

Netweb Technologies – ADD

04 February 2025

Management meeting



DeepSeek – glass half full?

We recently hosted the management of Netweb Technologies to understand the global developments in AI and its impact on the outlay for computation infra. Mgmt. highlighted that while DeepSeek's low-cost LLM development (US\$6-7M vs ~US\$100M for GPT-4) demonstrates the potential for efficient models with reduced computational capex, this is expected to encourage more private players to enter the market driving demand for its AI&EW offerings. Further, GoI remains steadfast at developing a sovereign computation infra with 18K+ GPUs under the India AI mission which will drive demand. LLM related execution forms <5% of Netweb's revenue and is unlikely to have a material adverse impact on growth. We keep EPS estimates unchanged, maintain ADD with a TP of Rs2,130 (50x FY27ii).

DeepSeek demonstrates lowers cost barriers – DeepSeek, a China-based LLM, was built using a combination of deep and sparse architectures, with a strong emphasis on math and reasoning. It's development cost of US\$6-7mn is significantly lower vs comparable Western models, primarily due to improved efficiency and alternative training methodologies, but also limited scope. Nevertheless, given the restrictions on advanced chip exports from the US, this achievement demonstrates the potential of software optimizations and novel training approaches in enabling LLM development with lower capital investments.

LLMs development gaining traction in India – LLM development in India is accelerating with initiatives like BharatGen, Project Indus (Indic language model), and Sesame (BFSI-focused LLM). Inspired by cost-efficient models like DeepSeek, Indian players are leveraging alternative training methods and computational optimizations. Government support (IndiaAI outlay for FY26BE at Rs20bn) and growing demand for Indic-language AI are driving this momentum.

Limited impact on Netweb – LLM sales currently contribute <5% to Netweb's revenue but is expected to rise to 7-8% over the medium term, in-line with growth in AI&EW segment. Mgmt. sees DeepSeek's low-cost model as a growth enabler, encouraging more players to develop LLMs.

CMP	Rs1684
12-mth TP (Rs)	2130 (27%)
Market cap (US\$m)	1,088
Enterprise value(US\$m)	1,063
Bloomberg	NETWEB IN
Sector	EMS

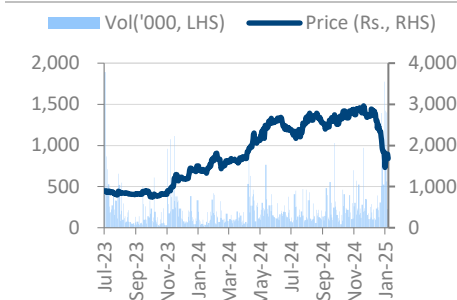
Shareholding pattern (%)

Promoter	71.4
Pledged (as % of promoter share)	0.0
FII	11.8
DII	6.4
52Wk High/Low (Rs)	2961/1326
Shares o/s (m)	56
Del Value 3mth avg (US\$ m)	4.3
Dividend yield FY26ii (%)	0.4
Free float (%)	28.6

Price performance (%)

	1M	3M	1Y
Absolute (Rs)	(40.7)	(38.0)	23.2
Absolute (US\$)	(41.7)	(40.2)	17.2
Relative Perf.	(32.4)	(29.9)	14.8
Cagr (%)		3 yrs	5 yrs
EPS (Rs)		66.7	70.0

Stock performance



Financial summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Revenues (Rs m)	4,450	7,241	10,982	15,461	21,489
Ebitda margins (%)	15.7	14.2	14.5	15.2	15.6
Pre-exceptional PAT (Rs m)	469	759	1,166	1,663	2,401
Reported PAT (Rs m)	469	759	1,166	1,663	2,401
Pre-exceptional EPS (Rs)	9.2	13.5	20.7	29.5	42.6
Growth (%)	16.1	46.1	53.6	42.6	44.4
IIFL vs consensus (%)			(0.9)	(1.6)	(0.9)
PER (x)	182.7	125.0	81.4	57.1	39.5
ROE (%)	68.0	29.4	24.7	28.3	32.4
Net debt/equity (x)	0.2	(0.5)	(0.4)	(0.4)	(0.3)
EV/Ebitda (x)	122.7	90.4	58.2	39.5	27.5
Price/book (x)	91.5	22.4	18.2	14.6	11.4
OCF/Ebitda (x)	0.4	0.2	0.2	0.3	0.3

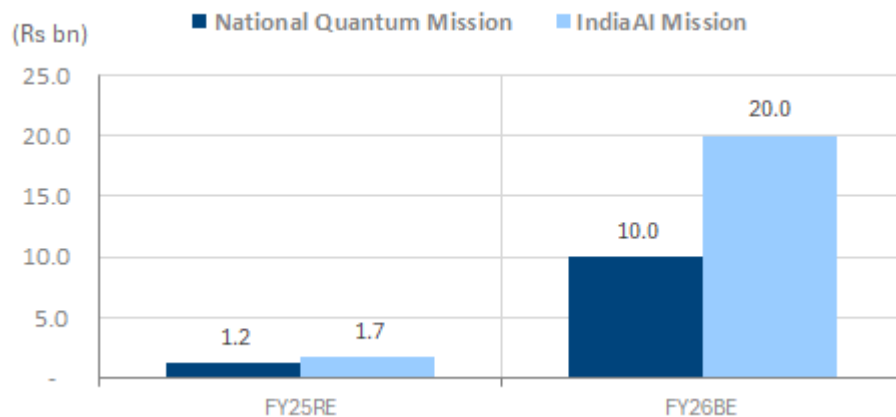
Source: Company, IIFL Research. Priced as on 03 February 2025

Concall highlights

Netweb views the emergence of DeepSeek as a significant growth driver as this would market expansion and GoI adoption.

- Market Expansion** – By lowering the cost barriers associated with developing LLMs, DeepSeek has widened the range of customers to access and utilize appropriate computing resources, previously hesitant due to high adoption costs. This empowers them to leverage AI effectively for addressing their business challenges, driving greater demand for Netweb’s solutions.
- GPU Neutral solutions** – Netweb’s AI solutions portfolio is designed to provide multi-GPU/APU platforms that cater to both inference and training architectures. DeepSeek will likely drive greater adoption of its solutions.
- Government adoption** – Adoption of platforms like DeepSeek aligns with the interests of local governments, accelerating the development of similar platforms within India. GoI’s current AI policies emphasizes development of indigenous LLMs & domain-specific AI models.

Figure 1: FY26 Budget provides for 10x jump in outlay for India AI mission



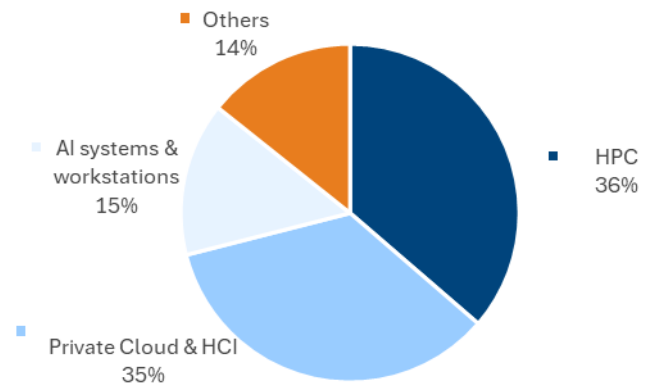
Source: Company, IIFL Research

Figure 2: LLMs being developed in India

LLM Model	Developer	Focus Area	Key Details
BharatGen	IIT Bombay	Multimodal AI & Indian languages	First government-backed LLM initiative, part of the NM-ICPS mission. Supports text, speech, and image generation.
Project IndusTech Mahindra		Indic languages	Focuses on preserving and enhancing Indian linguistic heritage for AI applications.
BharatGPT	CoRover.ai	Multi-language AI	Supports over 14 Indian languages, designed for conversational AI applications.
OpenHathi	Sarvam AI	Hindi & regional languages	India’s first publicly available Hindi LLM for AI-driven applications.
Sesame	Setu	BFSI sector	First LLM focused on Banking, Financial Services, and Insurance (BFSI) in India.
Paramanu	Gyan AI	Indic language generative AI	Family of foundation models supporting 10 Indian languages with efficient AI deployment.

Source: Company, IIFL Research

Figure 3: Netweb’s 9MFY25 revenue mix



Source: Company, IIFL Research

Expect no change in estimates

- Development of LLM at lower capex will drive market expansion as more players engage in developing proprietary LLMs.
- Any impact on ASPs of high spec enterprise workstations in this regard will be covered by volume growth.
- Further, with LLM related sales making up <5% of overall revenue, don't expect a material impact on Netweb's financial performance because of this development.

Figure 4: DeepSeek related correction has driven sharp de-rating of the stock – making valuations more reasonable



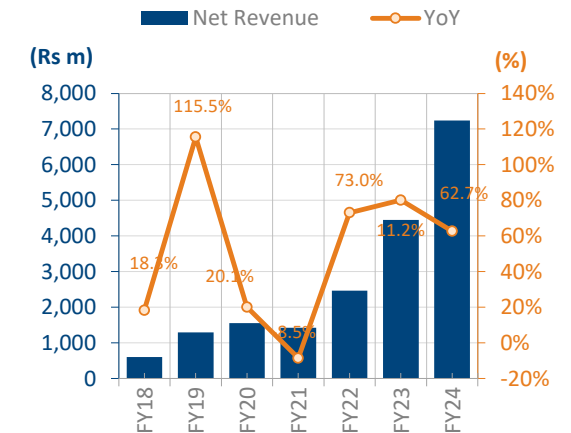
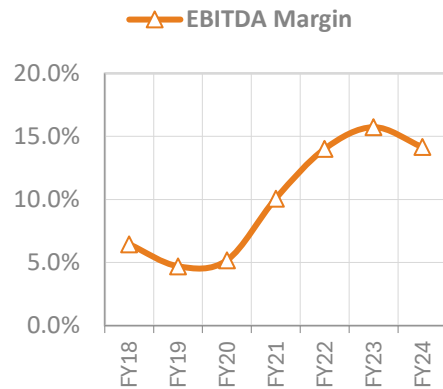
Source: Company, IIFL Research

Background: Netweb Technologies is one of India’s leading high-end computing solutions (HCS) provider, with fully integrated design and manufacturing capabilities. Established as a sole proprietorship in 1999 (incorporated as a company in 2016), over the last two decades Netweb has installed over 300 supercomputing systems, over 50 private cloud & HCI installations and 4,000+ AI systems and enterprise workstations.

Management

Name	Designation
Sanjay Lodha	Chairman & MD
Ankit Kumar Singhal	CFO
Hriday Vikram	Chief Marketing Officer

Customers: ISRO, HAL, Graviton, IITs, Akamai, Yotta
 Competitors: IBM, ATOS, Lenovo, HPE



Assumptions

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Revenue YoY (%)					
HPC	67.8	51.8	50.0	40.0	40.0
Private cloud & HCI	205.0	81.0	45.0	36.0	32.0
AI&EW	27.2	158.3	100.0	65.0	60.0
HPS	42.1	10.0	5.0	30.0	25.0
Data centre server	17.4	19.0	20.0	17.5	18.0
HCS focussed Software and Service	38.1	85.9	70.0	40.0	40.0
Spare & Others	17.7	27.9	40.0	15.0	20.0
Network switches & 5G	0.0	0.0	200.0	50.0	55.0

PE Chart



EV/Ebitda



Financial summary

Income statement summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Revenues	4,450	7,241	10,982	15,461	21,489
Ebitda	700	1,025	1,593	2,346	3,357
Depreciation and amortisation	(37)	(63)	(96)	(121)	(136)
Ebit	664	963	1,497	2,225	3,222
Non-operating income	7	119	101	66	69
Financial expense	(41)	(62)	(33)	(58)	(68)
PBT	630	1,020	1,565	2,232	3,222
Exceptionals	0	0	0	0	0
Reported PBT	630	1,020	1,565	2,232	3,222
Tax expense	(160)	(261)	(399)	(569)	(822)
PAT	469	759	1,166	1,663	2,401
Minorities, Associates etc.	0	0	0	0	0
Attributable PAT	469	759	1,166	1,663	2,401

Ratio analysis

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Per share data (Rs)					
Pre-exceptional EPS	9.2	13.5	20.7	29.5	42.6
DPS	0.0	2.0	4.1	7.4	10.6
BVPS	18.4	75.0	92.6	115.6	147.6
Growth ratios (%)					
Revenues	80.1	62.7	51.7	40.8	39.0
Ebitda	102.4	46.4	55.4	47.3	43.1
EPS	16.1	46.1	53.6	42.6	44.4
Profitability ratios (%)					
Ebitda margin	15.7	14.2	14.5	15.2	15.6
Ebit margin	14.9	13.3	13.6	14.4	15.0
Tax rate	25.5	25.6	25.5	25.5	25.5
Net profit margin	10.5	10.5	10.6	10.8	11.2
Return ratios (%)					
ROE	68.0	29.4	24.7	28.3	32.4
ROIC ex goodwill	0.0	0.0	0.0	0.0	0.0
Solvency ratios (x)					
Net debt-equity	0.2	(0.5)	(0.4)	(0.4)	(0.3)
Net debt to Ebitda	0.2	(2.1)	(1.4)	(1.0)	(0.8)
Interest coverage	16.3	15.5	45.7	38.4	47.4

Source: Company data, IIFL Research

Balance sheet summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Cash & cash equivalents	136	2,216	2,264	2,367	2,733
Inventories	541	1,147	1,797	2,520	3,506
Receivables	1,515	1,838	2,845	3,990	5,551
Other current assets	189	399	603	846	1,177
Creditors	1,034	1,266	1,947	2,520	3,506
Other current liabilities	329	520	755	1,059	1,474
Net current assets	1,019	3,814	4,808	6,144	7,987
Fixed assets	237	429	431	389	343
Intangibles	15	18	18	18	18
Investments	0	0	0	0	0
Other long-term assets	26	77	90	107	126
Total net assets	1,297	4,339	5,347	6,658	8,474
Borrowings	304	16	20	20	20
Other long-term liabilities	57	95	107	121	136
Shareholders equity	937	4,228	5,220	6,518	8,318
Total liabilities	1,297	4,339	5,347	6,658	8,474

Cash flow summary (Rs m)

Y/e 31 Mar, Consolidated	FY23A	FY24A	FY25ii	FY26ii	FY27ii
Ebit	664	963	1,497	2,225	3,222
Tax paid	(160)	(261)	(399)	(569)	(822)
Depreciation and amortization	37	63	96	121	136
Net working capital change	(323)	(683)	(945)	(1,233)	(1,477)
Other operating items	54	102	60	50	0
Operating cash flow before interest	271	184	309	593	1,059
Financial expense	(41)	(62)	(33)	(58)	(68)
Non-operating income	7	119	101	66	69
Operating cash flow after interest	237	240	377	601	1,060
Capital expenditure	(133)	(186)	(180)	(80)	(90)
Long-term investments	(17)	(1,406)	(88)	(49)	(49)
Others	(38)	1,149	(65)	(369)	(554)
Free cash flow	50	(203)	44	103	366
Equity raising	0	2,571	0	0	0
Borrowings	11	(288)	4	0	0
Dividend	0	0	0	0	0
Net chg in cash and equivalents	61	2,080	48	103	366

Source: Company data, IIFL Research

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BUY - Stock expected to give a return 10%+ more than average return on a debt instrument over a 1-year horizon.

SELL - Stock expected to give a return 10%+ below the average return on a debt instrument over a 1-year horizon.

Add - Stock expected to give a return 0-10% over the average return on a debt instrument over a 1-year horizon.

Reduce - Stock expected to give a return 0-10% below the average return on a debt instrument over a 1-year horizon.

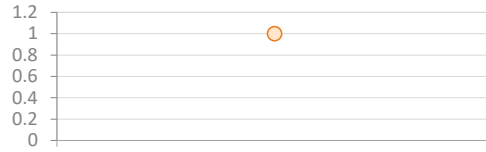
Distribution of Ratings: Out of 292 stocks rated in the IIFL coverage universe, 141 have BUY ratings, 5 have SELL ratings, 103 have ADD ratings, 2 have NR ratings and 40 have REDUCE ratings

Price Target: Unless otherwise stated in the text of this report, target prices in this report are based on either a discounted cash flow valuation or comparison of valuation ratios with companies seen by the analyst as comparable or a combination of the two methods. The result of this fundamental valuation is adjusted to reflect the analyst's views on the likely course of investor sentiment. Whichever valuation method is used there is a significant risk that the target price will not be achieved within the expected timeframe. Risk factors include unforeseen changes in competitive pressures or in the level of demand for the company's products. Such demand variations may result from changes in technology, in the overall level of economic activity or, in some cases, in fashion. Valuations may also be affected by changes in taxation, in exchange rates and, in certain industries, in regulations. Investment in overseas markets and instruments such as ADRs can result in increased risk from factors such as exchange rates, exchange controls, taxation, and political and social conditions. This discussion of valuation methods and risk factors is not comprehensive – further information is available upon request.

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- i. Investments in securities market are subject to market risks. Read all the related documents carefully before investing.
 - ii. Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.
 - iii. Registration granted by SEBI, membership of BASL (in case of IAs) and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors

Netweb Tech: 3 year price and rating history

(Rs) — Price ○ TP/Reco changed date



Date	Rating	Close price (Rs)	Target price (Rs)	Upside (%)
26 Jun 2024	ADD	2570	2680	4.3