COMRADE APPLIANCES LIMITED

Review Report On IPO

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IPO Details

Opening Date	May 31, 2023
Closing Date	June 05, 2023
Stock Exchange	BSE SME
Lot Size	2000 shares
Issue Price	₹ 54 per share
Issue Size	22,78,000Equity Shares
Application Amount	₹ 1,08,000
Amount Raised (Issue Type)	₹12.30 Cr (Fresh Issue)

IPO Objective

1. Working Capital Requirements.
2. General Corporate Purposes.

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	52,50,785	100%
Public	10	0%

Promoter of the Company

1. Mr. Khursheed Alam
2. Mr. Mehboob Alam
3. M/s Troupe Technologies Private limited

Competitive Strengths

1. Strategic Location of Manufacturing Unit.
2. Constant focus on developing new and innovative products.
3. R&D and product design capabilities leading to generation of ODM business.
4. Strong relationships with a diverse top-tier customer base.
5. Quality Assurance.
6. Strong professional and execution team allows the Company to develop a strong business.
7. Existing Supplier Relationship.
8. Progressive Employer.

Company Background

- Comrade Appliances Limited was incorporated in the year 2017 headquartered in Mumbai-Maharashtra.
- The Company is engaged in the process of manufacturing an extensive array of Air Coolers and Electric Geysers.
- They manufacture consumer durable goods and assemble a wide array of products and provide end-to-end product solutions. They serve under both original equipment manufacturer (“OEM”) and original design manufacturer (“ODM”) business models.
- As on date of filing of Red Herring Prospectus, company have not specified the employees on their payroll.

Financial Summary

(INR In Lacs.)

For the Period Ended	Mar-21	Mar-22	Dec-22
Total Assets	3,140.65	2,527.34	2,753.18
Net Assets	241.77	502.43	689.41
Total Borrowings	1,412.38	1,113.79	1,350.62
Total Revenue	2,603.85	2,973.28	2,699.43
Profit After Tax	20.21	38.77	163.57

Tentative Timeline

Opening Date	May 31, 2023
Closing Date	June 05, 2023
Basis of Allotment	June 08, 2023
Initiation of Refunds	June 09, 2023
Credit of Shares to Demat	June 12, 2023
Listing Date	June 13, 2023

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Company Overview

Comrade Appliances Ltd was originally incorporated on March 22, 2017, as a Private Limited Company as "Comrade Appliances Private Limited" under the provisions of the Companies Act, 2013 with the Registrar of Companies, Central Registration Centre in Mumbai-Maharashtra and is engaged in the process of manufacturing an extensive array of Air Coolers and Electric Geysers. Company manufactures consumer durable goods and assemble a wide array of products and provide end-to-end product solutions. They serve under both original equipment manufacturer ("OEM") and original design manufacturer ("ODM") business models. Company's current product portfolio of consumer goods includes (i) Air Coolers; (ii) Electric Geysers. They offer innovative solutions to their customers, which include leading international and national consumer brands. Comprehensive solution suite of the company includes global sourcing, fabrication of components and parts, captive manufacturing and assembly, quality testing, packaging and logistics support, which enables them to partner with leading consumer goods brands in India. The key customers of the company include leading brands in consumer durables. They have over 5 years of experience in manufacturing sector.

Analysis

Being in operations since 2017, the company is relatively new to the business and all the promoters of the company have a decent experience in the industry. Company operates on two business models namely original equipment manufacturer ("OEM") and original design manufacturer ("ODM") they can be further described as:

1. Under the OEM model, company manufactures and supply products basis designs developed by customers, who then further distribute these products under their own brands.
2. Under the ODM model, in addition to manufacturing, company also conceptualize and design the products which are then marketed to customers' & prospective customers under their brands.

While, OEM sales continue to be a major source of revenue for the company, they are planning to gradually expand the share of the ODM model of manufacturing. As an ODM, company can control the entire manufacturing cycle of a product from the initial stage of designing and are responsible for all the aspects of manufacturing, including planning and sourcing of raw materials and components. The ODM model of business requires additional investment in R&D as well as working capital but provides higher margins as compared to the OEM model. Currently, company generates most of its revenue from sales of its products in the domestic markets, whereas they have also had export sales in the previous years. The further bifurcation of the revenue is given below.

Comrade Appliances Ltd revenue bifurcation: -

(Rs. in lakhs)

Particulars	For the year ended		
	Mar-23	Mar-22	Mar-21
1. Sale of Products			
- Export			
a) Finished Goods	-	0.50	60.67
- Domestic			
a) Finished Goods	2,647.49	2,924.89	2,501.06
b) Trading	41.91	26.85	38.76
2. Sale of Services			
- Export	-	-	-
- Domestic	6.75	12.65	-
Total	2,696.15	2,964.89	2,600.49

Company has four departments which includes 1) Production Department, 2) Moulding Department, 3) Administration Department 4) Logistics Department. Company manufactures and sales' products under the brand name of "Comrade". They have a manufacturing facility located at Palghar admeasuring 66,322 Sq. Ft, which are strategically located in and around Mumbai (Maharashtra). The capacity utilization of manufacturing unit is given below.

Capacity And Capacity Utilization: -

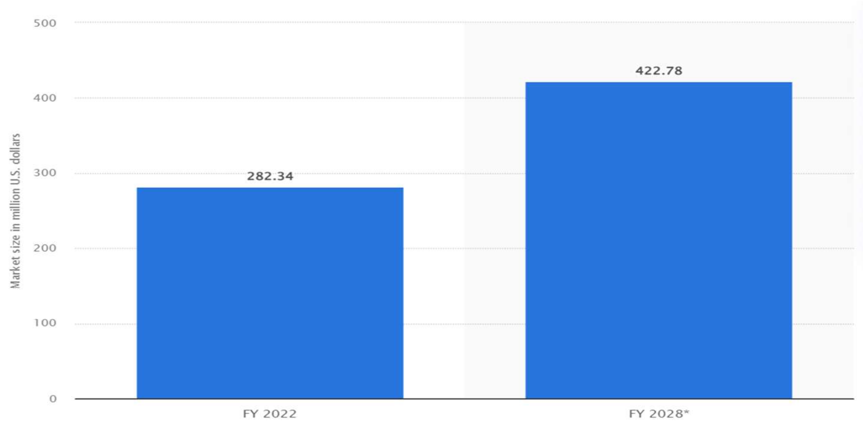
Overall Plant Capacity utilisation is **17.16%**, below calculation is given on the basis of 320 working days in the period.

Capacity Utilisation Calculation from April 01, 2022 – March 31, 2023			
Products	Air Cooler	Electric Geysers	Overall Plant
Installed Capacity (Nos)	2,50,000	3,00,000	5,50,000
Production (Nos)	58,075	36,278	94,353
Capacity Utilisation	23.23%	12.09%	17.16%

To conclude, the market for business segment company deals in is highly competitive, historically this business segment has been dominated by major entities. Also, this business segment has good prospect in the future given that, the ability to consistently deliver high-quality products to customers is critical to business. Company have also taken over the business of M/s Troupe Technologies Private Limited (TTPL) on slump sale basis in the year 2021. Troupe Technologies Private Limited was engaged in the business of plastic injection moulding. The takeover was done via a business takeover agreement.

Industry Charts

Exhibit 1: Market size of water heater in India in financial year 2022 with forecast of 2028

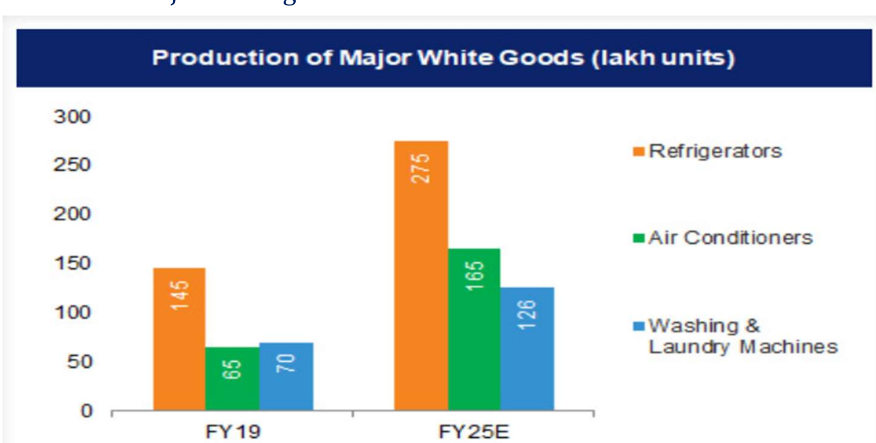


(Source- www.statista.com)

Exhibit 2: Indian Market Size of Air Coolers

(Source- www.researchandmarkets.com)

Exhibit 3: Production of major white goods in India



(Source- www.ibef.org)

Investment Overview

CONSUMER DURABLES INDUSTRY

The Indian consumer durables market is broadly segregated into urban and rural markets and is attracting marketers from across the world. The sector comprises of a huge middle class, relatively large affluent class and a small economically disadvantaged class. The sector includes consumer electricals such as fans, kitchen and cooking appliances, lighting devices, as well as white goods such as washing machines, televisions, refrigerators, and air conditioners.

Market share in the consumer durables industry is moving from the unorganised to the organised sector. According to estimates, 30% of the total market is still unorganised, which provides listed Indian players with a significant opportunity to further increase their market share going forward. Artificial intelligence and manufacturing automation will be important future trends as consumer awareness increases regarding technology advancements and their applications across multiple sectors. In order to increase production efficiency of various consumer durables, Industry 4.0 will stimulate investments in R&D, technology infrastructure, and manufacturing processes.

MARKET SIZE

Indian appliances and consumer electronics industry stood at US$ 9.84 billion in 2021, and is expected to more than double to reach Rs. 1.48 lakh crore (US$ 21.18 billion) by 2025. Electronics hardware production in the country stood at US$ 63.39 billion in 2021. In FY21, the television production in India stood at US$ 4.24 billion. The total active DTH subscriber base stood at 67.04 million in June 2022. As of 2021, the refrigerator, washing machines and air conditioner market in India were estimated at around US$ 3.82 billion, US$ 8.43 billion and US$ 3.84 billion, respectively. The market size of air conditioners is expected to grow to 165 lakh units by 2025 from 65 lakh units in 2019, while refrigerators' market size is expected to grow to 275 lakh units by 2025 from 145 lakh units in 2019. India's smartphone shipments witnessed YoY growth of 11% in 2021, with 169 million units shipped. India's smartphone market revenue crossed US$ 38 billion in 2021 with a 27% YoY growth, with the leader being Xiaomi with a 24% shipment share.

ROAD AHEAD

According to a number of consumer durable businesses, rural India presents the next significant growth potential for the industry, driven by increased penetration. The government's effort to electrify rural areas has improved power supply during the past few years in tier 3/4 towns and villages, paving the way for the use of electrical products.

According to FICCI, India's TV production is expected to reach US$ 10.22 billion by FY26 at a CAGR of 20%. The headset market revenue in India is projected to reach US$ 77 million by 2027 at a CAGR of 4.7%, driven by rising adoption of wireless headsets among consumers. The dishwasher market in India is expected to surpass US$ 90 million by 2025-26, driven by rising demand from metro cities such as Mumbai, Hyderabad, Delhi and Bangalore. According to India Cellular & Electronics Association (ICEA), India has the potential to achieve a value of US$ 100 billion in manufacturing of laptops and tablets by 2025. The Indian mobile phone market is predicted to generate Rs. 2.4 trillion (US$ 29.38 billion) in revenue by FY26.

The Indian appliance and consumer electronics (ACE) market is expected to increase at 9% CAGR to reach Rs. 3.15 trillion (US$ 48.37 billion) in 2022. Demand growth is likely to accelerate with rising disposable income, easy access to credit, and wide usability of online sales.

(*Source- Prospectus)*

Addressable market for Comrade Appliances

As a part of growth strategy of the company their focus should be on increasing sales volume through expansion, diversification and spread in geographical outreach. Company's growth in local market can fetch them new business expansion and opportunities. The company is pursuing lot of opportunities to increase its production capacity. With this increased production capacity, they shall be able to grow their client base geographically also. The company generates most of its current revenue in domestic markets, whereas they also had export transactions in the previous years, an option that company can explore going forward.

Competition

The Indian manufacturing industry has historically been dominated by major entities, which aggregates major market share, as the industry presents significant entry barriers. These market entry barriers include the development of an extensive distribution network through long-term relationships with dealers as well as significant marketing costs and the establishment of a distinct brand to gain product acceptance. Company competes with these smaller companies as well on the strength of their distribution network, brand recognition and ability to leverage dealer relationships to install their products. Customers have bargain power given to the availability of wide range of choices.

PEER ANALYSIS

As mentioned in the prospectus there is 2 peer company viz. Dixon Technologies (India) Limited, and PG Electroplast Limited. An analysis of the same has been given below –

Particulars	Comrade Appliances Limited			Dixon Technologies (India) Limited			PG Electroplast Limited		
	Mar-23	Mar-22	Mar-21	Mar-23	Mar-22	Mar-21	Mar-23	Mar-22	Mar-21
Net Profit Margin	6%	1%	1%	2%	2%	2%	4%	3%	2%
EBITDA Margin	17%	10%	7%	4%	4%	5%	8%	7%	7%
Return on Capital Employed	37%	21%	12%	23%	19%	25%	20%	10%	11%
Return on Equity	24%	8%	8%	20%	19%	22%	19%	12%	6%
EPS (INR)	3.15	0.99	0.61	42.90	32.05	27.28	34.06	17.63	5.90

Based on the above analysis all the margins, and EPS of the company when compared to its peer is very low in the previous years. The ROE and RoCE were on a good note in FY 23 when compared to its peers. The margins of the company have performed good in the FY 23 when compared to its peers.

Comrade Appliances Limited:

- PE on post IPO basis – 24.86 times
- Post IPO EPS – 2.17

Promoters' Profile and Management Analysis

Mr. Khursheed Alam	
	• Mr. Khursheed Alam, aged 45 years, is the Founder, Promoter and Managing Director of the Company. • He holds a degree in Masters in Business Administration in Finance and Supply Chain Management. • He primarily looks after the overall business operations of the Company .
Mr. Mehboob Alam	
	• Mr. Mehboob Alam, aged 43 years, is the Non-Executive Director of the Company. • He holds a degree in Masters of Arts in Political Science. • His role in the company includes overseeing whether company's programmes are being executed in right direction as per its aim and objectives, recommending business policies to the board governing the company, establishing long-term business plans for supporting the vision and values of the company.
M/s Troupe Technologies Private Limited (TTPL)	• As on date of this Red Herring Prospectus, TTPL holds 18,49,033 equity shares, representing 35.21% of the pre-Issue issued, subscribed and paid-up Equity Share capital of the Company. • TTPL is currently in the Business of plastic injection moulding.

Analysis on the Company's Promoter and Board of Directors

Mr. Khursheed Alam, aged 45, is the Founder, Promoter and Managing Director of the Company. He is the Director of the Company since Incorporation of the Company. He was later reappointed as Managing Director. He has completed master's in business administration in Finance and Supply Chain Management. He has more than 5 years of experience in the field of OEM. He primarily looks after the overall business operations of the Company.

Mr. Mehboob Alam, aged 43, is one of the promoters and Non-Executive Director of the Company. He has completed his master's degree in Master of Arts. He was appointed as appointed as First Director upon Incorporation of the Company and was further changed to Non-Executive Director He is responsible for providing strategic advice and guidance to the members of the board, to keep them aware of developments within the industry.

Troupe Technologies Private Limited (TTPL)

Company is incorporated as Troupe Technologies Private Limited on October 23, 2017, under the provisions of the Companies Act, 2013 issued by Registrar of Companies, Central Registration Centre. TTPL is currently in the Business of plastic injection moulding. TTPL is promoted by Mr. Khursheed Alam. As on date of this Red Herring Prospectus, TTPL holds 18,49,033 equity shares, representing 35.21% of the pre-Issue issued, subscribed and paid-up Equity Share capital of our Company.

Other Board of Directors –

Mr. Shakir Khan, aged 49, is the Executive Director of the Company. He has Bachelor of Arts. He has been responsible for the sales and marketing.

Ms. Sonu Dhariwal, aged 53, is appointed as Independent Director of the Company. She is guiding the Company with her Independent view and impartial opinion.

Mr. Rajan Agarwal, aged 53, is appointed as Independent Director of the Company. He is Graduated in B.Com. He has experience of more than 23 years of experience in the field of management, technology, leadership, sales, and marketing.

To conclude, the promoters have decent experience in the industry. The independent directors, non-executive directors, and executive director are also educated and experienced in the fields which helps in the improvement of the company.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2021	As at 31st March, 2022	As at 31st, March 2023
Profit and Loss			
Revenue from operations	2,600.49	2,964.89	2,696.14
Other income	3.36	8.39	3.29
Total Revenue	2,603.85	2,973.28	2,699.43
Expenses	2,409.32	2,671.29	2,246.79
Depreciation and Amortisation Cost	52.97	99.51	88.47
Finance Cost	113.08	148.16	142.15
Total Expenses	2,575.37	2,918.96	2,477.41
PBT	28.48	54.32	222.02
PBT Margin	1.10%	1.83%	8.23%
EBITDA	191.17	293.60	449.35
EBITDA Margin	7.35%	9.90%	16.67%
Net Profit	20.21	38.77	163.57
Net Profit Margin	0.78%	1.31%	6.07%
Balance Sheet			
Total Borrowings	1,412.38	1,113.79	1,350.62
Net Worth	241.77	502.43	689.41
Fixed Assets	495.33	434.24	441.57
Net Working Capital	533.14	391.88	464.71
Financial Measures			
Inventory Turnover Ratio	1.83	2.38	1.69
Receivables Turnover Ratio	2.94	4.38	5.07
Payables Turnover Ratio	0.03	0.05	0.13
Fixed Assets Turnover Ratio	5.25	6.83	6.11
Return on Capital Employed	12.46%	21.41%	36.57%
Return on Equity	8.36%	7.72%	23.73%
Debt-Equity Ratio	5.84	2.22	1.96

(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 increased from Rs. 191.17 lacs in 2021 to Rs. 293.60 lacs in 2022 and on 31st Mar 2023 it was Rs. 449.35. The EBITDA on annual basis has grown at a CAGR of 53.31%. The EBITDA margin in 2021 was 7.35%, 9.90% in 2022, and 16.67% up to Mar 2023. The EBITDA margin has increased due to relatively high decrease in percentage contribution towards Cost of material consumed by 16.94% to Revenue from operation.

Net Profit

The net profit of the company has increased from Rs 28.48 lacs in 2021 to Rs. 54.32 lacs in 2022 and as on 31st Mar 2023 it increased to Rs. 222.02 lacs. The net profit margin in 2021 was 1.10%, 1.83% in 2022 and 8.23% up to 31st Mar 2023. Increase in Net profit is due to decrease in other expenses of the company such as Discount Expenses, Transportation, Power, and Fuel etc.

Finance Cost

The company's finance cost is mainly due to interest paid by Banks and Financial Institutions

Financial Measures/Ratios

RoCE of the company up to 31st Mar 2023 is 36.57% vs 21.41% in 2022 and 12.46% in 2021. The increase in RoCE in FY 23 is due to an increase in Earnings before interest and taxes. With the increase in the equity base of the company through IPO, the ROCE on Post-IPO basis is expected to fall.

ROE of the company in 2021 was 8.36%, 7.72% in 2022, and 23.73% up to Mar 2023, The ROE of the company in FY 23 has increased due to the substantial increase in Net Profit. The ROE on Post-IPO basis would decrease.

The Receivables Turnover Ratio increased in FY 23, indicating that the company converting its receivables to cash has increased.

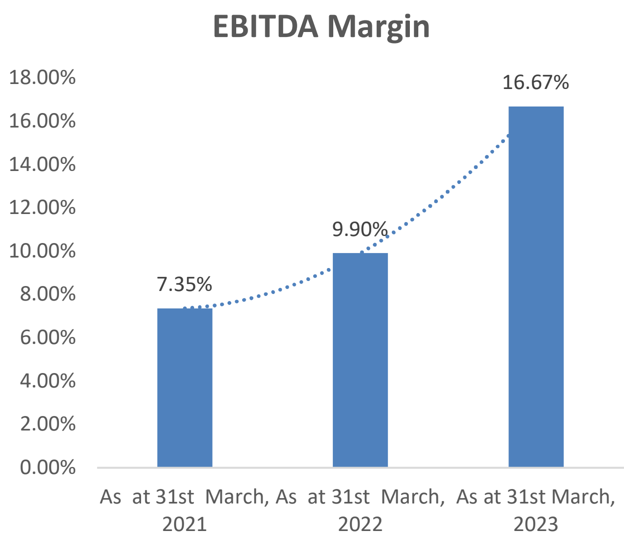
Inventory Turnover Ratio has decreased in the FY 22 - 23. The increase in inventory in hand for the company is not a good indicator.

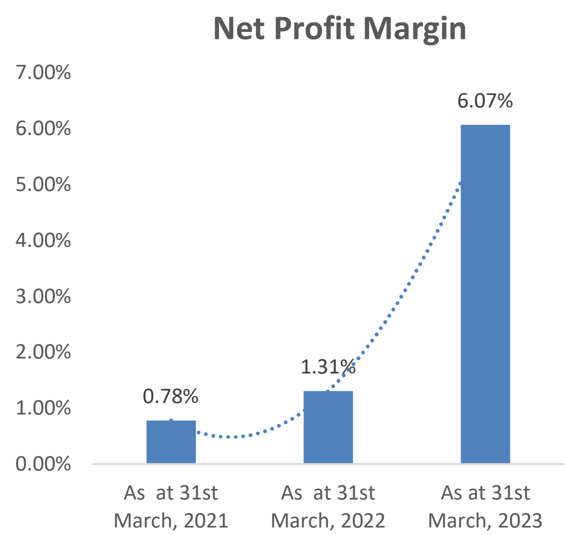
Payables Turnover Ratio has increased in the FY 22 – 23. The company paying back to its creditors in cash has increased slightly.

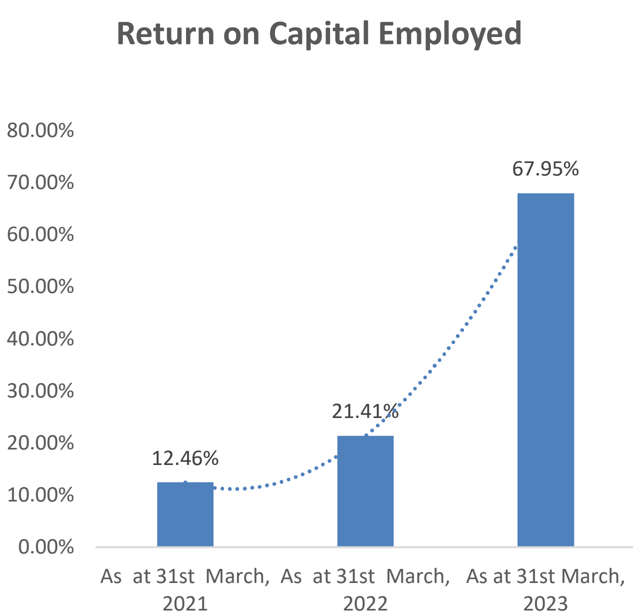
The Fixed Assets Turnover Ratio decreased in FY 23, The fixed assets of the company have increased, and revenue has decreased indicating a decrease in the turnover ratio.

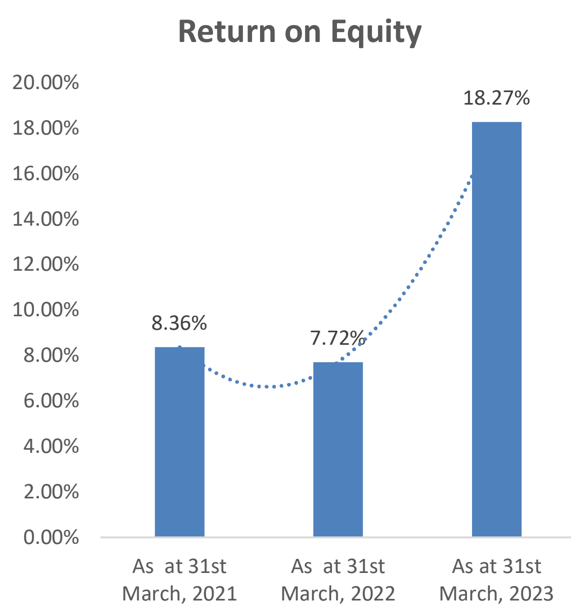
The company has a debt – equity ratio of 1.96 as of 31st March 2023. The decrease in the ratio is a good indicator for the company and with new inclusion of equity capital, the debt-equity ratio is expected to come down.

Financial Charts









Key Risk Factors

1. There are outstanding legal proceedings involving Company, its Promoters, Directors and Group Companies. Any adverse decision in such proceeding may have a material adverse effect on our business, results of operations and financial condition. Currently, these legal proceedings amounted to Rs. 8.23 lacs.
2. Company is engaged in the business of manufacturing of Air coolers and Electric Geysers, whereas their maximum revenue comes from air cooler business. Air cooler business experience significant increase in their sales during the summer seasons i.e., from March to June every year. Hence, company's sales are affected from seasonality.
3. The company has a negative cash flow from operating activity for the period ended as of March 31st, 2021 amounting to Rs. (171.31) lacs.
4. Cash flow of a company is a key indicator to show the extent of cash generated from operations to meet capital expenditure, pay dividends, repay loans, and make new investments without raising finance from external resources. If they are not able to generate sufficient cash flows in future, it may adversely affect business and financial operations.
5. Top 5 and top 10 customers contribute major portion of company's revenues for the financial year March 31, 2023. Any loss of business from one or more of them may adversely affect revenues and profitability of the company. i.e., top 5 and 10 contribute up to 84.48% and 92.59% respectively.

Track Record of Lead Manager

The lead manager to the issue is Gretex Corporate Services Private Limited. A table has been set below highlighting the details of the IPO of the last 10 companies handled by the Lead Manager in recent times –

Sr. No	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing date	CMP# (INR)
1.	Innokaiz India Limited	21.17	78.00	May 11, 2023	130
2.	Retina Paints Limited	11.10	30.00	May 03, 2023	41.8
3.	Sudarshan Pharma Industries Ltd	50.10	73.00	March 22, 2023	67.0
4.	ResGen Limited	28.20	47.00	March 13, 2023	50.2
5.	Reetech International Cargo and Courier Ltd	11.71	105.00	October 10, 2022	58.25
6.	Steelman Telecom Limited	26.02	96.00	October 10, 2022	133
7.	Shantidoot Infra Services Limited	4.02	81.00	September 19, 2022	82
8.	Jayant Infratech Limited	6.19	67.00	July 13, 2022	70.8
9.	B Right Realestate Limited	44.36	153.00	July 13, 2022	200*
10.	Sailani Tours N Travels Limited	1.90	15.00	July 08, 2022	33.9

#CMP is taken as on 30th May 2023

As per the offer document Gretex Corporate Services Private Limited have had 14 mandates in the last three fiscals (including the ongoing one). For Gretex Corporate Services Private Limited out of the last 10 that are mentioned above, 1 at par, 2 at discount, and rest all listed at premiums ranging from 3.33% to 90%. Thus, it has a decent track record.

*B Right Real-estate Limited CMP mentioned as on 19th May 2023.

Recommendation

The company has been into this industry since 2017 and is relatively new to the business. The company has seen a decrease in its revenue when compared to its previous year, however they have managed to increase their EBITDA, Net Profits and their Margins exponentially.

The company has been in an industry which is highly competitive with historically been dominated by major entities, which aggregates major market share.

The management outlook of the company is decent, as they have almost all the personnel in the top management with relatively less work experience relating to the company operates in. The roles and responsibilities of the management has been delegated accordingly.

The company is getting listed with a P/E of around 24.86 times which makes the stock highly priced, looking at the performance of the company over the past years and when compared to its peers.

In conclusion, the company has shown a decrease in revenue, but with exponential growth in EBIT margins and net profit margins, which will be difficult to sustain going forward. With major entities dominating the market share of the consumer durable goods it will be difficult to capture the market share. As given in the business analysis, company is planning to grow its business in ODM model which will require investment in R&D of the same. Whereas, the company is not raising money for the same but for other general purposes, making this stock unattractive for long term growth and one should wait and **Avoid** applying for this 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.