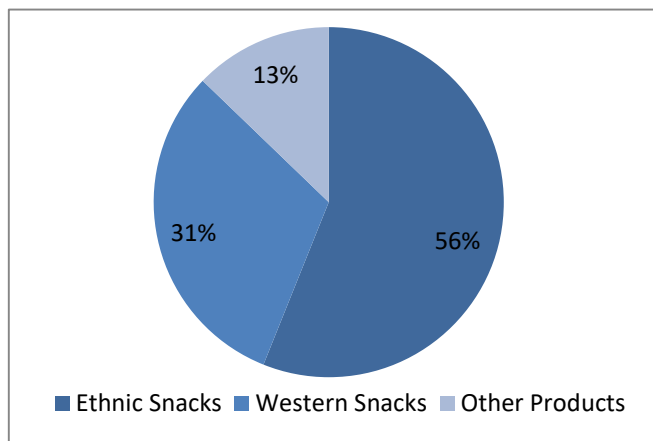


Recommendation	SUBSCRIBE		BACKGROUND																																																																										
Price Band	Rs 381-401		<p>Established in 1999, Gopal Snacks Ltd has emerged as a prominent player in the fast-moving consumer goods (FMCG) sector, offering a diverse range of ethnic and Western snacks across 10 states and two Union Territories. The company's product portfolio includes traditional namkeens, gathiya, wafers, extruded snacks, snack pellets, papad, spices, gram flour (besan), noodles, rusk, and soan papdi, catering to the varied tastes of consumers.</p> <p>Objects and Details of the Issue:</p> <ul style="list-style-type: none"> Total issue size is of Rs. 650 cr which includes Offer for Sale only by the Selling Shareholders To achieve the benefits of listing the Equity Shares on the Stock Exchanges <p>Investment Rationale:</p> <ul style="list-style-type: none"> Vertically integrated business operations resulting in quality products and operational efficiencies Strengthened and diverse product portfolio enables it to position itself in the organized snacks market Focus on the sale of gathiya while driving the growth in further market penetration Strategic locations of manufacturing facilities <p>Valuation and Recommendation:-</p> <p>We expect Gopal Snacks to grow its topline in low teens over the next 2-3 years in consistent with Indian savoury snacks industry which is forecasted to grow at 11.7% CAGR during FY23-27E. In FY23, ROE and ROCE stood at 38.6% and 41.0%, respectively. Company's overall margins are higher when compared with key industry players mainly on account of lower advertising expenses in % of revenue. Currently, company spends less than 1% of revenue on advertising and promotional expenses which is expected to see gradual increase in the upcoming years. Major revenue from Gujarat and limited presence in other regions has provided it with great opportunity to penetrate further in existing as well as new regions. The issue is valued at P/E of 45x to FY23 EPS which is believed to be at reasonable valuation when compared with industry average. Thus, we recommend 'SUBSCRIBE' to the issue with a long-term investment view.</p>																																																																										
Bidding Date	6 th – 11 th Mar'24																																																																												
Book Running Lead Manager	Intensive Fiscal Services, Axis Capital Limited, JM Financial Limited.																																																																												
Registrar	Link Intime India Pvt Ltd																																																																												
Sector	FMCG																																																																												
Minimum Retail Application- Detail At Cut off Price																																																																													
Number of Shares	37																																																																												
Minimum Application Money	Rs. 14,837																																																																												
Discount to retail	0																																																																												
Payment Mode	ASBA																																																																												
Consolidated Financials (Rs Cr)	FY22	FY23																																																																											
Total Income	1,352	1,395																																																																											
EBITDA	95	196																																																																											
Adj PAT	42	112																																																																											
Valuations (FY23)	Lower Band	Upper Band																																																																											
Market Cap (Rs Cr)	4,747	4,997																																																																											
Adj EPS	9.02	9.02																																																																											
PE	42	44																																																																											
EV/ EBITDA	25	26																																																																											
Enterprise Value (Rs Cr)	4,871	5121																																																																											
Post Issue Shareholding Pattern																																																																													
Promoters	80.5%																																																																												
Public/Other	19.5%																																																																												
Offer structure for different categories																																																																													
QIB (Including Mutual Fund)	50%																																																																												
Non-Institutional	15%																																																																												
Retail	35%																																																																												
Post Issue Equity (Rs. in cr)	12.5																																																																												
Issue Size (Rs in cr)	650																																																																												
Face Value (Rs)	1																																																																												
<p>Priyanka Ghadigaonkar Research Analyst (+91 22 6273 8177) priyanka.g@nirmalbang.com</p>			<table border="1"> <thead> <tr> <th>Financials</th> <th>FY21</th> <th>FY22</th> <th>FY23</th> <th>H1FY23</th> <th>H1FY24</th> </tr> </thead> <tbody> <tr> <td>Net Revenues</td> <td>1,129</td> <td>1,352</td> <td>1,395</td> <td>699</td> <td>676</td> </tr> <tr> <td>Growth (%)</td> <td>27.4%</td> <td>19.8%</td> <td>3.1%</td> <td>3.4%</td> <td>0.0%</td> </tr> <tr> <td>EBITDA</td> <td>60</td> <td>95</td> <td>196</td> <td>94</td> <td>94</td> </tr> <tr> <td>EBITDA Margin (%)</td> <td>5.3%</td> <td>7.0%</td> <td>14.1%</td> <td>13.4%</td> <td>13.9%</td> </tr> <tr> <td>PBT</td> <td>26</td> <td>54</td> <td>152</td> <td>71</td> <td>75</td> </tr> <tr> <td>Adjusted PAT</td> <td>21</td> <td>42</td> <td>112</td> <td>52</td> <td>56</td> </tr> <tr> <td>EPS</td> <td>1.70</td> <td>3.33</td> <td>9.02</td> <td>4.17</td> <td>4.46</td> </tr> <tr> <td>ROCE</td> <td>13.6%</td> <td>19.9%</td> <td>41.0%</td> <td>42.4%</td> <td>42.5%</td> </tr> <tr> <td>EV/Sales</td> <td>4.5</td> <td>3.8</td> <td>3.7</td> <td>3.7</td> <td>3.8</td> </tr> <tr> <td>EV/EBITDA</td> <td>84.8</td> <td>54.0</td> <td>26.1</td> <td>27.4</td> <td>27.2</td> </tr> <tr> <td>P/E</td> <td>236.6</td> <td>120.3</td> <td>44.5</td> <td>48.1</td> <td>45.0</td> </tr> </tbody> </table> <p>Source: NBRR, RHP</p>			Financials	FY21	FY22	FY23	H1FY23	H1FY24	Net Revenues	1,129	1,352	1,395	699	676	Growth (%)	27.4%	19.8%	3.1%	3.4%	0.0%	EBITDA	60	95	196	94	94	EBITDA Margin (%)	5.3%	7.0%	14.1%	13.4%	13.9%	PBT	26	54	152	71	75	Adjusted PAT	21	42	112	52	56	EPS	1.70	3.33	9.02	4.17	4.46	ROCE	13.6%	19.9%	41.0%	42.4%	42.5%	EV/Sales	4.5	3.8	3.7	3.7	3.8	EV/EBITDA	84.8	54.0	26.1	27.4	27.2	P/E	236.6	120.3	44.5	48.1	45.0
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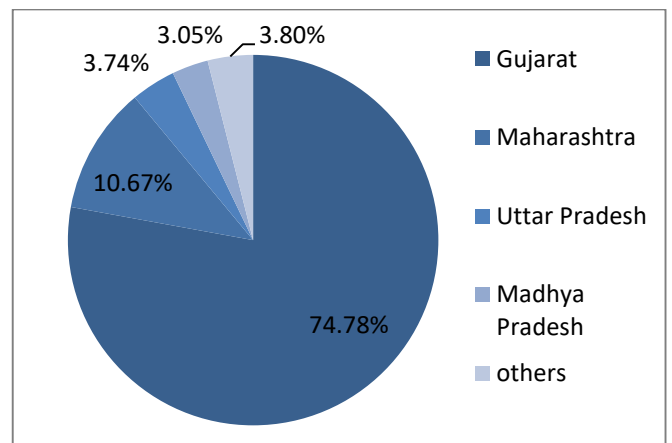
Company Background

The company was established as a partnership firm in 1999 and subsequently incorporated as a company in 2009, an Indian FMCG company, offering ethnic snacks, western snacks and other products in ten States and two Union Territories as on Sept'23. They offer a wide variety of savoury products under its brand 'Gopal', including ethnic snacks such as namkeen and gathiya, western snacks such as wafers, extruded snacks and snack pellets, along with fast-moving consumer goods that include papad, spices, gram flour or besan, noodles, rusk and soan papdi.

Product Revenue Mix (H1FY24: Rs. 676 Cr)



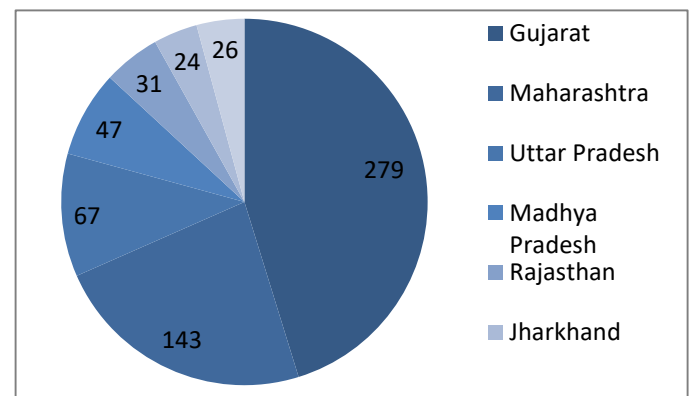
Domestic Revenue Mix (H1FY24: Rs. 649 Cr)



Distribution Network

The Companies product distribution relies on a robust Distribution network supported by dedicated sales and marketing team of 741 professionals As on Sep'23. This team collaborates closely with 617 distributors across Ten Indian States and two Union Territories. These distributors play a pivotal role in securing and fulfilling orders for its products and serving a diverse range of retailers, including conventional grocery stores, supermarkets, and hypermarkets.

Number of Distributors (As on Sep'23)



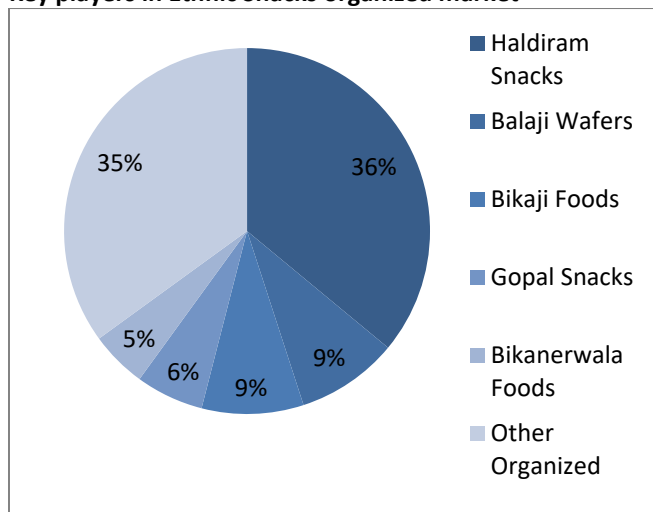
Source: NBRR, Company Data

Industry Overview

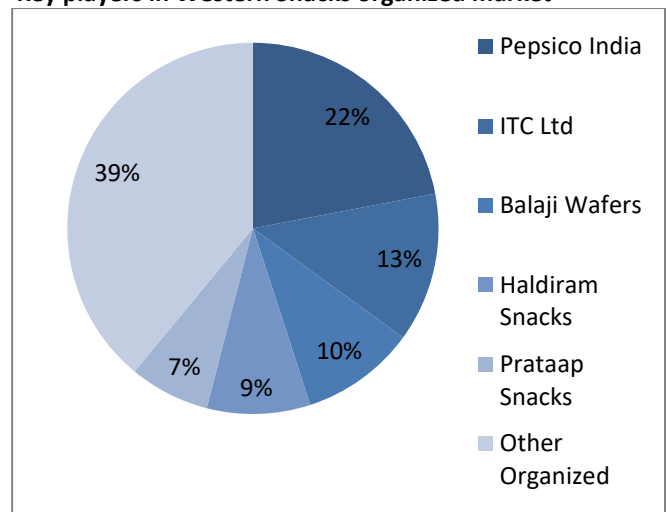
The Indian savoury snacks market worth Rs. 796 billion was traditionally dominated by the unorganized players that used to cater to the region-specific demands of the local consumers. In FY23, the organized market for savoury snacks dominated the Indian market accounting for a market share of ~57% with a valuation of Rs. 452 billion. The growth of organized sector in India is highly supported by the economic growth that has increased the sales via modern retail including supermarket and hypermarkets. It is noteworthy that the sales of snacks in India is surging and experiencing healthy growth. Amidst the same, Ethnic namkeen and snacks is seen as a lucrative sector based on the growth and higher margins offered to the manufacturer. Overall, the industry is moving in the direction of a more organized presence; where few established Indian players such as PepsiCo and Haldiram have started to incorporate locally or regionally consumed products into its offerings and are even marketing the products internationally.

Market share 2023

Key players in Ethnic Snacks organized market



Key players in Western Snacks organized market



Source: NBRR, Company Data

Investment Rationale

Vertically integrated business operations resulting in quality products and operational efficiencies

The company's manufacturing operations are vertically integrated, enabling them to control the production process. This result in improved operational efficiency, reduced production costs, and enhanced control over the quality and origin of ingredients. They manufacture besan or gram flour and spices such as chilli powder, cumin powder, coriander powder, and turmeric powder, which are key ingredients to produce various types of namkeen and gathiya products. They also manufacture raw snack pellets to produce snack pellets, controlling the production of these ingredients allows them to maintain consistent taste, texture, and quality of their products, and reduce dependence on external suppliers, thereby resulting in lowering the overall cost of production.

They possess the ability to customize machines according to their specific requirements, ensuring that the machines are optimized for the production of their product portfolio. For instance, they have customized machinery set-ups, including fryers, machines for manufacturing raw pellets, mixing machines, blending machines, ingredient controllers, and weight controllers. These setups enable them to manufacture products with consistent temperature, shapes, textures, and taste. Additionally, they have customized their product identification mechanisms, automated warehouse, and conveyor roller belts, which facilitate their post-manufacturing processes. Furthermore, they employ a gravity-driven material movement process where raw materials flow from the top, are converted into finished products, and immediately transported downwards into cartons for delivery. Their belief is that this combination of technological capabilities and customization approach allows them to achieve cost efficiency in their operations.

As on Sep'23, the company owned and operated 263 logistics vehicles. They have an engineering and fabrication facility located in Rajkot, Gujarat, where they manufacture customized containers that are mounted on their vehicles for transporting their products. The facility is also equipped to perform repairs and maintenance on their logistics vehicles. Their capability to manufacture containers ensures the strength of the metal body, protecting their products from heat, rain, and humidity. Furthermore, owning a fleet of customized logistics vehicles helps them avoid undue delivery delays, minimize the risk of in-transit pilferage, and prevent demurrage due to incidental delays. Additionally, using their logistics vehicles featuring their branding during transportation contributes to brand building.

They have a cold storage situated within their primary manufacturing facility in Modasa, Gujarat. As on Sep'23, the facility boasted an annual installed capacity of 40,000 MT. This capability enables them to manage storage conditions and offers flexibility in terms of storage schedule.

Their vertically integrated business model, combined with their advanced manufacturing capabilities and processes, has resulted in a competitive advantage. This advantage strengthens their market position and grants them control over the production process, inventory management, logistics, quality of ingredients, and packaging of their products. As a result, they can effectively manage costs and facilitate the scalability of their business operations.

Strengthened and diverse product portfolio enables it to position itself in the organized snacks market

They offer a diversified portfolio of savory snacks, including ethnic savories such as namkeen and gathiya, as well as western snacks like wafers, extruded snacks, and snack pellets. Their product range caters to varied consumer tastes and preferences. Additionally, they provide fast-moving consumer products such as papad, spices, besan (gram flour), chikki, nachos, noodles, rusk, soan papdi, and washing bars. In recent years, the organized segment has strengthened its position in the savory snacks market by introducing new products and innovations that target both urban and rural consumers. As Sep'23, their product portfolio includes 84 products with 276 SKUs across various categories. Specifically, they offer 31 namkeen products and 8 gathiya products to meet consumer needs. Over time, they have established a strong presence in the organized snacks market in India.

Focus on the sale of gathiya while driving the growth in further market penetration

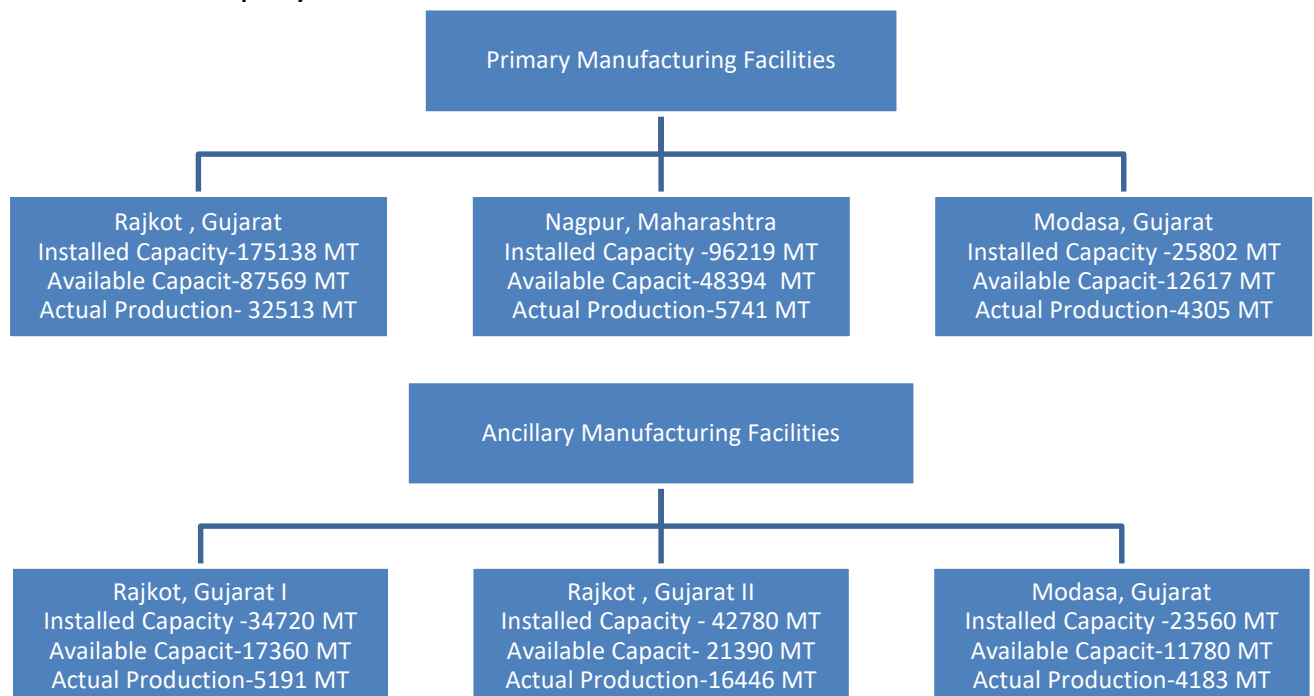
Company’s gathiya sales increased by 8.16% CAGR from Rs.362.3 cr in FY21 to Rs.423.8 cr in FY23. Gathiya sales contributes ~30% of company’s overall revenue. In FY23, the organized market for gathiya accounted for 3% of the total organized Indian savory snacks market, estimated to be valued at Rs.14 bn. The gathiya market is projected to grow at a CAGR of 11.7% between FY23-27E.

The gathiya holds prominence as a snack in the state of Gujarat and is gradually gaining popularity in other states, particularly in Uttar Pradesh, Maharashtra, Rajasthan, and Madhya Pradesh. As on Sep’23, it manufactured eight varieties of gathiya, including vanela gathiya, fulvadi gathiya, tikha gathiya, papdi gathiya, tikha papdi gathiya, bhavnagari gathiya, champakali gathiya, and nylon gathiya. Their capability to produce besan (gram flour), a key ingredient for gathiya products, enables them to maintain consistent taste, texture, and quality in their gathiya offerings. Their position as a gathiya manufacturer in India, coupled with their diverse product range and commitment to consistent quality, distinguishes them from competitors in the market. Additionally, the growing popularity of gathiya as a snack in certain other states, along with the forecasted market growth, presents opportunities for them to expand their reach and continue succeeding in this segment.

Strategic locations of manufacturing facilities

As on Sep’23, the company’s diverse product lineup comprises of 84 distinct products across 276 SKUs. These are manufactured across six manufacturing facilities in India: three primary manufacturing units and three ancillary facilities. The primary facilities, situated in Nagpur (Maharashtra), Rajkot, and Modasa (Gujarat), focus on producing finished goods. Meanwhile, the ancillary facilities specialize in the production of besan, raw snack pellets, and essential seasonings and spices which is an integral component for creating gathiya, namkeen, and snack pellets. Specifically, two ancillary manufacturing facilities operate in Rajkot (Gujarat), while the third is located in Modasa (Gujarat)."

State wise installed capacity:

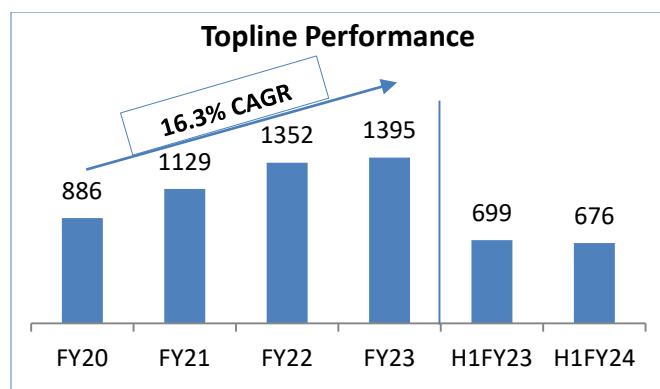


Source: NBRR, Company Data

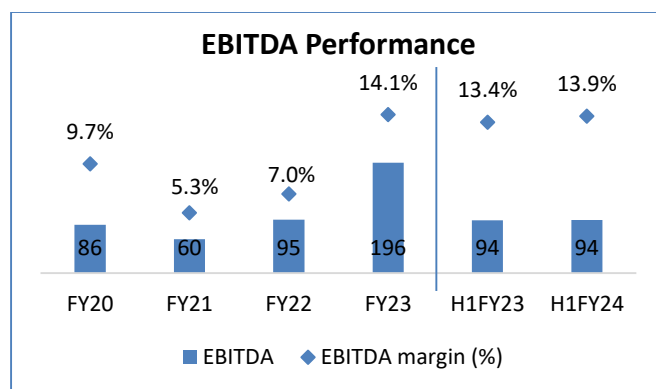
Financial Performance

Topline and Operating Performance

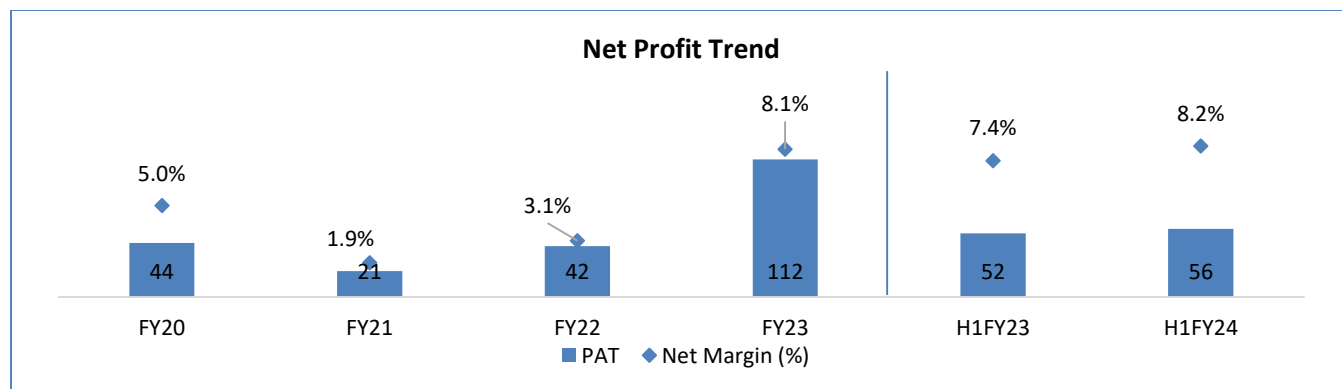
In FY23, the company's revenue growth remained stagnant due to the establishment of a business entity named 'Gokul Snacks.' This venture was initiated by Mr. Pratulchandra Vitthal Hadvani, the brother of the Gopal Snacks promoter who got separated from the existing business during FY22.



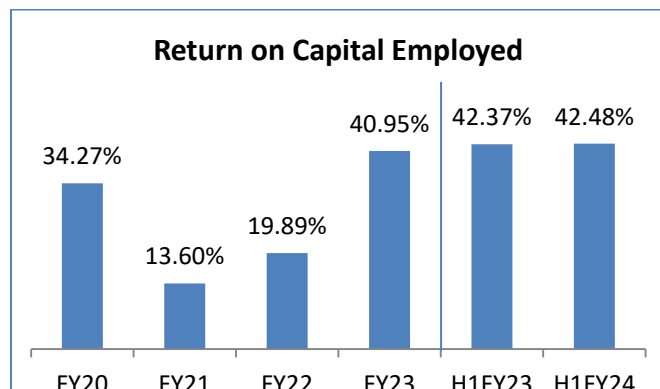
Source: NBRR, RHP



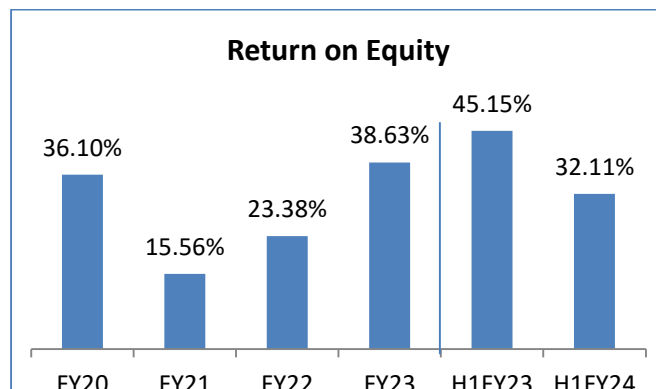
Profitability Ratios



Source: NBRR, RHP



Source: NBRR, RHP



Risks and concerns

The company's reliance on the sale of specific products—namely, namkeen, gathiya, and snack pellets—is substantial

They have a significant dependence on the sale of their products, namely, namkeen, gathiya, and snack pellets. Their aggregate revenue from the sale of these products accounted for 82% of their revenue in FY23. An inability to anticipate and adapt to evolving consumer tastes, preferences, and demand for specific products, or ensure product quality, may adversely impact demand for their products, brand loyalty, and consequently, their business, results of operations, financial condition, and cash flows.

Manufacturing Facilities and Capacity Utilization

Their manufacturing facilities are currently under-utilized, and the capacity utilization of their primary manufacturing facilities has further declined from 40.08% in FY21 to 32.36% in FY22 and further to 27.56% in FY23. The capacity utilization is affected by its product mix, its ability to accurately forecast customer demand, to carry out uninterrupted operations, the availability of raw materials, and industry/market conditions. In the event there is a decline in the demand for their products, or if they face prolonged disruptions at their facilities or are unable to procure sufficient raw materials, their capacity utilization would further decline, and they would not be able to achieve full capacity utilization of their existing or future manufacturing facilities, resulting in operational inefficiencies which could have an adverse effect on their business, results of operations, financial condition, and cash flows

Challenges in the snack food industry

Their manufacturing facilities operate in a market for snack foods that is both large and intensely competitive. They face intense competition in the Indian snack food market, not only from various domestic and multinational companies in India but also from the unorganized sector. They anticipate that competition could increase with new entrants joining the FMCG industry, who may have more flexibility in responding to changing business and economic conditions. Additionally, existing players are consolidating their positions. In addition to this, brand's expansion into new markets will necessitate substantial advertising and promotional expenditures. Some of its competitors may have access to significantly greater resources, including the ability to allocate more funds to advertising and marketing, thereby enhancing their competitive edge.

Any failure to compete effectively, including delays in responding to industry and market changes, coupled with increased advertising spending by competitors, may affect the competitiveness of their products, which in turn could impact their business, financial results, and cash flow.

Valuation and Recommendation

Strong Ethnic savouries player, Gopal Snacks Ltd has established its presence across 10 states and 2 union territories while expanding its product portfolio from ethnic snacks and extruder snacks to western snacks. The company has registered its healthy performance with 16% revenue growth and 37% growth in profitability between FY20-23. We expect the company to grow its topline in low teens over the next 2-3 years in consistent with Indian savoury snacks industry which is forecasted to grow at 11.7% CAGR during FY23-27E.

In FY23, ROE and ROCE stood at 38.6% and 41.0%, respectively. Company's overall margins are higher when compared with key industry players mainly on account of lower advertising expenses in % of revenue. Currently, company spends less than 1% of revenue on advertising and promotional expenses which is expected to see gradual increase in the upcoming years. This may have certain impact on its bottomline and profitability ratios. Company's major revenue generates from Gujarat and restricted presence in other regions has provided it with great opportunity to penetrate further in existing as well as new regions.

The issue is valued at P/E of 45x to FY23 EPS which is believed to be at reasonable valuation when compared with industry average. As we expect increase in its advertising expenses while growing its presence across regions which may have certain impact on its profitability. However, Gopal snacks has many growth levers such as available capacity at its strategic locations for expected growth and vertically integrated operations to enable operational efficiency. **Thus, we recommend 'SUBSCRIBE' to the issue with a long-term investment view.**

Listed Packaged Food players

FY23 Figures	Bikaji Foods International Ltd	Prataap Snacks Ltd	Average	Gopal Snacks Ltd
Revenue	1,966	1,653	1,810	1,395
CAGR (FY20-23)	22.3%	5.8%	14.1%	16.3%
EBITDA Margin	10.9%	3.8%	7.3%	14.1%
Asset Turns (x)	1.5	1.8	1.7	3.0
W/kg Cap Days	36	19	28	29
ROCE (%)	17.7%	3.1%	10.4%	41.0%
ROE (%)	13.3%	3.0%	8.1%	38.6%
Debt/Equity	0.2	0.1	0.1	0.4
EV/EBITDA	61.5	41.5	51.5	26.1
P/E	67.6	123.9	95.7	44.5

Source: NBRR, RHP

Financials

P&L (Rs. Cr)	FY20	FY21	FY22	FY23	H1FY23	H1FY24	Balance Sheet (Rs. Cr)	FY20	FY21	FY22	FY23	H1FY23	H1FY24
Net Revenue	886	1,129	1,352	1,395	699	676	Share Capital	1	1	1	12	1	12
% Growth		27%	20%	3%		-3%	Other Equity	121	135	177	278	229	334
Purchases of stock in trade	692	924	1,073	999	510	473	Minority Interest		0	0	0	0	0
% of Revenues	78.1%	81.9%	79.4%	71.6%	73.0%	70.0%	Networth	122	136	178	291	230	346
Employee Cost	46	59	77	87	43	48	Total Loans	71	139	164	106	134	26
% of Revenues	5.2%	5.2%	5.7%	6.3%	6.1%	7.2%	Other non-curr liab.	17	25	26	25	29	30
Other expenses	62	85	107	112	53	60	Trade payable	29	17	7	9	18	9
% of Revenues	7.0%	7.6%	7.9%	8.1%	7.5%	8.9%	Other Current Liab	12	25	25	30	33	24
EBITDA	86	60	95	196	94	94	Total Equity & Liab.	252	342	400	461	445	435
EBITDA Margin	9.7%	5.3%	7.0%	14.1%	13.4%	13.9%	Property, Plant and Equipment	0	158	197	220	221	219
Depreciation	21	24	31	37	18	17	CWIP	8	43	45	10	14	7
Other Income	1	1	4	4	1	2	Other Intangible assets / Right of u	155	17	18	18	18	17
Interest	8	11	14	11	6	4	Non Current Financial assets	4	3	6	7	7	6
Exceptional item	-0	0	0	0	0	0	Other non Curr. assets	1	0	0	0	0	0
PBT	58	26	54	152	71	75	Inventories	65	87	87	145	84	145
Tax	14	5	13	39	19	19	cash and cash equivalents	0	5	1	29	10	1
Tax rate	24%	20%	23%	26%	27%	26%	Investments+loans	15	1	3	6	6	4
Other Comprehensive income							Trade receivables(debtor)	4	8	14	11	17	15
Adj. PAT (norm. Tax)	44	21	42	112	52	56	Other Current assets	0	21	28	16	67	20
% Growth	-	-52%	97%	171%		7%	Total Assets	252	342	400	461	445	435
EPS (Post Issue)	3.54	1.70	3.33	9.02	4.17	4.46							
							Cash Flow (Rs. Cr)	FY20	FY21	FY22	FY23	H1FY23	H1FY24
Ratios & Others	FY20	FY21	FY22	FY23	H1FY23	H1FY24	Profit Before Tax	58	26	54	152	71	75
Debt / Equity	0.6	1.0	0.9	0.4	0.6	0.1	Provisions & Others	29	34	44	47	24	21
EBITDA Margin (%)	9.7%	5.3%	7.0%	14.1%	13.4%	13.9%	Op. profit before WC	87	61	98	199	95	96
PAT Margin (%)	5.0%	1.9%	3.1%	8.1%	7.4%	8.2%	Change in WC	-15	-32	-31	-36	-30	-15
ROE (%)	36.1%	15.6%	23.4%	38.6%	45.1%	32.1%	Less: Tax	-18	-6	-9	-41	-8	-13
ROCE (%)	34.3%	13.6%	19.9%	41.0%	42.4%	42.5%	CF from operations	54	22	59	122	58	68
							Purchase/Sale of fixed assets	-37	-76	-75	-25	-11	-12
Turnover Ratios	FY20	FY21	FY22	FY23	H1FY23	H1FY24	Sale/Purchase of Investments	0	1	2	0	0	0
Debtors Days	1	2	4	3	4	4	Interest, dividend and other inc	-1	0	-1	0	-1	0
Inventory Days	27	28	24	38	22	39	CF from Investing	-38	-76	-74	-25	-12	-11
Creditor Days	12	6	2	2	5	2	Repayment towards Lease Liab		-0	-0	-0	-0	0
Asset Turnover (x)	3.5	3.3	3.4	3.0	3.1	3.1	Repayment of Borrowings	2	-30	-59	-58	-30	-80
							(Repayment)/ proc current debt	-10	98	84	0	0	0
Valuation Ratios	FY20	FY21	FY22	FY23	H1FY23	H1FY24	interest & div paid	-8	-10	-13	-11	-6	-3
Price/Earnings (x)	113.2	236.6	120.3	44.5	48.1	45.0	CF from Financing	-16	58	12	-69	-37	-84
EV/EBITDA (x)	59.7	84.8	54.0	26.1	27.4	27.2	Net Change in cash	(0)	4	(4)	28	9	(27)
EV/Sales (x)	5.8	4.5	3.8	3.7	3.7	3.8	Cash & Bank at beginning	0	4	-4	28	9	-27
Price/BV (x)	40.9	36.8	28.1	17.2	21.7	14.4	Cash & Bank at end	0	9	-7	55	18	-55

Source: Company Data, NBRR

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Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)

B-2, 301/302, Marathon Innova,
Opp. Peninsula Corporate Park
Off. Ganpatrao Kadam Marg
Lower Parel (W), Mumbai-400013
Board No. : 91 22 6723 8000/8001
Fax. : 022 6723 8010