

GOPAL SNACKS LIMITED

A) BUSINESS MODEL:

Gopal Snacks Limited operates as a significant player in India's fast-moving consumer goods (FMCG) sector, particularly focusing on the snack industry within Gujarat. The company's primary business encompasses manufacturing and selling a wide variety of savory products under the brand name 'Gopal'. Their product line includes ethnic snacks like namkeen and gathiya, western snacks such as wafers, snack pellets, and extruded snacks, along with other FMCG items including papad, spices, gram flour (besan), noodles, rusk, and soan papdi. These products are categorized as semi-perishable.

As of September 30, 2023, Gopal Snacks Limited boasted a diverse product portfolio consisting of 84 products with 276 SKUs across different categories. The company's operations are supported by six manufacturing facilities in India, including three primary manufacturing units located in Nagpur (Maharashtra), Rajkot, and Modasa (Gujarat), focusing on the production of finished goods. Additionally, it operates three ancillary facilities in Rajkot and Modasa, primarily producing ingredients like besan, raw snack pellets, seasoning, and spices, mostly for captive use in the manufacturing of their finished products.

Value Proposition: This business model emphasizes control over the entire supply chain, from production to distribution, enabling Gopal Snacks Limited to maintain high standards of quality and cost efficiency. The company's strategy includes vertical integration, allowing it significant control over both upstream (supply) and downstream (distribution) processes, which distinguishes it from competitors in the Indian snack industry.

B) INDUSTRY ANALYSIS:

Market size and growth:

a) Overall Growth:

Packaged foods industry was valued at ₹2972 billion in 2018 and is estimated to reach ₹4622 billion in 2023, with a projected Compound Annual Growth Rate (CAGR) of 10% from 2023 to 2027. By 2027, the market value is expected to hit ₹6767 billion. This growth trajectory underscores the expanding demand for packaged foods in India, driven by various socio-economic factors.

The Indian market for savory snacks is estimated to be worth ₹ 796 billion in Fiscal 2023 and is projected to grow at a CAGR of 11% reaching ₹ 1,217 billion by 2027.

In the Indian savory snacks market, the organized sector held a significant portion, accounting for approximately 57% of the market in Fiscal 2023, translating to a valuation of ₹452 billion. This sector is expected to continue its dominance, growing at a CAGR of 11.7% from Fiscal 2023E to Fiscal 2027F, reflecting the increasing preference for organized and branded snack options among consumers due to factors like hygiene, quality, and brand trust, particularly post the COVID-19 pandemic.

The savory snacks market is broadly categorized into ethnic (traditional) snacks and western snacks. In Fiscal 2023E, western snacks dominated the organized market with a major share of 57%. In contrast, ethnic namkeen and other traditional snacks together contributed to approximately 40% of the organized savory market. The Indian market for savory snacks was worth ₹796 billion in Fiscal 2023E, indicating the substantial size of this sector within the packaged food industry.

b) Key Growth Drivers:

Disposable Income and Urban Middle-Class Expansion: Rising disposable income and the growth of the urban middle class are pivotal in driving the demand for high-value, pre-packed 'on-the-go', and 'ready-to-eat' products.

Working Women Population: The increasing number of working women across the country is another critical factor. As more women enter the workforce, the demand for convenient and quick food options rises, boosting the packaged food sector.

Urbanization and Lifestyle Changes: Urbanization and changes in lifestyle preferences, including a shift towards convenience foods, have significantly contributed to the growth of the packaged food industry.

Health and Hygiene Awareness: Post-COVID-19, there's been an increase in awareness about health and hygiene, further accelerating the demand for packaged foods perceived as safer and cleaner compared to unpackaged counterparts.

c) Future outlook:

The industry's future looks promising, with continued growth expected in the coming years. Key trends likely to shape the market include increasing consumer preference for healthier and premium products, continued urbanization, and the rise of e-commerce as a significant sales channel for packaged foods.

Gopal Snacks Limited's strategic focus on expanding its product range, enhancing manufacturing capabilities, and exploring new markets (both domestically and internationally) positions it well to capitalize on these trends. However, it must navigate challenges such as fluctuating raw material prices, regulatory changes, and intensifying competition.

In summary, the Indian packaged food industry presents substantial growth opportunities, driven by changing consumer behaviors and economic development. Gopal Snacks Limited's business model and strategies align with these trends, suggesting potential for continued growth and expansion in this dynamic market.

C) Risks in the Business:

Operational Risks:

Geographical Concentration: The company's sales are heavily concentrated in its core market of Gujarat. Any adverse developments in this region could negatively impact the business.

Contamination Risk: The operations are subject to risks related to food safety, including contamination and improper storage. These risks could lead to legal liabilities, damage to brand reputation, and financial losses.

Seasonality: Gopal Snacks Limited experiences variations in sales volumes across different quarters due to seasonality, which could lead to significant revenue fluctuations.

Competitive landscape: Operating in a highly competitive environment, Gopal Snacks Limited faces risks related to maintaining market share and profitability amidst intense competition.

Notices under the Food Safety and Standards Act, 2006: The company has received eight notices from statutory and regulatory authorities such as office of designated food inspector/food safety officer under the relevant provisions, as applicable, of the FSSA, Food Safety and Standards Act, 2020 and the rules and regulations thereunder.

Competition from the family: Further, the setting up of a competing business under the brand name 'Gokul Snacks', which is based in Gujarat, the core market of our Company, by **Pratulchandra Vitthal Hadvani, the brother of our Promoter**, Bipinbhai Vitthalbhai Hadvani, and his family members, may result in increased competition for our Company and such increased competition may have an impact on our business, results of operations, financial condition and cash flows.

D) Financial Analysis:

Particulars	FY 2021	FY 2022	FY 2023	Six month ended Sep 2022	Six month ended Sep 2023
Revenue (In Millions)	11288.61	13521.61	13946.53	6993.01	6761.95
EBITDA Margin	5.35%	7.01%	14.07%	13.48%	13.84%
NP margin	1.87%	3.07%	8.06%	7.43%	8.22%
D/E ratio	1.02	0.92	0.37	0.58	0.075
Interest Coverage ratio	3.44	4.88	15	12.48	19.43
Current Ratio	1.15	1.14	2.13	1.14	1.15

E) Peer Analysis:

Name of Co.	P/E ratio	EPS	RONW	EBITDA Margin	D/E
Gopal Snacks	44.96	8.92	31.91%	13.84%	0.075
Bikaji Foods	66.70	7.67	14.15%	11.50%	0.17
Prataap Snacks	119	8.51	3.10%	4.26%	0.09

F) Conclusion:

- a) The company's decision to not issue new shares, opting instead for an offer for sale, indicates that promoters are reducing their stake.
- b) The establishment of 'Gokul Snacks' by the brother of our Promoter, Bipinbhai Vithalbhai Hadvani, and his family members in Gujarat—our core market—introduces direct competition that could significantly affect our business performance, operational outcomes, financial health, and cash flow.
- c) Based on the financial ratios presented, the company has shown a robust growth in EBITDA margin, reflecting improved operational efficiency from FY 2021 to FY 2023.
- d) Debt to Equity ratio is also improving year by year.
- e) Based on the provided PE ratio, it appears that the company is valued more attractively in comparison to its peers.