



UNITED COTFAB LIMITED

IPO Note

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IPO Details

Opening Date	June 13, 2024
Closing Date	June 29, 2024
Stock Exchange	BSE SME
Lot Size	2,000 Shares
Issue Price	₹70 per share
Issue Size	Aggregating up to ₹36.29Cr.
Fresh Issue	Aggregating up to ₹36.29Cr.
Offer for Sale	-
Application Amount	₹1,40,000

IPO Objective

- To meet Working Capital Requirements
- General Corporate Purpose
- To meet Public Issue Expenses

Pre-Issue Shareholding

Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	1,20,06,000	100%
Public	-	-

Promoter of the Company

- Gagan Nirmalkumar Mittal
- Nirmalkumar Mangalchand Mittal

Competitive Strengths

- Experienced promoters
- Location Advantage of manufacturing facility
- Scalable business model

Company Background

- Incorporated in 2015, United Cotfab Limited manufactures high-quality open-end yarn for the textile industry. The company's clients include textile manufacturers, garment exporters and distributors. The company has its registered office in Gujarat.
- The company's product portfolio includes Open End Cotton Yarn and Cotton Yarn.
- The company commenced production of cotton yarn in Apr 2023.
- The manufacturing facility of the Company is situated in Taluka, Ahmedabad. The Manufacturing facility of the company has an installed capacity of approx. 9125 (MT) per annum.
- The company employs 118 people on various levels as on Mar 31, 2024, on its payroll.

Market Capitalization (In Cr.)

Pre-Issue	Post-Issue
84	120

Financial Summary (In Lakhs)

For the Period Ended	Mar-21	Mar-22	Mar-23	Mar-24
Total Assets	107.11	1,559.96	5,367.72	8,168.47
Net Assets	0.22	681.97	993.56	1,388.70
Total Borrowings	106.50	773.47	3,821.18	4,750.93
Total Revenue	-	1.88	64.01	11,552.74
Profit After Tax	-0.11	1.60	13.93	866.64

Tentative Timeline

Opening Date	June 13, 2024
Closing Date	June 19, 2024
Basis of Allotment	June 20, 2024
Initiation of Refunds	June 21, 2024
Credit of Shares to Demat	June 21, 2024
Listing Date	June 24, 2024

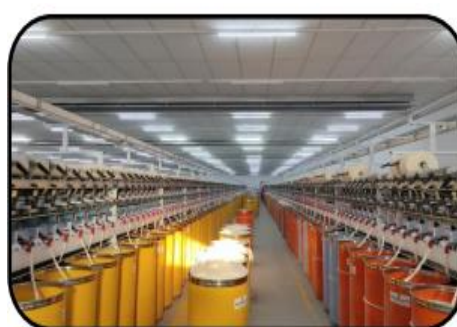


Company Background and Analysis

United Cotfab Limited, originally incorporated as United Cotfab LLP on August 25, 2015, transitioned from a limited liability partnership to a private limited company in November 2023, and subsequently to a public limited company in December 2023. United Cotfab Limited specializes in manufacturing open-end yarn for the textile industry, employing updated technology and stringent quality standards. United Cotfab's manufacturing process includes raw material selection, blending, spinning, winding, and quality control. The company's automatic plant commenced production in April 2023. Located in Ahmedabad, Gujarat, the facility is strategically positioned near rich cotton-growing areas, enhancing raw material accessibility and reducing transportation costs. The production process involves multiple stages including the blow room, carding, draw frames, and rotor spinning, ensuring high-quality output. The facility has an installed capacity of approximately 9,125 MT per annum with a current utilization of 81.57%.



PRODUCT: OPEN END COTTON



MANUFACTURING FACILITY



MANUFACTURING FACILITY

Product And State Wise Revenue Bifurcation-

Particulars	Mar-24		Mar-23	
	Amt (lacs)	%	Amt (lacs)	%
Revenue from Sale of Cotton Yarn				
Gujarat	10,710.57	92.90	44.20	100
Maharashtra	153.86	1.33	-	-
Madhya Pradesh	110.08	0.95	-	-
West Bengal	27.29	0.24	-	-
Haryana	41.49	0.36	-	-
Delhi	6.58	0.06	-	-
Total - Cotton Yarn	11,043.29	95.84	44.20	100
Revenue from Sale of Cotton Waste				
Gujarat	340.24	2.95	-	-
Maharashtra	139.30	1.21	-	-
Total - Cotton Waste	479.54	4.16	-	-
Total - Yarn + Waste	11,529.41	100	44.20	100

The company's primary product, open-end cotton yarn, is widely used in the textile industry for knitting, weaving, and crocheting. In FY 2023-24, Gujarat was the largest market, contributing 92.90% of the revenue from cotton yarn sales. The company also started sales in other states like Maharashtra, Madhya Pradesh, West Bengal, Haryana, and Delhi.



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United Cotfab Limited's business strategies focus on cost-effective manufacturing processes, entering new geographical markets, maintaining strong customer relationships, and optimizing resource utilization. The company aims to expand its distribution reach and enhance its presence in additional regions to cater to increasing demand. The company has an export obligation of worth US \$ 50,55,849.62 within a period of 6 years from September 09, 2022. If we talk about human resource of the company, as on March 31, 2024, company have the total 118 Employees.

The Business of company is dependent on few numbers of customers and suppliers. Top ten customers contribute to 79.57% and 100.00% of total sales for the period/year ended March 31, 2024, and March 31, 2023, respectively which gives huge bargaining power to customers and same goes to the suppliers as top ten Suppliers contributes to 93.53% and 100.00% of total purchase of Raw material and Packaging material for the year ended on March 31, 2024 and March 31, 2023, respectively.

To conclude, United Cotfab Limited Incorporated on August 25, 2015, specializes in manufacturing open-end yarn for the textile industry, employing updated technology and stringent quality standards. United Cotfab's manufacturing process includes raw material selection, blending, spinning, winding, and quality control. Company has manufacturing plant in Ahmedabad, Gujrat plant commenced production in April 2023.



Business Strategies

1. Cost Effective Manufacturing Process-

The company has invested in modern machinery and technology to maximize productivity and minimize waste. Implementing lean manufacturing principles have helped the company in streamlining the operations and optimum utilization of resources.

2. Entering into New Geographies-

The company intends to cater to the increasing demand of their existing customers and also to increase their existing customer base by enhancing the distribution reach of their products in different parts of the country and also around the world. They propose to increase their marketing and sales team which can focus in different regions and also maintain and establish relationship with customers.

3. Maintaining Strong Relationship With Customers-

United Cotfab's business model is based on the client relationships that have been established over a period of time rather than product-based execution approach. Timely delivery, consistent product quality and addressing the customer feedback and concerns has been an essential part in maintaining long term relationship with their clients.

4. Optimum Utilization of Resources-

Continuous process improvement initiatives, implementing automation and technology upgrades, and training employees on efficient work practices have helped them identify bottlenecks, reduce downtime and improve overall productivity.



Competitive Scenario and Peer Mapping

Competition

United Cotfab operates in the textile and apparel sector, which faces competition from both domestic and international players, including organized and unorganized sectors, private and public companies. The primary competitive factors consist of quality, technology, prompt delivery, price, size of product portfolio, and customer service. Moreover, as United Cotfab seeks to diversify into new geographical areas globally, it can face competition from local companies, multinational corporations, and companies from other emerging markets operating in such markets. United Cotfab competes with its competitors majorly based on product quality, brand image, price, and reliability.

Peer Analysis

The comparison of the key performance indicators of the listed peers as of Mar-24 is given below –

Particulars	United Cotfab Limited	Vippy Spinpro Limited	P B M Polytex Limited	Lagnam Spintex Limited
	31st Mar 2024	31st Mar 2024	31st Mar 2024	31st Mar 2024
Net Profit Margin	8%	2%	-3%	3%
EBITDA Margin	15%	7%	-2%	10%
Return on Capital Employed	29%	8%	-7%	8%
Return on Equity	62%	6%	-5%	13%
EPS (INR)	7.97	7.41	-9.38	8.25
P/E	13.88	18.96	-	13.99

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

Particulars	United Cotfab Limited	Vippy Spinpro Limited	P B M Polytex Limited	Lagnam Spintex Limited
	31st Mar 2023	31st Mar 2023	31st Mar 2023	31st Mar 2023
Net Profit Margin	32%	7%	-	3%
EBITDA Margin	3%	11%	2%	10%
Return on Capital Employed	-	15%	1%	11%
Return on Equity	1%	15%	-	13%
EPS (INR)	0.14	18.26	0.49	5.52
P/E	500.00	9.46	183.51	8.95

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

Particulars	United Cotfab Limited	Vippy Spinpro Limited	P B M Polytex Limited	Lagnam Spintex Limited
	31st Mar 2022	31st Mar 2022	31st Mar 2022	31st Mar 2022
Net Profit Margin	-	9%	9%	8%
EBITDA Margin	-	13%	13%	17%
Return on Capital Employed	-	27%	23%	24%
Return on Equity	-	20%	17%	42%
EPS (INR)	0.02	20.72	31.91	16.30
P/E	3,500.00	5.82	4.30	5.31



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

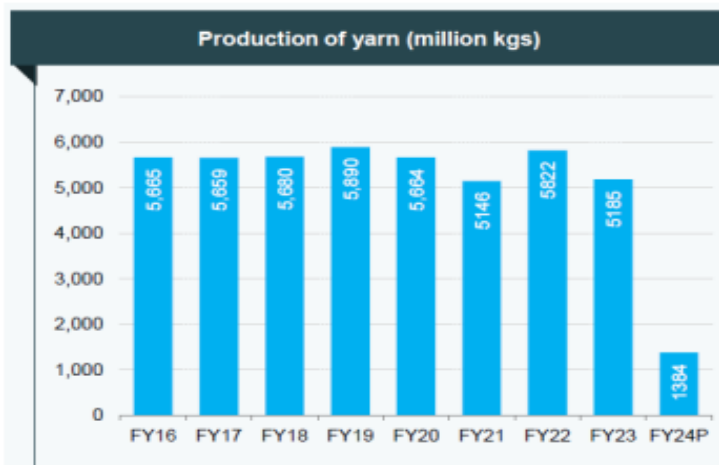
Particulars	United Cotfab Limited	Vippy Spinpro Limited	P B M Polytex Limited	Lagnam Spintex Limited
	31st Mar 2021	31st Mar 2021	31st Mar 2021	31st Mar 2021
Net Profit Margin	-	5%	1%	2%
EBITDA Margin	-	8%	5%	12%
Return on Capital Employed	-	12%	3%	9%
Return on Equity	-50%	8%	2%	10%
EPS (INR)	-	6.75	3.17	2.54
P/E	-	6.81	17.18	-



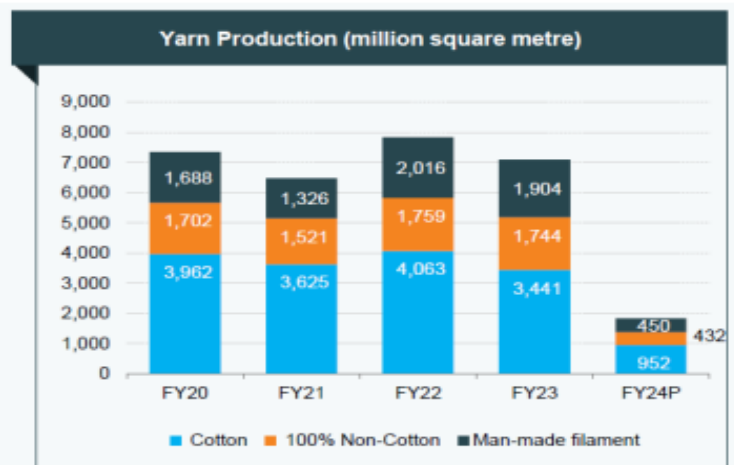
Industry Overview

Textile Sector: India Overview

India's textile sector is a global powerhouse, recognized for its significant contribution to the economy and its pivotal role in the global textile and apparel market. As the world's second-largest producer of textiles and garments and the third-largest exporter, India's textile industry is a vital segment of its economy, contributing 2.3% to the country's GDP and 12% to its exports. With a vast workforce of 45 million, including 3.5 million handloom workers, the sector is a major employment generator.



Production of Yarn (Kgs)



Production of Yarn(Square Metre)

(Source: prospectus)

Market Growth and Capacity

- **Global Standing:** India holds a significant position in the global textile market, being the second-largest producer and the third-largest exporter of textiles and apparel.
- **Export Performance:** During FY22, India's textile and apparel exports, including handicrafts, stood at US\$ 44.4 billion, marking a 41% increase year-on-year. Total exports of textiles in FY23 were US\$ 36.68 billion.
- **Growth Projections:** The textile and apparel industry is expected to grow at a CAGR of 10%, aiming to reach US\$ 190 billion by 2025-26. Total textile exports are projected to hit US\$ 65 billion by FY26.

Government Initiatives

- **Policy Support:** The government allows 100% FDI in the textile sector via the automatic route. The 2023-24 Union Budget allocated Rs. 4,389.24 crore (US\$ 536.4 million) to the sector.
- **PLI Scheme:** The Rs. 10,683 crore (US\$ 1.44 billion) Production Linked Incentive (PLI) scheme aims to boost textile manufacturing, particularly in MMF (man-made fibre) apparel and technical textiles.
- **Infrastructure Development:** The government has approved the establishment of seven integrated mega textile parks and is promoting the PM MITRA scheme to attract substantial investments and create employment.



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- **SAMARTH Scheme:** The government has empanelled 43 new implementing partners under the SAMARTH scheme, aiming to train around 75,000 beneficiaries. As of July 2023, 1,83,844 beneficiaries have been trained across 1,880 centers.

Future Outlook

- **Growth Potential:** The Indian textile market is expected to grow significantly, with the domestic market projected to be worth over US\$ 209 billion by 2029.
- **Export Targets:** The government aims to achieve US\$ 250 billion in textiles production and US\$ 100 billion in exports by 2030.
- **Technical Textiles:** The technical textiles market is set to expand to US\$ 23.3 billion by 2027, driven by increased awareness and higher disposable incomes.

Increasing Investments

- **FDI Inflows:** Total FDI inflows in the textiles sector between April 2000 and June 2023 stood at US\$ 4.31 billion.
- **Market Growth:** The size of India's textile market was US\$ 223 billion in 2021, growing at a CAGR of 10.23% from 2016. It is expected to reach over US\$ 209 billion by 2029.
- **By leveraging its competitive advantages and robust government support, India's textile sector is well-positioned for substantial growth, making it a crucial player in the global textile industry.**

(Source: prospectus)



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Key Managerial Personnel

Gagan Nirmalkumar Mittal, aged 42, is one of the Promoters, Chairman & Managing Director of the Company. He has passed Gujarat Board Higher Secondary exam. He oversaw the establishment of production facilities of the company and also looks after overall aspects of the company management. He has 18 years of experience in the textile industry.

Nirmalkumar Mangalchand Mittal, aged 67 years, is one of the Promoters, Non-Executive Director of the Company. He is a commerce graduate and mainly handling the overall management of the other Associate concerns. He has 40 years of experience in the textile industry.

Safalkumar Hasmukhbhai Patel, aged 31 years, is a Non-Executive Independent Director of the Company. He holds a certificate of practice in profession of Law and has cleared the All-India Bar Examination. He has more than 5 years of experience in the legal industry.

Rashmi Kamlesh Otavani, aged 43 years, is a Non – Executive Independent Director. She holds the degrees of Bachelor of Commerce and is a member of the Institute of Company Secretaries of India. She has over 10 years of experience in due diligence, drafting, administration, and legal and secretarial compliances.

To conclude, the Promoters of the Company have good experience in their respective fields. The Non-Executive Director has vast experience in his respective field. All of them will help in the sustainability of the Company and derive decent growth in the future.



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Financial Snapshot

Profit and Loss Statement				(In Lacs)
Particulars	FY 21	FY 22	FY 23	FY 24
Revenue from Operations	-	-	44.20	11,529.41
Other Income	-	1.88	19.81	23.33
Total Income	-	1.88	64.01	11,552.74
Expenses				
Cost of Material Consumed	-	-	40.58	9,612.17
Changes in Inventories of WIP, Finished Goods & Stock in Trade	-	-	-	-775.25
Employee benefits expense	-	-	-	219.27
Finance costs	-	-	-	336.49
Depreciation and Amortization expense	-	-	-	252.29
Other expenses	0.11	0.28	2.45	705.63
Total Expenses	0.11	0.28	43.03	10,350.60
Earnings Before Interest, Taxes, Depreciation & Amortization	-0.11	-0.28	1.17	1,767.59
EBITDA Margin	-	-	2.65%	15.33%
Profit/(Loss) before tax	-0.11	1.60	20.98	1,202.14
Tax Expense				
Current Tax	-	-	7.05	95.48
MAT Credit	-	-	-	-51.05
Deferred Tax	-	-	-	291.07
Total Tax Expense	-	-	7.05	335.50
Profit/(Loss) for the year	-0.11	1.60	13.93	866.64
Net Profit Margin	-	85.11%	21.76%	7.50%

Balance Sheet				(In Lacs)
Particulars	FY 21	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES				
1. Shareholders' funds				
Share Capital	0.22	681.97	993.56	1,200.60
Reserves and surplus	-	-	-	188.10
Total Equity	0.22	681.97	993.56	1,388.70
2. Non-current liabilities				
Long Term Borrowings	106.50	773.47	3,376.57	3,999.83
Deferred tax liability/ (Assets) (Net)	-	-	-	291.08
Long term Provisions	-	-	-	2.93
Total Non-current liabilities	106.50	773.47	3,376.57	4,293.84
3. Current liabilities				
Short-term borrowings	-	-	444.61	751.10
Trade payables-				
(i) MSME	-	0.03	115.81	-
(ii) Other than MSME	-	-	345.92	1,369.60
Other current liabilities	0.11	104.36	84.08	218.93
Short-term provisions	0.28	0.13	7.17	146.30
Total Current liabilities	0.39	104.52	997.59	2,485.93
Total Liabilities	106.89	877.99	4,374.16	6,779.77
Total Equity and Liabilities	107.11	1,559.96	5,367.72	8,168.47
ASSETS				



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Balance Sheet					(In Lacs)
1. Non-current assets					
Property, Plant and Equipment and Intangible Assets-					
(i) Tangible Assets	-	53.92	74.68	4,461.00	
(ii) Capital Work-in-Progress	-	305.96	3,725.57	-	
Long-Term Loans and Advances	-	306.15	10.49	3.36	
Other Non Current Asset	-	829.82	410.88	253.41	
Total Non-Current assets	-	1,495.85	4,221.62	4,717.77	
2. Current assets					
Short-Term Loans and Advances	86.50	-	-	51.35	
Other Current Assets	0.02	48.29	450.05	229.50	
Trade receivables	-	-	46.41	1,779.88	
Inventories	-	-	648.54	1,389.89	
Cash and Bank Balances	20.58	15.81	1.09	0.07	
Total Current assets	107.10	64.10	1,146.09	3,450.69	
Total Assets	107.10	1,559.95	5,367.71	8,168.46	

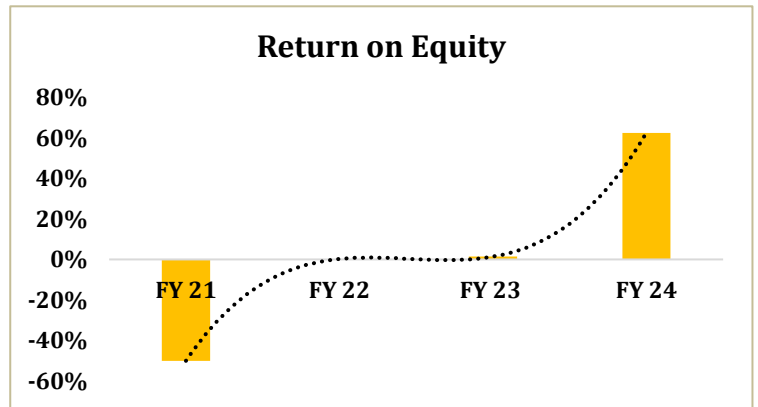
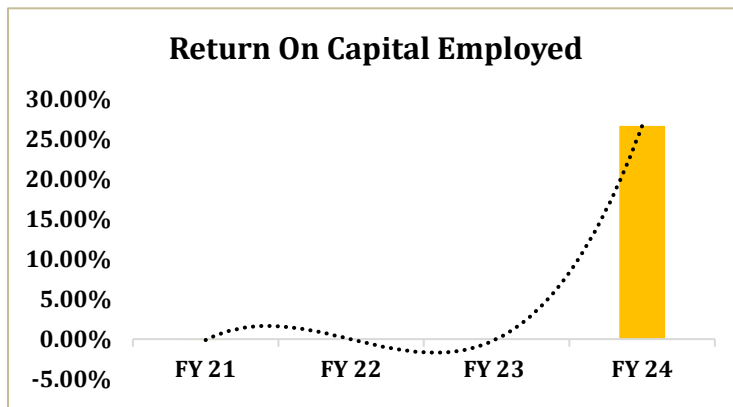
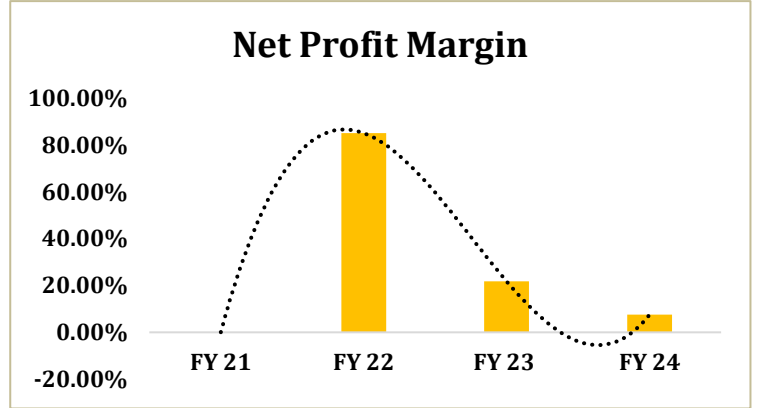
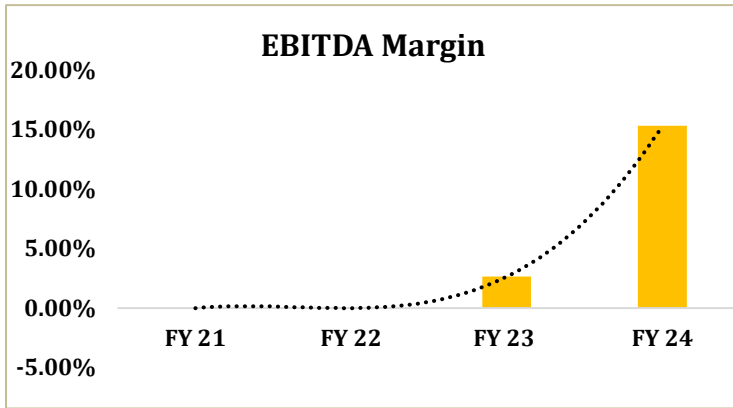
Cash Flow Statement					(In Lacs)
Particulars	FY 21	FY 22	FY 23	FY 24	
Net Cash Flow from Operating Activities	19.95	-687.74	-232.76	747.75	
Net Cash Flow from Investing Activities	-	-666.03	-3,144.71	-905.91	
Net Cash Flow from Financing Activities	0.50	1,349.00	3,362.75	157.14	

Ratio Sheet				
Particulars	FY 21	FY 22	FY 23	FY 24
<u>Per Share Data</u>				
Diluted EPS	-	0.02	0.14	5.04
BV per share	-	3.97	5.78	8.08
<u>Operating Ratios</u>				
EBITDA Margins	-	-	2.65%	15.33%
PAT Margins	-	85.11%	21.76%	7.50%
Inventory days	-	-	5,355.59	44.00
Debtor days	-	-	383.25	56.35
Creditor days	-	-	244.56	52.20
<u>Return Ratios</u>				
RoCE	-0.10%	-0.02%	0.03%	26.67%
RoE	-50.00%	0.23%	1.40%	62.41%
<u>Valuation Ratios (x)*</u>				
EV/EBITDA	-	-	-	3.47
Market Cap / Sales	-	-	-	1.04
P/E	-	-	500.00	13.88
Price to Book Value	-	-	12.11	8.66
<u>Solvency Ratios</u>				
Debt / Equity	-	1.13	3.85	3.42
Current Ratio	-	0.61	1.15	1.39
Quick Ratio	-	-	0.50	0.83
Asset Turnover	-	-	0.01	1.41
Interest Coverage Ratio	-	-	-	4.50

*Valuation Ratios are calculated using the current Issue Price.



Financial Charts



**Key Risk Factors**

- Disciplinary Action Imposed by SEBI against Gagan Nirmalkumar Mittal , one of the Promoters, Chairman & Managing Director of the Company**, in order to fulfil the criterion from migration to SME platform to mainboard, the group company first issued bonus to fulfil paid – up capital criteria. Then connected entities artificially increased the price of scrip of United Polyfab Gujarat Limited during the period of 01 Aug, 2021 to 24 Nov, 2021. Upon further investigation, it was found that Gagan Nirmalkumar Mittal was the CMD and the only Executive Director of the company during that time so it was alleged that he was responsible for the actions taken on behalf of the company. SEBI has imposed a monetary penalty of ₹48,00,000 on the promoter of the Issuer.
- The Company has a very limited operating history of manufacturing operations which commenced in April, 2023.
- There was only one customer in FY22-23. The Company's top ten customers contributed 100% of total revenue from operations for FY23 and 79.57% for the FY24.
- The Company's top ten suppliers contributed 100% of total purchase for the FY23 and 93.53% for FY24 based on restated financial statement.
- The revenue from the group companies are constituting 53.65% for FY24. The purchase from group companies is constituting 61.89% and 80.97% for FY24 and FY23, respectively.
- The company derives a large portion of their domestic revenue from the states of Gujarat & Maharashtra. Gujarat contributed 92.90% and Maharashtra contributed 1.33% of their total domestic revenue for the financial year ended on March 31, 2024. Any adverse development affecting operations in these regions could have an adverse impact on the business, financial condition and results of operations.
- As as at March 31, 2024, the Company has a contingent liability amounting to Rs.666.68 Lacs related to export commitments. Failure to meet these commitments under the Export Promotion Capital Goods (EPCG) scheme may result in the imposition of penalties.
- The Company had negative operating cash flows in the FY23 and FY22. Any operating losses or negative cash flows in the future could adversely affect the results of operations and financial condition. Company also incurred losses in FY 2021.

Track Record of Lead Manager(s)

The lead manager to the issue is Beeline Capital Advisors Pvt. Ltd. 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:

Beeline Capital Advisors Pvt. Ltd. –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Beacon Trusteeship Limited	32.53	60	Jun 04, 2024	94.50
2.	Rulka Electricals Limited	26.40	235	May 24, 2024	498.75
3.	Piotex Industries Limited	14.47	94	May17, 2024	114.30-



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4.	Winsol Engineers Limited	23.36	75	May 14, 2024	383.25
5.	Emmforce Autotech Limited	53.90	98	Apr 30, 2024	195.51
6.	Greenhitech Ventures Limited	6.30	50	Apr 22, 2024	99.75
7.	TAC Infosec Limited	29.99	106	Apr 05, 2024	304.50
8.	KP Green Engineering Limited	189.50	144	Mar 22, 2024	210.00
9.	Pratham EPC Projects Limited	36.00	75	Mar 18, 2024	118.95
10.	V R Infraspace Limited	26.40	85	Mar 12, 2024	87.40

*CMP for the above-mentioned companies is taken as of 10th June 2024.

As per the offer document, out of the mentioned 10 mandates, all have opened at premiums. The company has had 40 mandates in the past three years including the current Year.

Recommendation

The company that was primarily a trader in fabrics turns towards manufacturing cotton yarn in April 2023. The management overview of the company is not very satisfactory.

The P/E on Post IPO basis is at 13.88 times which makes it decently priced by looking at the performance of the company and sector. The Sector P/E is 24.8 times.

The company operates in a competitive environment. There is insufficient financial data to make any remarks. Top line in 2023 is generated through the trading of yarn then sudden jump in top and bottom line of the company in FY2024 shows concern over sustainability of margins.

The company has had negative operating cash flow for FY 2022 and FY 2023. Company is in very nascent stage of operation. Thus, we recommend **AVOID** to this IPO.



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