



IPO Note

Forcas Studio Limited

Recommendation: **AVOID!**

Company Background -

- Forcas Studio Limited was originally formed and incorporated as 'M/s. Forcas Apparels' on April 09, 2010. The registered office is located at Thakurpukur Mahestola, West Bengal.
- The Company is into menswear and men's garments such as shirts, denims, t-shirt, trousers etc. They cater pan India through online and wholesale under their own brand name and white labelling for other brands.
- The company had 68 permanent employees as of February 29, 2024.

Objects of the Issue -

- Funding of upgradation of warehouse
- Prepayment/ repayment of all or a portion of certain loans availed by the company
- Funding working capital requirements
- General Corporate Purposes

Promoters Name -

Sailesh Agarwal and Sourav Agarwal

Rationale for recommendation -

- ✓ The company's P/E is 21.56 times on post-issue basis making it slightly highly priced.
- ✓ The top line, bottom line and profitability margins have seen a sudden increase in FY 2024, which might not be sustainable in the long run.
- ✓ The company has concentrated suppliers.
- ✓ The company had negative cash flow for FY 2024.
- ✓ The apparel industry is highly fragmented.

IPO Details

Opening Date	Aug 19, 2024
Closing Date	Aug 21, 2024
Allotment Date	Aug 22, 2024
Listing Date	Aug 26, 2024
Stock Exchange	NSE SME
Lot Size	1,600 Shares
Issue Price Per Share	₹77 to ₹80
Issue Size	37.44 Cr.
Fresh Issue	37.44 Cr.
Offer for Sale	-
Application Amt	₹ 1,28,000 (1,600 shares)

KPI's	KPIs (In Lakhs)		
	FY 22	FY 23	Feb-24
Revenue	5,320.02	6,960.46	9,607.24
EBITDA	294.14	248.19	886.06
Net Profit	80.70	117.19	597.19
RoCE	17.51%	15.45%	37.05%
ROE	9.71%	13.62%	31.40%
P/E	82.47	58.82	14.06

Promoter Share Holding Pattern

Pre-Issue	Post Issue
82.17%	60.30%

Valuation Parameters

Particulars	Pre-Issue*	Post Issue
EPS	5.06	3.71
BVPS	15.17	32.43
P/E	15.82	21.56
P/BV	5.27	2.47
Mkt Cap (In Cr)	103.20	140.64

*Annualised

Lead Managers -

Horizon Management Private Limited

Registrar -

Mas Services Limited

Business Overview -

Forcas Studio Limited is into Menswear and deals in men’s garments such as Shirts, Denims, T-shirts, trousers, Cotton pants, sports-wear, party-wear, fashion wear, boxers etc. and cater pan India through online and wholesale under their own brand and also white-labelling for other brands such as Landmark Group, V-Mart Retail, V2 Retail, Highlander, Cobb, Kontail and many more. The Company is in the business of manufacturing and selling of menswear garments through online e commerce platforms like AJIO, Amazon, Flipkart, Myntra, Meesho etc. and wholesale under the name of ‘FTX’ (men’s wear), ‘Tribe’ (women’s wear) and ‘Conteno’ (kid’s wear). Further, their brand is also sold through large format stores including V-Mart Retail, V2 Retail, City Kart, Metro Bazar, Kothari Retail and Sarvana Retails. As of February 29, 2024, they had delivered products in 15,000 plus pin codes in India for orders placed through online e-commerce marketplaces spread across Pan India.

They are currently targeting Tier-2, Tier-3 and Tier-4 cities dedicated to providing value to customers with fashionable and comfortable product ranges. They are committed to superior customer service, innovation in fashion and product quality with 95% of the products priced below ₹499.

Product Portfolio -

They offer a broad range of products creating signature designs within the Indian menswear segment, including Shirts, Denims, T-shirts, trousers, Cotton pants, sportswear, party-wear, fashion wear, boxers etc.



Conclusion -

The net proceeds of the issue will be utilized for funding upgradation of warehouse (Rs. 165.67 lakhs), prepayment/ repayment of loans availed by the company (Rs. 1,300 lakhs), working capital requirement (Rs. 1,200 lakhs) and remaining for general corporate purposes.

Revenue Bifurcation -

(Amt in Lakhs)

Particulars	FY 2022		FY 2023		FY 2024	
	Amt	%	Amt	%	Amt	%
Wholesale	2,314.98	43.51	2,498.81	35.90	3,654.42	38.04
Retails through large format stores	1,328.10	24.96	822.64	11.82	348.76	3.63
Through online marketplace	248.74	4.68	2,491.65	35.80	3,691.79	38.43
White-label manufacturing	1,428.19	26.85	1,147.36	16.48	1,912.27	19.90
Total	5,320.01	100.00	6,960.46	100.00	9,607.24	100.00

Competition -

Market Competition: The apparel sector is highly competitive where the key factors of competition primarily comprise quality of product, fit of the product, price and timely delivery.

Geographic Competition: The company faces competition from local retailers, online retailers, non-branded products, economy brands and products of other established brands both in domestic and international market.

Barriers to entry: Low barriers to entry.

Bargaining Power of Suppliers: The bargaining power is low with the suppliers.

Bargaining Power of Buyers: The bargaining power is high with the customers.

Business Strategies -

Fashion at affordable prices: The company offers men's clothing and 95% of the products are priced below Rs. 499 and they are currently targeting Tier-2, Tier-3 and Tier-4 cities dedicated to providing value to customers with fashionable and comfortable product ranges.

Increase online presence: The company intends to focus on increasing volume of sales by increasing their presence on marketplaces in addition to the existing ones. They are also planning to establish their presence in more regions.

Improving operational efficiencies: The Company intends to improve operating efficiencies to achieve cost reductions.

Risk Factors -

The company is dependent on few suppliers for its purchases and top 10 suppliers contributed to 76.61%, 79.05% and 89.68% of the total purchases for FY 2024, FY 2023 and FY 2022 respectively.

The company derives majority of its revenue from FTX brand which contributed to 80.10%, 83.52% and 73.15% for FY 2024, 2023 and 2022.

There is 1 outstanding case filed by the company for direct tax matters amounting to Rs. 230.52 lakhs.

The company has contingent liabilities of Rs. 230.52 lakhs.

The company has had negative operating cash flow for FY 2024.

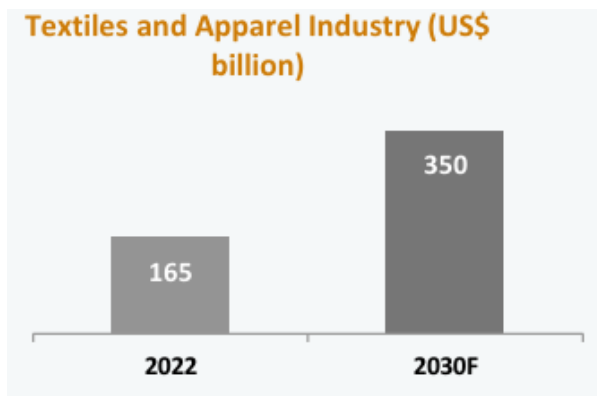
PEER ANALYSIS

Particulars	Forcas Studio Limited			Aditya Birla Fashion and Retail Limited		
	FY 22	FY 23	FY 24*	FY 22	FY 23	FY 24
NP Margin	1.52%	1.68%	6.22%	-1.32%	-0.29%	-4.41%
EBITDA Margin	5.53%	3.57%	9.22%	15.07%	13.40%	11.95%
RoCE	17.51%	15.45%	39.69%	3.81%	5.12%	0.41%
ROE	9.71%	13.62%	33.34%	-3.90%	-0.95%	-12.44%
EPS (INR)	0.97	1.36	5.06	-1.16	-0.38	-6.52
P/E	82.47	58.82	15.82	-258.62	-564.08	-31.53

*Annualised

Indian Apparel Industry -

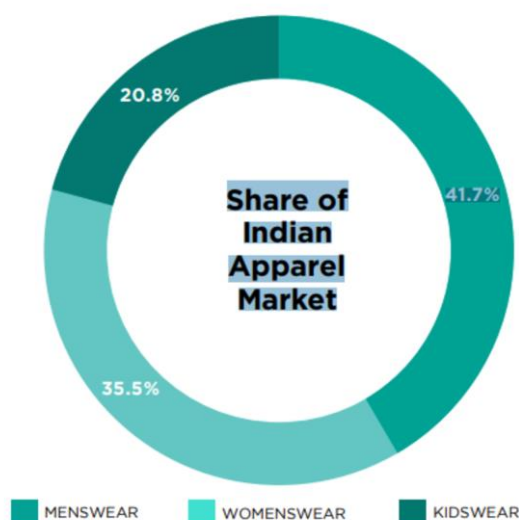
The Indian Textile and Apparel Industry is valued at over US\$ 100 billion, employing over 45 million people and accounting for 14% of the country's industrial production. The Confederation of Indian Industry (CII) expects the industry to achieve a production level of US\$ 250 billion by FY25, rising at a CAGR of 12% between FY22 and FY25. In terms of exports, the CII expects industry exports to increase at a CAGR of 15% and reach US\$ 185 billion by FY25.



(source: www.ibef.org)

Market Size –

The domestic Indian apparel market can be broadly classified into men’s wear, women’s wear and kids wear. Currently, men’s wear holds the largest share in the apparel market. It accounts for 41.7% of the market. Women’s wear contributes almost 35.5%, while kids wear contributes the balance 21% of the market.



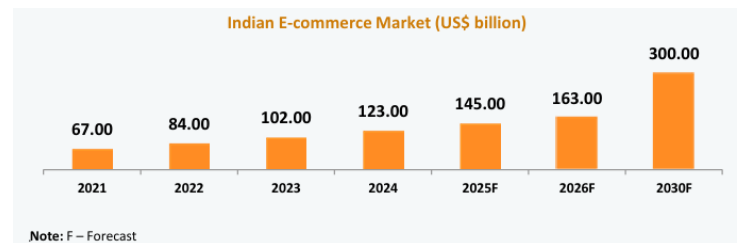
Source: Images Business of Fashion

Indian E-Commerce Industry -

- India’s e-commerce sector is expected to reach US\$ 111.40 billion by 2025 from US\$ 46.20 billion in 2020, growing at a 19.24% CAGR, with grocery and fashion/apparel likely to be the key drivers of incremental growth.

- 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%. By 2021, total e-commerce sales are expected to reach US\$ 67-84 billion from the US\$ 52.57 billion recorded in 2020.

- India’s social commerce has the potential to expand to US\$ 16–20 billion in FY25, at a CAGR of 55 60% with a potentially monumental jump to US\$ 70 billion by 2030, owing to high mobile usage.



(source: www.ibef.org)

Government Initiatives to increase exports-

- In March 2019, the Central government approved a scheme to rebate State and Central Embedded Taxes for apparels and made-ups exports.

- The Directorate General of Foreign Trade (DGFT) has revised rates for incentives under the Merchandise Exports from India Scheme (MEIS) for Readymade garments and Made ups - from 2% to 4%.

- The Government of India has increased the basic custom duty to 20% from 10% on over 500 textile products, to boost indigenous production and the Make in India program.

- The Government of India announced a Special Package to boost exports by US\$ 31 billion, create one crore job opportunity and attract investments worth Rs 80,000 crore during 2018-2020.

Key Management -

Key Management Persons Name -	Sailesh Agarwal
Age	41
Designation and No. of years of experience	Promoter and Managing Director, 10+ years of experience in the field of garment manufacturing and trading and in fashion industry
Qualification	B. Com degree
Roles and Responsibility	Responsible for overall management, growth and development of the company.
Other Directorships	Forcas Apparel Private Limited, Om Dealcom Private Limited and Forcas Fashions LLP

Key Management Persons Name -	Sourav Agarwal
Age	39
Designation and No. of years of experience	Promoter, Whole-Time Director and CFO, 10+ years of experience in the field of garment manufacturing and trading
Qualification	B. Com degree
Roles and Responsibility	Currently responsible for purchase and finance divisions of the company
Other Directorships	Forcas Apparel Private Limited, Om Dealcom Private Limited and Forcas Fashions LLP

Key Management Persons Name -	Altan Uddin Kazi
Age	33
Designation and No. of years of experience	Independent Director, 8+ years of experience in the field of corporate law compliances, accounting, taxation, GST and legal matters
Qualification	B. Com degree, Bachelor's in law, Passed IPC examination conducted by ICAI, Associate member of ICSI
Roles and Responsibility	-
Other Directorships	Veritaas Advertising Limited, Thinking Hats Entertainment Solutions Limited and Vijay Textiles Limited

Key Management Persons Name -	Hitu Gambhir Mahajan
Age	44
Designation and No. of years of experience	Independent Director, 16+ years of experience in the field of marketing, sales, branding and advertising.
Qualification	B. Sc. (Home science), Post graduate diploma in advertising and marketing
Roles and Responsibility	-
Other Directorships	Osel Devices Limited and Soberbio Consulting Private Limited

Key Management Persons Name -	Amit Rathi
Age	43
Designation and No. of years of experience	Independent Director, 7+ years of experience in the field of financial analysis and crisis management
Qualification	B. Com degree, Associate member of ICAI
Roles and Responsibility	-
Previous Associations	CRISIL Limited, Citibank and DSP Merrill Lynch Limited

FINANCIAL SNAPSHOT

Statement of Profit and Loss

Amt in Lakhs.

Particulars	FY 22	FY 23	Feb-24
Revenue from Operations	5,320.02	6,960.46	9,607.24
Other Income	60.42	201.96	41.54
Total Income	5,380.44	7,162.42	9,648.78
Expenses			
Cost of Materials Consumed	4,542.41	3,816.52	6,003.13
Other Direct Expenses	795.04	1,011.77	1,096.71
Changes in Inventories of finished goods, work-in-progress	-780.96	424.48	-68.14
Employee Benefit Expenses	142.73	147.12	151.37
Finance Cost	249.58	298.59	341.42
Depreciation and Amortisation	26.55	37.01	32.86
Other expenses	326.66	1,312.38	1,538.11
Total Expenses	5,302.01	7,047.87	9,095.46
EBITDA	294.14	248.19	886.06
EBITDA Margin	5.53%	3.57%	9.22%
Profit/(Loss) before tax	78.43	114.55	553.32
Tax Expense			
Current tax	-	-	41.21
Deferred Tax	2.27	2.64	2.66
Total Tax	2.27	2.64	43.87
Profit/(Loss) for the year	80.70	117.19	597.19
Net Profit Margin	1.52%	1.68%	6.22%

Statement of Assets and Liabilities

Amt in Lakhs.

Particulars	FY 22	FY 23	Feb-24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	830.84	860.26	1,290.00
Reserves and surplus	-	-	611.97
Total Equity	830.84	860.26	1,901.97
3. Non-current liabilities			
Long-term borrowings	696.94	506.20	400.88
Total Non-current liabilities	696.94	506.20	400.88
4. Current liabilities			
Short-term borrowings	1,723.05	1,819.06	2,460.17
Trade Payables			
(i) Total outstanding dues of MSME	-	-	-
(ii) Total outstanding dues of creditors other than MSME	948.97	582.94	789.48
Other Current Liabilities	132.39	155.38	173.27
Short-term provisions	1.08	-	159.36
Total Current liabilities	2,805.49	2,557.38	3,582.28
Total Liabilities	3,502.43	3,063.58	3,983.16
Total Equity and Liabilities	4,333.27	3,923.84	5,885.13
ASSETS			
1. Non-current assets			
Property, Plant & Equipment	100.64	137.74	112.94
Deferred Tax Assets (Net)	5.09	7.74	10.39
Long term loans and advances	30.16	27.78	78.97

Recommendation: **AVOID**

Particulars	FY 22	FY 23	Feb-24
Other Non- current Assets	336.41	460.61	832.38
Total Non-Current assets	472.30	633.87	1,034.68
2. Current assets			
Inventories	2,933.73	1,808.84	2,155.08
Trade Receivables	573.31	1,166.60	2,383.14
Cash & Cash equivalents	41.23	19.93	19.36
Short term loans and advances	312.70	294.62	292.86
Total Current assets	3,860.97	3,289.99	4,850.44
Total Assets	4,333.27	3,923.86	5,885.12

Cash Flow Statement Amt in Lakhs.

Particulars	FY 22	FY 23	Feb-24
Net Cash Flow from Operating Activities	251.44	533.90	-672.62
Net Cash Flow from Investing Activities	-11.23	-74.11	-8.05
Net Cash Flow from Financing Activities	-229.30	-481.10	680.11

Key Ratios

<u>Per Share Data</u>	FY 22	FY 23	FY 24*	<u>Valuation Ratios (x)</u>	FY 22	FY 23	FY 24*
Diluted EPS	0.97	1.36	5.06	EV/EBITDA	10.91	12.75	2.00
BV per share	6.44	6.67	15.17	Market Cap / Sales	2.64	2.02	1.34
<u>Operating Ratios</u>				P/E	82.47	58.82	15.82
EBITDA Margins	5.53%	3.57%	9.22%	Price to Book Value	12.42	12.00	5.27
PAT Margins	1.52%	1.68%	6.22%	<u>Solvency Ratios</u>			
Inventory days	201.28	94.85	75.15	Debt / Equity	2.91	2.70	1.41
Debtor days	39.33	61.18	83.10	Current Ratio	1.38	1.29	1.35
Creditor days	78.31	68.28	42.11	Quick Ratio	0.33	0.58	0.69
<u>Return Ratios</u>				Asset Turnover	1.23	1.77	1.63
RoCE	17.51%	15.45%	39.69%	Interest Coverage Ratio	1.07	0.71	2.50
RoE	9.71%	13.62%	33.34%				

*Annualised

Recommendation: **AVOID****LEAD MANAGER TRACK RECORD -**

The lead manager to the issue is Horizon Management 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 –

Horizon Management Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Tunwal E-Motors Limited	115.64	59.00	July 23, 2024	47.40
2.	Veritas Advertising Limited	8.48	114.00	May 21, 2024	129.00
3.	Shree Karni Fabcom Limited	42.49	227.00	Mar 14, 2024	742.00
4.	M.V.K. Agro Food Product Limited	65.88	120.00	Mar 07, 2024	52.30
5.	Baba Food Processing India Limited	33.00	76.00	Nov 15, 2023	51.80
6.	Cosmic CRF Limited	57.21	314.00	Jun 30, 2023	1,559.65

The company has handled 6 mandates in the past three years (including the current year).

*CMP for the above-mentioned companies is taken as of 16th Aug 2024.

As per the offer document, from the above-mentioned mandates 3 have opened at discount and remaining all have opened at a premium on the listing day.

Recommendation: **AVOID**

Recommendation -

Forcas Studio Limited has been in the industry since 2010 and has good experience in the industry. The management overview of the company is decent.

The P/E on a post-IPO basis is around 21.56 times which makes it slightly highly priced by looking at the performance of the company and sector.

The company's top line and bottom line has seen a sudden increase for FY 2024. The increase is due to sale of men's wear but this might not be sustainable in the future. The profitability margins have also seen a sudden increase for FY 2024.

The company has negative cash flow from operations for FY 2024.

The apparel industry is highly fragmented and there are many players in this industry.

The company's mentioned peer, Aditya Birla Fashion and Retail Limited is not comparable on an apple-to-apple basis as the products offered by the peer includes all segment whereas Forcas Studio Limited focuses on men's wear and the market cap is large compared to Forcas Studio Limited.

Thus, knowledgeable investors can **AVOID** this IPO.

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