

IPO Details

Opening Date	July 10, 2023
Closing Date	July 12, 2023
Stock Exchange	BSE SME
Lot Size	2000 shares
Issue Price	₹ 58 per share
Issue Size	36,60,000 Equity Shares
Application Amount (@ upper band for retail investors)	₹ 1,16,000
Amount Raised (Issue Type)	₹21.23 Cr (Book Built Issue IPO)

IPO Objective

1. Repayment of unsecured and secured loans.
2. General Corporate Purposes.
3. Meeting Public Issue Expenses.

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	95,32,000	95.32 %
Public	4,68,000	4.68 %

Promoter of the Company

1. Mr. Rajesh Dhirubhai Gondaliya
2. Mr. Bhavin Rajeshbhai Gondaliya
3. Rajeshkumar Dhirubhai Gondaliya (HUF)

Competitive Strengths

1. Wide Range of Products.
2. In-house Manufacturing Capabilities.
3. Extensive network of dealers covering major parts of India.
4. Synergy of young and experienced management team with a committed employee base.

Company Background

- Kaka Industries Limited was originally incorporated on June 21, 2019, and is headquartered in Ahmedabad, Gujarat.
- The Company is engaged in manufacturing of polymer-based profiles.
- The Company's product portfolio has over 1200 SKU's covering PVC Profile, uPVC door & window profile, WPC Profile & sheet in various sizes, specifications and colours.
- The Company has three manufacturing facility and is in the process of construction of its 4th plant.
- As on date of filing of Red Herring Prospectus, company have 199 employees on their payroll.

Market Capitalization (In. Cr.)

Pre-Issue	Post-Issue
58.00	79.23

Financial Summary (In Lacs.)

For the Period Ended	Mar-21	Mar-22	Mar-23
Total Assets	3,568.02	4,614.76	6,767.00
Net Assets	743.65	1,241.31	1,956.88
Total Borrowings	1,999.00	2,735.55	4,013.66
Total Revenue	7,879.01	11,709.98	15,887.70
Profit After Tax	302.51	497.66	718.50

Tentative Timeline

Opening Date	July 10, 2023
Closing Date	July 12, 2023
Basis of Allotment	July 17, 2023
Initiation of Refunds	July 18, 2023
Credit of Shares to Demat	July 19, 2023
Listing Date	July 20, 2023



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Company Overview

Kaka Industries Limited was incorporated on June 21, 2019. The company is a PVC profile brand, focused primarily on manufacturing of polymer-based profiles which finds application in doors, windows, partitions, false ceilings, wall paneling, kitchen cabinets & other interior and exterior works. The product portfolio has over 1200 SKU's covering PVC Profile, uPVC door & window profile, WPC Profile & sheet in various sizes, specifications and colours. The company is also engaged in fabrication of factory-made PVC & Solid PVC doors. Except for WPC (Wood-polymer composite) profile and doors, all the products are non-wood based, which substitute wood-products. As on the date of this Red Herring Prospectus, the company has three manufacturing units in village Zak, Gandhinagar district, Gujarat, which has a combined installed capacity of 15,425 MT for manufacturing PVC profile, 2,995 MT for WPC profile & sheet, 2,022 MT for uPVC door & window profile. The companies manufacturing facility has accreditations such as ISO 9001:2015 for quality management system, ISO 45001:2018 for occupational health and safety management systems, ISO 14001:2015 for environmental management system, compliance certificate as per construction products regulations(CPR) 305/2011 and "Assured Green Business" from United Ackreditering Services Limited, UK. The company is currently in process of setting up a new manufacturing plant in village Lasundra, Kheda district (Gujarat), in order to increase the manufacturing capabilities.

Analysis

Being in operations since 2019, the company is relatively very new to the industry. The company is primarily engaged in the manufacturing of polymer-based profiles. The company provides and offers products like PVC Profile, WPC Profile & sheet, Upvc Door and Window Profile, and Factory-made doors. These products are marketed under brands such as Kaka, Nice Plast, Jinwin Upvc Profiles, and Barbarika etc. The company primarily is in manufacturing of PVC Profile and is also the major revenue generation for the company. The PVC Profile or Polyvinyl Chloride which the company manufactures go through different process starting with Formation of the resin compound, Die-casting to Coating, Quality checks and packaging, dispatch which is subsequently used in end-products such as furniture, Wall panel, Ceiling Panel, Decorative Product, Doors, Partition etc. It includes PVC Multichambered Hollow Profile, PVC Hollow Door Frame, PVC Hollow Molding, PVC

Framing Pipe, etc., and is available in specifications such as Matt Finish, Gloassy and Marble Glossy etc.

Revenue breakup for the Fiscal year ended March 31st, 2022, and 2023 is given below-

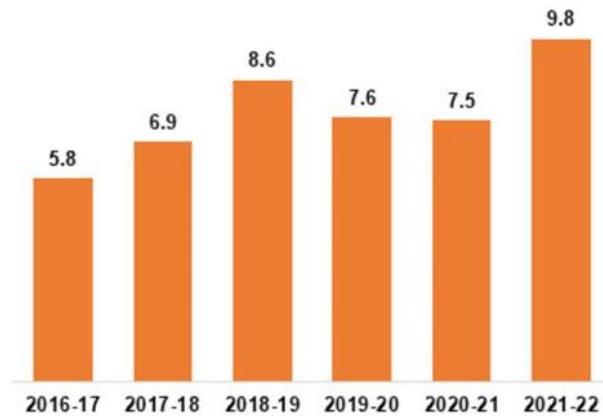
Particulars	For the Fiscal Year Ended			
	2023 Consolidated	% of Revenue	2022 Standalone	% of Revenue
PVC Profile	9,444.25	61.35	8,251.26	70.55
WPC Profile & Sheet	2,904.06	18.87	1,754.69	15.00
uPVC Door and Window Profile	1,216.93	7.91	716.74	6.13
Factory made doors	483.03	3.14	242.58	2.07
Raw Material (Chemicals, Resin and other items)	1,345.20	8.74	730.66	6.25
Total	15,393.47	100.00	11,695.93	100.00

For Fiscal year 2023 greater part of the revenue for the company is generated from the state of Gujarat (63.73%), second highest from Telangana (8.67%), followed by Maharashtra (7.49%), Karnataka (4.61%), and remaining 15.50% from the other 19 states & union territories the company markets their products through. The company's distribution network comprises of 3 depots situated in Gagilapur (Telangana), Dadri (Uttar Pradesh), and Surat (Gujarat).

To conclude, the company operates in extremely competitive environment. The company has three manufacturing facility and is in the process of construction of its 4th plant in Gujarat. The company's major revenue generating product is PVC Profile. The financials provided by the company in the RHP for Fiscal Year 2023 is consolidated with partnership firm named Shri Rang Energy Efficient adding to an increase in income by 2.88% for the company.

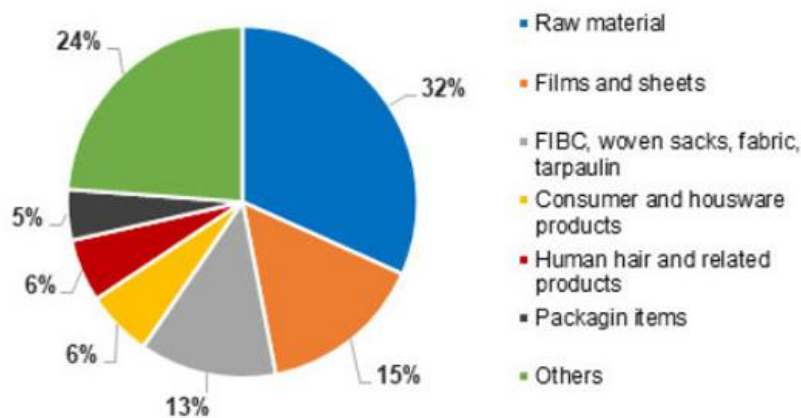
Industry Charts

Exhibit 1: India's plastics and linoleum exports (US\$ billion)



(Source- DGCI&S)

Exhibit 2: India's product-wise share of plastics exports (2021-22)



(Source- The Plastics Export Promotion Council Of India)

Investment Overview

Plastic Industry

The consumption of plastics in India has significant regional variation, with Western India accounting for 47%, Northern India for 23%, and Southern India for 21%. The end-use sectors of automotive, packaging (including bulk packaging), plastics applications, electronic appliances, etc., account for most of the consumption in Northern India and are located mostly in Uttar Pradesh and Delhi-NCR. However, other regions, including Rajasthan, Punjab, Haryana, Uttarakhand, J&K, and Himachal Pradesh, are anticipated to see growth in plastic processing due to increasing feedstock supply and a greater focus on the manufacturing sector.

The use of plasticulture can significantly reduce costs, which can result in increased crop quality and yield. Applications of plasticulture provide advantages in terms of conservation of water, water use efficiency and fertiliser use efficiency. Each application can significantly reduce water use by 30% to 100%. The total loss of water due to seepage may be reduced to zero in the case of agricultural ponds walled with plastic film, which is very advantageous. Additionally, effective fertiliser usage may reduce expenses, which is again beneficial to farmers.

The plastics industry is currently home to about 50,000 industries, most of which are micro, small, and medium-sized enterprises (MSMEs). These enterprises contribute ₹ 3.5 lakh crore (US\$ 42.89 billion) to India's economy and employ more than 50,000 people. The country recycles plastic at a rate of 60%, which is higher than that of developed nations. The "Make in India," "Skill India," "Swachh Bharat," and "Digital India" initiatives of the government are increasing plastic production, and by 2027, it is expected that the plastics industry will generate ₹ 10 lakh billion (US\$ 122.54 billion) annual revenue, with two lakh tonnes of exports.

(Source- Prospectus)



Addressable market for Kaka Industries Limited

Company currently operates in various states across India, but the main production and revenue generated is from Gujarat as mentioned in the business analysis. The company can look to increase in its revenue, and brand building by exploring their services and focusing majorly on the low revenue generated 19 states in which the company distributes to. The company can first increase its reach and increase revenue and production inside India and later can be ventured into the international markets which is unforced.

Competition

The industry in which the company operates in is extremely competitive. The industry in general has less barrier to entry. With the company being in a highly competitive industry the customers have high bargain power. The company faces competition majorly from the organized segment with big players in the market. The direct competitors of the company include companies such as Dhabriya Polywood Limited, Sintex Plastics Technology Limited and Fenesta Building Systems - (A division of DCM Shriram Limited).

PEER ANALYSIS

As mentioned in the prospectus there are 1 peer company viz. Dhabriya Polywood Limited. An analysis of the same has been given below-

Particulars	Kaka Industries Limited			Dhabriya Polywood Limited		
	Mar-23	Mar-22	Mar-21	Mar-23	Mar-22	Mar-21
Net Profit Margin	5%	4%	4%	5%	4%	4%
EBITDA Margin	9%	8%	8%	11%	10%	12%
Return on Capital Employed	29%	35%	42%	10%	8%	9%
Return on Equity	37%	40%	41%	12%	8%	7%
EPS (INR)	7.19	4.98	4.59	7.84	4.70	4.13

From the above analysis, the profitability margins are almost at par when compared to its peer company for all the three consecutive years. RoCE, and ROE is relatively higher when compared to its peers. The EPS of the company is at par with the peer company.

Promoters' Profile and Management Analysis

Mr. Rajesh Dhirubhai Gondaliya



- Mr. Rajesh Dhirubhai Gondaliya, aged 50, is the Chairman & Managing Director of the company.
- He has completed his Secondary School education.
- He has work experience of over 22 years in the PVC profile industry.

Mr. Bhavin Rajeshbhai Gondaliya



- Mr. Bhavin Rajeshbhai Gondaliya, aged 23, is the Whole-time Director of the company.
- He is pursuing Bachelor of Commerce.
- He has an experience of around 4 years in the PVC profile industry.

Rajeshkumar Dhirubhai Gondaliya (HUF)

HUF

- Rajeshkumar Dhirubhai Gondaliya (HUF) is one of the Promoters of the Company.

Analysis on the Company's Promoter and Board of Directors

Mr. Rajesh Dhirubhai Gondaliya, aged 50, is the Chairman & Managing Director of the company. He has been on the Board since incorporation. He has completed his Secondary School education. He has a work experience of over 22 years in the PVC profile industry. He currently looks after the overall management of the Company.

Mr. Bhavin Rajeshbhai Gondaliya, aged 23, is the Whole-time Director of the company. He has completed his Senior Secondary education and is pursuing Bachelor of Commerce. He has an experience of around 4 years in the PVC profile industry. He is currently looking after the sales and marketing function of the Company.

Rajeshkumar Dhirubhai Gondaliya (HUF) is one of the Promoters of the Company which holds 18,60,000 equity shares of the Company which accounts for 18.60% of the pre issue equity share capital of the Company.

Ms. Prabhaben Rajeshbhai Gondaliya, aged 49, is the Non-Executive Director of the Company. She has completed her Senior Secondary School. She has an experience of around 8 years in the administration field.

Mr. Jaimish Govindbhai Patel, aged 34, is the Independent Director of the Company. He has a work experience of around 9 years in Corporate Laws and Financial Management. He is a Qualified Member of Institute of Company Secretaries of India.

Mr. Niraj Davariya, aged 42, is the Independent Director of the Company. He has a work experience of around 10 years in plastic products business.

To conclude, the company has three promoters and one of the promoters is an HUF. One of the promoters of the company has vast experience in the industry and the other promoters is very new to the industry with limited experience. The remaining management of the company have decent experience in the fields which help in the growth of the business, and it is majorly a family run business.

Financial Snapshot

(Amount in Lacs)

Particulars	As at 31st March, 2021 (Standalone)	As at 31st March, 2022 (Standalone)	As at 31st, Mar 2023 (Consolidated)
<u>Profit and Loss</u>			
Revenue from operations	7,874.89	11,695.92	15,849.89
Other income	4.12	14.06	37.81
Total Revenue	7,879.01	11,709.98	15,887.70
Expenses	7,238.04	10,723.70	14,495.51
Depreciation and Amortisation Cost	67.40	106.70	135.59
Finance Cost	156.99	213.13	252.63
Total Expenses	7,462.43	11,043.53	14,883.73
PBT	416.58	666.45	1,003.97
PBT Margin	5.29%	5.70%	6.33%
EBITDA	636.85	972.22	1,354.38
EBITDA Margin	8.09%	8.31%	8.55%
Net Profit	302.51	497.66	718.50
Net Profit Margin	3.84%	4.25%	4.53%
<u>Balance Sheet</u>			
Total Borrowings	1,999.00	2,735.55	4,013.66
Net Worth	743.65	1,241.31	1,956.88
Fixed Assets	776.86	948.27	1,930.40
Net Working Capital	581.60	1,359.12	2,075.23
<u>Financial Measures</u>			
Inventory Turnover Ratio	6.87	6.32	10.49
Receivables Turnover Ratio	5.42	8.31	8.51
Payables Turnover Ratio	8.98	20.53	25.42
Fixed Assets Turnover Ratio	10.14	12.33	8.21
Return on Capital Employed	41.91%	34.50%	28.63%
Return on Equity	40.68%	40.09%	36.72%
Debt-Equity Ratio	2.69	2.20	2.05
Interest - Coverage ratio	3.63	4.06	4.82

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

Earnings Before Interest, Taxes, Depreciation, and Amortization

The EBITDA of the company has increased from Rs. 636.85 lacs in 2021, Rs. 972.22 lacs and has increased to Rs. 1,354 lacs in 2023. The EBITDA margin in 2021 was at 8.09%, 8.31% in 2022, and 8.55% in 2023. The increase in the EBITDA for the company during FY-23 is due to an increase in the revenue from operations. The increase in the EBITDA margin is due to the decrease in the percentage contribution towards COGS, and Employee Benefit Expenses.

Net Profit

The Net Profit of the company has increased from Rs. 302.51 lacs in 2021 to Rs. 497.66 lacs in 2022 and has increased to Rs. 718.50 lacs in 2023. The Net Profit margin of the company has increased from 3.84% in 2021 to 4.25% in 2022 and increased to 4.53% in 2023. The increase in the Net Profit for the company during FY-23 is due to an increase in the total income for the business. The increase in the Net Profit margin during FY-23 is due to a decrease in the percentage contribution towards Finance Cost, and Depreciation and Amortization.

Finance Cost

The company's finance costs mainly comprise of Interest to Bank

Financial Measures/Ratios

The RoCE of the company in 2023 is at 28.63%, 34.50% in 2022, and 41.91% in 2021. The decrease in the RoCE of the company during FY-23 is due to an increase in the capital employed (Assets, Work in Progress) for the company. With the increase in the equity base of the company through IPO, the ROCE on Post-IPO basis will fall.

The ROE of the company in 2021 is at 40.68%, 40.09% in 2022, and 36.72% in 2023. The decrease in the ROE of the company during FY-23 is due to a substantial increase in the equity share capital of the company.

The inventory turnover ratio in 2021 was at 6.87 times, 6.32 times in 2022, and 10.49 times in 2023. The inventory in hand for the company in FY-23 is reduced.

The receivables turnover ratio in 2021 is at 5.42 times, 8.31 times in 2022, and is at 8.51 times in 2023. There is a slight increase in the cash inflow for the company. The payables turnover ratio in 2021 is at 8.98 times, 20.53 times in 2022, 25.42 times in 2023. The increase in the payable's turnover ratio indicates that the cash outflow of the company has increased.

Fixed Asset Turnover ratio has increased from 10.14 times in 2021 to 12.33 times in 2022 and has reduced to 8.21 times in 2023. The decrease in the turnover ratio indicates an increase in the fixed assets for the company.



Kaka Industries Limited

Review Report On IPO

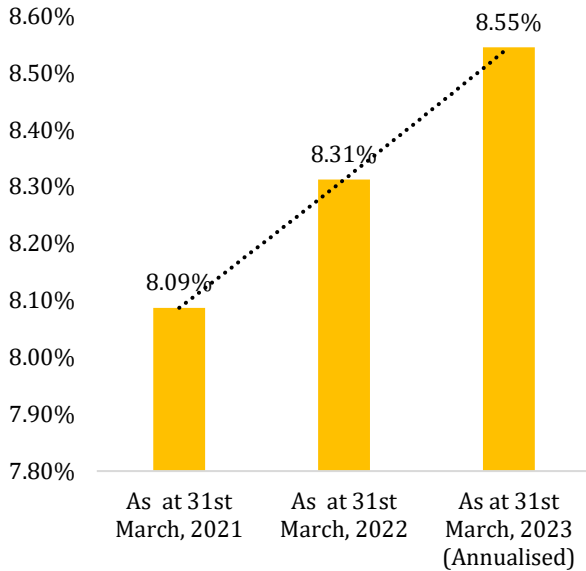


The Debt-Equity ratio in 2021 was at 2.69 times, 2.20 times in 2022, and 2.05 times in 2023. The decrease in the ratio is a good indicator and is expected to decrease to 0.22 times on Post-IPO basis

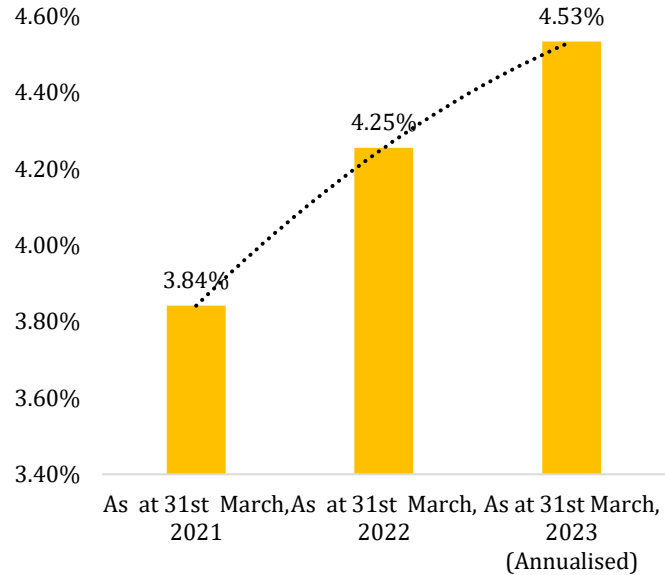
The interest coverage ratio in 2021 is at 3.63 times, 4.06 times in 2022, and 4.82 times in 2023, the increase in the ratio is a good indicator for the company.

Financial Charts

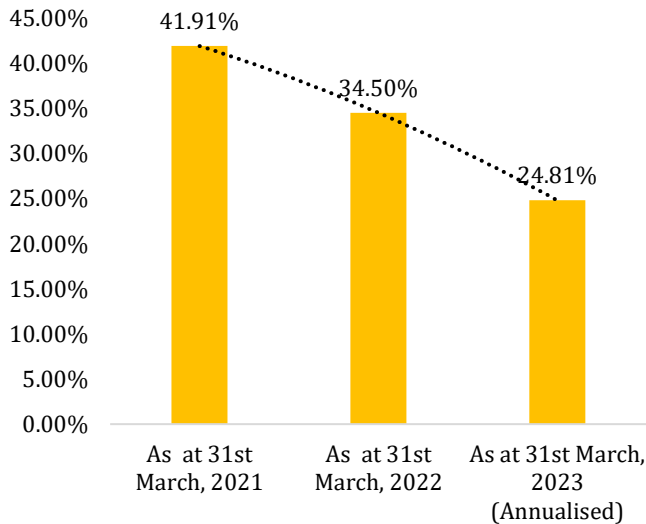
EBITDA Margin



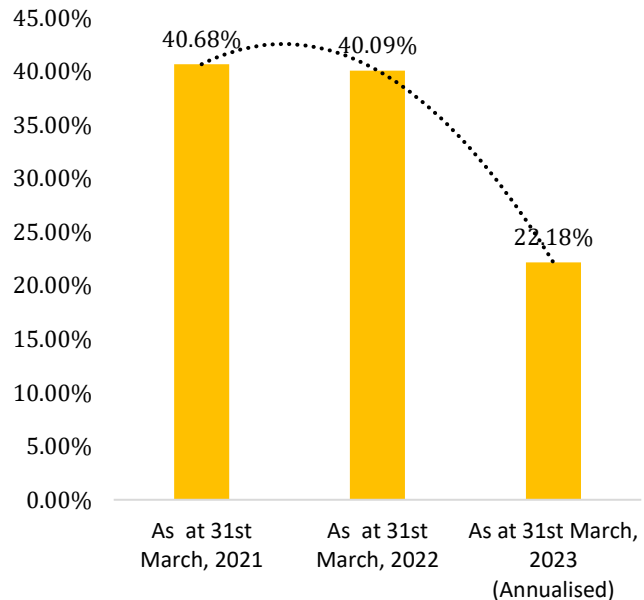
Net Profit Margin



Return on Capital Employed



Return on Equity



Key Risk Factors

1. Litigations filed by the Company is amounting to 23.44 lacs. Any adverse decision in such and the Promoters, Directors and Promoter group entities have been subject to search and seizure operations conducted by the Income tax department with total of 28 cases and amounting to 253.16 lacs to mount to indeterminable amount. Any adverse outcome of such proceedings could have an adverse effect on the business, prospects, financial condition, results of operations and reputation.
2. The group company Kaka Engineering Private Limited has a total of 4 Income Tax Litigations pending amount which is not determinable. It can have a material impact on the company.
3. The company is primarily dependent upon few key suppliers for procurement of raw materials Any disruption in the supply of these raw materials or fluctuations in their prices could have a material adverse effect on the business operations and financial conditions. For Fiscals 2021, 2022 and 2023, the cost of materials consumed (on standalone basis) were 71.07%, 78.59% and 71.65% of the Revenue from Operations respectively.
4. The company have experienced negative operating cash flows in the past both in Fiscal 21 and 22. Any operating losses or negative cash flows in the future could adversely affect the results of operations and financial conditions.

Track Record of Lead Manager

The lead manager to the issue is Hem Securities 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.	Hemant Surgical Industries Limited	24.84	90.00	June 05, 2023	229.65
2.	Vasa Denticity Limited	54.07	128.00	June 02, 2023	372.15
3.	Labelkraft Technologies Limited	4.75	55.00	March 23, 2023	71.00**
4.	Systango Technologies Limited	34.82	90.00	March 15, 2023	229.85
5.	Macfos Limited	23.74	102.00	March 01, 2023	317.85
6.	Earthstahl & Alloys Limited	12.96	40.00	February 08, 2023	53.00
7.	Chaman Metallics Limited	24.21	38.00	January 16, 2023	64.35
8.	Baheti Recycling Industries Limited	12.42	45.00	December 08, 2022	117.35
9.	Vedant Asset Limited	3.00	40.00	October 12, 2022	60.00
10.	Lloyds Luxuries Limited	24.00	40.00	October 11, 2022	66.60

*CMP is mentioned as on 5th July 2023

**Labelkraft Technologies Limited CMP is taken as on 4th July 2023

As per the offer document Hem Securities Limited have had 23 mandates in the last three fiscal years. For Hem Securities Limited out of the last 10 that are mentioned above, all have opened at premiums ranging from 1.81% to 64.84%. Thus, has a good track record.

Recommendation

The company has been into this industry since 2019 and is relatively new in the business. The company has seen a consistency in the growth of its profitability margins. The consolidated partnership firm has contributed 2.88% of the revenue on FY-23.

The business segment the company operates in is highly competitive from organized players. The promoter and management outlook is unsatisfactory.

The company is getting listed with a P/E of around 11.03 times which makes the stock valued fairly, when compared to its industry PE.

Search and seizure proceedings u/s 132 of the Income Tax Act, 1961 were carried out by the Income Tax Department on 24th October, 2018 on the residential and business premises of the Promoters & Directors, namely Rajesh Dhirubhai Gondaliya, Bhavin Rajeshbhai Gondaliya and Prabhaven Rajeshbhai Gondaliya; Group Companies, namely, Kaka Engineering Private Limited and Pinaxis Hi-tech Engineering Private Limited and certain other promoter group entities & employees and simultaneously survey action u/s 133A of the Income Tax Act, 1961 were also conducted on promoter group entities and other associate persons.

In conclusion, the company has seen a consistent growth in the profitability margins. The company has used the inorganic strategy to expand their business and by focusing on the low revenue generated states the company can be looking at a decent growth. With all the litigations mentioned in the risk factors the management outlook does not look credible. The company is fairly valued but is yet relatively very new to the business. Thus, one can **AVOID** applying to 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.