

RATING



Business	★★★★☆
Financials	★★★★☆
Valuation	★★★★☆
Management	★★★★☆

Ranking 1 to 5, denoting lowest and 5 highest

Date : 06-03-2024

Recommendation : Buy For Listing Gain (GMP : 140% to 150%)

Initial Public Offer :SME

SHREE KARNI FABCOM LIMITED

SKFL

(Note: All the information and data in this report is from RHP)

IPO DETAILS

Price	₹ 220 - ₹ 227
Lot Size	600
Min. Investment	₹ 136,200
Issue Size	₹ 42.49 cr
Fresh Issue	₹ 42.49 cr
Listing At	NSE SME
QIB	50.00%
NII	15.00%
Retail	35.00%
Issue Type	Book Built Issue IPO
Share holding pre issue	96.16%
Share holding post issue	70.07%

IPO TIMELINES

IPO Date	06 Mar - 11 Mar
Listing Date	14-Mar
Basis of Allotment	12-Mar
Initiation of Refunds	13-Mar
Credit of Shares to Demat	13-Mar

Key Highlights :

- ❖ The company acquired a 66.67% stake in IGK Technical Textile LLP on October 31, 2023, which specializes in weaving, coating, sizing, and embossing of technical textiles, with subsidiary operations encompassing woven, coating, and embossing facilities.
- ❖ Management attributes lower margins for FY23 to expansion mode for value-added product mix; with infrastructure in place, reaping benefits reflected in 8M-FY24, expected to continue with addition of high-margin products in portfolio, focusing on bags.
- ❖ The customer list comprises VIP, Samsonite, Bata, Khadim, Flamingo, Tommy Hilfiger, Safari, and others.
- ❖ In the last three fiscal years, the company's consolidated revenue and net profit were Rs. 32.90 cr. / Rs. 1.53 cr. (FY21), Rs. 83.65 cr. / Rs. 5.15 cr. (FY22), and Rs. 127.04 cr. / Rs. 5.55 cr. (FY23). For the first 8 months of FY24 ended on November 30, 2023, it earned a net profit of Rs. 8.13 cr. on a total revenue of Rs. 76.00 cr.
- ❖ The company achieved PAT margins of 4.67% (FY21), 6.16% (FY22), 4.37% (FY23), 10.75% (8M-FY24), and RoCE margins of 16.80%, 19.20%, 21.83%, and 11.34% respectively.
- ❖ The IPO appears reasonably priced with a P/E ratio of 13.16 based on annualized FY24 earnings attributed to its post-IPO fully diluted paid-up capital.

About Company :

Founded in March 2018, Shree Karni Fancom Limited specializes in the production of customized knitted and woven fabrics for diverse industries, including luggage, medical arch support, chairs, shoes, and apparel. The company is renowned for its expertise in Woven Fabrics, Knitted Fabrics, Coated Fabrics, and 100% polyester textiles, utilizing yarn, resin, acrylic, and coating chemicals to craft specialized technical textiles.

Infrastructure: The manufacturing unit boasts modern, highly automated machinery with capacities of 70k meters/day for weaving, 90k kilos/month for knitting, 50k meters/day for coatings, 15k meters/day for PVC, 8k meters/day for EVA lamination, and 40k meters/day for heat embossing.

Quality Certification: Shree Karni Fancom Limited has been accredited with the ISO 9001:2015 certificate by INTERTEK, affirming the quality of its management system.

Market Presence: The company serves clients across 13 states, catering to various contract manufacturers of branded luggage and shoe manufacturers, traders, and other stakeholders.

Workforce: As of November 30, 2023, the company boasts a dedicated team comprising 39 employees across different departments, contributing to its operational excellence and growth trajectory.

Objectives of the Issue :

1. Funding the capital expenditure setting up a dyeing unit in Navsari District, Surat, Gujarat.
2. Funding the purchase of new machinery proposed to be installed at the new unit proposed to be set up for manufacturing bags in Palsana, Surat, Gujarat, with an intent to expand the product portfolio.
3. Funding working capital requirements of the company.
4. General Corporate Purposes.

Management Details :

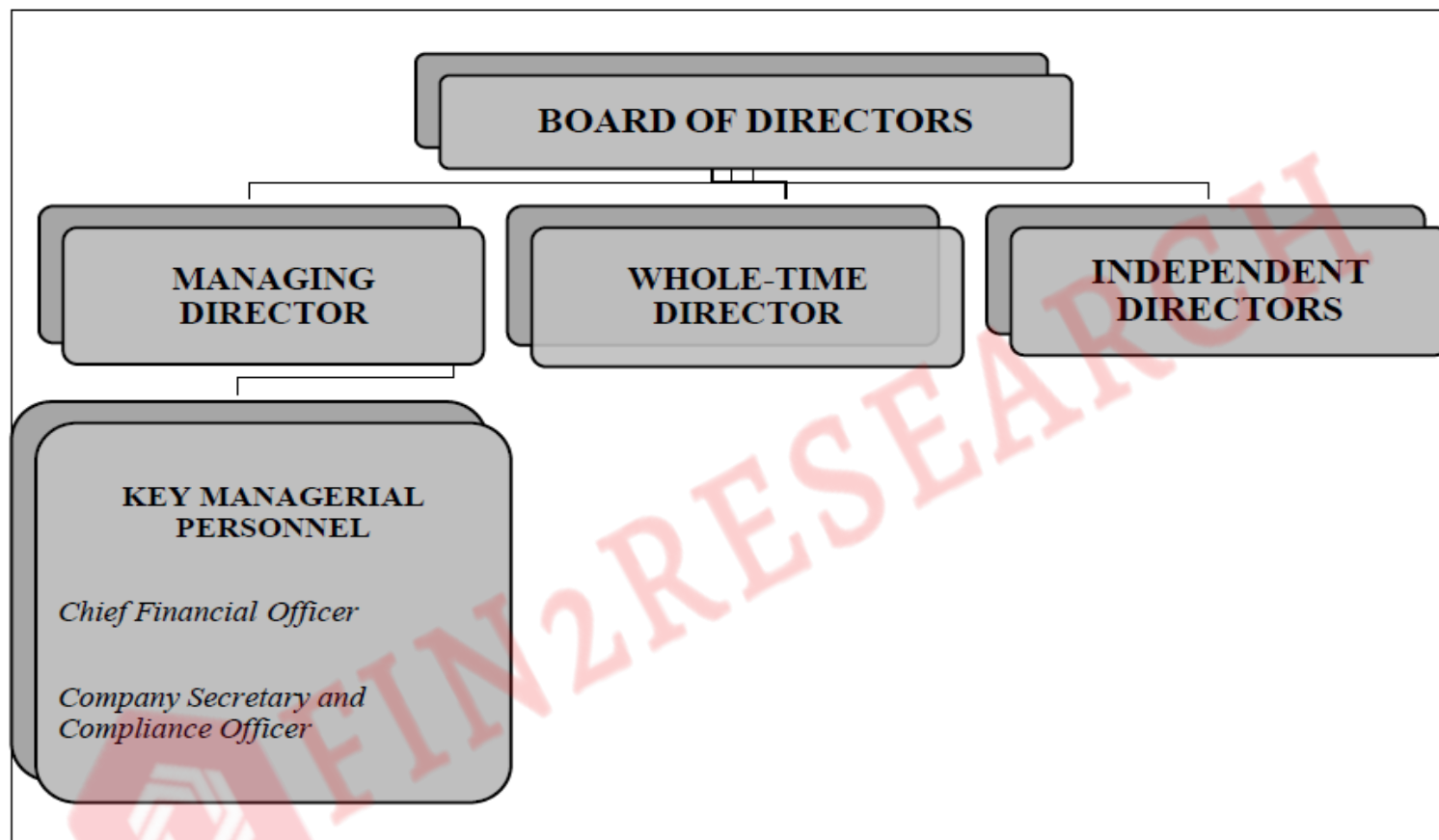
Rajiv Lakhotia, aged 42 years, serves as one of the Promoters of the Company and holds the position of Managing Director. He pursued a bachelor's degree in commerce from the University of Calcutta. Currently, he leads the customer development efforts, catering to the evolving needs of the industry. With 16 years of experience in the textile sector, Rajiv oversees the sales department and has been instrumental in driving the growth and development of the company.

Manoj Kumar Karnani, aged 48 years, serves as a Promoter and Whole-time Director of the Company. Despite lacking formal education qualifications, he brings extensive expertise to the table. With over 20 years of experience in import and export handling, Manoj previously worked as an independent agent, providing custom clearance consultancy to businesses engaged in international trade. His profound understanding of custom laws and regulations positions him as a valuable asset for the company, where his primary role involves liaising with the customs department.

Arbind Kumar Lahoty, aged 31 years, holds the position of Chief Financial Officer at the Company. He pursued his bachelor's degree in Commerce from Maharaja Ganga Singh University, Bikaner. Previously, he gained valuable experience working with KP Group and Agarwal A Kumar and Associates. Arbind is an associate member of the Institute of Chartered Accountants of India and possesses over 7 years of extensive experience in accounting and supply chain management.



MANAGEMENT DETAILS



Name of the Shareholder	No. of Equity Shares	As a % of pre-issued Capital
Promoters		
Manoj Kumar Karnani	12,50,000	24.04%
Raj Kumar Agarwal	12,50,000	24.04%
Rajiv Lakhotia	12,50,000	24.04%
Radhe Shyam Daga	12,50,000	24.04%
Total – A	50,00,000	96.16%

Name of the Shareholder	No. of Equity Shares	As a % of post-issued Capital
Promoters		
Manoj Kumar Karnani	12,50,000	17.68%
Raj Kumar Agarwal	12,50,000	17.68%
Rajiv Lakhotia	12,50,000	17.68%
Radhe Shyam Daga	12,50,000	17.68%
Total – A	50,00,000	70.07%



Business:

- ❖ The company operates as a prominent manufacturer specializing in technical textiles catered to a diverse range of industries including luggage, medical arch support, chairs, shoes, and apparels. Its manufacturing process commences with yarn procurement, followed by weaving, coating, printing, and finishing, resulting in a versatile array of knitted and woven fabrics meticulously crafted to meet client specifications. With a primary focus on woven, knitted, and coated fabrics, the company meticulously sources materials such as yarn, resin, acrylic, and coating chemicals to ensure product excellence.
- ❖ The manufacturing infrastructure comprises several facilities including knit, PVC/EVA lamination, and dedicated research and development (R&D) units. Additionally, subsidiary operations encompass woven, coating, and embossing facilities, strategically bolstering production capabilities. Guided by a team of seasoned promoters, the company has transitioned from textile trading to automated manufacturing, reflecting its commitment to innovation and growth.
- ❖ In a recent strategic move, the company acquired a controlling stake in IGK Technical Textile LLP, further enhancing its manufacturing capabilities and market presence. This strategic acquisition aligns with the company's vision of expansion and diversification within the technical textile sector.
- ❖ Looking towards the future, the company is poised for expansion with plans to establish a dedicated dyeing facility and bag manufacturing unit. These initiatives underscore the company's commitment to meeting evolving market demands and reinforcing its position as a leading player in the industry.
- ❖ A key aspect of the company's success lies in its unwavering commitment to quality assurance and compliance with industry standards. Through its in-house R&D facility and rigorous testing protocols, the company ensures that its products meet the stringent requirements of both domestic and international markets. This emphasis on quality has enabled the company to forge partnerships with renowned brands and expand its footprint in the competitive textile landscape.
- ❖ In summary, the company's comprehensive manufacturing capabilities, strategic acquisitions, and unwavering commitment to quality position it as a formidable player in the technical textile industry, poised for continued growth and success in the years ahead.

Product

Woven Fabrics :

Woven fabric is any textile formed by weaving. Woven fabrics are often created on a loom, and made of many threads woven on a warp and a weft. Technically, a woven fabric is any fabric made by interlacing two or more threads at right angles to one another. Woven fabrics can be made of natural fibers, synthetic fibers, or a mixture of both, such as cotton and polyester. Woven fabrics only stretch diagonally on the bias directions (between the warp and weft directions), unless the threads used are elastic.

Woven fabrics play a crucial role in various manufacturing applications, serving as the foundation for a range of products. In the production of interlining, jackets, wallets, and hard luggage, woven fabrics provide the necessary structure and durability. Tafeta woven fabrics find utility in crafting backpacks, rain covers, umbrellas, vehicle covers, and both soft and hard luggage, offering protection and resilience. Additionally, matt woven fabrics are preferred for their versatility, making them ideal for manufacturing soft and hard luggage as well as backpacks. Each type of woven fabric brings distinct qualities to the manufacturing process, ensuring functionality and reliability in the final products.



Knitted Fabrics :

Knitted fabric, formed through inter-looping or inter-meshing yarns, offers distinct properties compared to woven fabric. Its flexibility and ability to be constructed into smaller pieces make it ideal for products like socks and hats. Knit fabric comes in two basic varieties: weft-knit and warp-knit. Weft-knit fabrics, more common and easier to make, may unravel when cut unless repaired. On the other hand, warp-knit fabrics such as tricot and milanese are resistant to runs and are commonly used in lingerie. Additionally, warp-knit fabrics like Raschel lace offer resistance to runs and are relatively easy to sew, making them suitable for various applications.

Knitted fabrics, like air mesh, find versatile applications across various industries. Commonly utilized in the manufacturing of backpacks, shoes, chairs, masks, helmets, and medical arch support, air mesh offers a blend of comfort, breathability, and durability. Its unique properties make it an ideal choice for products requiring ventilation, support, and flexibility.



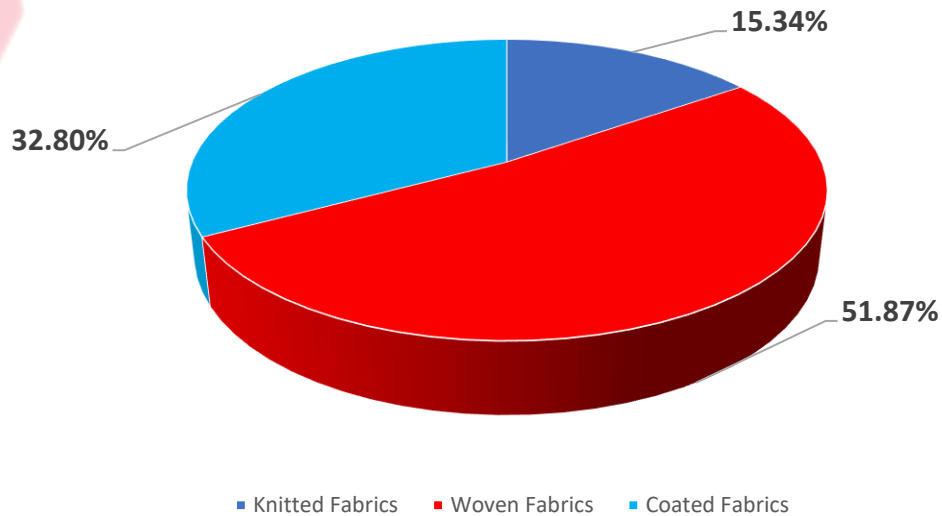
Coated Fabrics :



Coated fabrics undergo a specialized coating process to enhance functionality and imbue additional properties, such as rendering cotton fabrics impermeable or waterproof. These textiles find diverse applications, including the production of blackout curtains and the creation of waterproof fabrics utilized in raincoats. By adding these coatings, fabrics gain improved performance and durability, expanding their utility across various industries and applications.

Coated fabrics offer enhanced functionality for a range of products. PU Coated Matty fabrics are commonly used in backpacks for durability. WR Coated lining fabrics find application in backpacks, rain covers, umbrellas, vehicle covers, and both soft and hard luggage, providing waterproof protection. AF Coated lining fabrics are utilized in backpacks and both soft and hard luggage for added durability. PVC Lamination fabrics are preferred for soft luggage due to their robustness. Similarly, EVA Lamination fabrics are employed in soft luggage for their lightweight yet durable properties. These coated fabrics play a vital role in enhancing the performance and longevity of various products across different industries.

Productwise Revenue bifurcation 30-Nov-23



Partnership with Leading Brands

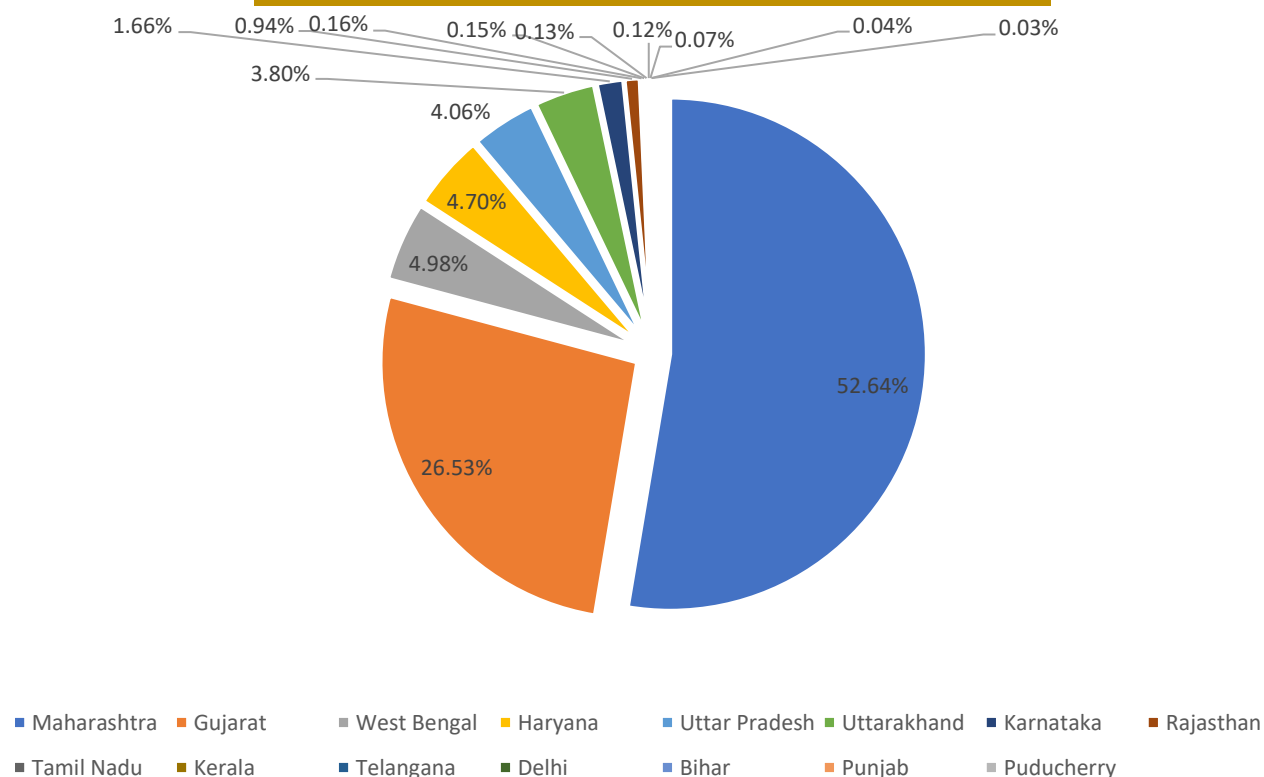


Key Performance Indicators	30-Nov-23	2023	2022	2021
Revenue from Operations	7,572.22	12,694.65	8,357.36	3,287.42
EBITDA	1,440.27	1,519.16	828.14	380.51
EBITDA Margin	19.02%	11.97%	9.91%	11.57%
Profit After Tax for the Year	813.83	555.25	514.84	153.48
PAT Margin	10.75%	4.37%	6.16%	4.67%
ROE	42.56%	21.34%	38.96%	22.87%
ROCE	11.34%	21.83%	19.20%	16.80%
Net Debt/ EBITDA	6.52	2.38	3.27	3.68

OPERATIONAL KPIs OF THE COMPANY

Particulars	2023	2022	2021
Capacity Utilisation			
Installed Capacity (MTPA)	9,45,000	4,80,000	1,80,000
Actual Production (MTPA)	6,71,000	2,74,000	1,70,000
Capacity Utilization (In %)	71.00%	57.00%	94.44%
Contribution to revenue from operations of top 5 / 10 customers			
Top 5 Customers (%)	43.54%	50.88%	44.59%
Top 10 Customers (%)	61.12%	68.52%	72.96%

State-wise Revenue Breakdown upto Nov 30, 2023





Business Strengths :-

Leading Specialized Technical Textile Manufacturer: Pioneering Excellence

With over two decades of experience, the leading specialized technical textile manufacturer has established a strong presence in the market. Recognized for its reliability, the company serves as a trusted partner for contract manufacturers and traders nationwide. Their success is attributed to a dedicated quality control and assurance team, ensuring compliance and enhancing the value proposition through comprehensive testing. The company's commitment to delivering defect-free, high-quality products distinguishes it within the industry.

Location Advantage: Thriving in Gujarat's Textile Hub

Situated in Gujarat, India's "Textile State," our company enjoys a strategic location offering numerous advantages. The state's proximity to ports and status as a leading polyester producer reduces transportation costs, enhancing cost-effectiveness. Access to a well-established textile value chain facilitates procurement of raw materials and chemicals, crucial for our operations. Gujarat's competitive market ensures high-quality inputs at competitive rates, further optimizing production costs. Moreover, the textile-centric ecosystem provides a ready market for our products through an extensive network of dealers and manufacturers. This advantageous location, coupled with skilled labor availability, enables us to maintain cost-effective manufacturing while delivering quality products.

Diversified Product Portfolio Expansion

From humble beginnings in woven fabric manufacturing, the company has expanded its product range significantly. In 2020, production expanded to include interlining woven and knitted woven fabrics. Further diversification led to the addition of knitted fabrics and coated fabrics, including EVA and PVC laminated fabrics. Presently, the product portfolio encompasses a wide array of high-quality fabrics used in various industries such as luggage, roofing, agriculture, automotive, housing, military, sports, medical, and apparel. Specializing in 100% polyester knitting and woven fabrics, the company's upcoming venture into dyeing manufacturing units for woven and knitted fabrics promises further portfolio enhancement and business expansion opportunities.

Efficient Production and Timely Order Fulfillment

The company prioritizes timely order fulfillment and cost efficiency through strategic measures. This includes establishing reliable suppliers for raw materials, maintaining smooth labor relations, employing efficient production systems, and leveraging strong partnerships with suppliers to meet diverse orders. Offering both standard and customized solutions, the company ensures customer-specific requirements are met promptly and effectively.

Government Incentives for Textile Industry

The company in Gujarat benefits from TUFS and ATUFS, offering a 6% interest subsidy on loans. These schemes aim to boost investment, productivity, and exports in the textile sector. Gujarat's Textile Policy further enhances incentives, including interest and capital subsidies, fostering industry growth.

Experienced Management Driving Success

Led by seasoned individuals with over two decades of experience in the textile industry, including the Managing Director and key promoters, the company boasts a professional management team adept in project management and implementation. Their combined expertise ensures efficient strategic decision-making, operational excellence, and business development, positioning the company for sustained growth and market expansion.

Business Strategies

Expansion Plans: New Dyeing Unit and Bag Manufacturing

In July 2020, the company launched commercial production for knitting fabrics with a capacity of 400 kilos per day, marking a significant diversification move. Expanding further, a dedicated PVC and EVA lamination division was established in April 2023, enhancing capabilities in lamination processes. Now, with proceeds from recent developments, the company plans to establish a cutting-edge dyeing facility and initiate bag manufacturing. The bag manufacturing unit, strategically located in Surat, Gujarat, will be fully equipped to handle all production processes. Simultaneously, a state-of-the-art dyeing facility will be set up in Navsari, Gujarat, to cater to fabric dyeing requirements comprehensively. This diversification into bag manufacturing represents a forward integration strategy, leveraging specialized technical textile expertise to tap into a higher-margin segment. The move aligns with market trends in sportswear, rainwear, and the broader bag pack industry, driven by growing demand for interlining fabric applications in luggage and sportswear manufacturing.

Market Diversification Strategy

The company focuses on manufacturing, processing, and coating woven fabrics for domestic sales. To leverage domestic market opportunities, the company plans to increase penetration by exploring sub-geographic areas and diversifying products and markets. This strategy aims to mitigate market risks and broaden growth prospects. Additionally, the company intends to expand its geographical reach by supplying value-added products in different countries, further enhancing market diversification efforts.

Enhancing Marketing Network for Business Growth

The company prioritizes expanding its customer base through targeted marketing efforts and deep customer understanding. With a focus on customer loyalty, the company continuously improves its product offerings and anticipates market changes. Currently, the marketing and sales division comprises three members responsible for both organized and unorganized sectors of the technical textile industry. Plans to strengthen the marketing team with industry experts aim to enhance domestic market strategies. Additionally, diversifying business operations to include dyeing processes through a separate unit will expand the product portfolio and customer base. Leveraging the acceptability of products by contract manufacturers and adherence to Indian standards, the company emphasizes quality as a key marketing strategy. Domestic operations serve as a learning ground for global trends, efficiency improvements, and better customer service, paving the way for future penetration into global markets.



Risk Factor

Dependency on Subsidiary: Operational Risks

The company heavily relies on its subsidiary, IGK Technical Textiles LLP, for weaving, coating, sizing, and embossing specialized technical textiles. The lack of formal agreements between the company and its subsidiary raises concerns regarding timely operations and quality assurance. Without formal agreements, the company may face challenges in ensuring fulfillment of obligations and addressing potential breaches or quality lapses. Additionally, the subsidiary's non-exclusivity in dealing with the company poses risks to business continuity, financial performance, and reputation.

Revenue Dependency on Key Customers

The company's revenue is significantly reliant on a small number of key customers across multiple industries, such as luggage, medical arch support, chairs, shoes, and apparel. Any decline in sales from these key customers could have adverse effects on the company's business operations and financial performance. Notably, the top 5 customers accounted for approximately 60.30% of revenue as of November 30, 2023, and this trend persists over previous fiscal years, with the top 10 customers contributing around 74.23% in the same period. This dependency underscores the importance of maintaining strong relationships with key clients while also diversifying the customer base to mitigate risks associated with overreliance on a few customers.

Geographical Sales Concentration Risks

The company's revenue heavily relies on sales in select geographical regions, with approximately 90% of revenue generated from five states: Maharashtra, Gujarat, West Bengal, Haryana, and Uttar Pradesh. This concentration increases vulnerability to adverse developments such as heightened competition and economic fluctuations in these regions. Efforts to diversify geographically may mitigate risks, but failure to do so could adversely impact business development and financial performance.

Impact of Fashion Trends on Market Position

The company's success hinges on its ability to anticipate and adapt to changing fashion trends and customer preferences swiftly and effectively. In the dynamic textile industry, failure to respond to these changes could result in a decline in market position and customer base, adversely affecting financial performance. Maintaining and enhancing product recognition and reputation is crucial for competitiveness, with factors like customer satisfaction and product quality playing pivotal roles. Failure to meet quality standards or customer expectations could negatively impact market standing and sales. Overall, the company's ability to anticipate and respond to changing trends is vital for sustaining business growth and competitiveness.

Industry Overview

Overview of Indian Textile and Apparel Industry

India's strengths have already been defined in traditional textiles and natural fibres globally. It is the second largest producer of polyester in the world and is now emerging as a key player in technical textiles industry contributing to a market size of \$ 19 Bn. Technical textiles are defined as high performance textile products, materials, and fibres that are used for their functional use rather than for aesthetic purposes. Technical textiles have varied applications in several vital industries including aerospace, packaging, hazard protection, shipping, sports, agriculture, defence, healthcare, construction, etc. The usage of technical textiles has the benefit of large-scale improvements in performance, efficiency, conservation of resources, cost reduction, environmental protection and cost effectiveness. Other terms used for defining Technical textiles include industrial textiles, functional textiles, performance textiles, engineering textiles, invisible textiles and hi-tech textiles. Technical textiles is a fast-growing sub-segment that finds its usage in an array of sectors. The end use application of technical textiles is widespread and seen in industries such as agriculture, construction, sports apparel, healthcare etc. India's leap towards modernisation and its manufacturing competitiveness are some of the key contributors to the growth of this segment.

Cotton Production and Consumption

India leads globally as the largest producer of cotton, with an estimated production of 362.18 lakh bales during the 2021-22 season. Domestic consumption for the same period is estimated at 338 lakh bales. Cotton production is expected to increase to 7.2 million tonnes by 2030, driven by rising consumer demand.

Fibre and Yarn Production

In FY21, fibre production in India reached 2.40 million tonnes, while yarn production stood at 4,762 million kilograms during the same period.

Exports and Market

India's textile and apparel exports (including handicrafts) totaled US\$ 44.4 billion in FY22, marking a significant 41% increase year-on-year. The US is India's largest export market, accounting for 27% of the total export value in FY22. Ready-made garment exports, including cotton accessories, reached US\$ 6.19 billion in FY22.

Employment

The textiles industry in India provides employment to approximately 4.5 crore workers, including 35.22 lakh handloom workers across the nation.

National Technical Textiles Mission (NTTM):

Launched by the Ministry of Textiles, the NTTM aims to establish India as the global leader in technical textiles. It has a total outlay of INR 1480 Crores spanning from 2020-21 to 2023-24.

PLI Scheme for Textiles:

To incentivize domestic production of technical textiles, the Production Linked Incentive (PLI) scheme was introduced. This scheme, alongside MMF Fabrics and MMF Apparel, has an overall budget of INR 10,683 Crores.



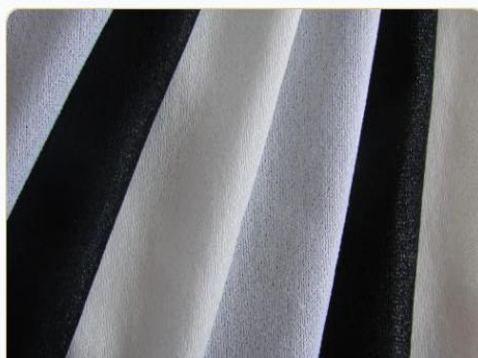
Comparison of Accounting Ratios with Industry Peers

Particulars	Revenue From operations (Rs. in Lakhs)	Face Value (Rs.)	EPS Diluted (Rs.)	PAT MARGIN(%)	RONW (%)
Shree Karni Fabcom Limited	12,694.65	10	11.1	4.37%	21.34%
PEER COMPANY					
Nobletex Industries Limited	17,828.68	10	19.71	4.67%	24.16%

Comparison of Accounting Ratios with Industry Peers

For the period ended March 30, 2023:

Key Financial Performance	Shree Karni Fabcom Limited	Nobletex Industries Limited
Revenue from Operations	12,694.65	17,828.68
EBITDA	1,519.16	1,601.70
EBITDA Margin	0.12	0.09
Profit After Tax for the Year	55525.00%	83583.00%
PAT Margin	4.37%	0.05
ROE	21.34%	21.16%
ROCE	21.83%	0.25
Net Debt/ EBITDA	2.38	2.11



**DISCLAIMER:****Abbreviation :-**

Gmp :- Grey Market Premium

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