



The Trick Is To Spot Them At The Larval Stage

Cerebra Integrated Technologies Creating wealth from e-waste recycling

Our Tiny Treasure for the month of June is Cerebra Integrated Technologies Limited (CITL). It is a leading IT company having three major areas of business, namely; hardware, IT services and e-waste management. Till 2011, the company was mainly engaged in AMC and EMC, which included making of motherboards, memory modules, graphic cards and high capacity hardware manufacture. It has major business in the Middle East for providing services of security surveillance solutions and information and communication technology. However, a major turnaround in operations was seen when the company forayed into e-waste management post-2012. This segment is going to be its mainstay going forward.

Other than the aforesaid business activities, CITL has a JV for making storage servers, which have huge demand worldwide. It has built automated driving test systems, for which it bagged orders from various state RTOs. It has medical transcription facility and hardware set-ups at e-governance centres of Bangalore. With all such secondary activities, the company's focus point is on e-waste management segment.

CITL's e-waste model

The company forayed into e-waste recycling in 2011-12 and has recently set up India's largest integrated facility at Narsapura in Bangalore with the consent of Karnataka State Pollution Control Board. The plant is spread over an area of three acres out of the total 12 acres. This recycling facility has capacity of 96,000 tonnes p.a. Currently, the company is utilising 38% of the capacity, i.e. it recycles 36,000 tonnes p.a., which has led to a significant jump in its topline and margins in FY18. The company plans to utilise 100% capacity at this facility in FY19. Thereafter, post-FY19, the company might expand the capacity. It plans to add catalytic converters and tubelight and battery recycling facilities. It has opened collection centres at Ahmedabad, Chennai, Hyderabad, Mumbai, Nashik, New Delhi, Pune, Surat, Vadodara, Vijayawada and Vishakapatnam.

The e-waste recycling facility at CITL is an ultra-modern setup that does not cause any pollution and is fully-automated. The company focuses to utilise maximum e-waste which it collects for refurbishing, so that it can be resold or used further. All wastes are powdered and precious metals like gold, silver, platinum, palladium, iron, steel, copper and aluminium are extracted from the powder and later sold to foundries. This process is known as

urban mining. Thus, revenue is generated from the sale of refurbished devices to dealers and sale of metals to the foundries.

Future plans in e-waste management

CITL has been approaching the governments and PSUs through the process of bidding to bag huge orders. It is planning to enter into partnerships with medical laboratory equipment manufacturers to recycle the electronic equipment which comes within the ambit of e-waste. It has also applied for memberships with e-waste or recycling organisations, which would augur well for the company down the line. Its ultimate objective is to partner with registered collectors, dismantlers and recyclers to strengthen the organised sector.

E-waste business potential in India

E-waste over the years has become a major threat to the environment and it is posing life-threatening health problems for the people involved in recycling e-waste. India is the fifth largest e-waste producer in the world and the sector is growing at 30% every year. Every year, India loses gold worth Rs 6,347 crore as part of e-waste. India is throwing away valuables, including precious metals such as gold, silver, palladium worth over Rs 18,677 crore as electronic waste every year. India discarded about two million tonnes of e-waste in 2016. The use of household and commercial electronic devices in India is increasing at an rapid pace, which gets converted into e-waste at the end of the devices life. Looking at the pace at which the e-waste is generated in India, the need for e-waste management companies is increasing. Thus, companies like CITL, which has one of the largest facilities for e-waste recycling, have wide scope and big opportunity to grow.

Growing business in the Middle-East

CITL has set up offices in the Middle-East that includes UAE, Saudi, Qatar, etc. It has also forayed into developing markets like Africa. It mainly offers security surveillance solutions and information and communication technology (ICT) in these markets. The security solutions division was launched three years ago, and it has by now increased its vendor portfolio by boarding market leaders like Rassilient and Promise. With this, the division has become successful in rolling out best-in-class solutions. It has got orders from prestigious clients like Qatar Petroleum, Meraas Holding, Abu Dhabi Commercial Bank, National Bank of

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DSJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsj.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

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Abu Dhabi, Abu Dhabi Police, Dubai Mall, Burj Khalifa, Abu Dhabi Commercial Bank, Sharjah Islamic Bank, etc. Through Expo 2020 in Dubai, UAE's security and surveillance market is expected to grow rapidly, which will help the company to gain orders. In FY17, the company's channel partners had increased to 140 partners through UAE, Kuwait, Qatar, Saudi Arabia, Oman, Egypt, Central and Eastern Africa. In the upcoming 2-3 years, the company intends to expand its portfolio across sectors like storage, infrastructure and security solutions for verticals such as oil and gas, banking, healthcare, telecom, media, education, retail and hospitality.

Increasing promoters' shareholding

By the end of March 2018, the promoters' shareholding was only 6.08%, while the remaining shareholding was held by FIIs, DIIs and non-institutional shareholders. Till March 2018, through creeping acquisition at regular intervals, the promoters were holding 78,03,219 shares of the company. Recently, the promoters have subscribed to 53 lakh warrants of the company, and on conversion of these warrants, they will be holding 1,31,03,219 shares. With this, the promoters' shareholding is expected to reach 10.8% of the total shareholding. The promoters are looking forward to further increasing their stake in the company. Thereby, the confidence in the company is growing, giving fur-

ther strength to stakeholders for additional investment.

Financial Performance

The company's revenue and PAT has grown at a CAGR of 24.3% and 97.9%, respectively, over the last three years. In FY18, the revenue was up by 25.3% YoY from Rs 250.8 crore to Rs 314.30 crore. Its EBITDA grew from Rs 13.24 crore to Rs 42.07 crore, up by 217.7% YoY. The EBITDA margin improved significantly from 5.29% in FY17 to 13.35% in FY18. Its PAT jumped by 184.53% YoY from Rs 12.15 crore to Rs 34.57 crore. For FY18, the PAT margin improved from 4.8% in FY17 to 11%. The company has negligible debt and the debt-equity ratio stood at 0.01x for FY18.

Valuation

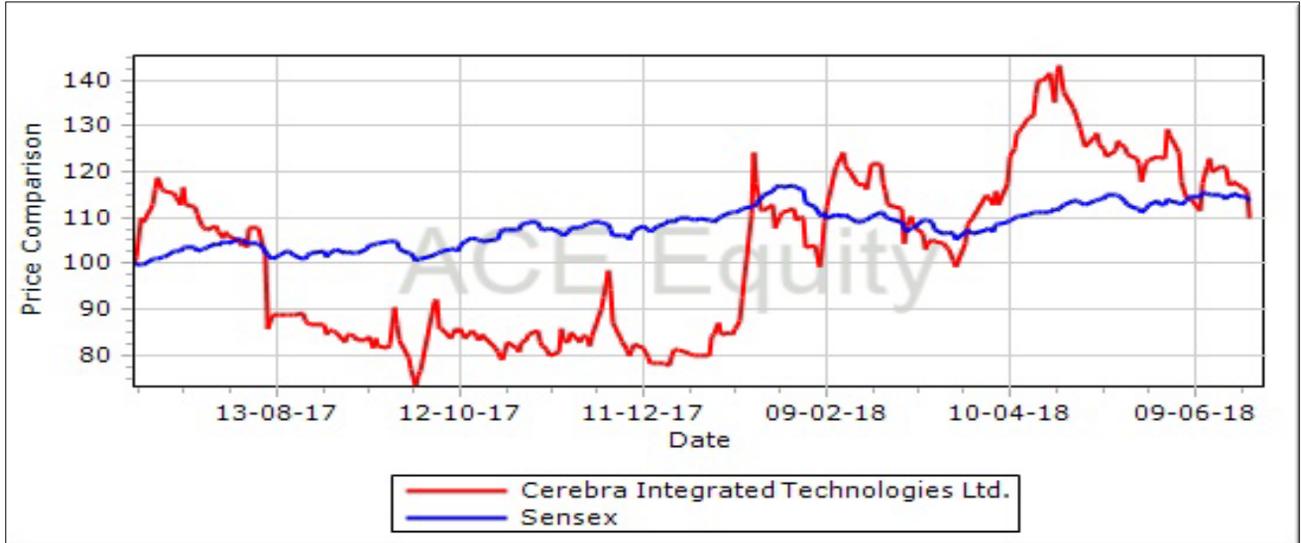
The company is trading at TTM P/E of 21.7x with TTM EPS of Rs 2.69. For FY18, it delivered ROE and ROCE of 13.5% and 16.9%, respectively. The e-waste sector is an unexplored and under-penetrated segment in India and is dominated by the unorganised sector. It is growing at a faster rate and with the company's focus to make its mainstay with capacity expansion, CITL has bright prospects to grow. Considering its unique and strong business model, we recommend investors to buy the scrip in tranches with target price of Rs 75 for a period of one year.

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	314.30	250.48	238.05	267.48	130.47
Total Income	316.14	251.97	241.93	267.93	131.28
Total Expenditure	272.22	237.27	235.92	260.91	127.57
PBIDT	43.92	14.70	6.01	7.03	3.71
PAT	34.57	12.12	1.63	2.31	1.81
Dividend %	0.00				
Adj. EPS(Rs)	2.69	1.04	0.17	0.22	0.30

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201803	201712	Q on Q Var%	201703	Y on Y Var%
Net Sales	130.25	89.11	46.16	68.22	90.91
Total Expenditure	113.12	76.11	48.62	68.44	65.28
PBIDT (Excl OI)	17.13	13.00	31.76	-0.22	8031.94
PAT	14.63	8.61	69.91	1.25	1071.42
PBIDTM% (Excl OI)	13.15	14.59	-9.87	-0.32	4209.38
PBIDTM%	13.92	13.19	5.53	1.41	887.23
PATM%	11.23	9.66	16.25	1.83	513.66
Adj. EPS(Rs)	1.14	0.66	72.73	0.10	1040.00



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