



## C2C Advanced Systems LTD.

C2C Advanced Systems is a leading provider of cutting-edge software and systems for mission-critical defense applications. With a strong focus on C4I systems, AI/ML analytics, IoT integration, and embedded designs, the company is well-positioned to capitalize on the growing demand for indigenous defense technologies in India and globally. C2C's deep domain expertise, proven execution capabilities, and strategic partnerships differentiate it in the market. It is one of the only vertically integrated naval and defense electronics solutions providers.

### Business Overview

C2C Advanced Systems offers a range of proprietary products and services catering to a diverse range of customers, including the **Indian Armed Forces, DRDO, BEL, Foreign Navies** and major platform suppliers like **Elbit, Boeing, and Lockheed Martin**.

- **C4I Systems** : Global market expected to reach **\$52.3 billion by 2028**, growing at a CAGR of 3.74%.
- **AI/ML-based analytics solutions** : Addressable market of **\$33.8 billion by 2032**, growing at a CAGR of 14.9%.
- **Enterprise Integration with IIoT** : Global Industrial IoT market projected to reach **\$106.1 billion by 2026**, growing at a CAGR of 6.7% from 2023.
- **Embedded systems**: Global military embedded systems market projected to reach **\$3.3 billion by 2031**, growing at a CAGR of 7.9%.

The company has successfully delivered and showcased projects to key clients such as the **Indian Navy, Malaysian Navy, Adani, Ananth Technologies** and **Bharat Forge**, demonstrating its ability to execute complex programs.

Notable projects include:

1. Combat Management System (CMS) :

- Sold a CMS to the Malaysian Navy, with sea trials completed
- Received repeat orders for CMS to be installed on 3 more Malaysian Navy ships.
- Potential opportunity : every upcoming warship in the world and the Indian Navy.

2. Integrated Bridge System (IBS) :

- Only other company in India supplying this system is Marine Electricals (India) Ltd. C2C are the only full stack solutions provider - providing the Software and the Hardware; whereas Marine Electricals is majorly a hardware provider.
- INR 800 Cr worth of business is up for grabs just from the Indian Navy's planned capex.
- Won a contract against a division of Thales.

3. WECDIS (Warship Electronic Chart Display and Information System):

- Trials ongoing at Kochi Naval Dockyard
- Sole vendor, in a bid for the Indian Navy - with a potential addressable market of 200 systems at 60 lakhs per system.

4. Digital Sonar System :

- Developed for Adani Defense. Delivered for INR 1.6 Cr, against the cost incurred for development of INR 32L.

5. Truck Mounted Gun Fire Control System :

- Proof of concept completed for Bharat Forge.
- Potential order value of INR 1,280 Cr.

6. Navigational AI/ML :

- Sub-contractor of Ananth Technologies.
- Order worth INR 8 Cr.

7. AI driven Parking Solutions :

- Developed and delivered a parking system to a Mall in Hyderabad. This division has the potential to scale to 40-50 Cr revenue contribution in the next 3 years (equivalent to entire FY24 Revenue)

## Market Opportunity

The Indian defense market is expected to grow significantly, driven by the government's focus on modernization and indigenization. C2C is well-positioned to benefit from this trend, with a total addressable market of **\$2 billion in India** and **\$50 billion globally**. The global defense market is also expected to grow as countries seek to modernize their military capabilities. C2C's expertise in niche areas such as C4I systems, AI/ML, and IoT integration positions it favorably to capture market share.

## Competitive Landscape

C2C faces competition from both domestic and international players. However, the company's **deep domain knowledge**, **agile execution**, and **cost-effective solutions** give it a competitive edge. C2C has significant advantages in terms of gross margins across various segments:

- Intelligent Platforms - Licensing: 70% gross margin  
Advantage for C2C AS: On par with global players, other Indian players depend on C2C for key systems.
- Intelligent Platforms - Project Deliveries: 50-60% gross margin  
Advantage for C2C AS: Speed of deliveries and globally competitive
- Technology Services-Embedded/FPGA/Data Analytics/AI/ML: 50% gross margin  
Advantage for C2C AS: Advanced design capabilities derived from their deep domain knowledge
- Technology Services-Software Engineering/Product Engineering/Testing: 45% gross margin  
Advantage for C2C AS: Advanced design capabilities derived from their deep domain knowledge
- Intelligent Platform- sub-systems and components: 35% gross margin  
Advantage for C2C AS: Single source delivery including systems

C2C's technical prowess and price advantage are evident from the Malaysian CMS project, where they competed - and won - against the following global giants : BAE, Thales and Lockheed Martin. While **BAE quoted \$12-15 million**, **C2C offered** the same capabilities for just **\$3-3.25 million**. Even at this price point, they are able to operate at 30% PAT margins.



KD Jebat (Pictured) Is One Of The Frontline Warships Of Royal Malaysian Navy

*Field Note: During trials, Vibrant 01 - the CMS that C2C installed on the Malaysian Navy frigate Jebat successfully acquired a lock on a Sukhoi aircraft at a 100 km distance, using 45 year old radar equipment. This capability has currently been achieved only by 4 other companies in the world.*

In the IIoT segment, C2C's expertise in real-time data integration and analytics sets it apart from competitors. The company's ability to provide **end-to-end solutions**, from sensors to analytics, gives it a competitive advantage.

C2C's strategic partnership with **OSI Maritime**, which includes a joint venture with **exclusive NATO rights** for revamping their navigational suite, further strengthens its market position.

## Financial Analysis

C2C has demonstrated strong financial performance, with revenue growing from **INR 1.08 Cr in FY21 to INR 8.04 Cr in FY23**, and to **42 Cr in FY24**. The company is projecting revenues of **INR 125+ Cr in FY25 and 300+ Cr in FY26**, representing a **CAGR of over 150%**. **EBITDA margins** are healthy, ranging from **40% to 46%** over the forecast period, which is significantly higher than industry peers.

C2C's focus on software-driven projects and global expansion is expected to drive profitability.

## Peer Comparison

H1FY 25 NUMBERS :

(in Crores)

Company Name	Sales	PAT	PAT Margin	P/E Multiple	M-Cap.
C2C AS	43.24	9.73	22.50	64	1,280 (Basis share price = ₹ 769)
Paras Defence	171	27	15.78	82.16	4,437 (Basis share price = ₹ 1101)
Data Patterns (India)	195	63	32.30	115.80	14,591 (Basis share price = ₹ 2606)
BEL	8849	1884	21.29	60.29	2,27,188 (Basis share price = ₹ 311)

Figures taken as on 17/12/24

## Valuation

Based on H1 FY25 earnings and an annualized **PE multiple of 64**, **C2C AS is valued at INR 1280 Cr**. It is the fastest growing company and one of the very few listed companies which is a monopoly trading in the range of 60-185 PE multiple, providing an **attractive opportunity for investors**. This makes it one of the most exciting companies in the listed space. Data Patterns is the most comparable business in the listed space - growing at 50% CAGR and valued at a PE of 115.80 (basis share price = ₹ 2606). With 1.62 Cr shares post the IPO, at 769 rs per share, the company is valued at INR 1280 Crore - 64 times FY25 Earnings. For a **debt-free company**, which is **one of its kind** in the **Defense** sector, doing **30% PAT Margins**, and **growing at 100%+ CAGR**, we still see value at this price for a growth company.

## Risks

- Execution risks associated with large, complex defense projects. Working capital cycles are stretched and creditors might delay their payments.  
*Current Debtor Days come out to be around 270 days, but that is due to their billing cycle. Close to 40% of the revenues are billed in the last quarter of the Financial Year. The company has received all outstanding dues by the 4th month of billing, at the latest. This makes the Balance Sheet look bad at the end of the year. If we consider an October to October Financial Year, this number improves significantly.*
- Dependence on government defense spending and procurement cycles.
- Competition from larger, established players in some of their products.
- Challenges in attracting and retaining top talent (Although it is notable that over the last 4 years - including a challenging COVID 19 phase - the company has managed to keep attrition close to 0%)

## Future Pipeline

- In 2023-24, the company built a **pipeline of orders worth INR 80 Cr.**
- Currently, the company has **outstanding proposals for over INR 200 Cr**, and in some cases, it is the sole bidder.

Few projects that are expected to drive future growth :

- Truck Mounted Gun Control System : Proof of concept completed for Bharat Forge, potential order of **INR 1,280 Cr.**
- WECDIS : Trials ongoing in Kochi Naval Dockyard, addressable market of **200 systems at INR 60 lakhs per system.**
- Combat Management System : Secured **3 additional orders for CMS from Malaysia**, following the successful completion of the first project.

## Conclusion

C2C Advanced Systems presents a compelling investment opportunity, given its strong market positioning, differentiated capabilities, and robust growth outlook. With a clear focus on innovation, global expansion, and operational excellence, the company is well-poised to create significant value for shareholders. C2C's experienced management team, strategic partnerships, and strong pipeline of projects mitigate the risks associated with the defense industry. We are bullish on it from a 3 year view. This is a highly specialized business, operating in an environment with extremely strong tailwinds. The fact that they can consistently operate at a 30% PAT Margin level, is testament to the competitive advantage that C2C AS possesses over competition. Being a debt-free company, generating 30% PAT Margins, operating as a monopolistic player in an industry backed by increasing government spending - we think the company deserves a PE Multiple of 70-80 for a growth company. *(keeping in mind that comparable, lesser quality peers, trade at a PE of 80-120)*

Considering the company currently being traded at a multiple of 15 times FY26 earnings (as on 17/12/24) which is expected to be around 80 crs, we expect returns to be driven by a double barrel of earnings growth as well as multiple re-rating.

Disclaimer : Invested and Biased.