BONANZA RESEARCH – SME IPO

Bonanza

27 May 2026

Rajnandini Fashion India Limited - NEUTRAL

Company Overview

Rajnandini Fashion India Limited is in the business of trading and wholesale supply of fabrics to garment makers, wholesalers, and retailers across India. The company deals in different types of textile products such as grey fabric, finished fabric, and other woven materials, which are sourced from domestic mills and processing units. It follows an asset-light trading model, focusing on bulk sales, fast inventory movement, and strong customer relationships. Since the business needs significant working capital, it is funded through a mix of bank borrowings and internal cash accruals.

Investment Rationale

- **Big Jump in Profitability:** The company started its own manufacturing from FY24, which has sharply improved margins. EBITDA margin grew from 3.67% in FY23 to 24.38% in FY25, and PAT margin rose from 1.34% to 16.50%.
- **Strong Online Presence:** The company has earned "Gold Seller" status on Flipkart and "Star Seller" status on Shopsy, and sells across 6+ leading e-commerce platforms. A dedicated 10-member digital team manages product listings and marketing.
- **Better Revenue Balance:** Earlier, almost all sales (95.96%) came from retail (B2C). Now, the mix is nearly equal, B2B 50.35% and B2C 49.65% in 9MFY26, reducing dependence on online platforms and supporting overall growth.
- **Favourable Industry Outlook:** India's textile market, currently at USD 160 Bn, is expected to grow to USD 350 Bn by 2030 at 10% CAGR, supported by the Government's Rs. 10,683 Cr PLI scheme and PM MITRA Parks initiative.
- **Strong Return Ratios in FY25:** ROE at 74.74%, ROCE at 40.00%, and RoNW at 54.41%, much higher than listed peers.
- **Reducing Debt:** D/E ratio has improved sharply from 3.17x in FY23 to 0.95x in FY25, and IPO proceeds will further bring it down by Rs. 549.83 Lakh.

Valuation

At Rs. 63, the IPO is priced at around 9x pre-issue EPS of Rs. 6.77 and 5x book value of Rs. 12.44, which looks demanding but is partly supported by a strong 74.74% ROE and 40% ROCE. However, these returns are boosted by a small equity base and 0.95x debt, and will moderate to around 18–22% once IPO proceeds expand equity and reduce leverage, pushing the effective post-issue P/E to 12.90x, broadly in line with listed textile trading peers. The business shows healthy earnings and adequate liquidity, but operates in a low margin, working capital heavy fabric trading segment with limited pricing power. Overall, the valuation appears fully priced rather than cheap or expensive, leaving little margin of safety. Hence, we have a **NEUTRAL** call to this SME IPO.

IPO Details	
Industry	Garments & Apparels
Issue Open Date	26-May-26
Issue Close Date	29-May-26
Price Band	Rs. 59-63
Issue Size*	Rs. 1,820 Lakh
Issue Size (Shares)	28,90,000
Bid Lot	2,000 Shares
Listing Exchanges	BSE SME
Face Value	Rs. 10/-

*At highest price band

Issue Details	
Fresh Issue*	Rs. 1,729 Lakh
Issue Type	Fresh capital only
Lead Manager	Seren Capital
Registrar	Bigshare Services
Issue structure	Market Maker: 5.05% QIB: 47.27% NII: 14.33% Retail: 33.36%
Allotment	01-Jun-26
Credit of Shares	02-Jun-26
Listing Date	03-Jun-26

Objective of Issue

Particular	Estimated Amt (in Lakh)
Capex	135
Repayment	550
Working Capital	700
General Corporate Purposes	-

Shareholding Pattern

Shareholding (%)	Pre (%)	Post (%)
Promoter	97.19	61.36
Public & Others	2.81	38.64

Business Highlights

Business Model

Segment	Description	Key Channels
B2C	Direct-to-consumer ethnic & casual wear	Own website, Amazon, Flipkart, Myntra, Ajio, LimeRoad, Nykaa
B2B	Bulk fabric trading & garment supply	Wholesalers, retailers, garment processors

Manufacturing Footprint

Unit	Location	Commenced	Machines	Utilization (Apr-Dec 2025)
Unit-I	Surat, Gujarat	Aug-23	90	87.21%
Unit-II	Jaipur, Rajasthan	Dec-24	50	68.03%
Unit-III (Proposed)	Surat (6,000 sq.ft.)	From IPO Proceeds	+751 (to total 802)	–

Geographic Presence

- Domestic: 35+ states/UTs, concentrated in Gujarat & Rajasthan
- International: USA, Canada, Australia, Dubai (4+ countries)
- B2C Orders: 2,78,046 in FY25; 2,90,998 in 9MFY26

Financials

Financial Performance:

Particulars (in Lakh)	FY23	FY24	FY25	9MFY26	CAGR (FY23-25)
Revenue from Operations	2,801	2,332	3,069	3,025	5%
EBITDA	103	379	748	711	170%
EBITDA Margin	3.67%	16.24%	24.38%	23.49%	
PAT	37	229	506	514	268%
PAT Margin	1.34%	9.82%	16.50%	16.99%	

- FY24 revenue dipped 16.74% YoY due to deliberate strategic shift from low-margin trading to manufacturing.
- FY25 revenue rebounded 31.61% YoY post-commencement of Jaipur unit.
- PAT grew 13.5x between FY23 and FY25, clearest demonstration of margin transformation.
- 9MFY26 PAT already exceeds FY25 PAT, strong run-rate momentum.

Balance Sheet:

Particulars	FY2023	FY2024	FY2025	9MFY26	Particulars	FY2023	FY2024	FY2025	9MFY26
Equity & Liabilities					**Assets**				
Net Worth	195	424	931	1,442	PPE	8	63	63	64
Long Term Debt	86	87	158	320	Inventories	561	752	1,191	1,838
Short Term Debt	533	614	726	1,076	Trade Rec.	325	396	969	972
Trade Payables	314	336	493	490	Cash	4	12	5	257

- Net worth grew 4.76x over 2 years from Rs. 195 Lakh to Rs. 930 Lakh, driven by retained earnings.
- Inventory build-up Rs. 561 Lakh to Rs. 1,191 Lakh, reflects scaled manufacturing and B2B sales.
- Sharp jump in Trade Receivables in FY25 (+144%), direct consequence of B2B strategy shift; monitor closely
- Fixed assets jumped from Rs. 7.61 Lakh to Rs. 63.34 Lakh in FY24, marking the in-house manufacturing transition.

Cash Flow:

Particulars	FY 2023	FY 2024	FY 2025	9M FY 2026
Operating Cash Flow	(369.83)	82.45	(62.06)	(140.40)
Investing Cash Flow	(3.75)	(76.99)	(23.98)	(28.52)
Financing Cash Flow	366.46	2.90	78.79	420.42
Net Cash Flow	(7.12)	8.36	(7.25)	251.49

- Persistent negative/weak CFO: Despite strong PAT, working capital absorption is choking cash generation.
- FY25: Operating profit of Rs. 815.95 Lakh before WC changes, CFO of only Rs. -62.06 Lakh due to inventory and receivables build-up.
- Operations largely funded by short-term borrowings and finance activities, a key red flag for sustainability.
- Company has had history of negative operating cash flow; IPO working capital infusion is critical.

Key Ratios:

Ratio	FY25
Return on Equity	74.74%
Return on Capital Employed	40.00%
Debt-Equity Ratio	0.95x
Current Ratio	1.72x
EPS (Rs.)	6.77
NAV (Rs.)	12.44

- ROE exceptionally high, but likely inflated by a low equity base typical of pre-IPO SMEs; not sustainable post-listing once fresh capital is infused.
- ROCE, strong operational efficiency, indicating the business generates healthy returns on the total capital deployed.
- D/E nearly 1:1 leverage, on the higher side; signals reliance on borrowed funds and limited cushion for interest rate or working capital shocks.

Peer Comparison

Metrics (FY25)	Rajnandini Fashion	Nandani Creation	Libas Consumer Products
Revenue	3,069	6,964	9,191
EBITDA	748	913	421
PAT	506	371	264
EPS	6.77	2.41	1.23
RONW	54.41%	7.10%	3.24%
NAV	12.44	33.99	31.02
P/E Ratio	9.31	13.89	10.16

Risk & Concerns

- **Persistent Negative Operating Cash Flow:** Persistent Negative Operating Cash Flow, Profits are largely "trapped" in inventory and receivables.
- **Customer & Supplier Concentration:** Top 10 B2B customers are 77.23% of B2B revenue and top 10 suppliers are 89.19% of purchases. No long-term contracts on either side.
- **Geographic Concentration:** Gujarat and Rajasthan are 50% of revenue.
- **High B2C Return Rate:** Sales returns range between 31.09% and 33.98% of B2C orders.
- **E-commerce Platform Dependency:** 49.65% of revenue routed through third-party market places.
- **Outsourced Printing:** 100% of printing operations outsourced; quality and timeline dependent on third parties.
- **Working Capital Intensity:** Cash conversion cycle expanded from 13 days to 145 days.
- **Outstanding Tax Litigations:** Multiple minor tax proceedings spanning FY 2019-20 to FY 2025-26.

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