

## Expanding wings in testing services

Qualitek Labs (Qualitek) began its operations with a testing laboratory established in Pune in 2018. The company provides testing, inspection, homologation, certification, and consultancy services to various industries viz automotive, defense, metals & metallurgy, environment and water, minerals, food & agriculture, pharma & healthcare. Qualitek operates a total of eight laboratories located across various regions in India. These include two facilities in Pune, one in Noida, one in Bhubaneswar, one in Tirupur, and three laboratories situated within Gujarat. The company is in process of merging with the group company -Interstellar Testing Centre Private Limited (ITC PL), which operates a total of five laboratories. Post the merger, Qualitek will have a total of 13 labs. The company aspires to expand the number labs and area of testing services to include renewable energy.

**Consolidation of ITC labs to boost financials:** During the half year ended 30th September 2024, the Company acquired 50% equity shares of ITCPL for a consideration of Rs 33 cr paid in cash. Further, the company will issue 16,71,598 equity shares to the existing equity shareholders of ITCPL in the ratio of 6.56 shares for every 1 share held in ITCPL to acquire the remaining 50% shares of ITCPL. Thus, ITCPL will become a wholly-owned subsidiary of the Company. During this period, the Company also acquired 100% equity shares of Quality and Testing Infosolution Private Limited (QPL) for a consideration of Rs. 5 cr paid entirely in cash. Thus, QTIPL has become a wholly owned subsidiary of the Company. The ITCPL Labs generated a revenue of INR32.75 cr, EBITDA of Rs6.2 cr and PAT of INR1.71 cr in FY24.

**Expanding horizon of testing services:** Qualitek has continuously been expanding the scope of testing services since inception and included Automotive & Water (2019), Chemicals & Cosmetics (2020), minerals (2022), and Electrical & Electronics, Packaging & Toys (2024). Going forward, it aims to cover EMI/EMC, Oil & Gas, Hard Goods in 2025. The company is also expanding operations in sustainable segments like Environment Monitoring, Inspection and Social Audit etc.

**Strengthening the partnership with Govt and PPP:** TIC (holding company) strengthening business in Government sectors like Food, Minerals, Energy, etc. The company has also entered into a Public-Private Partnership with the Haryana Government of India for Green-field Project in Rohtak. The company currently has Govt collaboration in Gujarat and Baddi. Laboratories in Gujarat is operated on a government lab process outsourcing model, which incorporates a fee based on volume processed.

**Strong operating performance in H1FY25:** The company reported a 68% YoY jump in revenue to INR20.93 cr and 19% YoY growth in EBITDA to INR4.48 cr in H1FY25. However, due to higher interest and depreciation (caused by acquisitions and expansions) the PAT dropped by 15% YoY to INR1.71cr. The company generated INR 2.5 Cr revenue in H1 FY24-25 from coal testing projects at 6 locations across India. The company raised INR19.64 cr through IPO last year and further raised INR51.72 cr through preference shares during Jul-24.

**Outlook, valuation and view:** Qualitek has been expanding its business horizon by setting up and acquiring new labs across the country. While the company continues to scout for new acquisition of labs, the consolidation of ITCPL will be the near-term growth driver. The company achieved a revenue and PAT CAGR of 66% and 111% during FY21-24. The company recently received a NABL accreditation for its Noida lab, which will start contributing from Q4FY25 while new minerals testing lab at BBSR will start contributing from Q1FY26. It has a strong order intake in Automotive and Defence segments, while it is undergoing scope/capacity expansion in Automotive and E&E segments at Pune and Noida. The stock is currently trading at 47x FY24 EPS.

### Key financials

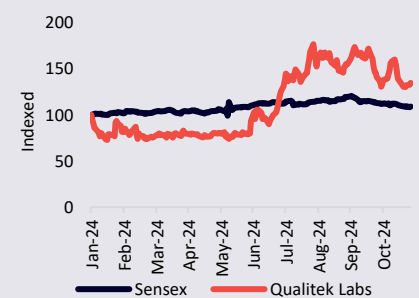
Year to March	FY22	FY23	FY24
Net Revenues (INR Cr)	12	19	29
% Growth (YoY)	89	60	52
EBITDA (INR Cr)	2	5	8
% Growth (YoY)	125	128	53
Adj. Net Profit (INR Cr)	1	3	4
Adjusted EPS (INR)	2	4	6
Diluted P/E (x)	179	70	47
EV/EBITDA (x)	13	33	27
ROACE (%)	72	38	21

CMP: INR277

Rating: Not Rated

Bloomberg:	QLL:IN
52-week range (INR):	140 /370
M-cap (INR cr):	200
Promoter holding (%)	73.35

### Relative Price Performance



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## Financials

Income statement		(INR cr)		
Year to March	FY22	FY23	FY24	
Income from operations	12.0	19.1	29.2	
Direct costs	2	4	6	
Employee costs	3	4	6	
Other expenses	4	6	9	
Total operating expenses	10	14	21	
EBITDA	2	5	8	
Depreciation and amortisation	1	1	1	
EBIT	2	4	7	
Interest expenses	0	1	1	
Other income	0	0	0	
Profit before tax	2	4	6	
Provision for tax	0	1	2	
Core profit	1	3	4	
Extraordinary items	-	0	-	
Profit after tax	1	3	4	
Share from associates	-	-	-	
Adjusted net profit	1.1	2.9	4.3	
Equity shares outstanding (Crores)	0.0	0.5	0.7	
EPS (INR) basic	24.8	5.4	5.8	
Diluted EPS (INR)	1.5	4.0	5.8	

### Common size metrics- as % of net revenues

Year to March	FY22	FY23	FY24
Operating expenses	81	72	72
Depreciation	4	4	5
Interest expenditure	3	4	3
EBITDA margins	19	28	28
Net profit margins	10	15	15

### Growth metrics (%)

Year to March	FY22	FY23	FY24
Revenues	89	60	52
EBITDA	125	128	53
PBT	125	155	47
Net profit	148	157	47
EPS (Diluted)	148	157	47

### Ratios

Year to March	FY22	FY23	FY24
ROAE (%)	60	50	20
ROACE (%)	72	38	21
Debtors (days)	67	111	98
Inventory (days)	0	0	0
Payable (days)	46	70	30
Cash conversion cycle (days)	21	41	68
Current ratio	0.4	0.5	1.7
Debt/Equity	9.1	2.4	0.4
Net debt/Equity	8.6	2.3	0.3
Net Debt/EBITDA	7.0	4.4	1.3

### Valuation parameters

Year to March	FY22	FY23	FY24
Diluted EPS (INR)	1.5	4.0	5.8
Y-o-Y growth (%)	147.8	156.6	47.0
CEPS (INR)	2.2	5.1	7.7
Diluted P/E (x)	179.1	69.8	47.5
Price/BV(x)	6.7	15.1	6.3
EV/Sales (x)	2.4	9.0	7.4
EV/EBITDA (x)	12.5	32.8	26.6
Diluted shares O/S	0.7	0.7	0.7
Basic EPS	24.8	5.4	5.8
Basic PE (x)	11.2	51.2	47.5

Balance sheet		(INR crs)		
As on 31st March	FY22	FY23	FY24	
Equity share capital	0	5	7	
Reserves & surplus	1	4	25	
Shareholders funds	1.90	9.90	32.45	
Borrowings	17	23	12	
Lease Liabilities	-	-	-	
Net Deferred tax	0	1	1	
Minority interest	-	-	-	
Other Non-Current Liabilities	0	0	0	
<b>Sources of funds</b>	<b>20</b>	<b>34</b>	<b>46</b>	
Gross block	9	16	33	
Depreciation	1	2	3	
Net block	8	14	30	
Capital work in progress	4	15	8	
Right of Use Assets	-	-	-	
Total fixed assets	12	29	37	
Intangible	-	-	-	
Investments	0.01	-	-	
Inventories	-	-	-	
Sundry debtors	2.2	5.8	7.9	
Cash and equivalents	1.0	0.4	1.8	
Loans and advances	-	-	-	
Other current assets	4.4	2.3	1.9	
<b>Total current assets</b>	<b>8</b>	<b>8</b>	<b>12</b>	
Sundry creditors and others	3	6	5	
Provisions	-	0.02	0.11	
<b>Total CL &amp; provisions</b>	<b>3</b>	<b>6</b>	<b>5</b>	
Net current assets	5.0	2.9	6.7	
Other Non-Current Assets	2.53	2.48	1.77	
Misc expenditure	-	-	-	
<b>Uses of funds</b>	<b>20</b>	<b>34</b>	<b>46</b>	
Book value per share (INR)	41	18	44	

### Cash flow statement

Cash flow statement		(INR crs)		
Year to March	FY22	FY23	FY24	
Net profit	1	3	4	
Add: Depreciation	1	1	1	
Add: Misc expenses written off	-1	2	2	
Add: Deferred tax	-2	-1	-	
Gross cash flow	-1	4	7	
Less: Changes in W. C.	5	-1	2	
Operating cash flow	-6	6	5	
Less: Capex	-2	-17	-10	
<b>Free cash flow</b>	<b>-4</b>	<b>23</b>	<b>15</b>	