

IPO ANALYSIS



IPO

Gopal Snacks Limited

◆ COMPANY STORY

- ▶ Gopal Snacks is an FMCG company that was incorporated in 1999. It deals in ethnic and Western snacks, and sells its products in India and internationally. Their primary products are namkeen like *gathiya*, wafers, papad, spices, *besan*, noodles, rusk, and spices.

- ▶ It is based in Gujarat and derives 79% of its revenue from the state. However, it is expanding to other states and currently sells in 523 locations across 10 states and 2 UTs.
- ▶ The company has 3 depots and 617 distributors with products reaching 7 lakh retail touch-points in India. It also has 18 trademarks in countries like the USA, New Zealand, Canada and Australia. Two more applications are underway in the USA and Africa.



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Issue Details

Size

₹ 650 cr

Offer for Sale (P)

₹ 650 cr

Offer for Sale (I)

₹ 0 cr

Fresh Issue

₹ 0 cr

► (P): value of shares being sold by promoters

► (I): values of shares being sold by investors

Price Band

₹ 381 - 401

Retail Lot

37

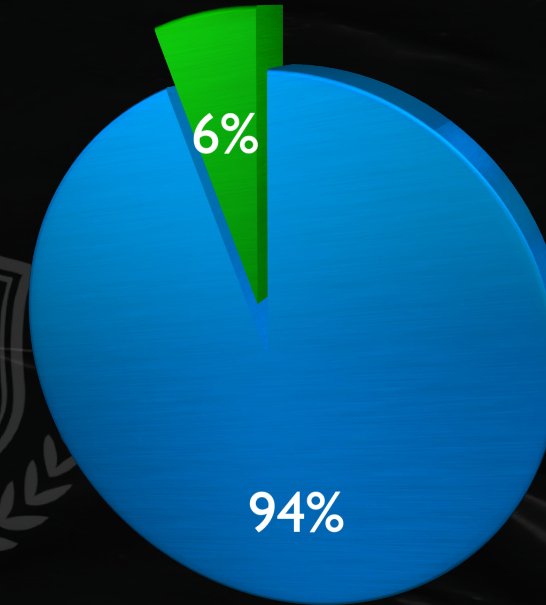
MARKET MASTERY



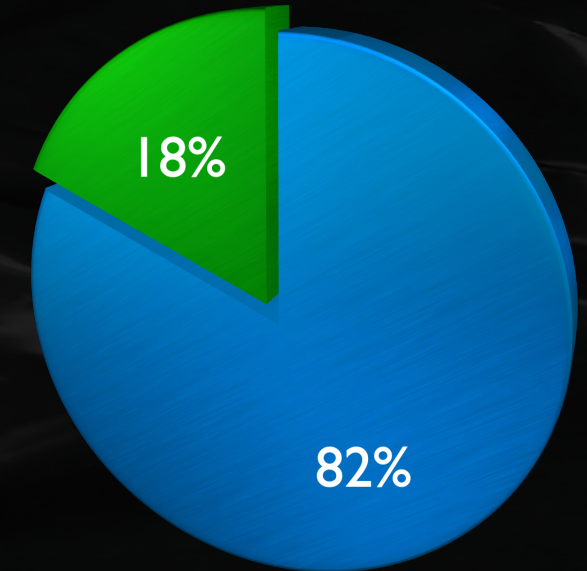
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◆ SHAREHOLDING PATTERN

- ▶ Before: Promoter (93.50%), Others (6.50%)
- ▶ After: Promoter (81.49%), Others (18.51%)
- ▶ No proceeds from the IPO will go to the company as it is an OFS. All proceeds will go to the promoters.
- ▶ Promoter holding is strong pre and post issue, but the company will not gain any monetary benefit from the issue.



Before IPO



After IPO

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◆ USAGE OF PROCEEDS FROM IPO

No Benefit to the Company

◆ PROMOTER INFORMATION

- ▶ Bipinbhai Vithalbhai Hadvani is the Chairman and MD with over 30 years of experience in the food industry and field of business. He is also on the board of Gopal Agriproducts and Gopal Snacks Foundation.
- ▶ Dakshaben Bipinbhai Hadvani is the Executive Director and has been associated with the company for 9 years with experience in the human resource industry.



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◆ INDUSTRY INFORMATION

- ▶ The savoury snack market in India grew at an annual rate of 5.7% between 2018–23. The market size is estimated to be ₹796 billion in 2022–23, and is expected to grow at a much higher 11% annually between 2022–28 to reach ₹1,217 billion. The growth of the organised snacks sector is highly supported by India's economic growth and modern retail modes like supermarkets.

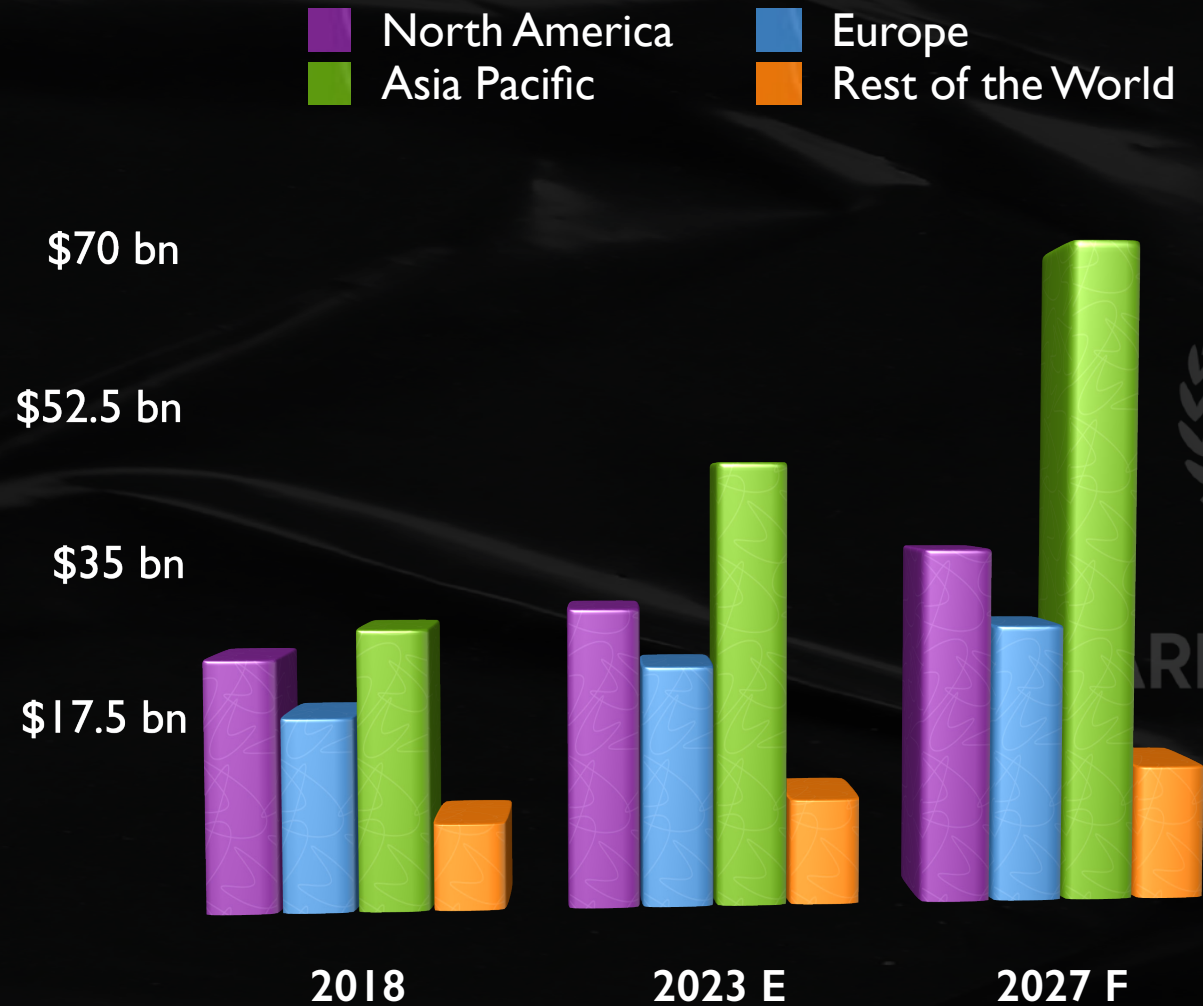
◆ SPECIFIC INDUSTRY GROWTH

- ▶ Organised ethnic namkeen and snacks market: 11% CAGR
- ▶ Organised gathiya market: 11.7% CAGR
- ▶ Organised western snacks market: 12.1% CAGR
- ▶ Organised papad market: 8.2% CAGR

(CAGR: Compound Annual Growth Rate)



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◆ MARKET FOR SAVOURY SNACKS

- ▶ North America, Europe, and the 'rest of the world' see steady potential increase in demand.
- ▶ Demand in Asia-Pacific is expected to rise by 138% in 10 years which is much higher than anywhere else. This is a positive for the company.

(E: Estimate)

(F: Forecast)

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◆ FINANCIAL SNAPSHOT

(₹ crore)	30 Sep 2023	31 Mar 2023	31 Mar 2022	31 Mar 2021
Assets	₹ 434.5	₹ 461.3	₹ 399.7	₹ 341.9
Revenue	₹ 678.0	₹ 1,398.5	₹ 1,356.5	₹ 1,129.8
Profit After Tax	₹ 55.6	₹ 112.4	₹ 41.5	₹ 21.1
Margin	8.20%	8.03%	3.06%	1.87%
Reserves and Surplus	₹ 333.2	₹ 277.6	₹ 176.6	₹ 135
Total Borrowing	₹ 26.1	₹ 106.4	₹ 164.1	₹ 139



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◆ MAIN LISTED PEERS

- Bikaji Foods
- Prataap Snacks

Bikaji Foods

Bikaji Foods aspires to be amongst the global leaders in the food snacks segment. Its primary food segments are ethnic snacks and packaged sweets. It has 11 manufacturing plants spread across India and draws 88% of its revenue from the northern and eastern regions of the country.

Prataap Snacks

Prataap Snacks is a leading snacks food company. It has a wide range of products across many categories under the brands 'Yellow Diamond', 'Avadh' and 'Rich Feast'. It focuses on providing value to customers and is one of the fastest growing snack companies in India.



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(₹ Crore)	Net sales	PBDIT	Operating %	PAT	PAT %
Gopal Snacks	₹ 1,399	₹ 195	13.95%	₹ 112	8.01%
Bikaji Foods	₹ 1,944	₹ 95	4.89%	₹ 128	6.58%
Prataap Snacks	₹ 1,653	₹ 71	4.29%	₹ 20	1.2%



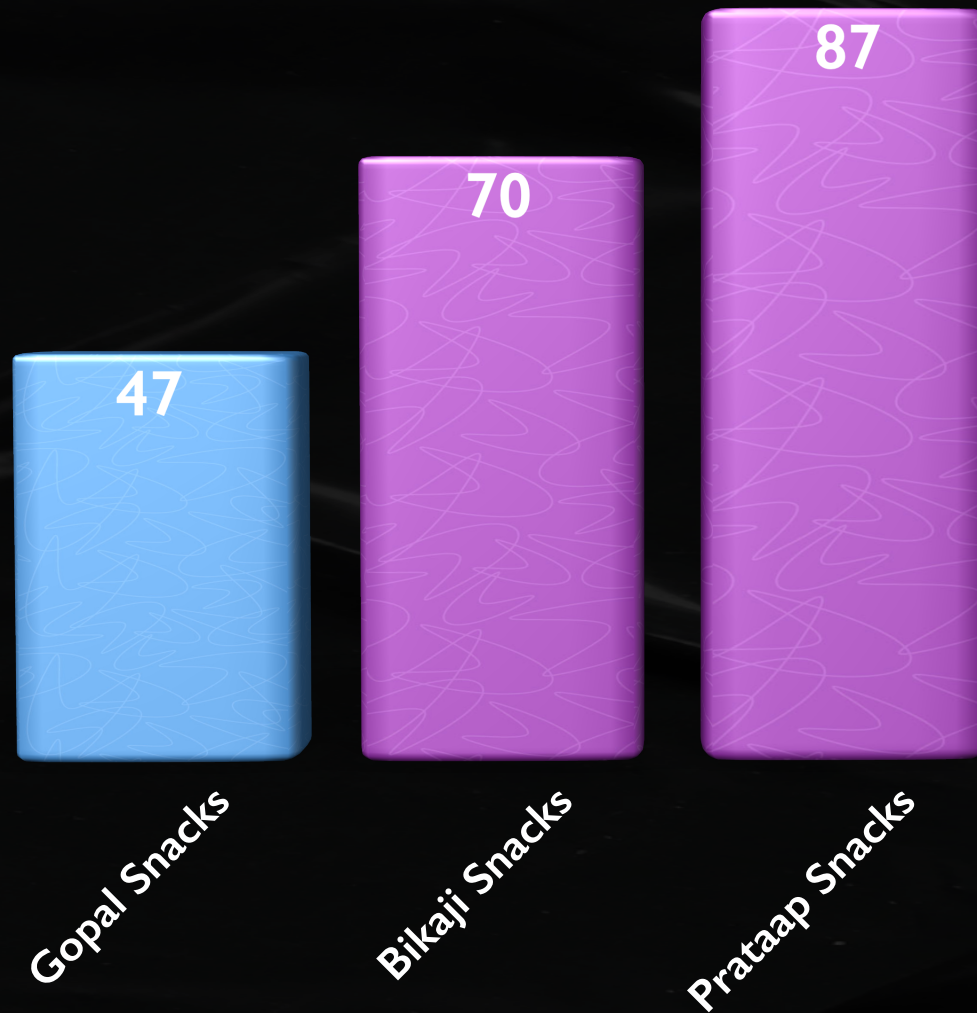
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◆ PEER ANALYSIS

- ▶ Gopal Snacks has the highest operating margin amongst its peers which indicates relatively higher efficiency. However, there was a sudden boost in the margins in FY23. It is important to analyse whether the current margins can be sustained in the coming years especially when the usual margins of the industry are lower.
- ▶ In terms of sales it matches its peers. Despite the fact that Bikaji is a much more known name, Gopal has been able to create a niche for itself.
- ▶ The steady growth in numbers such as revenue and profits is a good sign. For such a company one cannot expect exponential growth.



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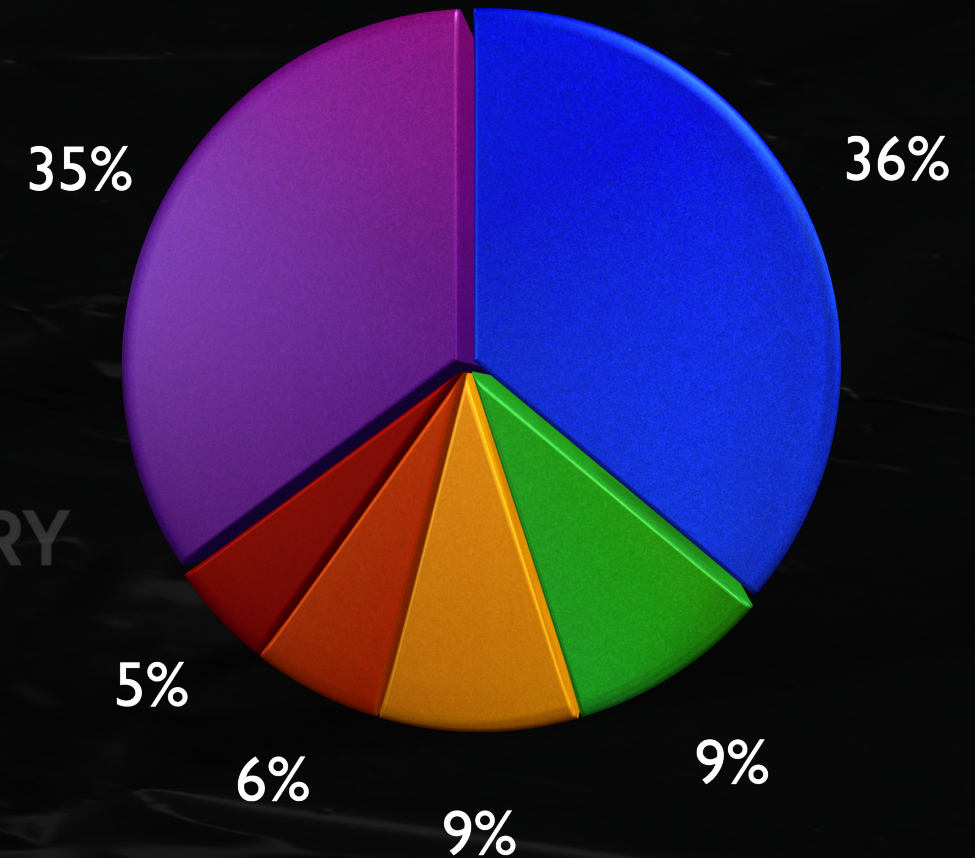
♦ PE ANALYSIS

- ▶ PE is calculated on the estimated post-listing price and FY23 earnings
- ▶ PE isn't a complete valuation measure, but, it can give an idea if a company might be towards being undervalued or overvalued
- ▶ Gopal Snacks has a significantly lower relative PE — the most we can draw from this is that the IPO doesn't appear to be overvalued

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◆ MARKET SHARE FOR ETHNIC SAVORIES (INCLUDING GATHIYA)

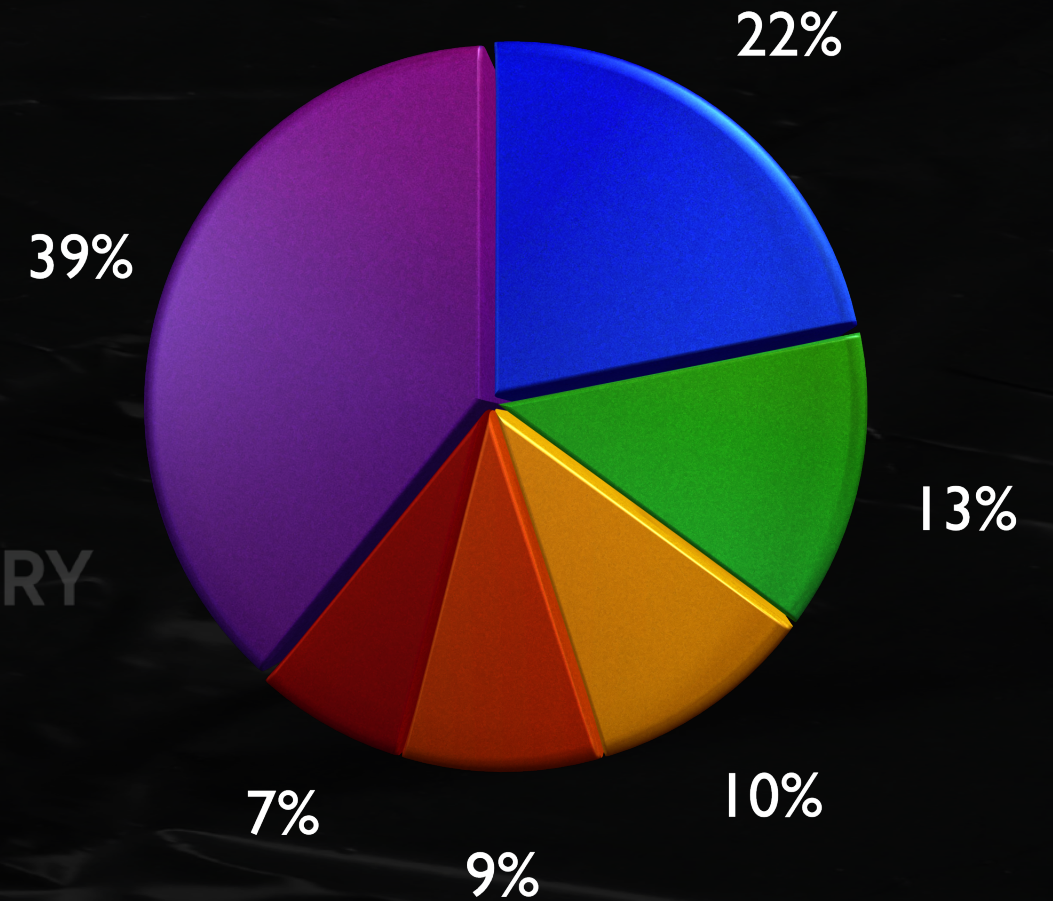
- Haldiram
- Balaji Wafers
- Bikaji Foods
- Gopal Snacks
- Bikanervala Foods
- Other organised



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◆ MARKET SHARE FOR WESTERN SNACKS

- PepsiCo
- ITC
- Balaji Wafers
- Haldiram
- Prataap Snacks
- Other organised



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✦ MARKET LEADERS IN VARIOUS PRODUCTS

Category	Company		
Ethnic Namkeen and Snacks	Haldirams		
Gathiya	Gopal Namkeen		
Chips	PepsiCo	Balaji Wafers	
Snack Pellet	Gopal Namkeen		
Other Western Snacks	PepsiCo	ITC Limited	Balaji Wafers
Papad	Lijjat Papad		



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◆ CAPACITY UTILISATION

100%

81%

61%

42%

2022

2023



Gathiya



Namkeen

100%

75%

50%

25%

2022

2023



Snack Pallets



Wafers

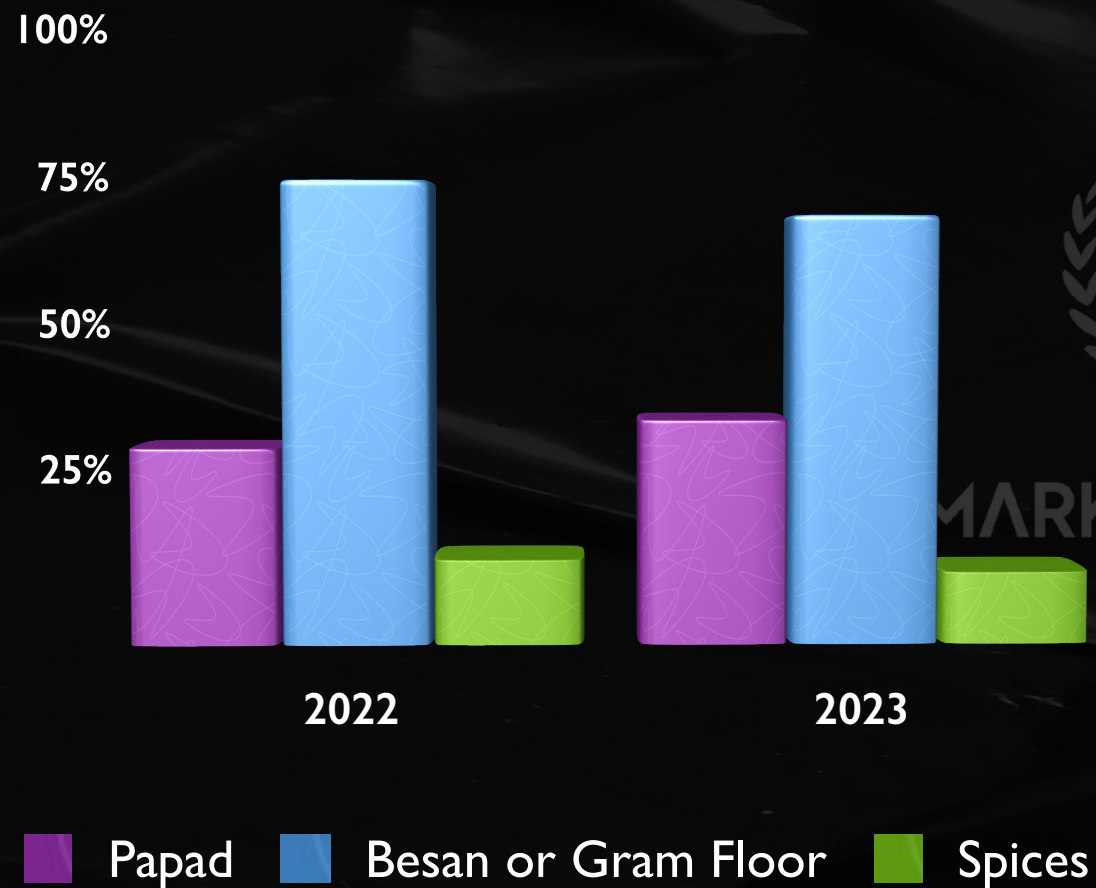


Extruded Snacks



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◆ CAPACITY UTILISATION



◆ ANALYSIS

- ▶ Capacity utilisation is falling which can be a sign of operational inefficiency (however, the margins contradict this), reducing demand (again, the revenue contradicts this), or overcapacity where companies have invested too much expecting much higher demand.
- ▶ The positive is that because the company already has build capacity, it can expand production quickly at low costs.

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◆ STRENGTHS

- ▶ The company has strategically located manufacturing facilities in Gujarat and Maharashtra catering to areas where it sees most demand. This reduces logistics costs.
- ▶ The management is experienced and well versed with the food industry.
- ▶ The company's manufacturing operations are vertically integrated, which means they manufacture some of the key ingredients used in their products. This reduces costs, increases operational efficiency, and ensures quality.
- ▶ It operates in an industry that is rather defensive, meaning, the products it offers are not high-ticket items. Thus, even in slow economic times people largely continue to consume such food items.



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◆ WEAKNESSES

- ▶ The company derives 79% of its revenue from Gujarat. Ideally this should be more diversified.
- ▶ Its manufacturing units are concentrated in western India. This can put a restriction on the company's ability to expand business pan-India.
- ▶ Competition is high not just from organised but unorganised players as well. Also, there are no real 'moats' or barriers to entry. Meaning, this isn't an industry that has a unique technology that can't be copied nor an industry that requires heavy capital investments.
- ▶ It often doesn't take much for a customer's taste to change which poses a threat to such businesses.
- ▶ If the cost of inputs rises rapidly it can cause profit margins to drop.



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◆ GMP

- ▶ Grey Market Premium is the additional value that investors are willing to pay for an IPO before its shares are officially traded in the market. The GMP can change till the last day.
- ▶ Issue Price: ₹401
- ▶ GMP: ₹24
- ▶ Estimated listing price: ₹24 + ₹401 = ₹425
- ▶ Potential listing gains: 5.99%

◆ CONCLUSION

- ▶ The company has stable and improving fundamentals, an established name, and is in an industry that is not cyclical and has reasonable growth. However, there is also significant competition and no real barriers to entry.
- ▶ **AVOID** for listing gains.
- ▶ **CAN INVEST** for long-term. Time horizon 7-10 years. Maximum 3-4% capital allocation.

