



## IPO Note

# Gajanand International Limited

Recommendation: **AVOID!**

### Company Background -

- Gajanand International Limited was originally formed and incorporated as "Gajanand Cottex Private Limited" on June 15, 2009. The registered office is located at Rajkot, Gujarat.
- The company is engaged in the manufacturing of different types of cotton i.e. Mech1 Cotton, Shankar6 Cotton, DCH 32 cotton and Khol.
- They are also engaged in trade of agro commodities such as peanuts, chana etc.
- The company had 29 permanent employees as of Mar 31, 2024

### Objects of the Issue -

- To meet Working Capital Requirements
- General Corporate Purposes
- To meet Issue Expenses

### Promoters Name -

Ashok Bhagvanbhai Monsara, Truptiben Ashokbhai Monsara and Ashish Dhirajlal Monsara

### Rationale for recommendation -

- ✓ The PE ratio is 30.31 times post-issue which makes it slightly highly priced.
- ✓ The bottom line and profitability margins had suddenly increased for FY 2023 which might not be sustainable in the long run.
- ✓ The company had negative cash flow from operations for FY 2024.
- ✓ The concentration of buyers is high.
- ✓ They are not utilizing their manufacturing capacity effectively.
- ✓ The agriculture industry has slow growth, and it is highly fragmented.

### IPO Details

Opening Date	Sep 09, 2024
Closing Date	Sep 11, 2024
Allotment Date	Sep 12, 2024
Listing Date	Sep 16, 2024
Stock Exchange	NSE SME
Lot Size	3,000 Shares
Issue Price Per Share	₹36
Issue Size	20.65 Cr.
Fresh Issue	20.65 Cr.
Offer for Sale	-
Application Amt	₹ 1,08,000 (3,000 shares)

### INDUSTRY - Cotton Industry

P/E Average - 62.45

KPI's	KPIs (In Lakhs)		
	FY 22	FY 23	FY 24
Revenue	6,173.93	7,336.28	10,865.52
EBITDA	123.82	274.00	404.07
Net Profit	2.84	141.05	223.74
RoCE	13.36%	30.61%	21.28%
ROE	0.70%	25.76%	12.63%
P/E	1,800.00	32.43	16.59

### Promoter Share Holding Pattern

Pre-Issue	Post Issue
85.05%	62.52%

### Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	2.17	1.19
BVPS	13.52	20.37
P/E	16.59	30.31
P/BV	2.66	1.77
Mkt Cap (In Cr)	47.16	67.81

### Lead Managers -

Fast Track Finsec Private Limited



### Registrar -

Skyline Financial Services Private Limited

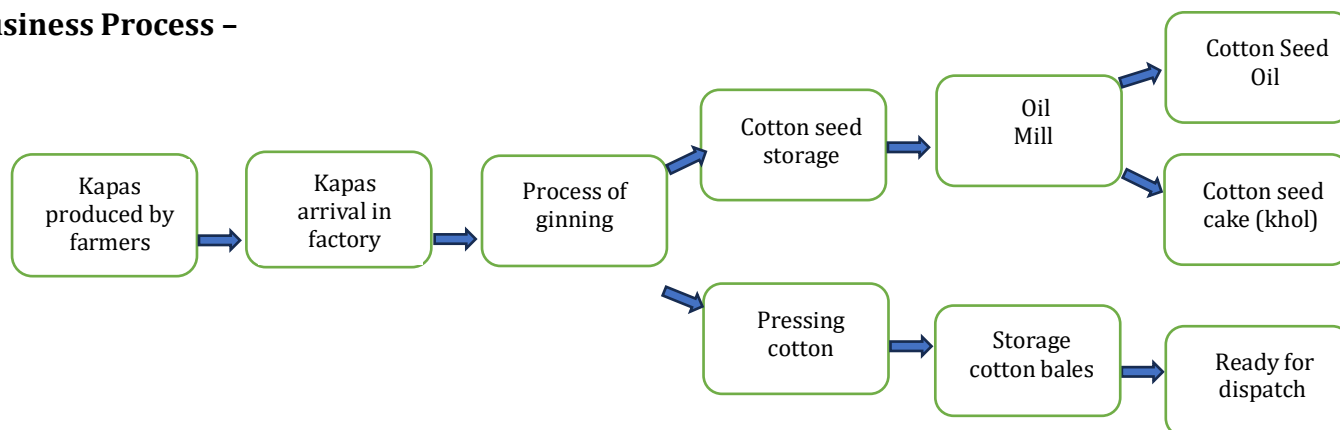
## Business Overview -

Gajanand International Limited is in the business of manufacturing different types of cotton and engaged in the trading of agriculture commodities. They have well-established manufacturing units for ginning, quality inspection, storage and packing located at Rajkot, Gujarat. The capacity utilization of the unit remained at 24.01%, 14.72% and 12.46% for FY 2024, 2023 and 2022 respectively.

## Products:

Product	Mech1 Cotton	Shankar6 Cotton	DCH 32 Cotton	Khol
Use	These are used in the production of apparel, home textiles, medical textile etc.	These are used in the production of apparel, home textiles and furnishing, production of cottonseed oil etc.	These are used in the production of apparel, home textiles and furnishing, production of cottonseed oil etc.	These are used in the production of apparel, home textiles etc.
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## Business Process -



## Swot Analysis -

### Strengths -

1. Installed Capacity of 37,500 MT / Annum
2. Location advantage
3. Increasing Business scalability and captive consumption

### Weakness -

1. Seasonal availability of product and raw material consumption
2. Dependency on the suppliers for the availability of products

### Opportunities -

1. Potential growth
2. Increasing demands domestically and internationally
3. Government initiatives for the growth of textile industry

### Threats -

1. Increasing market competition
2. Fluctuations in market trends/ demands

## Revenue Bifurcation -

(Amt in Lakhs)

Particulars	FY 2022		FY 2023		FY 2024	
	Amt	%	Amt	%	Amt	%
Manufacturing*	5,338.18	86.51	5,534.40	75.44	4,913.14	45.22
Trading**	832.65	13.49	1,801.88	24.56	5,952.38	54.78
<b>Total</b>	<b>6,176.83</b>	<b>100.00</b>	<b>7,336.28</b>	<b>100.00</b>	<b>10,865.52</b>	<b>100.00</b>

\*It includes manufacturing of cotton seeds, cotton bales and wash oil.

\*\*It includes trading of peanut, cotton seed, cotton seed cake, jeans kapad, cattlefeed, wheat, chana and raw cotton.

### Utilization of Net Proceeds -

The net proceeds of the issue will be utilized for funding working capital requirements (Rs. 1,498.72 lakhs), and for general corporate purposes (Rs. 401.24 lakhs).

### Competition -

- 1. Market Competition:** The agriculture industry is highly competitive where the key factor of competition primarily comprises of quality, price and the number of the services offered and customer satisfaction.
- 2. Geographic Competition:** The company faces competition in regional, national, and international players from large and small players.
- 3. Barriers to entry:** Low barriers to entry.
- 4. Threat of Substitutes:** High threat of substitutes.
- 5. Bargaining Power of Buyers:** The bargaining power is low with the customers.

### Business Strategies -

- 1. Improve operational efficiencies:** The company intends to improve efficiencies to achieve cost reductions so that they can be competitive in market.
- 2. Expand geographical reach:** The company seeks to expand and enhance their presence in existing business segments by identifying markets where they can provide cost-effective and quality products to prospective consumers.
- 3. Strengthening brand:** The Company to invest in developing and enhancing recognition of brand through brand building efforts, communication and promotional initiatives such as participation in industry events, public relations and investor relations efforts.

### Risk Factors -

The top 5 customers contributed to 84.39%, 85% and 98% of the total revenue for FY 2024, 2023 and 2022 respectively. Loss of any may severely affect the business.

The company has filed 2 outstanding cases regarding regulatory matters amounting to Rs. 13.75 lakhs.

The company had negative cash flow operations for FY 2024.

The company's business is seasonal as the raw material used is cotton (Kapas) which has seasonal availability.

### PEER ANALYSIS -

Particulars	Gajanand International Limited			Laxmi Cotspin Limited			Spright Agro Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	0.05%	1.92%	2.06%	2.51%	-4.05%	-0.18%	0.18%	0.13%	16.01%
EBITDA Margin	2.01%	3.73%	3.72%	6.39%	-0.93%	3.95%	0.18%	0.13%	17.47%
RoCE	13.36%	30.61%	21.28%	16.48%	-8.04%	4.11%	-3.45%	-1.69%	19.24%
ROE	0.70%	25.76%	12.63%	10.19%	-12.27%	-0.43%	-2.70%	-1.37%	17.63%
EPS (INR)	0.02	1.11	2.17	3.18	-3.42	-0.16	-	-	0.75
P/E	1800.00	32.43	16.59	6.24	-	-	-	-	32.92

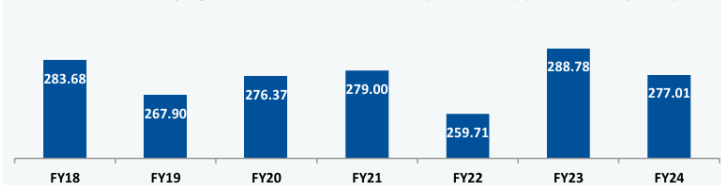
### Interpretation -

- The net profit margin and EBITDA margin for Laxmi Cotspin has remained negative and a sudden increase can be seen for Spright Agro limited.
- The company's RoCE and ROE is better compared to peers.
- The company has better cash conversion cycle than peers.
- The company has better PE than peers.

### Agro Industry in India -

India is one of the major players in the agriculture sector worldwide and it is the primary source of livelihood for ~55% of India’s population. India has the largest area planted for wheat, rice, and cotton, and is the largest producer of milk, pulses, and spices in the world.

Gross Value Added By Agriculture And Allied Sectors (US\$ billion) (At Constant prices)

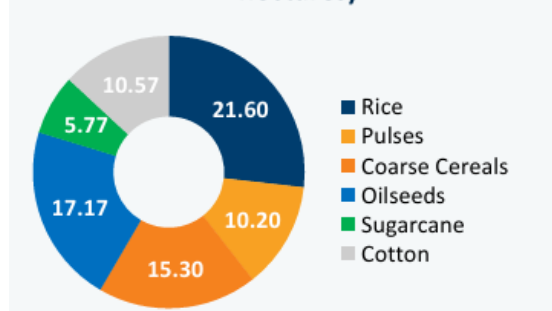


(Source: ibef.org)

The Indian agricultural sector is predicted to increase to US\$ 24 billion by 2025. Indian food and grocery market is the world’s sixth largest, with retail contributing 70% of the sales.

As per the First Advance Estimates for 2023-24 (Kharif only), total foodgrain production in the country is estimated at 148.5 million tonnes. Rabi crop area has from 709.09 lakh hectares in 2022-23 to 709.29 lakh hectares in 2022-23.

Kharif area sown in 2024-25\* (million hectares)



(Source: ibef.org)

### Government Initiatives -

In the Union Budget 2023-24:

- Rs. 1.24 lakh crore (US\$ 15.9 billion) has been allocated to the Department of Agriculture, Cooperation and Farmers’ Welfare.
- Rs. 8,514 crore (US\$ 1.1 billion) has been allocated to the Department of Agricultural Research and Education.

Through several Digital Initiatives, such as the National e-Governance Plan in Agriculture (NeGP-A), the construction of Digital Public Infrastructure (DPI), digital registries, etc., the government has taken several steps to ensure access to IT across the nation.

### Cotton Industry in India -

Cotton is one of the most important commercial crops cultivated in India and accounts for around 24% of the total global cotton production.

India’s total production of cotton in the year 2023-24 (until November 2023) is 31.6 million bales (bales of 170 kg each). Total production of cotton in the year 2022-23 was 34.3 million bales and in 2021-22, it stood at 31.1 million bales.

Cotton Production in India (lakh bales of 170 kg)



(Source: ibef.org)

### Government Initiatives -

The government has been implementing various policy initiatives and schemes to encourage cotton spinning millers in the country, including the announcement of key reforms under a Special Package that includes additional incentives under the Amended Technology Upgradation Fund Scheme (ATUFS), relaxation of Section 80JJAA of the Income Tax Act, and the introduction of fixed-term employment for the apparel sector.

**Key Management -**

- The overall management of the company is decent.
- The promoter and management have decent experience in cotton industry.
- The promoter is experienced but not educated.



<b>Key Management Persons Name -</b>	<b>Ashok Bhagvanbhai Monsara</b>
<b>Age</b>	58
<b>Designation and No. of years of experience</b>	Promoter and Managing Director, 20+ years of experience in the cotton and related commodities business
<b>Qualification</b>	Higher Education(10th) from Gujarat Secondary
<b>Other Directorships</b>	-

<b>Key Management Persons Name -</b>	<b>Truptiben Ashokbhai Monsara</b>
<b>Age</b>	48
<b>Designation and No. of years of experience</b>	Promoter and Executive Director, 15+ years of experience in textile marketing
<b>Qualification</b>	Graduation
<b>Responsibility</b>	Heads business promotion, sales, and marketing and is dedicated to promoting women's empowerment within the company
<b>Other Directorship</b>	-

<b>Key Management Persons Name -</b>	<b>Ashish Dhirajlal Monsara</b>
<b>Age</b>	40
<b>Designation and No. of years of Experience</b>	Promoter and Non-Executive Director, 13 years of experience in consulting and specializes in treating joints, respiratory system, and skin.
<b>Qualification</b>	Bachelor of Homeopathic Medicine and Surgery
<b>Responsibility</b>	Overlooks the marketing department and fetching customers to close deals with them
<b>Other Directorship</b>	-

<b>Key Management Persons Name -</b>	<b>Ashokkumar Haribhai Koyani</b>
<b>Age</b>	57
<b>Designation and No. of years of experience</b>	Non-Executive Independent Director, 30+ years of experience in financial market and legal & management
<b>Qualification</b>	M.Com, MBA (Finance), PGDM LLB and certifications in NISM Certified Cash & Derivatives, DP, Compliance Officer Broker Module, Investment Adviser.
<b>Other Directorships</b>	Saurashtra Kutch Enterprise Limited

<b>Key Management Persons Name -</b>	<b>Mitesh Rasiklal Jasani</b>
<b>Age</b>	34
<b>Designation and No. of years of experience</b>	Non-Executive Independent Director, 12+ years of experience in Income Tax and Indirect Taxes
<b>Qualification</b>	Bachelor of Commerce and Qualified Inter CA
<b>Responsibility</b>	Overlooks company's operations which includes ensuring compliance with legal frameworks, regulations, and registrar of company requirements and looks other technical aspects vital to the company's functioning.
<b>Other Directorships</b>	-



## FINANCIAL SNAPSHOT

Statement of Profit and Loss			Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24
Revenue from Operations	6,173.93	7,336.28	10,865.52
Other Income	2.28	6.12	9.30
<b>Total Income</b>	<b>6,176.21</b>	<b>7,342.40</b>	<b>10,874.82</b>
<b>Expenses</b>			
Cost of material consumed	5,494.78	5,944.99	1,644.18
Purchase of stock-in-trade	631.64	1,035.24	9,793.38
Changes in Inventories of finished goods, work-in-progress	-121.38	23.93	-1,028.54
Employee Benefit Expenses	17.75	15.99	20.97
Finance Cost	113.57	81.74	102.33
Depreciation and Amortisation	8.58	10.11	10.32
Administrative, Selling and Other expenses	27.32	42.13	31.46
<b>Total Expenses</b>	<b>6,172.26</b>	<b>7,154.13</b>	<b>10,574.10</b>
<b>EBITDA</b>	<b>123.82</b>	<b>274.00</b>	<b>404.07</b>
<b>EBITDA Margin</b>	<b>2.01%</b>	<b>3.73%</b>	<b>3.72%</b>
<b>Profit/(Loss) before tax</b>	<b>3.95</b>	<b>188.27</b>	<b>300.72</b>
<b>Tax Expense</b>			
Current tax	2.23	48.77	77.72
Deferred Tax	-1.12	-1.62	-1.26
Income Tax Adjustment	-	0.07	0.52
<b>Total Tax</b>	<b>1.11</b>	<b>47.22</b>	<b>76.98</b>
<b>Profit/(Loss) for the year</b>	<b>2.84</b>	<b>141.05</b>	<b>223.74</b>
<b>Net Profit Margin</b>	<b>0.05%</b>	<b>1.92%</b>	<b>2.06%</b>

Statement of Assets and Liabilities			Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24
<b>EQUITY AND LIABILITIES</b>			
<b>1. Shareholders' funds</b>			
Share Capital	41.87	41.87	1,309.96
Reserves and surplus	364.70	505.75	461.40
<b>Total Equity</b>	<b>406.57</b>	<b>547.62</b>	<b>1,771.36</b>
<b>3. Non-current liabilities</b>			
Long-term borrowings	441.56	301.37	67.53
Deferred Tax Liabilities (Net)	13.44	11.82	10.56
Long-term provisions	1.28	1.39	1.11
<b>Total Non-current liabilities</b>	<b>456.28</b>	<b>314.58</b>	<b>79.20</b>
<b>4. Current liabilities</b>			
Short-term borrowings	1,023.72	878.11	1,139.54
Trade Payables	22.21	99.37	873.16
Other Current Liabilities	35.49	17.56	21.51
Short-term provisions	0.09	43.34	46.32
<b>Total Current liabilities</b>	<b>1,081.51</b>	<b>1,038.38</b>	<b>2,080.53</b>
<b>Total Liabilities</b>	<b>1,537.79</b>	<b>1,352.96</b>	<b>2,159.73</b>
<b>Total Equity and Liabilities</b>	<b>1,944.36</b>	<b>1,900.58</b>	<b>3,931.09</b>
<b>ASSETS</b>			
<b>1. Non-current assets</b>			
Property, Plant & Equipment	104.77	98.44	94.74
Non-Current Investments	0.10	0.10	0.10
Other Non-current assets	8.03	0.89	8.46
<b>Total Non-Current assets</b>	<b>112.90</b>	<b>99.43</b>	<b>103.30</b>
<b>2. Current assets</b>			

Particulars	FY 22	FY 23	FY 24
Inventories	1,381.38	1,330.32	2,692.16
Trade Receivables	373.82	391.55	992.99
Cash & Cash equivalents	46.29	52.95	44.49
Short term loans and advances	29.97	26.09	59.08
Other Current Assets	-	0.25	39.08
<b>Total Current assets</b>	<b>1,831.46</b>	<b>1,801.16</b>	<b>3,827.80</b>
<b>Total Assets</b>	<b>1,944.36</b>	<b>1,900.59</b>	<b>3,931.10</b>

**Cash Flow Statement**

Amt in Lakhs.

Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	99.97	389.50	-932.22
Net Cash Flow from Investing Activities	4.60	-15.30	-3.29
Net Cash Flow from Financing Activities	-73.10	-367.54	927.05

**Key Ratios**

Per Share Data	FY 22	FY 23	FY 24	Valuation Ratios (x)	FY 22	FY 23	FY 24
Diluted EPS	0.02	1.11	2.17	EV/EBITDA	14.74	6.11	7.26
BV per share	3.10	4.18	13.52	Market Cap / Sales	1.10	0.92	0.62
<b>Operating Ratios</b>				P/E	1,800.00	32.43	16.59
EBITDA Margins	2.01%	3.73%	3.72%	Price to Book Value	11.60	8.61	2.66
PAT Margins	0.05%	1.92%	2.06%	<b>Solvency Ratios</b>			
Inventory days	81.67	66.19	90.44	Debt / Equity	3.60	2.15	0.68
Debtor days	22.10	19.48	33.36	Current Ratio	1.69	1.73	1.84
Creditor days	1.36	5.22	27.08	Quick Ratio	0.42	0.45	0.55
<b>Return Ratios</b>				Asset Turnover	3.18	3.86	2.76
RoCE	13.36%	30.61%	21.28%	Interest Coverage Ratio	1.01	3.23	3.85
RoE	0.70%	25.76%	12.63%				

**INTERPRETATION –**

1. The top line has seen increase over the years which was due to increase in demand of the product for FY 2023 (increased by 18.88%) and a jump of 48.11% can be seen for FY 2024 which was due to increase in trading of chana and trade of new products like cattle feed.
2. The net profit has also seen a sudden increase of 4849.47% in FY 2023 which was because the company explored new markets after COVID-19 and a slight increase for FY 2024 was seen.
3. The PAT margin and EBITDA margin have also seen sudden increase in FY 2023.
4. The company had negative cash flow from operations for FY 2024.
5. The RoCE and ROE have decreased for FY 2024.
6. The PE ratio has improved over the years.

**LEAD MANAGER TRACK RECORD -**

The lead manager to the issue is Fast Track Finsec 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 –

**Fast Track Finsec Private Limited –**

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Ambey Laboratories Limited	44.68	68.00	Jul 11, 2024	71.50
2.	Akiko Global Services Limited	23.11	77.00	Jul 02, 2024	66.10
3.	Enser Communications Limited	16.17	70.00	Mar 22, 2024	283.40
4.	Sungarner Energies Limited	5.31	83.00	Aug 31, 2023	695.25
5.	Pearl Green Clubs and Resorts Limited	11.72	186.00	Jul 07, 2022	180.00
6.	Globesecure Technologies Limited	10.13	29.00	Jun 02, 2022	43.60
7.	Jeena Sikho Lifecare Limited	55.50	150.00	April 19, 2022	1499.70
8.	SBL Infratech Limited	2.37	111.00	Sep 28, 2021	36.70
9.	Trekkingtoes.com Limited	4.54	105.00	Aug 28, 2020	29.20
10.	Ascom Leasing & Investments Limited	6.32	30.00	Dec 06, 2019	123.85

The company has handled 8 mandates in the past three years (including the current year).

\*CMP for the above-mentioned companies is taken as of 10<sup>th</sup> Sep 2024.

As per the offer document, the above-mentioned mandates 1 has opened at a discount and remaining all have opened at a premium on the listing day.



## Recommendation -

Gajanand International Limited has been in the industry since 2009 and has good experience in the industry. But the management overview of the company is decent.

The P/E on a post-IPO basis is around 30.31 times which makes it slightly highly priced.

The company has seen a sudden increase in bottom line and profitability margins in FY 2023, which was because they entered new market after COVID pandemic, and it might not be sustainable in the future.

The company had negative cash flow from operations.

The concentration of customers is very high, and they are not utilizing their manufacturing capacity effectively.

The agriculture industry is a very slow growing industry and is highly competitive and fragmented.

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

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