

IPO Details		Company Background			
<b>Opening Date</b>	Sept 29, 2023	<ul style="list-style-type: none"> <li>○ Karnika Industries Limited was originally incorporated in the year 2017 and has its registered office in West Bengal.</li> <li>○ The Company is engaged in the manufacturing of kid's wear and trading of garments which includes trading of boy's and girls' wear.</li> <li>○ The company sells the products through trading under its own brand name i.e., KARNIKA.</li> <li>○ As of 31st March 2023, the Company has 221 Employees on its payroll.</li> </ul>			
<b>Closing Date</b>	Oct 05, 2023				
<b>Stock Exchange</b>	NSE SME				
<b>Lot Size</b>	1,600 Shares				
<b>Issue Price</b>	₹ 76 per share				
<b>Issue Size</b>	Aggregating up to 25.07 Cr.				
<b>Fresh Issue</b>	Aggregating up to 25.07 Cr.				
<b>Offer for Sale Application</b>	-				
<b>Amount</b>	₹ 1,21,600				
IPO Objective		Market Capitalization (In Cr.)			
Working Capital Requirements.		<b>Pre-Issue</b>	<b>Post-Issue</b>		
To Meet Issue Expenses.		₹ 69	₹ 94		
General Corporate Purpose.		Financial Summary (In Lacs)			
Pre-Issue Shareholding		<b>For the Period Ended</b>	<b>Mar-21</b>	<b>Mar-22</b>	<b>Mar-23</b>
<b>Category</b>	<b>No. of Shares</b>	<b>% of Total Shares</b>			
Promoter & Promoter Group	91,00,300	100.00%			
Public	-	-			
Promoter of the Company		<b>Total Assets</b>	3,055.87	5,921.43	10,071.02
1	Niranjan Mundhra	<b>Net Assets</b>	378.14	1,860.88	1,806.83
2	Shiv Shankar Mundra	<b>Total Borrowings</b>	1,570.94	2,224.13	5,245.53
3	Mahesh Kumar Mundra	<b>Total Revenue</b>	4,779.31	9,892.53	13,243.93
Competitive Strengths		<b>Profit After Tax</b>	81.61	454.01	852.40
1	Diversified Product Portfolio.	Tentative Timeline			
2	Consistency in Quality and Service Standards.	<b>Opening Date</b>	Sept 29, 2023		
3	Cost-effective production and timely fulfilment of orders.	<b>Closing Date</b>	Oct 05, 2023		
4	Scalable Business Model.	<b>Basis of Allotment</b>	Oct 10, 2023		
5	Organizational stability along with management expertise.	<b>Initiation of Refunds</b>	Oct 11, 2023		
6	Existing client relationships.	<b>Credit of Shares to Demat</b>	Oct 12, 2023		
7	High level of customer satisfaction.	<b>Listing Date</b>	Oct 13, 2023		

## Company Background and Analysis

The Company was originally incorporated in the year 2017. The company is engaged in the manufacturing of kid's wear i.e., shorts, joggers, capri, tees, rompers, sleepsuits, pyjamas, winter wear, infant wear etc. The company has two manufacturing units located in West Bengal. The company majorly focuses on high-quality fabrics and garments, delivering quality textiles and maintaining long-term associations with clients. The company has been organising trade shows and exhibitions on a pan-India basis from time to time. Through these exhibitions, the company has magnified the brand visibility but also created opportunities for others to network and collaborate with them. The company also organizes fashion shows. The technology used in manufacturing includes Auto Cad System, Enterprise resource solution (ERP), Real-time Production tracking system, Technology advancements in sewing machines, and Digital garment and textile printing.

The Company's proficiency lies in understanding the prevailing trends in all the products which they market in addition to the buying preferences of the consumers and accordingly manufacture quality fabrics to assure them of product quality, comfort and fit uniformity.

The company's products include –

- i) Baby Boy Garments - T-Shirts, Trousers, Shorts, Jeans, Pants, Shirts, Jackets, Coats, socks, Tanktop and Jumpsuit.
- ii) Baby Girl Garments - Tops, Jeans, Shorts, Denim, Polos, Skirts, Jackets, Coats, socks, Plazo, Dress, Jumpsuit and Kurtis.

The Company is engaged in the trading of garments which includes trading of boys' and girls' wear. The company trades all types of garments which include all types of kid's wear i.e., shorts, joggers, capri, tees, rompers, sleepsuits, pyjamas, winter wear etc. The company sells the products through trading under its own brand name i.e. KARNIKA and supply without any brand name also as per requirement of customers. The company usually trades in bulk orders of garments in B2B only.

The company's supplier in the trading business includes a small manufacturer from where the company purchases boys' and girl's wear and sells to the customer as per their requirements of design, colour, size and quantity. The Customers are usually the wholesalers of garments which further sold to retailers and other garment companies.

Category wise-revenue for Fiscal year ended 2021, 2022, and 2023 is given below-

(Amount in Lakhs)

Particulars	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
Manufacturing through job work	4,298.36	90.56	8,893.94	90.01	1,1412	87.14
Trading	448.05	9.43	986.99	9.98	1,683.95	12.85
Total sales	4,746.41	100.00	9,880.93	100.00	13,095.95	100.00

Product wise-revenue for Fiscal year ended 2021, 2022, and 2023 is given below-

(Amount in Lakhs)

Particulars	2021		2022		2023	
	Amount	%	Amount	%	Amount	%
Girls Garments	3,541.23	74.60	5,975.01	62.23	5,824.07	46.49
Boys Garments	1,205.18	25.39	3,626.18	37.76	6,701.17	53.50
Others	-	-	279.74	2.91	570.71	4.55
Total sales	4,746.41	100.00	9,880.93	100.00	13,095.95	100.00

To conclude, the company was originally incorporated in the year 2017. The company is engaged in the manufacturing of kid's wear, and trading of garments which includes trading of boys' and girl's wear. The company was raising the majority of its revenue from girls' garments but has seen a shift towards boy's garments for FY 2023. The company is raising gross proceeds of Rs. 25.07 Cr.

## **Business Strategies**

### **1. Develop cordial relationships with the suppliers, customers and employees.**

The company believes in maintaining a good relationship with the Suppliers and Customers which is the most important factor to keep the company growing.

### **2. Optimal Utilization of Resources.**

The company has invested significant resources and intends to further invest in the activities to develop customized systems and processes to ensure effective management control.

### **3. Enhance product quality.**

The company believes that the consistency of quality products makes repeat purchases from customers. To make sure that happens, the company has various supervisors positioned at different points of the value chain making inspections and quality checks.

### **4. Creativity.**

The company provides mix and match to attract customers and dealers. The Company's forte lies in its ability to translate its vision into reality using, technology and personnel who successfully supervise each new venture undertaken.

### **5. To build up a Professional Organization.**

The company believes in transparency, commitment and coordination in the work, with the suppliers, customers, government authorities, banks etc.

### **6. Leveraging the Marketing skills and Relationships.**

The company aims to do this by leveraging the marketing skills and relationships and further enhancing customer satisfaction. The company plans to increase the customer base by supplying orders in hand on time and maintaining and renewing the relationships with existing clients.

### **7. Invest in infrastructure and technology.**

The company believes in making investments to continuously achieve higher levels of excellence in its products and implementing dynamic and diverse specifications of the customers.

## **Competitive Scenario and Peer Mapping**

### **Competition**

The industry in which the company operates has moderate competition from scattered unorganized players in the domestic as well as in the international market. The barrier to entry in such a sector is moderate. The bargaining power with the suppliers is high and the bargaining power with the customers is relatively low in the sector in which the company operates.

## Peer Analysis

**The comparison of the key performance indicators of the listed peers as of Mar-23 is given below -**

Particulars	Karnika Industries Limited	S.P. Apparels Limited	Veekayem Fashion and Apparels Limited
	31st Mar 2023	31st Mar 2023	31st Mar 2023
Net Profit Margin	7%	10%	1%
EBITDA Margin	12%	16%	6%
Return on Capital Employed	83%	15%	24%
Return on Equity	47%	14%	5%
EPS (INR)	10.03	36.02	3.44

**The comparison of the key performance indicators of the listed peers as of Mar-22 is given below -**

Particulars	Karnika Industries Limited	S.P. Apparels Limited	Veekayem Fashion and Apparels Limited
	31st Mar 2022	31st Mar 2022	31st Mar 2022
Net Profit Margin	5%	12%	1%
EBITDA Margin	10%	22%	7%
Return on Capital Employed	50%	16%	21%
Return on Equity	24%	13%	6%
EPS (INR)	6.49	32.38	4.39

**The comparison of the key performance indicators of the listed peers as of Mar-21 is given below -**

Particulars	Karnika Industries Limited	S.P. Apparels Limited	Veekayem Fashion and Apparels Limited
	31st Mar 2021	31st Mar 2021	31st Mar 2021
Net Profit Margin	2%	7%	0%
EBITDA Margin	4%	18%	12%
Return on Capital Employed	43%	10%	20%
Return on Equity	22%	7%	1%
EPS (INR)	1.17	15.06	0.73

Based on the above analysis, when compared to S.P Apparels Limited the company has performed lower in terms of EBITDA, and Net Profit Margins whereas the RoCE, and ROE were higher for FY 2023. The EPS was lower when compared to the peer company S.P. Apparels Limited. When compared with Veekayem Fashion and Apparel the company has performed better in terms of profitability margins, and RoCE, ROE, and EPS were also higher for FY 2023.

**Industry Overview**

Exhibit 1: Textiles Trade (US\$ billion)

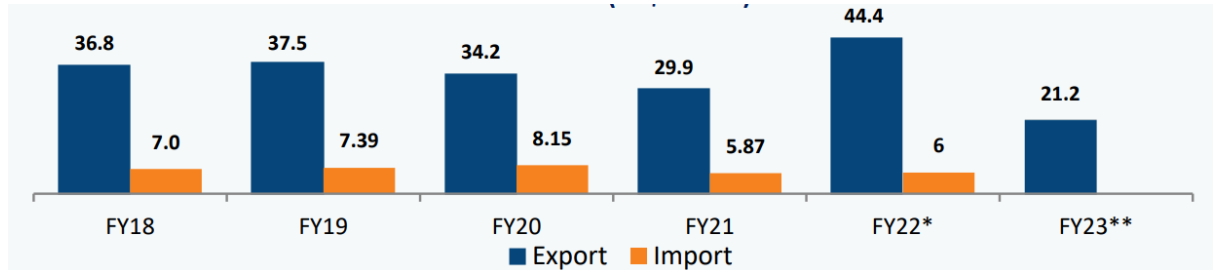


Exhibit 2: Textiles and Apparel Industry (US\$ billion)

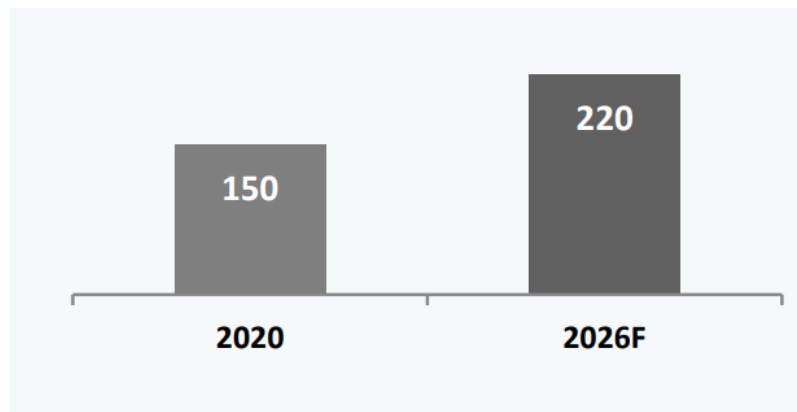
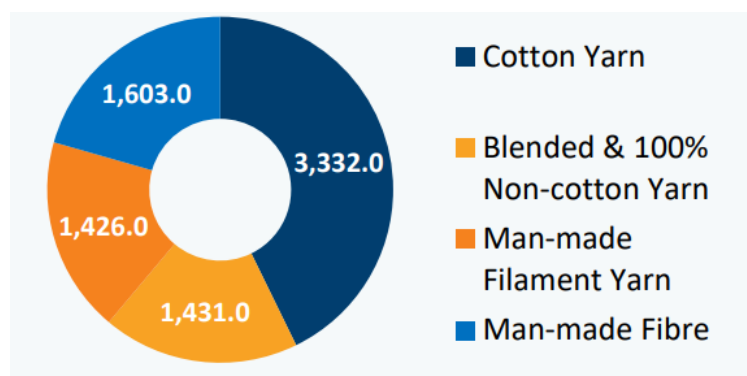


Exhibit 2: Fabric Production in FY20 (million square metre)



(Source: ibef.com)

### **Textile Industry Overview -**

India's textile sector is one of the oldest industries in the Indian economy, dating back to several centuries. The industry is extremely varied, with hand-spun and hand-woven textiles sectors at one end of the spectrum, with the capital-intensive sophisticated mills sector at the other end. The fundamental strength of the textile industry in India is its strong production base of a wide range of fibre/yarns from natural fibres like cotton, jute, silk and wool, to synthetic/man-made fibres like polyester, viscose, nylon and acrylic.

The decentralised power looms/ hosiery and knitting sector form the largest component of the textiles sector. The close linkage of the textiles industry to agriculture (for raw materials such as cotton) and the ancient culture and traditions of the country in terms of textiles makes it unique in comparison to other industries in the country.

The Indian textile and apparel industry is expected to grow at 10% CAGR from 2019-20 to reach US\$ 190 billion by 2025-26. India has a 4% share of the global trade in textiles and apparel. India is the world's largest producer of cotton. Estimated production stood at 362.18 lakh bales during cotton season 2021-22. Domestic consumption for the 2021-22 cotton season is estimated to be at 338 lakh bales. Cotton production in India is projected to reach 7.2 million tonnes (~43 million bales of 170 kg each) by 2030, driven by increasing demand from consumers.

### **Road Ahead -**

The future of the Indian textiles industry looks promising, buoyed by strong domestic consumption as well as export demand. India is working on various major initiatives to boost its technical textile industry. Owing to the pandemic, the demand for technical textiles in the form of PPE suits and equipment is on the rise. The government is supporting the sector through funding and machinery sponsoring. Top players in the sector are achieving sustainability in their products by manufacturing textiles that use natural recyclable materials.

With consumerism and disposable income on the rise, the retail sector has experienced rapid growth in the past decade with the entry of several international players like Marks & Spencer, Guess and Next into the Indian market. The growth in textiles will be driven by growing household income, increasing population and increasing demand by sectors like housing, hospitality, healthcare, etc.

The technical textiles market for automotive textiles is projected to increase to US\$ 3.7 billion by 2027, from US\$ 2.4 billion in 2020. Similarly, the industrial textiles market is likely to increase at an 8% CAGR from US\$ 2 billion in 2020 to US\$ 3.3 billion in 2027. The overall Indian textiles market is expected to be worth more than US\$ 209 billion by 2029.

(Source: prospectus)

## Key Managerial Personnel

**Niranjan Mundhra**, aged 38, is one of the Promoters, Chairman, and Managing Director of the company. He holds a Bachelor of Commerce Degree. He has experience of 07 years in the textile industry. He is responsible for the expansion and overall management of the business of the Company.

**Shiv Shankar Mundhra**, aged 33, is one of the Promoters, and Whole-Time Director of the company. He holds a degree in Master of Business Administration. He has experience of 07 years in the textile industry.

**Mahesh Kumar Mundhra**, aged 30, is one of the Promoters, and Whole-Time Director of the company. He holds a Higher secondary degree. He has experience of 07 years in the textile industry. He is a seasoned team leader.

**Kirti Mundhra**, aged 28, is the Non-Executive Director of the company. She has a degree of Bachelor of Commerce having experience of 7 Years in fashion design.

**Kirti Taparinoa**, aged 41, is the Independent Director of the company. She has a degree of Bachelor of Commerce having experience of 7 Years in finance and accounts.

**Parmeshwar Lal Sharma**, aged 37, is the Independent Director of the company. He holds degree in Bachelor of Commerce having experience of 6 Years in finance and accounts.

To conclude, the company has 3 promoters, and all have decent experience in the industry in which the company operates. The remaining directors also have decent knowledge and experience in the fields which help in the growth of the business. The responsibilities of the management are not disclosed accurately.



## Financial Snapshot

<b>Profit and Loss Statement</b>			
<b>(In Lacs.)</b>			
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>
Revenue from Operations	4,746.41	9,880.93	13,095.95
Other Income	32.90	11.60	147.98
<b>Total Income</b>	<b>4,779.31</b>	<b>9,892.53</b>	<b>13,243.93</b>
<b>Expenses</b>			
Cost of materials consumed	3,966.42	8,590.66	9,623.29
Purchase of Stock in Trade	476.58	1,093.53	1,771.61
Changes in Inventories of Finished Goods	-287.90	-1,459.10	-1,205.87
Employee benefits expense	173.37	299.32	619.74
Finance costs	103.87	233.41	517.23
Depreciation and Amortization expense	13.53	21.83	34.94
Other expenses	208.15	395.87	732.11
<b>Total Expenses</b>	<b>4,654.02</b>	<b>9,175.52</b>	<b>12,093.05</b>
<b>Earnings Before Interest, Taxes, Depreciation &amp; Amortization</b>	<b>209.79</b>	<b>960.65</b>	<b>1,555.07</b>
<b>EBITDA Margin</b>	<b>4%</b>	<b>10%</b>	<b>12%</b>
<b>Profit/(Loss) before exceptional items and tax</b>	<b>125.29</b>	<b>717.01</b>	<b>1,150.88</b>
Less: Exceptional Items	-	-	-
<b>Profit/(Loss) before tax</b>	<b>125.29</b>	<b>717.01</b>	<b>1,150.88</b>
<b>Tax Expense</b>			
Current Year	46.77	264.90	302.02
Deferred tax	-3.09	-1.90	-3.54
<b>Total Tax Expense</b>	<b>43.68</b>	<b>263.00</b>	<b>298.48</b>
<b>Profit/(Loss) for the year</b>	<b>81.61</b>	<b>454.01</b>	<b>852.40</b>
<b>Net Profit Margin</b>	<b>2%</b>	<b>5%</b>	<b>6%</b>

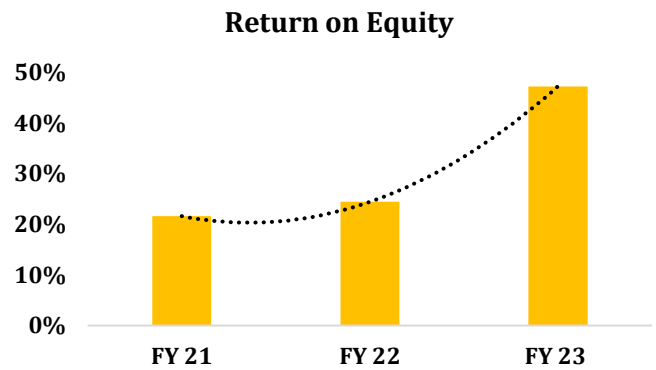
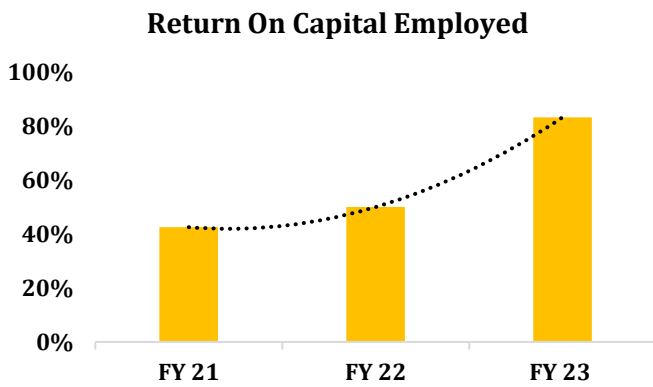
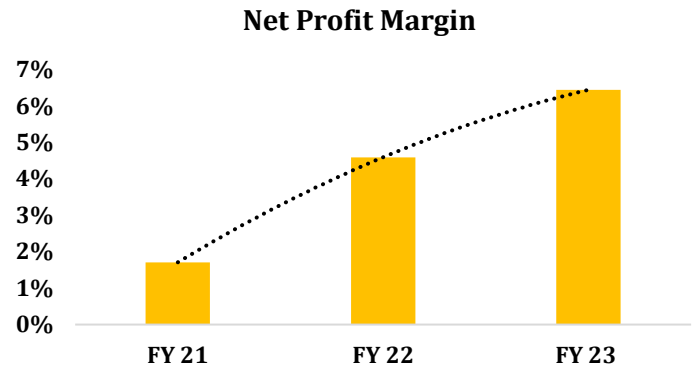
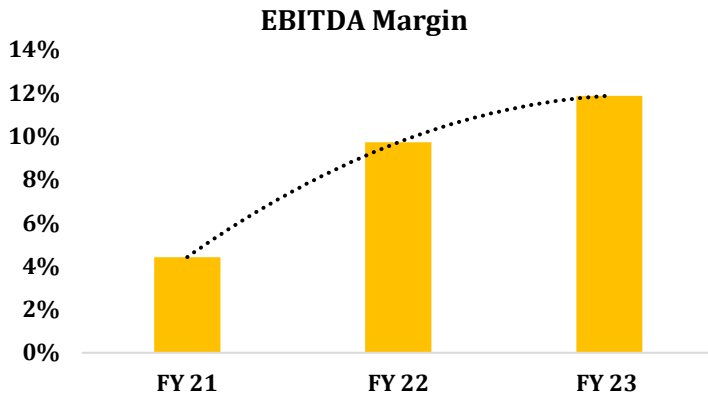
<b>Balance Sheet</b>			
<b>(In Lacs)</b>			
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>
<b>EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' funds</b>			
(a) Share Capital	378.14	1,860.88	910.03
(b) Reserves and surplus	-	-	896.80
<b>Total Equity</b>	<b>378.14</b>	<b>1,860.88</b>	<b>1,806.83</b>
<b>2. non-current liabilities</b>			
(a) Long-term borrowings	79.83	8.33	4.33
(b) Long-term provisions	3.06	5.36	11.92
<b>Total Non-current liabilities</b>	<b>82.89</b>	<b>13.69</b>	<b>16.25</b>
<b>3. Current liabilities</b>			
(a) Short-term borrowings	1,491.11	2,215.80	5,241.20
(b) Trade payables			
(i) Due to MSME	-	-	-
(ii) Due to Others	1,059.74	1,542.65	2,564.29
(c) Other current liabilities	38.75	65.08	181.91
(d) Short-term provisions	5.24	223.33	260.55
<b>Total Current liabilities</b>	<b>2,594.84</b>	<b>4,046.86</b>	<b>8,247.95</b>
<b>Total Liabilities</b>	<b>2,677.73</b>	<b>4,060.55</b>	<b>8,264.20</b>
<b>Total Equity and Liabilities</b>	<b>3,055.87</b>	<b>5,921.43</b>	<b>10,071.03</b>
<b>ASSETS</b>			
<b>1. non-current assets</b>			
(a) Property, Plant and Equipment and Intangible assets			
(i) Tangible Assets	54.41	74.72	140.27

<b>Balance Sheet</b>				<b>(In Lacs)</b>
(ii) Intangible assets	4.50	3.60	3.13	
(b) Deferred tax assets (net)	3.09	4.99	8.53	
(c) Long-term loans and advances	10.00	10.00	39.66	
(d) Other Non-Current Assets	0.61	8.16	20.67	
<b>Total Non-Current assets</b>	<b>72.61</b>	<b>101.47</b>	<b>212.26</b>	
<b>2. Current assets</b>				
(a) Inventories	1,129.09	2,762.48	4,853.66	
(b) Trade receivables	1,677.23	2,700.68	4,021.51	
(c) Cash and cash equivalents	78.56	6.59	155.19	
(d) Short-term loans and advances	8.24	70.75	71.26	
(e) Other Current Assets	90.14	279.46	757.14	
<b>Total Current assets</b>	<b>2,983.26</b>	<b>5,819.96</b>	<b>9,858.76</b>	
<b>Total Assets</b>	<b>3,055.87</b>	<b>5,921.43</b>	<b>10,071.02</b>	

<b>Cash Flow Statement</b>				<b>(In Lacs)</b>
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>	
Net Cash Flow from Operating Activities	-559.95	-1,531.32	-1,319.67	
Net Cash Flow from Investing Activities	-36.62	-45.33	-142.15	
Net Cash Flow from Financing Activities	671.96	1,504.68	1,610.43	

<b>Ratio Sheet</b>			
<b>Particulars</b>	<b>FY 21</b>	<b>FY 22</b>	<b>FY 23</b>
<b>Per Share Data</b>			
Diluted EPS	1.17	6.49	10.03
BV per share	3.05	15.01	14.57
<b>Operating Ratios</b>			
EBITDA Margins	4%	10%	12%
PAT Margins	2%	5%	6%
Inventory days	86.83	102.05	135.28
Debtor days	128.98	99.76	112.08
Creditor days	146.41	87.29	106.75
<b>Return Ratios</b>			
RoCE	43%	50%	83%
RoE	22%	24%	47%
<b>Valuation Ratios (x)</b>			
EV/EBITDA	8.92	4.25	4.44
Market Cap / Sales	1.99	0.95	0.72
P/E	64.96	11.71	7.58
Price to Book Value	24.92	5.06	5.22
<b>Solvency Ratios</b>			
Debt / Equity	4.15	1.20	2.90
Current Ratio	1.15	1.44	1.20
Quick Ratio	0.71	0.76	0.61
Asset Turnover	1.55	1.67	1.30
Interest Coverage Ratio	1.89	4.02	2.94

## Financial Charts



## Key Risk Factors

1. There are certain outstanding legal proceedings involving the company and group company. The company has 1 litigation case amounting to Rs. 6.78 lakhs. 2 taxation matters against the group companies amounting to Rs. 0.45 lakhs, and 1 litigation case filed by the company amounting to Rs. 1.80 lakhs.
2. The company has experienced negative cash flows in the past. Any such negative cash flows in the future could affect the business, results of operations and prospects.

### Track Record of Lead Manager

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

#### Beeline Capital Advisors Private Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Vinsys IT Services Limited	49.84	128.00	August 11, 2023	262.00
2.	Shri Techtex Limited	45.14	61.00	August 04, 2023	76.8
3.	Ahasolar Technologies Limited	12.85	157.00	July 21, 2023	302.00
4.	Pentagon Rubber Limited	16.17	70.00	July 07, 2023	118.00
5.	Remus Pharmaceuticals Limited	47.69	1,229.00	May 29, 2023	4,961.00
6.	Sotac Pharmaceuticals Limited	33.30	111.00	April 13, 2023	124.00
7.	Dev Labtech Venture Limited	11.22	51.00	March 29, 2023	60.00
8.	Vertexplus Technologies Limited	14.20	96.00	March 15, 2023	187.00
9.	Viaz Tyres Limited	20.00	62.00	March 01, 2023	45.00
10.	Transvoy Logistics India Limited	5.11	71.00	February 02, 2023	73.00

\*CMP for the above-mentioned companies is taken as of 28<sup>th</sup> September 2023.

As per the offer document, Beeline Capital Advisors Private Limited has had 17 mandates in the last two years. For Beeline Capital Advisors Private Limited, 1 opened at par and the remaining all opened at premiums on the listing date.

### Recommendation

The company has been in the industry since 2017 and has relatively less experience in the industry. The company has seen an increase in the bottom line and top line of its financials over the years.

The PE on an annualised and post-IPO basis is 11.06 times which seems to be fairly priced by looking at the performance of the company. The sector P/E is 30.09.

The company operates in a competitive segment and in a very fragmented market. The management outlook of the company is not that satisfactory. The company do not have any unique product and the company faces competition. The financial outlook of the company is not that satisfactory along with the D/E ratio being very high. We believe one can **AVOID** applying to this IPO.

### **Disclaimer**

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