Fractal Analytics Ltd - IPO Investment Note

Issue Open	Issue Close	Price Band (₹)	Rating
9 February 2026	11 February 2026	₹857 to ₹900	Neutral

Investment Summary

Fractal Analytics is a leading pure-play enterprise AI company offering exposure to the structural growth of the data, analytics and AI market, which is being driven by rapid adoption of Generative and Agentic AI across global enterprises. The company benefits from a focused strategy centered on large, long-term "Must Win Clients," resulting in strong client stickiness, high net revenue retention and good revenue visibility. Its dual-engine model balances steady cash generation from core AI services with long-term optionality through incubated AI businesses, while improving operating leverage and healthy margins support a strengthening financial profile. Continued investment in proprietary platforms, generative AI capabilities and intellectual property further enhances differentiation, positioning Fractal as a scalable, long-term participant in enterprise AI adoption, along with inherent execution and technology-cycle risks.

Company Overview

Founded in 2000, Fractal Analytics Ltd. is India's leading pure-play enterprise AI company, built with the vision of enabling better human decision-making across large global enterprises through data-driven insights. The company has developed a strong international presence, with operations spanning the Americas, Europe and the Asia-Pacific region. As of September 30, 2025, Fractal is organised into two reportable segments Fractal.ai and Fractal Alpha, a structure designed to balance scale in its core business with focused innovation initiatives. The firm has been led for over 25 years by its co-founders, Srikanth Velamakanni and Pranay Agrawal, whose leadership philosophy emphasises trust, transparency, and freedom. Fractal differentiates itself through a combination of deep technical capabilities and domain expertise, alongside long-standing relationships with a select group of "Must-Win Clients," typically large enterprises with significant revenue scale, market capitalisation, or customer reach, including marquee clients such as Franklin Templeton and a leading Australian global financial services group.

Business Model

Fractal creates value by delivering end-to-end AI solutions that combine artificial intelligence, engineering and design capabilities to solve complex enterprise-level problems. Business execution is split across two operating segments. Fractal.ai forms the core delivery engine, offering AI services and products largely built and deployed on the Cogentiq agentic AI platform, which includes pre-configured agents, embedded tools and low-code connectors that help clients accelerate AI adoption and digital transformation. Fractal Alpha operates as an incubation arm, housing independently managed AI ventures such as Asper.ai and Analytics Vidhya, with a focus on developing scalable solutions for broader and emerging markets. The company's offerings address critical business functions across key industry verticals, including Consumer Packaged Goods and Retail, Technology, Media and Telecom, Healthcare and Life Sciences and Banking, Financial Services and Insurance. Growth is supported by a dual strategy of targeted acquisitions and sustained internal innovation, underpinned by ongoing investment in generative AI capabilities and the development of proprietary foundation models such as Vaidya.ai and Kalaido.ai.

Industry Outlook

The Data, Analytics and AI (DAAI) industry is entering a sustained growth phase, supported by long-term digital transformation trends and a major shift in enterprise adoption of Generative and Agentic AI. The global DAAI market is estimated at around US$143 billion in FY25 and is expected to expand to approximately US$310 billion by FY30, implying a 16.7% CAGR. Within this, the serviceable addressable market relevant to Fractal Analytics is projected to grow from US$85 billion to US$171 billion, reflecting a 15.1% CAGR. Growth is being reinforced by rising enterprise dependence on third-party service providers, as organizations increasingly seek specialized skills, faster deployment cycles, and access to pre-built intellectual property that internal teams struggle to develop at scale. This shift is evident in third-party analytics and AI spending, which is expected to grow at a 9.4% CAGR through FY30.Technologically, the industry is moving rapidly from traditional predictive analytics toward Generative and Agentic AI, reshaping how enterprises deploy and consume AI solutions. Generative AI has transitioned from experimentation to production, with nearly 83% of enterprises actively testing or deploying use cases, driving a projected ~53% CAGR in Gen AI-led services between FY25 and FY30. At the same time, Agentic AI is enabling systems to independently interpret objectives and execute tasks, transforming workflows across sectors such as BFSI, healthcare, retail, and manufacturing. Demand remains concentrated in BFSI, Healthcare and Life Sciences, Retail, Consumer Packaged

Goods, and TMT, which together account for roughly 80% of global DAAI services demand, while growth is led by healthcare and BFSI use cases. Geographically, North America continues to dominate due to technology maturity, Europe is benefiting from regulation-driven demand for compliant AI systems and emerging regions are growing rapidly, supported by India's role as a key global talent hub. Despite this momentum, challenges around data readiness, talent availability, ROI visibility, and regulatory complexity remain key considerations for industry participants.

Investment Rationale

- **Clear leadership in a structurally high-growth AI market -** Fractal Analytics is positioned as India's leading pure-play enterprise AI company, with a focused presence across the full Data, Analytics and AI value chain. Unlike diversified IT services firms, Fractal's specialization allows it to directly benefit from strong secular tailwinds in the global DAAI market, which is expected to grow at a 16.7% CAGR. The company is well aligned with the ongoing shift toward Generative AI and Agentic AI, as enterprises increasingly consolidate AI spending with specialist partners capable of delivering complex, production-grade solutions at scale.

- **Deep and sticky relationships with large global enterprises -** Fractal follows a disciplined client strategy focused on "Must Win Clients," typically large enterprises with significant scale and complexity. As of September 30, 2025, the company served 122 MWCs, including global names such as Citibank, Costco, Franklin Templeton, Mars, Mondelez and Philips. These relationships tend to be long-standing and embedded, with the top ten clients having an average relationship tenure of more than eight years. Importantly, Fractal continues to expand its share of wallet within existing clients, reflected in a strong Net Revenue Retention of 121.3% in FY25 and 114.0% in the first half of FY26, indicating sustained cross-sell and upsell momentum.

- **Differentiated dual-engine business model -** Fractal runs two kinds of businesses to balance stability and future growth. Fractal.ai is the main business that earns regular money by providing AI services and products to clients using its Cogentiq platform. This part gives the company steady and predictable income. Alongside this, Fractal Alpha works like an innovation lab where new AI businesses are built from scratch. Some of these can grow into independent companies or create value through partnerships or stake sales. This strategy has already worked, with examples like Qure.ai, which is now an associate company, and Asper.ai, showing that Fractal can create value not just from services but also by building successful AI products over time.

- **Improving financial profile with operating leverage -** Fractal has delivered strong revenue growth while meaningfully improving profitability. Revenue from operations grew at an 18.0% CAGR between FY23 and FY25, outpacing broader third-party DAAI market growth. In FY25, revenue increased 25.9% year-on-year to ₹2765.4 crores, while the company reported a return to profitability with a net profit of ₹220.6 crores, compared to a loss in the previous year. Profitability was sustained in the H1 FY26, with net profit of ₹70.9 crores, supported by healthy gross margins of around 45.9%, highlighting improving operating efficiency.

- **Strong innovation capability and defensible IP base -** Fractal's competitive positioning is reinforced by consistent investment in innovation and intellectual property, with 5–6% of annual revenue allocated to R&D. As of January 19, 2026, the company held 28 registered patents and has developed proprietary foundation models such as Vaidya.ai for healthcare applications and Kalaido.ai for text-to-image generation. In addition, Fractal has open-sourced advanced reasoning models like Fathom-R1-14B, underscoring its technical depth. This sustained focus on proprietary IP enhances differentiation, raises entry barriers, and reduces reliance on commoditized third-party AI tools.

Key Risks

1. Cybersecurity and Data Privacy Risks - As an enterprise AI company handling sensitive client data, security breaches represent the primary risk factor identified by the company. The business faces evolving threats from cyber-attacks, malware (including ransomware) and hacking, which could compromise confidential information and disrupt operations. For instance, in June 2020, the company was subject to a ransomware attack that rendered some systems unavailable; although no data was infiltrated, it led to the termination of a contract by a client and the loss of a potential engagement. Furthermore, the company is subject to complex and evolving data protection laws, such as the GDPR in Europe and the CCPA in the United States. Non-compliance with these regulations or a failure to secure data could result in significant monetary penalties, litigation and severe reputational damage.

2. Client and Revenue Concentration- The company relies heavily on a limited number of large clients for a substantial portion of its revenue. In the six months ended September 30, 2025, the top 10 clients contributed 54.2% of revenue from operations in the Fractal.ai segment, with the largest single client contributing 8.2%. Additionally, 79.6% of revenue in this segment was derived from "Must Win Clients" (MWCs) enterprises with over US$10 billion in revenue or US$20 billion in market capitalization. The loss of any major client, a reduction in their spending, or a decision by these clients to move AI initiatives in-house could materially adversely affect the company’s financial condition.

3. Geographic Concentration (US Market Dependence) - Fractal Analytics is significantly exposed to the economic and regulatory conditions of the United States. For the six months ended September 30,2025 and FY25, the company derived 64.9% and 65.2% of its revenue from operations from the United States, respectively. This geographic concentration makes the business vulnerable to macroeconomic downturns, restrictive immigration policies (such as visa limits for skilled professionals) and changes in regulatory landscapes within the US. Any strained relations between the US and India or changes in US trade policies could also impact client demand and operational costs.

4. Industry Sector Dependence - The company’s revenue is concentrated within specific industry verticals. For the six months ended September 30, 2025, the Consumer Packaged Goods and Retail (CPGR) sector contributed 37.5% of revenue, followed by Technology, Media and Telecom (TMT) at 27.2%, Healthcare and Life Sciences (HLS) at 17.0% and Banking, Financial Services and Insurance (BFSI) at 12.2%. A slowdown in any of these specific sectors, or sector-specific regulatory changes that restrict third-party AI spending, could disproportionately reduce demand for Fractal’s solution.

5. Technological Adaptation and Obsolescence- The Data, Analytics, and AI (DAAI) industry is characterized by rapid technological shifts, particularly the rise of Generative AI (Gen AI) and Agentic AI. The company’s success depends on its ability to timely adapt to these changes and commercialize new solutions. There is a risk that clients may leverage Gen AI tools (like coding agents) to develop in-house capabilities, thereby reducing their reliance on third-party service providers like Fractal. Furthermore, failure to innovate or successful commercialization of R&D investments such as previous write-offs related to investments in Eugenie and Zerogons due to rapid tech movements could render the company's offerings obsolete and impact profitability.

Geography Wise Revenue from Operations

Particulars	FY23		FY24		FY25	
	In Cr	%	In Cr	%	In Cr	%
America Region (A)	1329.9	67.0	1400	63.8%	1835	66.4%
Europe (including UK) (B)	333.3	16.8	430.3	19.6%	484.1	17.5%
India	156.3	7.9	189.9	8.6%	231.8	8.4%
Others	165.9	8.3%	176.1	8.0%	214	7.7%
Revenue from operations	**1985.4**	**100%**	**2196.3**	**100%**	**2764.9**	**100%**

Financial Snapshot

(In Cr)

Metric	FY23	FY24	FY25
Revenue (₹ Cr)	1985.4	2196	2765.4
EBITDA (₹ Cr)	436.8	97.2	398.0
Net Profit (₹ Cr)	194.4	(54.7)	220.6
EBITDA Margin (%)	22.0%	4.42%	14.4%
PAT Margin (%)	9.80%	(2.50%)	7.97%
EPS (Basic) (₹)	12.1	-	13.7

IPO Details and Use of Proceeds

Parameter	Details
Issuer	Fractal Analytics Limited
IPO Structure	Fresh Issue & Offer for Sale
Issue Size	3,14,87,777 shares (agg. up to ₹2,834 Cr) 1,13,72,222 shares (agg. up to ₹1,023 Cr) 2,01,15,555 shares (agg. up to ₹1,810 Cr)
Price Band	₹ 857 to ₹ 900 per share
Face Value	₹1 per share
Post-Issue Market Cap	₹15,473.60 Cr.
Promoter Holding (Pre/Post)	18.19%/17%
IPO Opening Date	February 09, 2026
IPO Closing Date	February 11, 2026
Listing	BSE & NSE
Book Running Lead Managers	• Kotak Mahindra Capital Company Limited • Morgan Stanley India Company Private Limited • Axis Capital Limited • Goldman Sachs (India) Securities Private Limited

Valuation and Recommendation

At the upper end of the price band of ₹900 per share, Fractal Analytics Limited is valued at **70x P/E**, implying a **post-issue market capitalisation of ₹15,473.60 Cr**. Fractal Analytics is well positioned to benefit from long-term growth in enterprise AI, supported by its pure-play focus, strong relationships with large global clients, and a differentiated dual-engine business model combining steady services revenue. The company has also shown improving financial performance, with healthy margins and a return to profitability, alongside continued investment in proprietary platforms and IP. However, the investment case is moderated by key risks, including high client and revenue concentration, significant dependence on the US market and exposure to select industry verticals. In addition, cybersecurity risks and the fast-evolving nature of Generative and Agentic AI create ongoing execution and relevance challenges. Despite the attractiveness of the long-term business opportunity, the current valuation seems expensive and offers limited margin of safety, leading us to assign a **Neutral rating to the IPO**, with a preference to track operational performance and profitability trends in the post-listing period.

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Registration and Contact Details: Name of Research Analyst - Mangal Keshav Financial Services LLP, Research Analyst Registration No.: INH000018319.
LLPIN: AAM-3358

Registered Office: 501, Heritage Plaza, JP Road, Opp Indian Oil Colony, Andheri West, Mumbai 400053.
Correspondence/Administrative Office Address - 501, Heritage Plaza, JP Road, Opp Indian Oil Colony, Andheri West, Mumbai 400053.
TEL: 022 61907900