SME IPO Note

BONANZA RESEARCH – SME IPO

Bonanza

25 March 2026

Highness Microelectronics Limited - NEUTRAL

Company Overview

Highness Microelectronics Limited operates in the Electronics System Design & Manufacturing (ESDM) sector, specifically in Digital-Imaging and Display Solutions. The company designs, develops, and manufactures high quality display solutions for mission critical applications across four key industry verticals; Industrial Automation, Medical & Healthcare, Railways, and Defense & Aerospace.

Investment Rationale

- **Niche Player in a Fast-Growing Industry:** The Indian ESDM (Electronics System Design and Manufacturing) industry is expected to reach USD 540 Bn in the coming years. The company deals with specialized display solutions that find applications in the defense and medical sectors, which require stringent quality and customization. This limits the competition for the company.
- **Backward Integration:** HML is planning to set up its own Chip on Glass and Film on Glass assembly lines with the funds generated from the IPO. This will have an annual production capacity of 15.6 Lakh units and help the company reduce dependence on imports from countries like China.
- **Strong Financial Growth:** HML has registered robust financial growth during the past years. The company has registered a growth rate of around 21% CAGR in the years FY23 to FY25 in its revenues. The PAT has increased from Rs. 44.3 Lakh in FY23 to Rs. 341 Lakh by Dec 2025. EBITDA margins have also been healthy at around 39%.
- **Healthy Order Book:** HML has a healthy order book position with an order book of Rs. 1005 Lakh as of Dec 31st, 2025. This includes a large order for Rs. 529.6 Lakh from Delhi Metro Rail Corporation (DMRC) for Dynamic Route Maps for metro trains.
- **Increasing Export Contribution:** HML has started registering exports that contribute a substantial part of the revenues. As of Dec 2025, the company has registered an increase in the proportion of exports with a share of around 48% of the revenues generated during the same period. One of the key customers for the company is Aerohaste LLC FZ from the aircraft industry.
- **Supportive Government Policies:** HML business is aligned with the government's initiatives such as Make in India and Aatmanirbhar Bharat. The company has also registered under the ECMS scheme that provides a 25% incentive on the capital expenditure incurred by the company.

Valuation

Highness Microelectronics Ltd. has delivered sharp profit growth in a specialized, policy-supported ESDM segment. At the upper band of Rs. 120, the company is valued at a post-issue market cap of Rs. 6,196 Lakh, implying a P/E of 16.7x on FY25 earnings and Price/NAV of 4.2x. The valuation appears in line with the reported growth, but is tempered by high working capital intensity and material import reliance on China. Overall, we maintain a **NEUTRAL** stance on the issue.

IPO Details	
Industry	Industrial Products
Issue Open Date	24-Mar-26
Issue Close Date	27-Mar-26
Price Band	Rs. 114-120
Issue Size*	Rs. 2,167 Lakh
Issue Size (Shares)	18,06,000
Bid Lot	1,200 Shares
Listing Exchanges	BSE SME
Face Value	Rs. 10/-

* ***At highest price band**

Issue Details	
Fresh Issue*	Rs. 1,875 Lakh
Issue Type	Bookbuilding
Lead Manager	Fintellectual Corporate Advisors
Registar	Skyline Financial Services
Issue Structure	Market Maker: 5.05% QIB: 47.24% NII: 14.35% Retail: 33.36%
Allotment	30-Mar-26
Credit of Shares	01-Apr-26
Listing Date	02-Apr-26

Objective of Issue	
Particular	**Estimated Amt (in Lakh)**
Capex	527
Working Capital	671
Repayment	189
Corporate Purpose	-

Shareholding Pattern		
Shareholding (%)	**Pre (%)**	**Post (%)**
Promoter	99.90	64.96
Public & Others	0.10	35.04

Business Highlights

- **Off-the-Shelf Products**
  - TFT-LCD modules (3.5" to 55")
  - Display controllers, touch screens (PCAP & Resistive)
  - AD boards, embedded boards (Android/Linux), LVDS cables
  - Electroluminescent and VFD Displays
- **Market-Specific Solutions**
  - Medical: Surgical monitors (2K/4K), antimicrobial workstations
  - Railways: DRM for DMRC, PIS, Driver Display Units
  - Defense: Ruggedized displays, NVIS compatible, artillery/naval
  - Industrial: HMI, outdoor ATM/kiosk displays

Financials

Financial Performance:

Particulars (in Lakh)	FY23	FY24	FY25	9MFY26	CAGR (FY23-25)
Revenue from Operations	967	1,070	1,407	1,413	21%
EBITDA	313	597	452	555	20%
EBITDA Margin	32.35%	55.73%	32.11%	39.26%	
PAT	44	239	252	341	138%
PAT Margin	4.58%	22.31%	17.92%	24.13%	

- **Revenue CAGR 21%:** Revenue grew from Rs. 967 Lakh (FY23) to Rs. 1407 Lakh (FY25). 9MFY26 revenue of Rs. 1413 Lakh already surpasses full FY25.
- **PAT Surge:** Profit jumped from Rs. 44 Lakh (FY23) to Rs. 341 Lakh in just 9 months of FY26 remarkable growth trajectory.
- **EBITDA Margin Volatile:** Fluctuation driven primarily by significant inventory buildup changes. FY24's high margin was due to Rs. 243 Lakh inventory accretion.

Balance Sheet:

Particulars	FY2023	FY2024	FY2025	9MFY26	Particulars	FY2023	FY2024	FY2025	9MFY26
Equity & Liabilities					**Assets**				
Net Worth	171	410	662	1003	PPE	138	136	228	261
Long Term Debt	7	36	215	357	Inventories	138	381	565	714
Short Term Debt	129	102	277	463	Trade Rec.	2	15	420	1058
Trade Payables	50	55	110	183	Cash	4	26	11	95

- **Asset Expansion:** Total assets grew 5x from Rs. 478 Lakh (FY23) to Rs. 2402 Lakh (Dec 2025) indicates aggressive expansion phase.
- **Receivables Explosion:** Trade Receivables exploded from Rs. 2 Lakh to Rs. 1058 Lakh (44% of total assets) - primary **RED FLAG**.
- **Inventory Buildup:** Inventories ballooned from Rs. 137.5 Lakh to Rs. 713.5 Lakh (30% of total assets).
- **Short-term borrowings:** Up 3.6x from Rs. 129.1 Lakh to Rs. 463.1 Lakh - funding the WC gap.

Cash Flow:

Particulars	FY 2023	FY 2024	FY 2025	9M FY 2026
Operating Cash Flow	418.66	319.58	(142.54)	(56.44)
Investing Cash Flow	(365.67)	(280.67)	(184.57)	(110.54)
Financing Cash Flow	(65.50)	(16.57)	312.21	251.11
Net Cash Flow	(12.52)	22.35	(14.89)	84.13

- Operating cash flow turned negative in FY25 and 9M FY26.
- Company is funding operations through debt, not organic cash generation.
- Despite healthy accounting profits, the company is not generating free cash flows.

Key Ratios:

Ratio	FY23	FY24	FY25	9MFY26
Return on Equity	29.85%	82.30%	47.09%	40.97%
Return on Capital Employed	49.76%	75.02%	42.09%	36.88%
Debt-Equity Ratio	0.8x	0.34x	0.74x	0.82x
Current Ratio	1.03x	1.84x	2.19x	2.05x
EPS (Rs)	1.26	6.8	7.19	9.72
NAV (Rs)	-	11.67	18.85	28.57

- ROE peaked at 82.30% in FY24, exceptional return, partially explained by lower equity base before bonus issue restructuring.
- ROCE declining trend from 75.02% (FY24) to 36.88% (9M), capital is being deployed but returns normalizing with scale.
- D/E rose to 0.82x (Dec 2025) from low of 0.34x (FY24), reflects increased borrowings for WC and expansion needs.

Peer Comparison

Metrics (FY25)	Highness Microelectronics	Centum Electronics
Revenue	1,407	1,15,500
EBITDA	452	9,700
PAT	252.26	-200
EPS	7.19	1.67
ROE	47.09%	0.81%
ROCE	42.09%	12.00%
P/E Ratio	16.7x	75.6x

Risk & Concern

- **Extreme Supplier Concentration:** Top 1 supplier 89.60% of purchases, Top 10 - 97.48%; and 93% imports from China.
- **Customer Concentration:** Top 1 customer 44.78% (Dec 2025). Aerohaste LLC FZ owes Rs. 367.8 Lakh, exceeding FEMA timelines.
- **Negative Operating Cash Flows:** OCF is negative (Rs.-142.5 Lakh FY25); funding via debt.
- **Exploding WC Cycle:** Cycle hit 282 days; Receivables constitute 44% of total assets.
- **Forex Exposure:** No hedging despite 93% imports & 48% exports.
- **Rising Debt:** Total debt Rs. 819.9 Lakh; and D/E rising to 0.82.
- **Governance:** Delays in GST/TDS/ROC filings; GST demand Rs. 29 Lakh; and frequent auditor changes.
- **Attrition:** High employee attrition of 34% in FY25.

Name	Designation
Sanket Roge	Research Analyst

SANKET GAJANAN ROGE

Digitally signed by SANKET GAJANAN ROGE
DN: cn=SANKET GAJANAN ROGE c=IN o=Personal ou=Personal
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Bonanza Portfolio Ltd.
Bonanza House, Plot No. M-2, Cama Industrial Estate, Walbhat Road, Goregaon (E), Mumbai – 400063 Phone: 022-68363794/708 Website: https://www.bonanzaonline.com SEBI Regn. No.: INZ000212137 BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836 | CDSL: 120 33500 |NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186
Compliance Officer: Trupti Milind Khot, 022-62735507, compliance@bonanzaonline.com