# QUADRANT FUTURE TEK LIMITED

January 06, 2025

**SMC Ranking**

★★☆☆☆ (2/5)

## Issue Highlights

| Industry | Electrical Equipment |
|---|---|
| Fresh Issue (Shares) | 10,000,000 |
| Net Offer to the Public | 10,000,000 |
| Issue Size (Rs. Cr.) | 275-290 |
| Price Band (Rs.) | 275-290 |
| Offer Date | 7-Jan-25 |
| Close Date | 9-Jan-25 |
| Face Value | 10 |
| Lot Size | 50 |

## Issue Composition

| | In shares |
|---|---|
| Total Issue for Sale | 10,000,000 |
| QIB | 7,500,000 |
| NIB | 1,500,000 |
| Retail | 1,000,000 |

## Shareholding Pattern (%)

| Particulars | Pre-issue | Post -issue |
|---|---|---|
| Promoters & promoters group | 93.33% | 70.00% |
| QIB | 6.67% | 23.75% |
| NIB | 0.00% | 3.75% |
| Retail | 0.00% | 2.50% |
| **Total** | **100.00%** | **100.00%** |

*calculated on the upper price band

## Objects of the Issue

The Company proposes to utilise the Net Proceeds from the Issue towards the following objects:

Funding long-term working capital requirements of the Company;

Capital expenditure for the development of Electronic Interlocking System;

Prepayment or repayment of all or a portion of outstanding working capital term loan availed by the Company; and

General corporate purposes.

**Book Running Lead Manager**

- Sundae Capital Advisors Private Limited

**Name of the registrar**

- Link Intime India Private Limited

## About the company

Quadrant Future Tek Limited, incorporated in September 2015, develops next-generation Train Control and Signaling Systems for the Indian railways' KAVACH project, enhancing safety and reliability for passengers. The company also has a speciality cable manufacturing facility with an Electron Beam Irradiation Centre. The company has a facility in Village Basma, Tehsil Banur, Distt Mohali, for manufacturing, testing, and developing speciality cables and hardware for the Train Control & Signalling Division. The company is technology-driven, with products that meet ISO, IRIS, and TS standards and follow strict Quality Management Systems for speciality cables. The company manufactures, tests, and develops speciality cables at its Village Basma, Tehsil Banur facility, District Mohali, Punjab. As of October 31, 2024, the company had 295 employees at its manufacturing facility, Railway Signalling & Embedded System Design centre and corporate function.

## Strength

**Innovation and Technological Advancements in Automatic Train Protection Systems:** The company's innovation and technological advancements in the development of Automatic Train Protection (ATP) Systems rely on four key building blocks that form the foundation of its train control systems.

**Domain Expertise in Signalling and Train Control:** To establish expertise in signalling and train control, the company has assembled a team of senior management professionals with extensive experience in railways, signalling, and locomotive operations. For the implementation of the Train Collision Avoidance System (TCAS), four distinct systems are installed, including on-track equipment (e.g., RFID tags), trackside equipment (e.g., railway-to-train communications), indoor equipment (e.g., station TCAS, relays), and onboard equipment (e.g., Loco TCAS, Driver Machine Interface). Kavach is the first system in India to integrate all these components into a unified solution.

**Product Engineering:** To design and conceive such a product, the company ensures expertise in architecture, design, and product management. It considers potential issues that might arise during equipment operation and addresses constraints related to mechanical, electrical, electronic, software, data, communication, and logistical challenges.

**Safety-Critical System Engineering:** Train control systems are safety-critical, where failures can result in severe consequences. Building such systems requires expertise in safety-critical systems engineering, ensuring that all potential failures are anticipated and mitigated. The company's team applies this knowledge to meet global standards, considering necessary safety levels and ensuring thorough development from the outset to minimize future modifications.

**Global Standards Compliance:** The company develops its Train Control Systems in compliance with CENELEC standards, aiming for SIL-4 safety specifications. The team is well-versed in international standards, ensuring that products meet the stringent safety requirements of Indian Railways.

**Partnership with RailTel for KAVACH Implementation:** In May 2024, the company entered into a Memorandum of Understanding (MoU) with RailTel Corporation of India Limited to pursue opportunities related to the KAVACH Automatic Train Protection System in India and internationally. The partnership aims to broaden the scope of KAVACH's implementation, ensuring that RailTel's stakeholders are aligned with the project. The MoU

also designates the company as the original equipment manufacturer (OEM) for KAVACH systems, responsible for technology maintenance, upgrades, and ensuring adherence to Indian Railways' specifications.

**In-House Design and Product Development Capabilities for Rail Signalling Solutions:** The company's focus is on increasing the capacity utilization of existing infrastructure in Indian Railways by improving safety and efficiency through systems like the TCAS. The in-house Railway Signalling & Embedded System Design center, based in Bengaluru and Hyderabad, employs a team of 28 members dedicated to creating cutting-edge solutions while ensuring cost competitiveness and innovation. The company manufactures and assembles these systems at its facility in Basma, Mohali, Punjab, with a production area of approximately 60,000 square feet.

**Specialty Cables for Critical Industries:** The company also manufactures high-quality specialty cables for various industries, including railways, naval defense, renewable energy, and electric vehicles. These cables meet the stringent safety and performance standards required for high-risk applications. The company's advanced cable manufacturing facility in Mohali uses electron beam ('E-beam') processing technology, which enhances the cables' durability, heat resistance, and fire safety. This technology allows the company to produce cables that reduce weight, improve energy efficiency, and increase overall safety.

**Advanced Manufacturing Facilities and Global Market Penetration:** With significant investments in R&D and automated manufacturing, the company has become a trusted supplier for specialized cables. Its manufacturing processes are accredited by RDSO, DGQA, and Indian Register of Shipping, and it has become a key player in supplying cables for electric vehicles, solar and wind energy projects, and naval ships. Its cables are designed to withstand extreme environments, ensuring reliability in critical applications like electric vehicle charging stations and renewable energy installations.

**Emerging Global Market for Specialty Cables:** With the global shift towards electric vehicles (EVs) and renewable energy, the demand for specialty cables has grown. These cables play a vital role in ensuring the safety and efficiency of EVs by reducing fire risks and improving electrical performance. Similarly, the company's cables meet the rigorous demands of the solar energy sector, ensuring resilience in harsh environments. The company's expertise in developing cables for these industries positions it as a critical supplier for global OEMs.

## Strategy

**Continuing Focus on New Products through Ongoing Research and Development:** The company consistently monitors emerging industry trends and needs, directing its research and development efforts toward cutting-edge technologies as a key strategic focus. The current priorities include:

- **Environmental Protection:** Transitioning to renewable energy and electric vehicles, with electron beam cables.
- **Higher Train Speeds:** Enhancing passenger experience and improving infrastructure efficiency through safety-critical signaling systems.
- **Rolling Stock & Defense Systems Modernization:** Prioritizing fire safety for passengers in high-speed trains and developing defense sector technologies, such as electron beam cables.
- **Business Expansion:** Increasing exports to global markets.

The company is committed to continuous investment in research, design, and innovation, creating cost-effective and safe solutions for customers. By doing so, it aims to stay ahead of competitors, help customers reduce costs, and improve efficiency. Additionally, the company emphasizes process improvements to lower operational costs while enhancing product quality. Through in-house quality control and R&D, the company has developed a knowledge base that drives the creation of new products. It consistently adopts modern manufacturing techniques to achieve superior product

quality.

**Supporting "Make in India" and Fostering Indigenous Development:** The Government of India has recognized the need to boost domestic manufacturing and is implementing various initiatives, such as "Make in India" and "Atmanirbhar Bharat Abhiyan," to promote local manufacturing capabilities. Launched in 2014, "Make in India" encourages innovation, intellectual property development, and world-class manufacturing infrastructure, focusing on sectors like railways, automobiles, chemicals, and defense. Amid the COVID-19 pandemic, the Atmanirbhar Bharat Abhiyan was introduced in 2020, with a focus on self-sufficiency across five pillars: economy, technology-driven infrastructure, infrastructure, demand, and demographics. The government also aims to reduce import reliance and enhance domestic manufacturing in sectors such as railway infrastructure, high-speed trains, signaling, and safety systems. This drive will contribute to India's self-reliance in the railway sector, including safety systems and technology advancements.

**Expanding Business in Automatic Train Protection and Railway Safety:** The company has significantly invested in the development of its Automatic Train Protection system, including TCAS, with a total expenditure of ₹594.41 million. It intends to continue upgrading this system, integrating newer technologies to expand operations. As of October 31, 2024, the company had 28 employees in its Railway Signalling & Embedded System Design center, making up about 9.49% of the workforce. The company plans to expand this team with experienced professionals to improve product development. The train control and signaling division focuses on:

- **Train Collision Avoidance Systems**
- **Electronic Interlocking Systems (EI)**
- **Multi-Section Digital Axle Counters**

The company has developed a solution for the Train Collision Avoidance System and, with its successful deployment, plans to extend its safety measures. The EI system, a computer-based interlocking solution, offers many advantages over traditional systems, including reduced space, lower power consumption, greater reliability, and easier installation and maintenance.

**Growing Business from Non-Promoter Group Clients:** The company has steadily reduced its reliance on promoter group clients by expanding its customer base. Revenue from non-promoter clients rose to 83.65% in FY 2024, up from 65.81% in FY 2022. In the six-month period ending September 30, 2024, this revenue accounted for 62.99% of total operations. The company is focused on further expanding its non-promoter customer base by entering new industries and acquiring new clients. The company seeks to achieve a balanced customer mix, ensuring stability through ongoing relationships with both third-party customers and promoter group clients.

**Expansion of Cable Business into New Sectors:** Electron Beam Cross-Linked cables offer excellent resistance to fluids, oils, and moisture, making them ideal for use in high-temperature environments. These specialty cables are increasingly being used in industries such as aerospace, aviation, solar and wind energy, and electric vehicles. With rigorous quality standards, these cables meet high heat and abrasion resistance requirements. For example, solar photovoltaic cables are used to transmit power from solar panels to battery banks, charging units, and inverters. The company plans to focus on expanding its presence in niche sectors, leveraging its expertise in specialty cables to support industries like solar, electric vehicles, and control systems.

## Risk factor

- The business is dependent on its single manufacturing facility, and it is subject to certain risks in its manufacturing process.
- The markets in which its customers operate are characterized by sector specific to the industries which it caters to, and their rapidly changing preferences, technologies and other related factors including lower manufacturing costs.

## Peer comparison

| Co_Name | Total Income | PAT | EPS | P/E | P/BV | BV | FV | Price | Mcap |
|---|---|---|---|---|---|---|---|---|---|
| Apar Inds. | 17025.78 | 849.72 | 211.54 | 51.8 | 10.72 | 1022.56 | 10 | 10957.35 | 44013.83 |
| HBL Engineering | 2250.42 | 327.84 | 12.51 | 49.93 | 12.61 | 49.53 | 1 | 624.6 | 17313.6 |
| Kernex Microsys. | 87.12 | -10.65 | 0 | 0 | 19.89 | 69.79 | 10 | 1387.9 | 2326.04 |
| Polycab India | 20128.82 | 1794.61 | 119.31 | 60.52 | 12.64 | 571.33 | 10 | 7220.85 | 108615.78 |
| Quadrant Future Tek Limited | 151.76 | 14.64 | 3.66 | 79.25 | 3.47 | 83.53 | 10 | 290.00 | 1160.00 |

***Peer companies financials are TTM based**
****Quadrant Future Tek Limited financials are based on FY24**

## Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.290, the stock is priced at pre issue P/E of 59.43 x on FY24 EPS of Rs.4.88. Post issue, the stock is priced at a P/E of 79.25x on its EPS of Rs. 3.66. Looking at the P/B ratio at Rs.290 pre issue, book value of Rs. 19.72 of P/Bvx 14.71x. Post issue, book value of Rs.3.47 of P/Bvx 83.53x.

Considering the P/E valuation, on the lower end of the price band of Rs.275, the stock is priced at pre issue P/E of 56.36x on FY24 EPS of Rs.4.88. Post issue, the stock is priced at a P/E of 75.15x on its EPS of Rs. 3.66. Looking at the P/B ratio at Rs.275 pre issue, book value of Rs. 14.71 of P/Bvx 18.70x. Post issue, book value of Rs.83.53 of P/Bvx 3.29x.

## Industry Outlook

The company caters to two different industries, namely (i) Indian Specialty Cables Industry with niche technology for manufacture of Speciality cables which has application in various industries including Railways, Naval Defence, Solar power & Electric Vehicle; and (ii) Train Control and Signalling System under Railways Industry towards Automatic Train Protection (ATP) and Automatic Train Operations (ATO) systems including KAVACH and growing demand in related technologies and development of new systems to enable safety and capacity augmentation in railways.

## Outlook

Quadrant specializes in advanced Train Control Systems under the Indian Railways' KAVACH project and manufactures specialty cables for railways, defense, solar, and electric vehicles. As a leader in developing next-generation Train Control and Signalling Systems, Quadrant focuses on innovation, strong certifications, and a diversified portfolio. The KAVACH system, expected to be the world's most cost-effective collision protection solution, is priced at INR 70 Lakh per kilometer, significantly lower than the global average of INR 2 crore. Despite its strong position, the company relies on a single manufacturing facility, exposing it to operational risks. Its markets, catering to industries such as railways, defense, and renewable energy, are driven by rapidly changing technologies, preferences, and cost pressures. This makes the business susceptible to industry-specific shifts. A long-term investor may consider the issue due to its growth potential in India's infrastructure and renewable energy sectors.

**An Indicative timetable in respect of the Issue is set out below:**

| EVENT | INDICATIVE DATE (On or about) |
|---|---|
| BID/ISSUE OPENS ON | 07-January-25 |
| BID/ISSUE CLOSES ON | 09-January-25 |
| Finalisation of Basis of Allotment with the Designated Stock Exchange | 10-January-25 |
| Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account | 13-January-25 |
| Credit of Equity Shares to Demat Accounts of Allottees | 13-January-25 |
| Commencement of trading of the Equity Shares on the Stock Exchanges | 14-January-25 |

# Annexure

**Consolidated Financials**

## Profit & Loss

Rs. in Cr.

| Particulars | Period ended 30-Sep-24 (6 Months) | Period ended 31-Mar-24 (12 Months) | Period ended 31-Mar-23 (12 Months) |
|---|---|---|---|
| Revenue from operations | 65.14 | 151.76 | 152.80 |
| Total expenditure | 64.32 | 115.16 | 126.40 |
| **Operating Profit** | **0.82** | **36.60** | **26.41** |
| OPM% | 1.26 | 24.12 | 17.28 |
| Other Income | 0.00 | 0.07 | 0.14 |
| **PBDIT** | **0.82** | **36.67** | **26.55** |
| Depreciation | 9.56 | 10.29 | 3.71 |
| **PBIT** | **-8.74** | **26.38** | **22.84** |
| Interest | 3.75 | 4.50 | 2.91 |
| **Profit Before Exceptional items & Tax** | **-12.50** | **21.89** | **19.93** |
| Exceptional items | 0.00 | 0.04 | 0.00 |
| **Profit/(loss) before tax** | **-12.50** | **21.85** | **19.93** |
| Tax | -0.39 | 7.21 | 6.03 |
| **PAT** | **-12.10** | **14.64** | **13.90** |

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

| Particulars | As on 30-Sep-24 | As on 31-Mar-24 | As on 31-Mar-23 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 27.66 | 27.99 | 20.90 |
| Capital work-in-progress | 0.00 | 0.00 | 0.00 |
| Other Intangible Assets | 46.31 | 52.63 | 0.00 |
| Intangible assets under development | 0.00 | 0.00 | 48.45 |
| Right of Use Assets | 0.84 | 0.00 | 0.00 |
| **Financial Assets** | | | |
| Trade receivables | 2.77 | 2.77 | 1.22 |
| Other Financial Assets | 0.15 | 0.15 | 0.51 |
| Deferred Tax Assets (Net) | 0.27 | 0.00 | 0.26 |
| Other Non Current Assets | 1.81 | 0.00 | 0.00 |
| **Total Non Current Assets** | **79.80** | **83.54** | **71.35** |
| **Current assets** | | | |
| Inventories | 37.32 | 20.42 | 18.65 |
| **Financial Assets** | | | |
| Trade receivables | 23.22 | 32.04 | 23.26 |
| Cash and cash equivalents | 0.36 | 0.24 | 0.20 |
| Bank balances other than cash and cash equivalents | 0.53 | 0.48 | 0.33 |
| Other financial assets | 0.67 | 0.55 | 0.31 |
| Current Tax Assets (Net) | 0.31 | 0.27 | 0.61 |
| Other current assets | 7.45 | 5.29 | 4.12 |
| **Total current assets** | **69.86** | **59.28** | **47.47** |
| **Total Assets** | **149.66** | **142.82** | **118.82** |
| **Non-current liabilities** | | | |
| **Financial liabilities** | | | |
| Borrowings | 43.97 | 47.55 | 48.88 |
| Other financial liabilities | 0.68 | 0.00 | 0.00 |
| Provisions | 0.96 | 0.85 | 0.53 |
| Deferred tax liabilities (Net) | 0.00 | 0.11 | 0.00 |
| **Total non-current liabilities** | **45.61** | **48.51** | **49.41** |
| **Current liabilities** | | | |
| **Financial liabilities** | | | |
| Borrowings | 54.04 | 34.06 | 25.12 |
| Trade payables | 8.70 | 6.71 | 6.40 |
| Other financial liabilities (other than those specified in item | 2.28 | 1.85 | 0.99 |
| Provisions | 0.43 | 0.19 | 0.04 |
| Other current liabilities | 1.67 | 2.89 | 1.89 |
| Current tax liabilities (net) | 2.76 | 4.51 | 5.57 |
| **Total current liabilities** | **69.88** | **50.20** | **39.99** |
| **Total** | **115.49** | **98.71** | **89.40** |
| Networth | 34.18 | 44.12 | 29.42 |
| Net worth represented by: | | | |
| Equity Share Capital | 30.00 | 10.00 | 10.00 |
| Other equity | 4.18 | 34.12 | 19.42 |
| **Net Worth** | **34.18** | **44.12** | **29.42** |

## RANKING METHODOLOGY

| | |
|---|---|
| **WEAK** | ★ |
| **NEUTRAL** | ★★ |
| **FAIR** | ★★★ |
| **GOOD** | ★★★★ |
| **EXCELLENT** | ★★★★★ |

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