

<b>Retail Research</b>	<b>IPO Note</b>
<b>Sector: FMCG</b>	<b>Price Band (Rs): 381 - 401</b>
<b>6<sup>th</sup> March 2024</b>	<b>Recommendation: Subscribe for Long Term Investment Horizon</b>

## Gopal Snacks Limited

### Company Overview:

Gopal Snacks Ltd is a fast-moving consumer goods company based in India, offering a wide range of delicious snacks under the brand name 'Gopal'. Established as a partnership firm in 1999 and incorporated as a company in 2009, the company currently operates in 10 States and 2 Union Territories as of 1HFY24. Its wide range of products includes ethnic snacks like namkeen and gathiya, western snacks like wafers, extruded snacks, and snack pellets, as well as other fast-moving consumer goods such as papad, spices, gram flour or besan, noodles, rusk and soan papdi.

### Key Highlights:

**1. Diverse product portfolio:** The company offers a diversified portfolio of savory snacks, including ethnic savories such as namkeen and gathiya and western snacks such as wafers, extruded snacks and snack pellets that cater to varied consumer tastes and preferences. The company's portfolio as of 1HFY24 comprises of 84 products with 276 SKUs across product categories. The company also offers FMCG products that include papad, spices, besan or gram flour, chikki, nachos, noodles, rusk, soan papdi and washing bar.

**2. Leadership positions in the Indian snack market:** Gopal Snacks is the 2nd largest snack manufacturing company in Gujarat offering a diverse selection of quality products that strive to capture the Indian taste under the **Gopal** brand. The company is the largest manufacturer of gathiya in terms of production & sales volume and snack pellets in terms of production volume in India. Additionally, the company is the 2nd largest organized ethnic namkeen manufacturer in Gujarat, 4th largest organized ethnic savories brand (incl. gathiya) in India in terms of market share and 4th largest manufacturer of papad in India.

**3. Vertically integrated manufacturing:** The company operates 6 manufacturing facilities comprising three primary manufacturing facilities (Nagpur, Rajkot & Modasa) and three ancillary manufacturing facilities (Rajkot and Modasa). As of 1HFY24, the company's aggregate annual installed capacity of stood at 3,03,669 MT in primary facilities and 1,01,060 MT in ancillary facilities respectively. These vertically located manufacturing facilities are set up with captive manufacturing capabilities for key raw materials such as besan, raw pellets and spices.

**4. Robust distribution network:** Gopal Snacks operates an extensive and well-established distribution network of 617 distributors spread across 10 States and 2 Union Territories. The company has a team of 741 members for sales and marketing. The company has developed longstanding relations with number of distributors who in turn have established sales channels with conventional grocery retailers, supermarkets and hypermarkets, which has helped the company penetrate urban, semi-urban, rural regions effectively.

**Valuation:** The company is valued at FY23 P/E and 1HFY24 annualised P/E multiple of 44.5x and 44.9x respectively at the upper price band on post-issue capital. The company is the largest manufacturer of Gathiya (31% market share) and has ~20 market share in total ethnic savouries market in India. The company's EBITDA/PAT has grown at a CAGR of 80%/130% from FY21 to FY23 and return ratios are relatively better than its peers. Indian organized ethnic namkeen and snack market is expected to grow at a CAGR of 11% between FY23-FY27 giving an edge to the company's growth. We recommend to subscribe the issue for long term investment horizon.

Issue Details	
Date of Opening	6 <sup>th</sup> March 2024
Date of Closing	11 <sup>th</sup> March 2024
Price Band (Rs)	381 - 401
Offer for sale (Rs cr)	650
Issue Size (Rs cr)	650
No. of shares	1,70,60,367 – 1,62,09,476
Face Value (Rs)	1
Post Issue Market Cap (Rs cr)	4,747 – 4,997
BRLMs	Intensive Fiscal Services Private Ltd, Axis Capital Ltd, JM Financial Ltd.
Registrar	Link Intime India Private Limited
Bid Lot	37 shares and in multiple thereof
QIB shares	50%
Retail shares	35%
NIB shares	15%

Shareholding Pattern		
Pre-Issue	No. of Shares	%
Promoter & Promoter Group	11,65,05,126	93.5
Public & Others	80,99,244	6.5
<b>Total</b>	<b>12,46,04,370</b>	<b>100.0</b>

Post Issue @ Lower Price Band		
	No. of Shares	%
Promoter & Promoter Group	10,07,57,095	80.9
Public & Others	2,38,47,275	19.1
<b>Total</b>	<b>12,46,04,370</b>	<b>100.0</b>

Post Issue @ Upper Price Band		
	No. of Shares	%
Promoter & Promoter Group	10,15,42,532	81.5
Public & Others	2,30,61,838	18.5
<b>Total</b>	<b>12,46,04,370</b>	<b>100.0</b>

Source: RHP, SSL Research

## Key Financials

Particulars	FY21	FY22	FY23	1HFY24
Revenue from operation (Rs cr)	1,129	1,352	1,395	676
EBITDA (Rs cr)	60	95	196	94
PAT (Rs cr)	21	42	112	56
EBITDA Margin (%)	5.3	7.0	14.1	13.9
PAT Margin (%)	1.9	3.1	8.1	8.2
EPS (Rs)	1.7	3.3	9.0	4.5*
ROE (%)	15.6	23.4	38.6	16.1*
ROCE (%)	13.6	19.9	41.0	21.2*
Total Debt / Equity (x)	1.0	0.9	0.4	0.1*

\* Not Annualized

Source: RHP, SSL Research

## Risk Factors

- **Revenue concentration risk:** The company's sale of products is concentrated in its core market of Gujarat. In FY21, FY22, FY23, 1HFY23 and 1HFY24 its revenue from sale of products in Gujarat accounted for 74.31%, 76.27%, 79.08%, 79.06% and 76.49% respectively. Any adverse development affecting operations in such region could have an adverse impact on the operations of the company.
- **Contamination risk:** The company's operations are subject to various contamination related risks, including improper storage of products and raw materials, labelling errors, and non-compliance with quality control standards. The average shelf life of its products ranges from three to six months. Any actual or alleged contamination could lead to legal liability and damage to brand reputation.
- **Compliance risk:** Inability to comply with food safety laws, environmental laws and other applicable regulations in relation to the manufacturing facilities may adversely affect company's business, results of operations, financial condition and cash flows.
- **Competition:** The company faces intense competition in India from domestic, international, and unorganized players. New entrants and existing players may increase competition and failure to respond promptly may affect the product's competitiveness.

## Growth Strategy

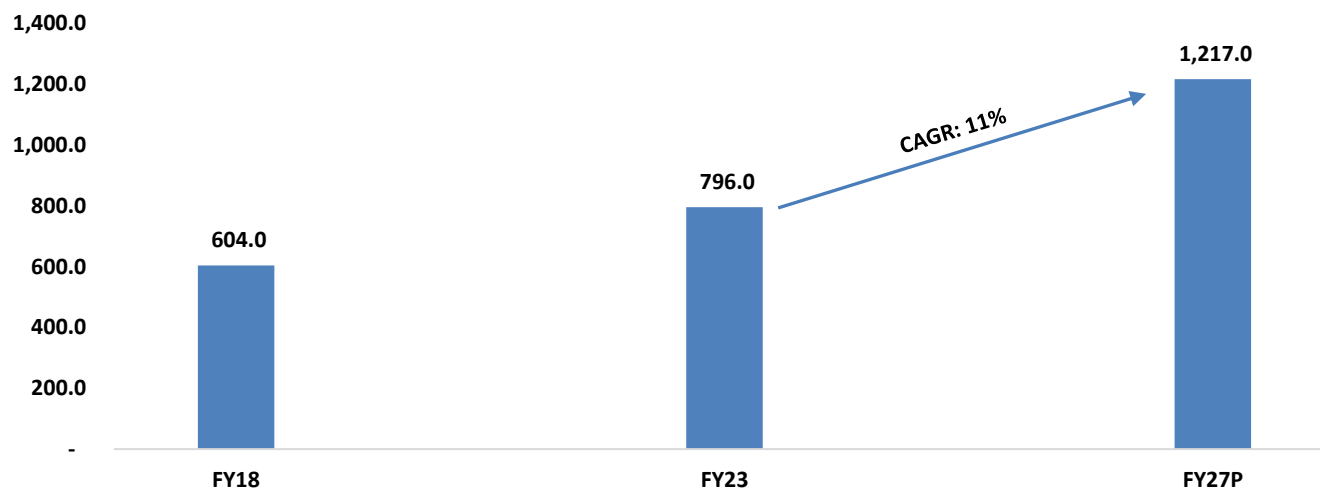
- Further enhance presence in core market of Gujarat.
- Accelerate expansion in focus markets (Maharashtra, Rajasthan, Madhya Pradesh and Uttar Pradesh).
- Continue to leverage technology to further optimize operations.
- Continue to launch new products, expand wallet share with consumers and grow consumer base.
- Utilize unutilized capacity and expand manufacturing capacity at existing facilities and set-up additional strategically located facilities.

## Industry Overview

### Indian Savory Snack Market

The Indian market for savory snacks is estimated to be valued at Rs 796.0 bn in FY23 and is projected to grow at a CAGR of 11.0% between FY23-FY27 to reach Rs 1,217.0 bn by 2027. The major segments constituting Indian Savory Snack include Western Snacks and Ethnic Savories or Traditional Snacks. Western snacks command a 51.0% market share valued at Rs 409.0 bn in FY23, while traditional snacks were valued at Rs 388.0 bn holding a 49.0% market share.

Indian Savory Snack Market (Rs bn)

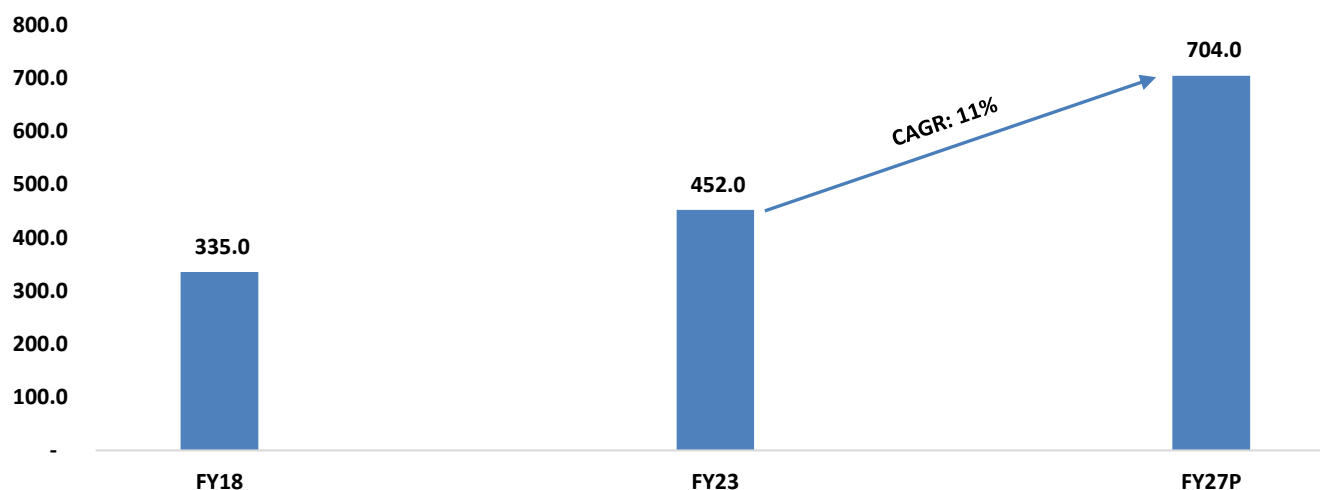


Source: RHP, SSL Research

### Organized Indian Ethnic Namkeen & Snack Market

The Indian savory snacks market valued at Rs 796 bn in FY23 was traditionally dominated by the unorganized players that used to cater to the region-specific demands of the local consumers. In FY23, the organized market for savory snacks dominated the Indian market accounting for a market share of approximately 57.0% with a valuation of Rs 452 bn. The organized snack market comprising of ethnic namkeens & snacks, gathiya and western snacks is further expected to grow at a CAGR of 11.0% between FY23-FY27 to reach Rs 704 bn.

Organized Indian Savoury Snacks Market (Rs bn)



Source: RHP, SSL Research

## Financial Snapshot

INCOME STATEMENT			
(Rs cr)	FY21	FY22	FY23
<b>Revenue from Operations</b>	<b>1,129</b>	<b>1,352</b>	<b>1,395</b>
<b>YoY growth (%)</b>	-	19.8	3.1
Cost Of Revenues (incl Stock Adj)	924	1,073	999
<b>Gross Profit</b>	<b>205</b>	<b>279</b>	<b>396</b>
<b>Gross margins (%)</b>	<b>18.1</b>	<b>20.6</b>	<b>28.4</b>
Employee Cost	59	77	87
Other Operating Expenses	85	107	112
<b>EBITDA</b>	<b>60</b>	<b>95</b>	<b>196</b>
<b>EBITDA margins (%)</b>	<b>5.3</b>	<b>7.0</b>	<b>14.1</b>
Other Income	1	4	4
Net Interest Exp.	11	14	11
Depreciation	24	31	37
Exceptional Items	0	0	0
<b>PBT</b>	<b>26</b>	<b>54</b>	<b>152</b>
Tax	5	13	39
<b>PAT</b>	<b>21</b>	<b>42</b>	<b>112</b>
<b>PAT margin (%)</b>	<b>1.9</b>	<b>3.1</b>	<b>8.1</b>
<b>EPS</b>	<b>1.7</b>	<b>3.3</b>	<b>9.0</b>

BALANCE SHEET			
(Rs cr)	FY21	FY22	FY23
<b>Assets</b>			
Net Block	158	197	220
Capital WIP	43	45	10
Intangible Assets	0	0	2
Intangible Assets under development	0	2	0
Right of use assets	17	16	16
Other Non current Assets	3	6	7
<b>Current Assets</b>			
Current Investment	0	0	0
Inventories	87	87	145
Trade receivables	8	14	11
Cash and Bank Balances	5	1	29
Short-term loans and advances	0	0	0
Other Current Assets	21	31	21
<b>Total Current Assets</b>	<b>121</b>	<b>134</b>	<b>206</b>
<b>Current Liabilities &amp; Provisions</b>			
Trade payables	17	7	9
Other current liabilities	23	23	27
Short-term provisions	1	1	2
<b>Total Current Liabilities</b>	<b>42</b>	<b>32</b>	<b>38</b>
<b>Net Current Assets</b>	<b>79</b>	<b>102</b>	<b>168</b>
<b>Total Assets</b>	<b>300</b>	<b>368</b>	<b>423</b>
<b>Liabilities</b>			
Share Capital	1	1	12
Reserves and Surplus	135	177	278
<b>Total Shareholders Funds</b>	<b>136</b>	<b>178</b>	<b>291</b>
Minority Interest	0	0	0
<b>Total Debt</b>	<b>139</b>	<b>164</b>	<b>106</b>
Long Term Provisions	0	0	0
Lease Liabilities	2	2	2
Other Long Term Liabilities	19	20	19
Net Deferred Tax Liability	4	4	5
<b>Total Liabilities</b>	<b>300</b>	<b>368</b>	<b>423</b>

(Rs cr)	FY21	FY22	FY23
Cash flow from Operating Activities	22	59	122
Cash flow from Investing Activities	(76)	(74)	(25)
Cash flow from Financing Activities	58	12	(69)
Free Cash Flow	(54)	(17)	96

RATIOS			
	FY21	FY22	FY23
<b>Profitability</b>			
Return on Assets (%)	6.2	10.4	24.4
Return on Capital (%)	13.6	19.9	41.0
Return on Equity (%)	15.6	23.4	38.6
<b>Margin Analysis</b>			
Gross Margin (%)	18.1	20.6	28.4
EBITDA Margin (%)	5.3	7.0	14.1
Net Income Margin (%)	1.9	3.1	8.1
<b>Short-Term Liquidity</b>			
Current Ratio (x)	1.1	1.1	2.1
Quick Ratio (x)	0.3	0.4	0.6
Avg. Days Sales Outstanding	2	4	3
Avg. Days Inventory Outstanding	28	24	38
Avg. Days Payables	6	2	2
Fixed asset turnover (x)	7.2	6.9	6.3
Debt-service coverage (x)	0.4	0.5	1.7
<b>Long-Term Solvency</b>			
Total Debt / Equity (x)	1.0x	0.9x	0.4
Interest Coverage Ratio (x)	3.4x	4.9x	15.0
<b>Valuation Ratios</b>			
EV/EBITDA (x)	85.0	54.4	25.9
P/E (x)	236.6	120.3	44.5
P/B (x)	36.8	28.1	17.2
EV/Sales (x)	4.5	3.8	3.6

Source: RHP, SSL Research

## Peer Comparison

	Gopal Snacks Limited	Bikaji Foods International Limited	Prataap Snacks Limited
CMP	401.0	504.0*	1,038.0*
Sales (Rs cr)	1,394.7	1,944.0	1,653.0
EBITDA (Rs cr)	196.2	209.0	63.0
Net Profit (Rs cr)	112.4	128.0	20.0
M.Cap (Rs cr)	4,996.6	12,612.0	2,478.0
Enterprise Value (Rs cr)	5,074.4	12,765.0	2,508.0
EBITDA Margin (%)	14.1	10.8	3.8
Net Margin (%)	8.1	6.6	1.2
EV/Sales (x)	3.6	6.6	1.5
PE(x)	44.5	98.5	123.9
EV/EBITDA (x)	25.9	61.1	39.8
RoE (%)	38.6	14.4	3.1
RoCE (%)	41.0	17.7	1.2

The data is based on FY23 financial data.

For Gopal Snacks Limited the P/E, Market cap and EV/EBITDA (x) are calculated on post-issue equity share capital based on the upper price band.

\*CMP as on 5<sup>th</sup> March 2024.

Source: RHP, SSL Research

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