

## KCK Industries Limited

### A REVIEW REPORT ON KCK INDUSTRIES LIMITED IPO

#### IPO Details

<b>Opening Date</b>	June 27, 2022
<b>Closing Date</b>	June 30, 2022
<b>Stock Exchange</b>	NSE SME
<b>Lot Size</b>	4000 Shares
<b>Issue Price</b>	₹ 30 per share
<b>Issue Size</b>	15,00,000 Equity Shares
<b>Application Amount</b>	₹ 1,20,000

#### IPO Objective

- To part finance the requiremer Working Capital
- General Corporate Purposes
- To meet the expenses of the Issue

#### Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	31,16,480	77.91 %
Public	8,83,520	22.09%

#### Company Background

- Company was incorporated in the year 2013 in Chandigarh.
- It is involved in trading of Carded and Combed cotton yarns ranging from Ne 4 to Ne 40 in single and multi-fold and knitted fabrics.
- Company is also involved in trading of Chemical and Dyes for Textiles, Leather and Paper Industries.
- Recently the company has acquired a Rice Processing Unit at Sangrur having a total capacity of 12 Ton/Hour and utilized capacity of 7 Ton/Hour.
- As on the date of filing this prospectus, the company had a total of 34 employees.

#### Promoter of the Company

1. Mr. Jagdish Prasad Arya
2. Mrs. Reena Sharma

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## Company Overview

KCK Industries Limited was established in the year 2013 at Chandigarh. The company is engaged in the trading of Carded and Combed cotton yarns ranging from Ne 4 to Ne 40 in single and multi-fold and knitted yarns. These yarns are suitable for applications such as apparels, undergarments, Terry Towels, Denims, Medical Fabrics, Furnishing Fabrics and Industrial Fabrics. The company also carries the business of trading in Chemical and Dyes for textile, leather and paper industries. The company also deals in Construction Chemicals. To diversify its product base, the company has also acquired a Rice Processing Unit at Sangrur District. The capacity of the plant is 12 tons/hour and current utilization is 7 tons/hour. In its processing unit the company processes the Non-Basmati and Basmati rice. The company is catering Basmati and non-Basmati rice markets in North India like Delhi, Punjab, Gujarat & Haryana, Uttar Pradesh etc.

### Analysis

The company has a good track record of existence and in the field of textile and just one year in agro sector. The company has been doing well in its trading business and has also diversified its product segment by acquiring a Rice Processing Unit. But it can be seen from the table depicted below that the company has majorly shifted from its trading business to manufacturing business -

(Amt in Lakhs)

Year	Yarn	Rice Husk	Dyes and Chemicals	Processed Rice	Total
2018-2019	3,824.18	202.05	-	-	4,094.48
2019-2020	4,722.15	174.52	252.58	-	5,149.25
2020-2021	3,718.71	118.42	74.43	-	3,911.56
Nine Months (9) ended 31 <sup>st</sup> December, 2021	337.27	199.15	308.51	3,564.11	4,409.04

The reason for such a major shift is unexplained in the prospectus. This might be a point to look upon whether shifting almost 80% of its business to a new product segment would be fruitful to the company or not. Before 21-22, Company's major revenue was from Haryana region and after shifting to Rice Processing unit, the major market has also been shifted to Delhi.

Also the revenue from its top 10 customers in the FY 19-20 and FY 20-21 was 100% but in the up to Dec'21, the same has come down to 74.45% showing increase in the customer base of the company.

Based on these data, the company has been able to generate good revenue from its Rice Processing Unit of Rs. 3,564.11 lakhs. The company was also doing good in its trading of yarn and chemical segment in earlier years. The company is still operating in these segments and if it is able to manage both the trading and manufacturing unit efficiently and if we could see increase in revenue from its trading sector again to the previous level, investing in the company could be a good bet.

## Industry Charts

Exhibit 1: Textile and Apparel Industry to grow at a CAGR of 6.59% from FY 20 to FY 26

**Textile and Apparel Industry (US\$ Billion)**

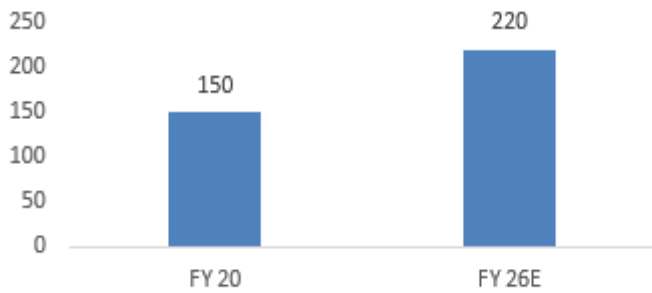


Exhibit 2: Global Textile and Apparel Trade (US\$ Billion)

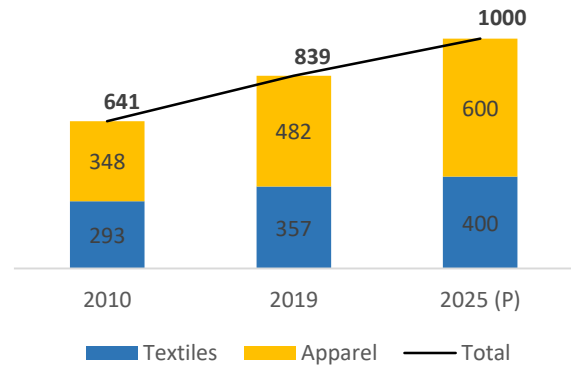


Exhibit 3: India Chemical Industry to grow at a CAGR of 9.3%

**Chemical Industry Market Size (US\$ Billion)**

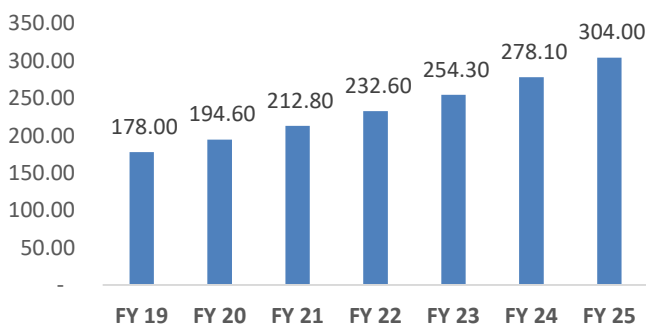
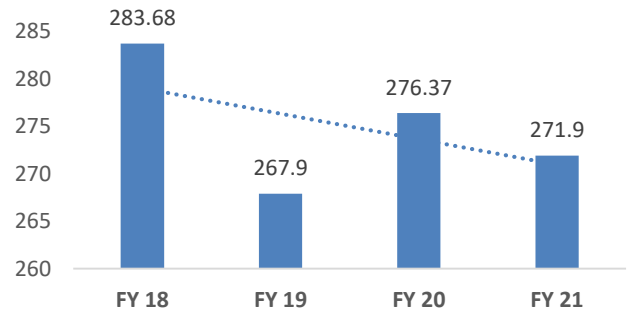


Exhibit 4: Gross Value Added by Agriculture and Allied Sector from FY 17 to FY 21

**GVA by Agriculture and Allied Sector (US\$ Bn)**



(Source: ibef.org)

## Investment Overview

### **Textiles, Chemicals and Rice Industry**

India's Textiles industry has around 4.5 crore employed workers including 35.22 lakh handloom workers across the country. The industry contributed 7% to the industry output (by value) in 2018-19. The Indian textiles and apparel industry contributed 2% to the GDP, 12% to export earnings and held 5% of the global trade in textiles and apparel in 2018-19. Exports of textiles (RMG of all textiles, cotton yarns/fabrics/made-ups/handloom products, man-made yarns/fabrics/made-ups, handicrafts excl. handmade carpets, carpets and jute mfg. including floor coverings) stood at US\$ 22.89 billion between April 2021 and October 2021.

Cotton production is expected to reach 37.10 million bales and consumption is expected to reach 114 million bales in FY21—13% growth over the previous year.

India's chemicals industry is de-licensed, except for few hazardous chemicals. In the Indian chemical industry, alkali chemicals have the largest share with ~69% in the total production; production of polymers accounts for ~59% of the total production of basic key petrochemicals in 2019. The chemical industry is expected to contribute US\$ 300 billion to India's GDP by 2025. India holds a strong position in exports and imports of chemicals at a global level and ranks 14th in exports and 8th in imports at global level (excluding pharmaceuticals). The chemicals industry in India covers more than 80,000 commercial products with overall market size standing at US\$ 178 billion in 2018-19. The industry is expected to grow at 9.3% to reach US\$ 304 billion by 2025 on the back of rising demands in the end-user segments for specialty chemicals and petrochemicals. In July 2021, production volumes of key chemicals stood at 909,310 MT and petrochemicals at 1,867,351 MT. The specialty chemicals sector is expected to reach US\$ 40 billion by 2025.

Agriculture is the primary source of livelihood for about 58% of India's population. Gross Value Added by agriculture, forestry, and fishing was estimated at Rs. 19.48 lakh crore (US\$ 276.37 billion) in FY20. Share of agriculture and allied sectors in gross value added (GVA) of India at current prices stood at 17.8 % in FY20. Consumer spending in India will return to growth in 2021 post the pandemic-led contraction, expanding by as much as

6.6%. India's rice exports in FY22 is likely to exceed the record of 17.72 million tonne (MT) achieved in FY21 on the back of a 33% YoY jump in exports to 11.79 MT between April-October 2021. In terms of value realization, India's rice exports increased 38% YoY to US\$ 8,815 million in FY21. In Rupees terms, India's rice exports increased by 44% YoY to Rs 65,298 crore in FY21.

(Source: prospectus)

### **Addressable Market for KCK Industries Limited**

Company is majorly selling in the North India region in the states of Haryana, Punjab, Delhi, Gujarat etc. Company's major yarn and chemical market is Haryana and Rice Market is Delhi followed by Punjab. The company can start catering the southern part of India for its Rice market, however it is said that South has reached a situation where the supply has overpowered demand, but these rice are of cheap quality. The company can still target the southern part of India with its Basmati Segment. Also in order to export, the quality of rice has to be of superior quality and if the company can match this quality it can easily target the export market as well

### **Competition**

The textile segment of the company is highly competitive. The company operates in a segment where there is a fragmented market and low barriers to entry. There are various big and small players providing the similar line of products to their customers. The rice market also depends upon various factors product range, product quality, and product price including factors based on reputation, regional needs, and customer convenience. There are various organized and unorganized companies operating in this field and the competition is high. However, the company has said that it has been able to pass on the prices to its customers historically.

### **Peer Analysis**

As Mentioned in the prospectus, the company has only two peer companies viz. Shiva Taxyarn Limited and GRM Overseas Limited. A comparison of the same has been depicted in the table below –

<b>Company</b>	<b>KCK Industries Limited (Up to Dec'21)</b>	<b>Shiva Texyarn Limited</b>	<b>GRM Overseas Limited</b>
Net Profit (INR Cr)	0.99	15.06	84.52
EBITDA (INR Cr)	2.12	71.6	129.77
Return on Capital Employed	33.56%	18.91%	60.60%
Return on Equity	19.20%	8.66%	41.10%
EPS (INR)	2.50	7.00	14.00
P/E* (Times)	12.00	82.11	22.29

**\*P/E has been calculated as on 24/06/2022**

The company has mentioned one peer in Textile sector and one peer in Food Sector and the company operates in both the sectors so true comparison with its peers is not possible.



## Promoters' Profile

### Mr. Jagdish Prasad Arya



- **Mr. Jagdish Prasad Arya** is the Promoter and Director of the Company.
- He is having more than 30 years of experience in the various field including Textile Material Trading (yarn and Dyes and Chemicals).
- He is associated with the company since its inception.
- He is Commerce Graduate from Rajasthan University in the year 1988.
- He has been instrumenting in routine operational activities of our Company and formulation of business policies, strategies etc.

### Mrs. Reena Sharma



- **Mrs. Reena** is the Promoter and Director of the Company.
- She has more than 20 years of experience in the Textile Trading Business.
- She is also having experience in Human Resource Management.
- Highlighting her educational qualification, she is an Undergraduate.
- She has been associated with the Company since October, 2014.

## **Analysis on the Company's Promoter and Board of Directors**

**Mr. Jagdish Prasad Arya** is one of the Promoters and Non-Executive Directors of the Company. He has more than 30 years of experience in various field including Textile and Chemical. He has been associated with the company. However, being a Non-Executive Director he should not be a part of day to day activities but can play vital role in the policy making of the company.

**Mrs. Reena Sharma** is also one of the Promoters and Non-Executive Director of the company. She has more than 20 years of experience in the trading of textile business but does not seem to involve in the strategic decision making team of the company.

Company has hired **Mr. Satyaveer Singh Dangi** as its Managing Director. He has more than 35 years of experience in various fields. He looks after the day-to-day routine operational activities of the company and formulation of business policies, strategic decisions, policy making etc. He has been on the board since June, 2021 and it seems he has been instrumental in setting up the Rice Processing Unit of the company.

The independent directors of the company also bring more than 20 years of experience on the desk. They have been associated with already established companies in the market in the textile sector and can prove to be a great driving force for the company. Their experience and guidance is valuable for the company as the company has shifted from trading of cotton yarns to manufacturing of Rice in the recent year. So they could be a helpful source for the company to bring the cotton yarns and knitted fabric sales also to the previous levels.

## Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2020	As at 31st March, 2021	As at 31st December, 2021
<b>Profit and Loss</b>			
Revenue from operation	5,149.25	3,911.58	4,409.04
Other income	1.48	1.44	44.68
Total Revenue	5,150.73	3,913.02	4,453.72
Expenses	5,100.59	3,875.22	4,242.17
Depreciation and Amortisation Cost	1.51	2.87	30.24
Finance Cost	5.60	8.51	24.21
Total Expenses	5,107.70	3,886.60	4,296.62
PBT	43.03	26.42	157.10
EBITDA	50.14	37.80	211.55
EBITDA Margin	0.97%	0.97%	4.80%
Net Profit	31.91	19.24	99.95
Net Profit Margin	0.62%	0.49%	2.27%
<b>Balance Sheet</b>			
Total Borrowings	129.83	565.26	634.20
Net Worth	251.43	420.68	520.63
Fixed Assets	77.26	955.01	1,105.74
Net Working Capital	171.16	-540.51	-577.52
<b>Financial Measures</b>			
Inventory Turnover Ratio	68.72	9.98	3.42
Receivables Turnover Ratio	2.80	2.60	8.07
Payables Turnover Ratio	2.92	1.88	2.23
Fixed Assets Turnover Ratio	66.65	4.10	3.99
Return on Capital Employed	18.69%	8.17%	33.56%
Return on Equity	12.69%	4.57%	19.20%
Debt-Equity Ratio	0.52	1.34	1.22

(The data has been taken and calculated from the financials given in the prospectus)

## **Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)**

The EBITDA of the company has grown from Rs. 50.14 lacs in 2020 to 211.15 lacs in Dec'21 growing at a CAGR of 128%. The EBITDA margin up to Dec'21 was 4.80% from 0.97% in 2020. The margins from the trading of yarn and chemicals was too low for the company. However, the margin has increased to 4.80% which might convey that the Rice segment might have higher margins. But if this is not the case, the earnings seem to be unsustainable in the future.

## **Net Profit**

The net profit of the company has grown from Rs. 31.91 lacs in 2020 to Rs. 99.95 lacs up to Dec'21 growing at a CAGR of 92%. The net profit margin has grown from 0.62% in 2020 to 2.27% up to Dec'21. The reason can be attributed on similar terms with EBITDA margin. To be on conservative side one should believe that such growth might not continue in the future.

## **Finance Cost.**

The company have finance cost on Secured Borrowing towards Car loan and Short-Term Unsecured Loan.

## **Financial Measures/Ratios**

The financial ratios of the company have grown substantially this year. This increase can be due to the introduction of new segment but the clarity on the same is not provided in the prospectus

RoCE of the company up to Dec'21 was 33.56%. Comparing with its textile sector peer it is almost double of it and comparing with its food sector peer it is almost half. So it can be believed that the company has earned greater returns due to Rice Processing unit and the same could be thought to continue in future being on the aggressive side.

Return on Equity (ROE) of the company is at 19.21% up to December 2021. The same can be set forward with similar assumptions as that of RoCE because the company has outperformed with its textile peer and underperformed with its food sector peer.

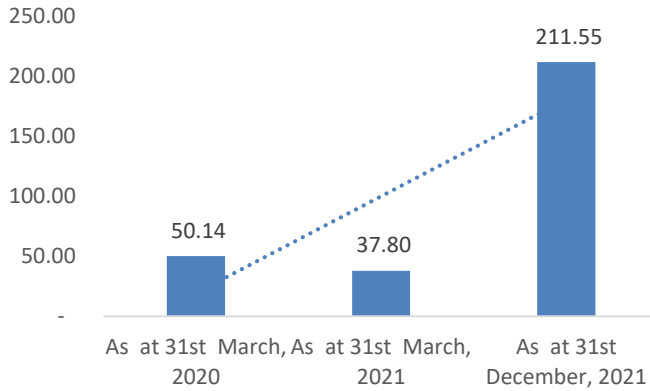
The Receivables Turnover ratio around 2.50 in FY 20 and FY 21 and has increased to around 8 times up to Dec'21 showing better management of receivables but the same cannot be concluded based on just one year's figures.

The payable turnover ratio of the company has been around 2 and has not changed much over the years.

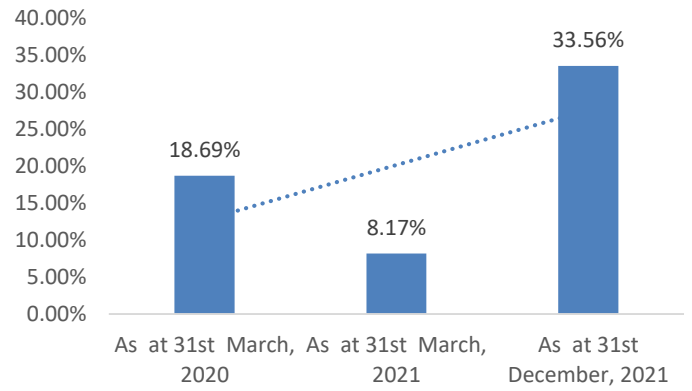
The company has Debt-Equity ratio of 1.32 but apart from an auto loan of about 13 lacs, all its loans are unsecured loans are repayable on demand. So this ratio cannot be considered to be decision-worthy. The company has opted for equity capital to manage its working capital but could have thought of having debt finance to reduce its cost of capital.

## Financial Graph

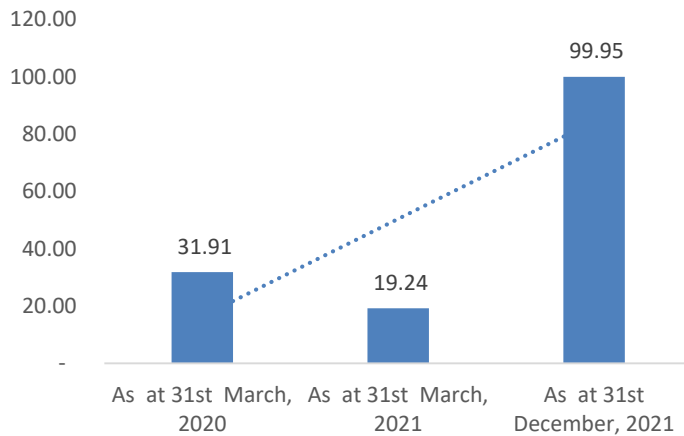
**EBITDA (In Lacs)**



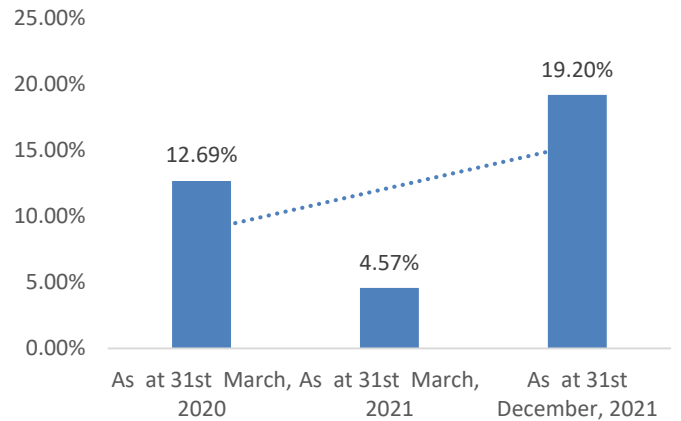
**Return on Capital Employed**



**Net Profit (In Lacs)**



**Return on Equity**



## Key Risk Factors

1. Although the revenue from top 10 customers were 74.55% up to Dec'21, the company had 100% dependence on its top 10 customers in FY 21, FY 20 and FY 19.
2. The company is also dependent of few suppliers making the bargaining power of suppliers higher than the company.
3. Company had generated major revenue from sale of rice from Delhi and Punjab region only.
4. Chemical segment of the business comes under higher government rules and regulation.
5. The capacity of manufacturing unit is not fully utilized and if the underutilization continues in future, the company might be inefficient to cover its fixed costs.

## Track Record of Merchant Banker/Lead manager

The lead manager to the issue is Navigant Corporate Advisors Limited and the previous issue details have been taken from the prospectus. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

Company	Issue Size (In Cr)	Issue Closing Date	IPO Price/share (INR)	CMP# (INR)
Prabhat Telecoms (India) Limited	11.22	03-08-2016	51.00	226.40
Pure Giftcarat Limited	7.45	08-05-2017	13.00	58.65
Jalan Transolutions (India) Limited	17.71	31-05-2017	46.00	12.15
G G Engineering Limited	2.23	17-07-2017	20.00	2.41
Keerti Knowledge & Skills Limited	4.05	07-08-2017	52.00	16.30
Ashok Masala Mart Limited	2.01	22-08-2017	10.00	20.40
Manav Infra Projects Limited	5.51	18-09-2017	30.00	6.30
Ajooi Biotech Limited	6.59	02-01-2018	30.00	44.25
Continental Seeds and Chemicals Limited	4.21	04-04-2018	26.00	6.80
Power and Instrumentation (Gujarat) Limited	6.15	23-04-2018	33.00	44.50
Dr Lalchandani Labs Limited	4.20	09-05-2018	30.00	25.10
Sirca Paints India Limited	77.91	30-05-2018	160.00	439.15
Rajnish Wellness Limited	11.98	09-07-2018	95.00	220.85
Akg Exim Limited	5.52	25-09-2018	31.00	31.85
SBC Exports Limited	6.56	04-07-2019	22.00	5.40
Wonder Fibromats Limited	19.79	06-08-2019	89.00	135.00
Salasar Exteriors & Contour Limited	8.50	12-09-2019	36.00	122.00
Focus Business Solution Limited	1.22	13-07-2021	19.00	34.25
Rex Pipes & Cable Industries Limited	6.24	10-08-2021	26.00	43.15

**#CMP is taken as on 24<sup>th</sup> June 2022**

This is the 21<sup>st</sup> IPO of the Lead Manager, out of the last 10 listings, 2 opened at par, 1 at discount and rest at premium



## Recommendation

The company has a track record of more than 9 years. The company has been doing well in its operations. The company has been in the trading sector of cotton yarns, knitted fabrics, chemicals and in the manufacturing of Rice. The company has shifted more than 80% of its revenue towards rice processing. Minimizing its trading activities to such a great extent and majorly operating in rice processing makes the company inexperienced. But the bet can be taken on how it has performed in its manufacturing segment generating healthy revenue up to Dec'21. If the company can overcome the factor of inefficient budget and other resource allocation towards its trading and manufacturing activities, it could be a good investment in the coming years.

The management of the company is experienced in the textile sector. The Managing Director's field of experience has not been specifically provided in the prospectus, but looking at the numbers of Dec'21 it seems he has done a good job and seems to be experienced in the strategic decision making, however, there is not enough data to finalize anything on the same.

Also at the P/E of 12, the company seems to be fairly priced.

So to conclude, only if one is a risk taker he/she **may apply** with long term view.

Risk Averse investors **should avoid** and look at the performance of its manufacturing activities in coming years and take decisions accordingly.

## Disclaimer

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