

Rating: Avoid

Issue Offer

The issue is entirely an offer for sale of 16.2 Mn equity shares valuing to INR 6500 Mn

Issue Summary

Price Band (INR)	381-401
Face Value (INR)	1
Implied Market Cap (INR Bn)	49.97
Market Lot	37
Issue Opens on	March 6, 2024
Issue Close on	March 11, 2024
No. of share pre-issue	124,604,370
No. of share post issue	124,604,370
Listing	NSE, BSE

Issue Break-up (%)

QIB Portion	50%
NIB Portion	15%
Retail Portion	35%

Book Running Lead Managers

Intensive Fiscal Services Pvt Ltd
Axis Capital Limited
Jm Financial Limited

Registrar

Link Intime India Pvt Ltd

Shareholding Pattern

	Pre-Issue	Post-Issue
Promoters	93.50%	80.49%
Public & Others	6.50%	19.51%

Objects of the issue

- IPO proceeds will mainly be used to repay the loan of INR 540cr
- Achieve the benefits of listing the Equity Shares on the Stock Exchanges.

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Founded in 1999, Gopal Snacks Limited is an FMCG company that specializes in ethnic snacks such as namkeen and gathiya, as well as Western snacks including wafers, extruded snacks, and snack pellets. Additionally, the company offers a range of other products including papad, spices, gram flour (besan), noodles, rusk, and soan papdi, both within India and internationally. With a portfolio of 276 SKUs encompassing 84 products across various categories, the company has established its presence in over 523 locations spanning 10 states and 2 union territories. The sales and marketing division is of 741 employees, contributing to total employee count of 3303, and company operates with 617 distributors.

Investment Rationale

Low capacity utilization of manufacturing unit indicates growth with minimal Capex: Gopal Ltd operates three primary manufacturing units along with three ancillary units. The primary manufacturing units are located in Nagpur, Maharashtra; Rajkot, Gujarat (with two ancillary units); and Modasa, Gujarat (with one ancillary unit). The total annual installed capacity across these facilities is 404,728.76 MT. Among these, the primary facilities, including the Rajkot facility which produces papad, have a combined capacity of 303,668.76 MT, while the three ancillary facilities have a capacity of 101,060 MT (excluding papad). Currently, the utilization rates stand at 35% for Rajkot, 35-40% for Modasa, and 12% for Nagpur, indicating ample room for growth without requiring significant capex for the next 2-3 years.

Integrated operations and in-house logistics drive margins: The company has integrated besan and spice manufacturing and procures potatoes from farmers for chip production to achieve cost savings. With a packing capacity of 2cr packets per day, including 1cr at the Rajkot facility, they have also ventured into manufacturing cartons for in-house use. Many of the machines are manufactured in-house to save costs and for customization purposes. The company owns 263 trucks for transportation and operates its own fuel pump to refuel them. Their truck containers are manufactured to fit their box sizes, allowing them store 28-30% more products. They also have a dedicated unit for repairing and maintaining their trucks.

Margin increase was driven by reduced grammage and is expected to sustain at same levels: The increase in EBITDA margin was driven by an increase in gross profit, attributed to a reduction in grams offered per packet. The company used to provide 35 gm per ₹5 packet, while the industry was offering 25 gm three years ago. Subsequently, company reduced it to 25 gm per packet. During the COVID-19 pandemic, along with the industry, it further reduced the offering to 20 grams per packet, but currently, it sells 25 gm, the same as the industry. Additionally, the company increased its margin through cost-saving methods such as implementing its own logistics, in-house besan and spices manufacturing, and improving efficiency. The company expects to sustain gross margin levels of ~29%, with slight changes possible due to fluctuations in commodity prices, aiming for an EBITDA margin of 13-13.5%.

Promoter exit sparks competition: One of the company's promoters exited the company due to a family split, which necessitated raising debt to pay him INR 540cr. The brother then started a new company in December 2021, operating in the same industry under the name Gokul Snacks. Gokul offers products with an extra 5 grams compared to Gopal's 5 rupee packets. As he was responsible for sales and distribution, this change resulted in flat growth from FY22 to FY23. Additionally, he acquired some distributors, but many are reverting back to Gopal due to dissatisfaction with Gokul's unfulfilled promises and lower profit margins.

Focus on growth initiatives and market expansion: The company focuses on two major products: Namkeen and wafers, with wafers being the fastest-growing category, boasting CAGR of 25-30%. The company has partnered with Western Railways and has recently added Central Railways to its distribution network. With a focus on marketing and sales, they have appointed an experienced new country head. In the modern trade sector, they have secured partnerships with Dmart and Reliance in Gujarat. They are also devising strategies to expand into other regions through modern trade channels. Additionally, the company is appointing special distributors for 250-500 gram packets in 13-15 unpenetrated areas of Gujarat. They utilize software to track all distributors, retailers, RSM, ASM, and SO using data analysis.

Valuation & Outlook: Gopal Ltd exhibits strengths and opportunities for growth but, it must address challenges such as competition from peers and overreliance on specific product categories and regions. By leveraging its brand reputation, distribution network, and focus on innovation, company can navigate challenges and capitalize on opportunities to sustain growth and profitability. At the upper band of INR 401, the issue is valued at an EV/EBITDA of 25.9x based on FY23 EBITDA of INR 1,962 Mn and P/E of 44.5x based on FY23 EPS of INR 9.02 which we think is expensive and recommend "Avoid" for this issue.

Financial Statements

Income statement summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Revenue	11,289	13,522	13,947
Operating expenses	9,242	10,735	9,988
Gross Profit	2,047	2,787	3,959
Gross Margin (%)	18.1%	20.6%	28.4%
Employee Cost	590	772	873
Other Expenses	853	1,066	1,124
EBITDA	604	948	1,962
EBITDA Margin (%)	5.3%	7.0%	14.1%
Depreciation	(240)	(311)	(374)
Interest expense	(109)	(139)	(108)
Other income	10	43	39
Share of profits associate & JV	-	-	-
Profit before tax	265	541	1,518
Taxes	(54)	(125)	(395)
PAT	211	415	1,124
PAT Margin (%)	1.9%	3.1%	8.1%
EPS (INR)	1.7	3.3	9.0

Source: Company Reports, Arihant Capital Research

Cashflow summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Profit before tax	265	541	1,518
Depreciation	240	311	374
Tax paid	(54)	(125)	(395)
Working capital Δ	(736)	(244)	(354)
Change in Goodwill	(1)	(18)	(5)
Operating cashflow	(286)	464	1,139
Capital expenditure	(1,987)	(696)	(602)
Free cash flow	(2,273)	(232)	537
Equity raised	1,146	4	8
Investments	(6)	(11)	(7)
Others	(466)	(57)	322
Debt financing/disposal	1,412	249	(582)
Dividends paid	-	-	-
Other items	234	10	(3)
Net Δ in cash	48	(37)	276
Opening Cash Flow		48	11
Closing Cash Flow	48	11	286

Source: Company Reports, Arihant Capital Research

Balance sheet summary

Y/e 31 Mar (INR mn)	FY21	FY22	FY23
Equity capital	11	11	125
Reserves	1,346	1,765	2,784
Net worth	1,357	1,777	2,909
Debt	1,412	1,661	1,079
Other non-current liabilities	234	244	241
Total Liabilities	3,003	3,681	4,229
Fixed assets	1,579	1,969	2,203
Capital Work In Progress	169	164	157
Other Intangible assets	434	451	98
Goodwill	1	19	24
Investments	6	17	24
Other non current assets	24	41	44
Net working capital	736	980	1,334
Inventories	869	872	1,449
Sundry debtors	75	140	114
Other current assets	207	283	155
Sundry creditors	(175)	(70)	(94)
Other current liabilities & Prov	(241)	(246)	(290)
Cash	48	11	286
Other Financial Assets	8	30	58
Total Assets	3,003	3,681	4,229

Source: Company Reports, Arihant Capital Research

Ratio analysis

Y/e 31 Mar	FY21	FY22	FY23
Growth matrix (%)			
Revenue growth		19.8%	3.1%
Op profit growth		57.1%	107.0%
Profitability ratios (%)			
OPM	5.3%	7.0%	14.1%
Net profit margin	1.9%	3.1%	8.1%
RoCE	13.1%	18.5%	39.8%
RoNW	15.6%	23.4%	38.6%
RoA	7.0%	11.3%	26.6%
Per share ratios (INR)			
EPS	1.70	3.33	9.02
Book value per share	1,289.1	1,687.2	23.3
Valuation ratios (x)			
P/E	235.9	120.4	44.5
P/B	0.3	0.2	17.2
EV/EBITDA	84.1	53.5	25.9
Payout (%)			
Tax payout	20.3%	23.2%	26.0%
Liquidity ratios			
Debtor days	2	4	3
Inventory days	34	30	53
Creditor days	(6)	(2)	(3)
WC Days	31	31	53

Source: Company Reports, Arihant Capital Research

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Stock Rating Scale**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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