

# Equity Research | CRUNCHFISH: Mixed picture in India with a rights issue pressing closer

**In June, Crunchfish signed its first breakthrough commercial order for Digital Cash Offline, with Indian IDFC Bank. But the Q2 report left several questions unanswered, most notably the prolonged negotiations with HDFC Bank, the expired MoU with Socio, and the acquisition of an Indian payment platform company that did not materialize. Combined with a dwindling cash reserve, this has put pressure on the stock price. While we see a fundamental value in Crunchfish's solution, well above today's price, a recovery hinges on improved clarity about the near to mid-term outlook, especially financing, lest the Company makes quick commercial progress in the breakthrough order with IDFC.**

## **Mixed development**

The highlight of the second quarterly report of 2023 was for sure the first commercial agreement with IDFC First Bank, that together with HDFC Bank took part in the pilot overseen by the Indian central bank (RBI) earlier this year. Even though details have not been disclosed, the fact that the company has secured a loan of SEK 7.5m and is looking to bring in new capital, leaves us assuming the upfront payment won't cover Crunchfish's cost base, as was previously expected. The deal does however give Crunchfish access to the Indian direct payment system (UPI), which is crucial for approaching customers in the form of payment solution providers. The prolonged negotiations with HDFC Bank, however, are worrisome. While we had hoped for a firm deal soon, the process has now been put on hold due to HDFC Bank integrating an acquisition.

On a brighter note, Apple unveiled its mixed reality headset, Vision Pro, for release in early 2024. Historically, it often takes a tech giant like Apple or Samsung to launch a product in a burgeoning niche for it to truly gain traction. Once they pave the way, smaller manufacturers, some of whom Crunchfish has collaborated with for Gesture Interaction, tend to follow suit.

## **Cash position running dry**

With the prolonged negotiations with HDFC Bank and a lower expected initial deal value with IDFC First Bank, Crunchfish now finds itself in a tighter financial position. The MoU with Danish Socio, for them to acquire three million shares at market price, has once again expired. We now see few other options besides a rights issue, which should amount to at least SEK 40m. A SEK 40m rights issue at today's share price of SEK 16.20, at a 30% discount, would add another 1.7 million new shares, corresponding to a 5% dilution.

## **Slight adjustment to anticipated rollout-pace**

Given the prolonged negotiation with HDFC Bank, the sparse details on the commercial agreement with IDFC Bank and a rights issue before year end being the most likely scenario, we've made some changes to our estimates. Our new estimated implementation rate for Digital Cash Offline at 10%-25%-50%-85% (25%-50%-75%-100%) among the banks and platform service providers customers, means that 60 million users will be implemented by 2026, in turn suggesting annual sales of SEK 179m based on a per-user-model of SEK 3 per user. In our combined risk adjusted DCF- and target multiple valuation approach this support a fair value of SEK 21 – 29 (SEK 48 – 63)



per share, including the dilution from an upcoming rights issue of SEK 40m at 30% discount. All in all, the long-term case remains intact. India alone poses immense potential, but at this stage, the share price development hinges on improved clarity on the near to mid-term outlook.

Read the full report here [https://www.emergers.se/crunchfish\\_h/](https://www.emergers.se/crunchfish_h/)

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