

### IPO Details

<b>Opening Date</b>	Sep 29, 2022
<b>Closing Date</b>	Oct 04, 2022
<b>Stock Exchange</b>	BSE SME
<b>Lot Size</b>	1200 Shares
<b>Issue Price</b>	₹ 103 per share
<b>Issue Size</b>	64,59,600 Equity Shares
<b>Application Amount</b>	₹ 1,23,600

### IPO Objective

Acquisition of Plant and Machineries
Funding Working Capital Requirement
General Corporate Purpose
To meet issue expenses

### Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	1,68,87,465	91.12%
Public	16,46,045	8.88%

### Promoter of the Company

1	Mr. Shaival Dharmendra Gandhi
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### Competitive Strengths

- 1 Agreements with widely known companies working for kids
- 2 Founder led Management Team
- 3 Our insights of Indian Consumers and merchants

### Company Background

- Company was incorporated in August 2015 in Pune, Maharashtra.
- Company started as a business that would give the kids/young consumers and sports enthusiasts in India access to International Football Clubs Merchandise and International Sports Brands apparels and Sports Good.
- Company acquired manufacturing and distribution licenses of some of the popular and biggest brands in the Kids Entertainment Industry.
- Company established its own e-commerce portal, www.cotandcandy.com.
- Company has 16 employees as on 1<sup>st</sup> September 2022.

### Financial Summary

	(In Lacs)		
For the Period Ended	Mar-22	Mar-21	Mar-20
<b>Total Assets</b>	3,241.71	2,786.01	157.97
<b>Net Assets</b>	2,649.44	2,595.32	7.24
<b>Total Borrowings</b>	362.49	97.45	121.39
<b>Total Revenue</b>	1,054.15	171.89	150.42
<b>Profit After Tax</b>	54.12	7.18	0.34

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## Company Overview

Company was incorporated in the year 2015 and was engaged in a business that would give the kids/young consumers and sports enthusiasts in India access to International Football Clubs Merchandise and International Sports Brands apparels and Sports Good. Thereafter, Company acquired manufacturing and distribution licenses of some of the popular and biggest brands in the Kids Entertainment Industry.

## Analysis

Being incorporated in the year 2015, company has a decent track record of experience. The business model of company includes manufacturing and distributing of kids apparels of famous brands through offline and online sales.

The revenue sources of the company include –

- **Consumer** - Transaction Fee Model (% of order value or fixed fee) – fees from direct sale of products through the marketplace platform and mobile application.
- **Advertising Fees** – Fees for onsite advertising / promotional activities on the marketplace platform.
- **Stores** - Listing Service / Platform Fees – fees earned by offering platform solutions to small sized stores / businesses.  
Subscription Pricing – subscription based plans for extending access to different users for small sized stores / business.
- **Artist / Designers** - Listing Service Fee above a specified threshold – Listing fees from designers for providing opportunity to interact with large customer base.  
Influencer Engagement Services – to provide platform for enabling influencers / designers to engage with the consumers

Current Traction –

- **Target Market Audience:** Adults between 20 to 40 years.
- **Product Category:** Toys & Sports, Baby & Kids Fashion, Kids Home Décor & Furniture, Home Textiles, Kitchenware.

- **Indigenous Brands:** Pace, Ginger Bread, Cot & Candy, Wiggle wink, Home post.
- **Licensed Brands:** Various internationally reputed kids' brands.

The revenue from operations of the company has grown at a CAGR of 165.29% from Rs. 149.13 lacs in 2020 to Rs. 1,049.58 lacs in 2022 which seems to be super normal.

To conclude, the company has been into business with decent experience and is targeting mainly the kids section. The industry has a good growth prospect but at the same time is highly competitive. Sudden raise in the revenue just before the year of IPO also raises eye-brows.

**Industry Charts**

Exhibit 1: Market Size of Indian E-Commerce

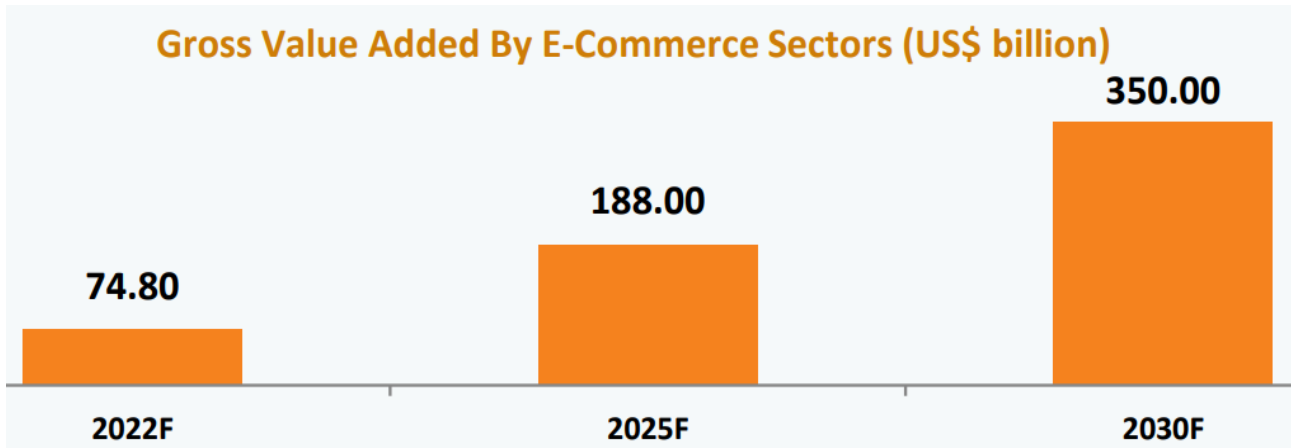


Exhibit 2: Sector Composition of Indian E-Commerce

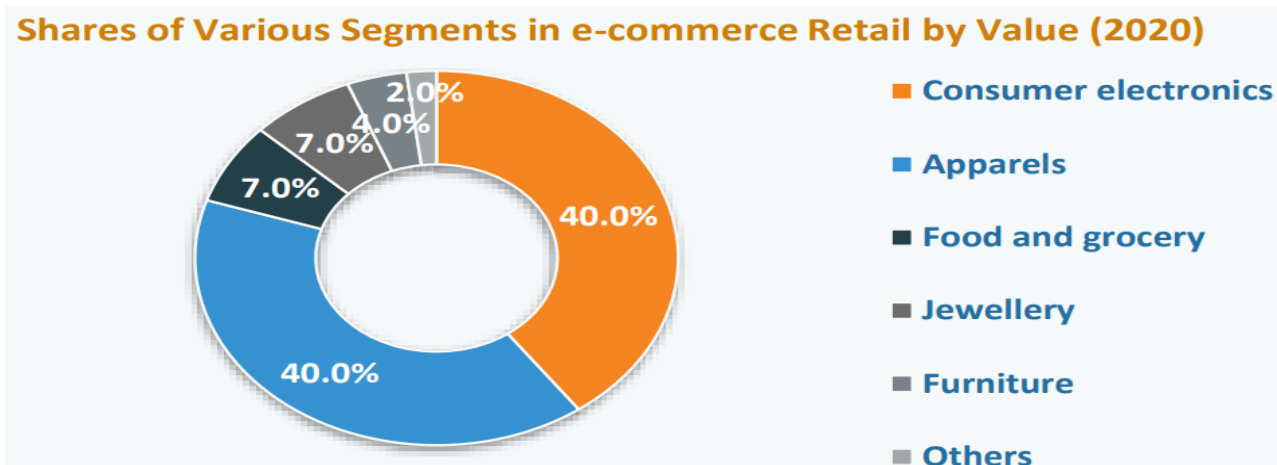
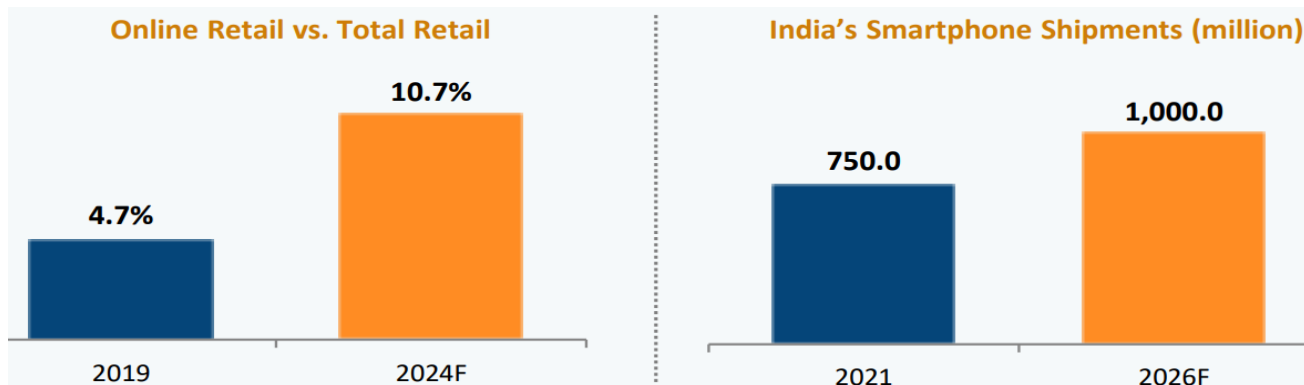


Exhibit 3: Key Trends in Indian E-Commerce



(Source: ibef.org)

## Investment Overview

### Indian E-Commerce

In recent years India has experienced a boom in internet and smartphone penetration. The number of internet connections in 2021 increased significantly to 830 million, driven by the 'Digital India' programme. Out of the total internet connections, ~55% of connections were in urban areas, of which 97% of connections were wireless. The smartphone base has also increased significantly and is expected to reach 1 billion by 2026. This has helped India's digital sector and it is expected to reach US\$ 1 trillion by 2030. This rapid rise in internet users and smartphone penetration coupled with rising incomes has assisted the growth of India's e-commerce sector. India's e-commerce sector has transformed the way business is done in India and has opened up various segments of commerce ranging from business-to-business (B2B), direct-to-consumer (D2C), consumer-to-consumer (C2C) and consumer-to-business (C2B). Major segments such as D2C and B2B have experienced immense growth in recent years. India's D2C market is expected to reach US\$ 60 billion by FY27. The overall e-commerce market is also expected to reach US\$ 350 billion by 2030, and will experience 21.5% growth in 2022 and reach US\$ 74.8 billion.

The Indian online grocery market is estimated to reach US\$ 26.93 billion in 2027 from US\$ 3.95 billion in FY21, expanding at a CAGR of 33%. India's consumer digital economy is expected to become a US\$ 1 trillion market by 2030, growing from US\$ 537.5 billion in 2020, driven by the strong adoption of online services such as e-commerce and edtech in the country.

According to Grant Thornton, e-commerce in India is expected to be worth US\$ 188 billion by 2025.

With a turnover of \$50 billion in 2020, India became the eighth-largest market for e-commerce, trailing France and a position ahead of Canada.

(Source: ibef.org)

### **Addressable Market for Pace E-Commerce Limited**

The company is primarily into the e-commerce segment and therefore can capture the entire country. The company could in coming times target other section of apparels to gain more customers.

### **Competition**

The competitive scenario is very high in this segment. There are many players operating in this sector and some of them are well known and reputed platforms in the e-commerce segment. The bargaining power of the company is very low and the threat of new entrant is also very high.

### **Peer Analysis**

As Mentioned in the prospectus, the company has mentioned no listed peer companies.

## Promoters' Profile and Management Analysis

### Mr. Shaival Gandhi



- **Mr. Shaival Gandhi** is the Promoter, Managing Director and Chief Financial Officer of the Company.
- He holds a Master's Degree in International Securities, Investment & Banking from ICMA Centre, University of Reading, UK. He also holds a B.Sc. in Information Technology.
- He worked over five years with Investment Banks such as Markit and Deutsche Bank in London, UK. He is an experienced entrepreneur.



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

**Mr. Shaival Gandhi**, aged 39 years, is the Promoter and Managing Director of the Company. He holds a Master's Degree in International Securities, Investment & Banking from ICMA Centre, University of Reading, UK. He also holds a B.Sc in Information Technology. He worked over five years with Investment Banks such as Markit and Deutsche Bank in London, UK. He is an experienced entrepreneur and has donned many hats who founded several ventures over the years and has vast experience in sectors such as Investment Banking, Food & Beverages and Real Estate. He is passionate about consumer products and E-Commerce Industry, particularly Print-On-Demand Products, as this is an area where he has gained invaluable experience.

**Mr. Harshal Chandarakant Gala**, aged 35 years, is non-executive director of the Company. He has completed his degree of M. Com from University of Mumbai. He has joined family business of food retailing and developed experience in marketing and customer relationship. In 2014 he moved to Pune and joined as a partner in Naila Motors, a niche business of retailing Superbike Merchandise. He has started his own Superbike Merchandise and spares business and has been successfully running the same.

To conclude, the company has not mentioned about the years of experience of the promoter in numbers and has given a more generalised write-up on the same. The Non-Executive director of the company does not seem to have experience in the relevant field.

## Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2020	As at 31st March, 2021	As at 31st March, 2022
<b>Profit and Loss</b>			
Revenue from operation	149.13	170.14	1,049.58
Other income	1.29	1.75	4.57
Total Revenue	150.42	171.89	1,054.15
Expenses	143.45	139.24	957.33
Depreciation and Amortisation Cost	1.13	0.81	1.76
Finance Cost	5.41	22.13	21.59
Total Expenses	149.99	162.18	980.68
PBT	0.43	9.71	73.47
PBT Margin	0.29%	5.71%	7.00%
EBITDA	6.97	32.65	96.82
EBITDA Margin	4.67%	19.19%	9.22%
Net Profit	0.34	7.18	54.12
Net Profit Margin	0.23%	4.22%	5.16%
<b>Balance Sheet</b>			
Total Borrowings	121.39	97.45	362.49
Net Worth	7.24	2,595.32	2,649.44
Fixed Assets	8.45	2,260.41	2,263.31
Net Working Capital	124.99	88.96	388.81
<b>Financial Measures</b>			
Inventory Turnover Ratio	1.97	1.56	4.94
Receivables Turnover Ratio	4.01	3.17	3.73
Payables Turnover Ratio	3.99	2.35	4.87
Fixed Assets Turnover Ratio	17.65	0.08	0.46
Return on Capital Employed	4.54%	1.20%	3.21%
Return on Equity	4.70%	0.28%	2.04%
Debt-Equity Ratio	16.77	0.04	0.14

(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. 6.97 lacs in 2020 to Rs. 96.82 lacs in 2022 growing at a CAGR of 272.71%. The EBITDA margin in 2020 was 4.67%, 19.19% in 2021 and 9.22% in 2022. The EBITDA has grown substantially and the growth rate is not likely to sustain. The EBITDA margin has been fluctuating in these years and no proper trend could be analysed.

### **Net Profit**

The net profit of the company has grown from Rs. 0.34 lacs in 2020 to Rs. 54.12 lacs in 2022 at a CAGR of 1,161.65%. The net profit margin in 2020 was 0.23%, 4.22% in 2021 and 5.16% in 2022. The growth in net profit is again not normal and extraordinary and is highly unsustainable.

### **Finance Cost.**

The company has incurred finance cost mainly on the long term loans availed from the banks and unsecured loans availed from related parties.

### **Financial Measures/Ratios**

RoCE of the company in 2022 was 3.21% vs 1.20% in 2021 and 4.54% in 2020. The RoCE dipped in 2021 due to increase in long term borrowings, issue of equity shares and operating profits increasing not to much extent. In FY 22, the RoCE has increased to 4.54% because of substantial increase in operating profits. With infusion of equity capital and long term loans not being that high (leading to low repayment of loan), the RoCE is expected to fall a bit in the coming year.

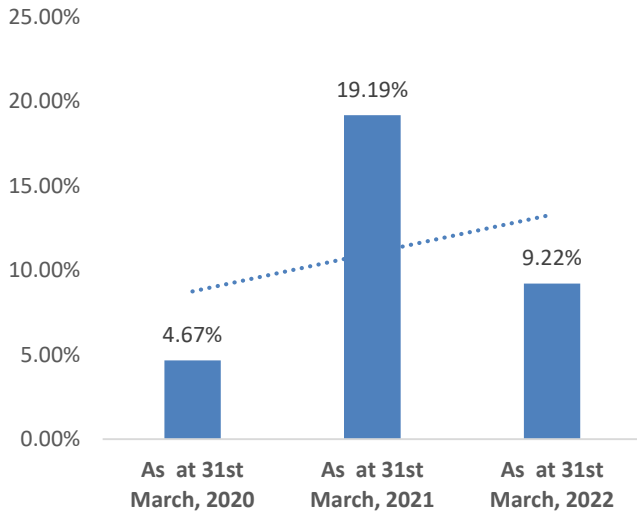
ROE of the company in 2022 was 2.04%, 0.28% in 2021 and 4.70% in 2020. The fall in 2021 was due to new equity shares being issued. The analysis and prediction of the same can be set forth as that of RoCE.

The company has effectively maintained its Inventory and also receivables to some extent. But the company has to look forward to effectively manage its payables in the coming times.

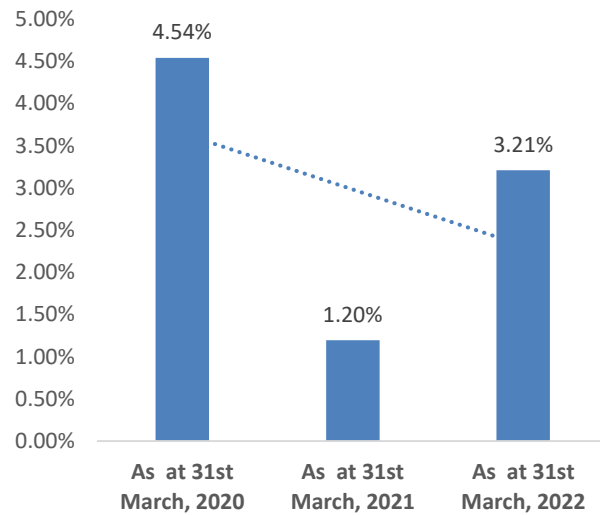
The company has a debt-equity ratio of 0.14 times in FY 22. The debt-equity has come down from the levels of 2020 and is expected to fall more with the infusion of new capital.

**Financial Charts**

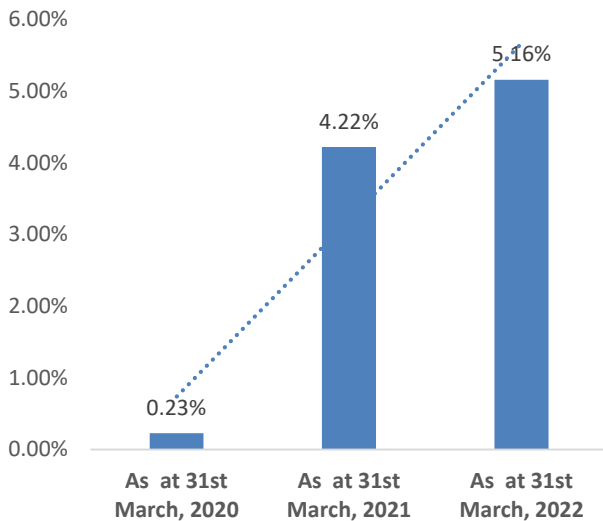
**EBITDA Margin**



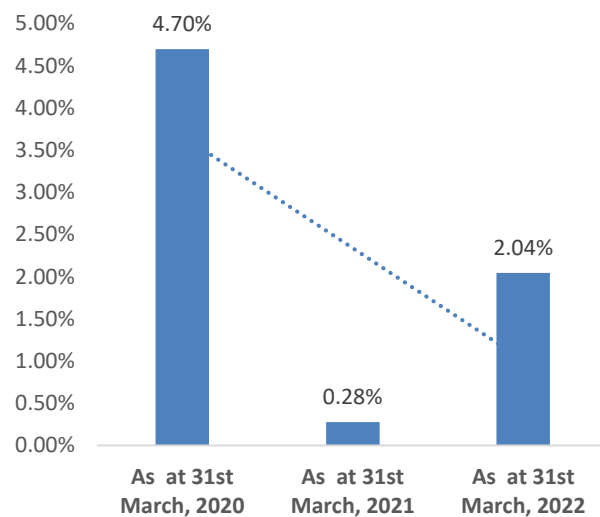
**Return on Capital Employed**



**Net Profit Margin**



**Return on Equity**



## Key Risk Factors

1. Company and Group Company are involved in certain litigations including tax related litigations totalling to an amount of Rs. 820.79 lacs, which if determined against them, can affect financial conditions of the company.
2. The DIN of the director of the company had been suspended for 3 years under section 164(2) of the Companies Act.
3. The company has to pay fixed royalty to the reputed brands irrespective of the business operations.
4. Company is dependent on a single personnel.

## Track Record of Lead Manager

The lead manager to the issue is Interactive Financial Services 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 –

Sr. No	Company Name	Issue Size in Cr.	Issue Price/Share	Listing date	CMP#
1.	Bhatia Colour Chem Limited	40.00	80.00	March 24,2022	49.10
2.	Global Longlife Hospital and Research Ltd	49.00	142.00	May 04,2022	71.05
3.	Rachana Infrastructure Ltd	76.28	135.00	June 10,2022	752.50
4.	Dipna Pharmachem Limited	15.21	38.00	September 08,2022	24.00

### #CMP is taken as on 04<sup>th</sup> September 2022

This is the 5th IPO of the Lead Manager, out of the last 4 listings, 1 opened at par, 1 at discount and rest at premium.

## Recommendation

The company was established in the year 2015 and has been operating in the e-commerce industry with decent experience. The industry is very competitive and also has good prospect.

The revenue of the company along with its bottom line has shown sudden growth in the year just before IPO raising eye-brows.

The management of the company does not seem to have enough experience in the e-commerce segment and operating in kids apparel and other accessories segment.

The PE ratio of the company on Post-IPO basis is around 467.04 times making it a highly priced IPO.

So one **should avoid** applying in the IPO.

## Disclaimer

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.

**We believe an SME company needs 2-3 years to show its true potential and therefore our recommendations are for Long-term investment and not for listing gains.**