPS	NAV	ROE %
<i>RK Swamy Limited</i>	5		2999.13	7.03	31.67	22.20
Peers						
Affle (India) Limited	2	66.74	14882.80	18.43	109.98	16.73
Latent View Analytics Limited	1	63.70	5945.28	7.63	58.93	12.87
Vertoz Advertising Limited	10	78.07	837.62	9.22	85.59	10.77

(Source: RHP)



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