

Manorama Industries Ltd

Butter your investments with 'Manorama'



Kyon ki bhaiya, sabse bada rupaiya.

TABLE OF CONTENTS

Summary & Investment Rationale	3
Valuation and Peer Comparison	4
Bull & Bear Case Scenario	5
Financial Analysis & Projections	8
Key Management Personnel	10
Business Quality Score	11
Annual Report Analysis	12
Risk & Concerns	15
Quarterly Financials	15
Financial Statement Analysis & Projections	16
Disclaimer	17

BUY @ CMP INR 1,492
Target: INR 2,074 in 24 months
Upside Potential: 39%

Butter your investment with 'Manorama'

Manorama Industries Ltd (MIL) is the sole manufacturer of several value-added tailor-made products that form the ingredients (Shea oil, Sal oil, Mango Fats, Kokum butter & Mowrah fat) of Cocoa Butter Equivalents (CBE). CBE is a cheaper alternative to Cocoa Butter (CB), which improves the taste, solidity and texture of the chocolate. MIL is one amongst the seven producers of CBE globally.

The current capacities of 15,000 MTPA are being expanded to nearly 40,000 MTPA, keeping in mind the burgeoning demand for CBE and its value-added products from the food and cosmetic industry. In fact, the demand is so large that even the expanded capacities of MIL are insufficient to meet the requirements of even one of the largest food companies like Mondelez.

We expect revenues to grow to INR 549 cr (38.1% CAGR) by FY24 driven by the commencement of the new capacities of 25,000 MTPA (by Q1FY23). EBITDA and net earnings are expected to grow at a CAGR of 44.0% (to INR 106 cr) and 50% (to INR 62 cr), respectively over the forecast period. EBITDA and net margins are expected to grow to 19.4% (+228bps) and 11.3% (+247bps), respectively by FY24. Consequently, return ratios, RoE and RoIC, are expected to improve to 16.3% (+369bps) and 20.1% (+1,864bps), respectively by FY24.

We initiate coverage with a BUY for a price target of INR 2,074 (40X FY24 earnings) representing a potential upside of 39% from the CMP of INR 1,492 over the next 24 months. MIL's waste to revenue business model ensures a high ESG score which is a precursor for a re-rating of its valuation multiple. This remains an upside risk to our estimates.

Industry	Food
----------	------

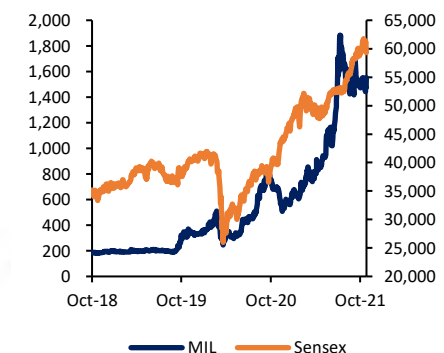
Scrip Details

Face Value (INR)	10.0
Market Cap (INR Cr)	1,778
Price (INR)	1,492
No of Shares O/S (Cr)	1.19
3M Avg Vol (000)	25.8
52W High/Low (INR)	1950/445
Dividend Yield (%)	0.0

Shareholding (%) Sept 2021

Promoter	57.3
Institution	5.7
Public	37.0
TOTAL	100.0

Price Chart



Key Financial Data (INR Cr, unless specified)

	Revenue	EBITDA	Net Profit	EBITDA (%)	Net Profit (%)	EPS (₹)	BVPS (₹)	RoE (%)	RoIC (%)	P/E (X)	P/BV (X)	EV/EBITDA (X)
FY20	188.2	43.9	23.3	23.3	12.4	19.6	106.8	18.3	12.4	76.2	14.0	42.4
FY21	208.4	35.6	18.3	17.1	8.8	15.4	122.1	12.6	8.7	97.0	12.2	51.8
FY22E	301.6	53.0	28.8	17.6	9.6	24.2	231.7	10.4	10.2	61.7	6.4	34.1
FY23E	422.2	76.9	41.9	18.2	9.9	35.1	266.8	13.2	11.4	42.5	5.6	23.9
FY24E	548.9	106.3	61.8	19.4	11.2	51.9	318.4	16.2	13.9	28.8	4.7	17.4

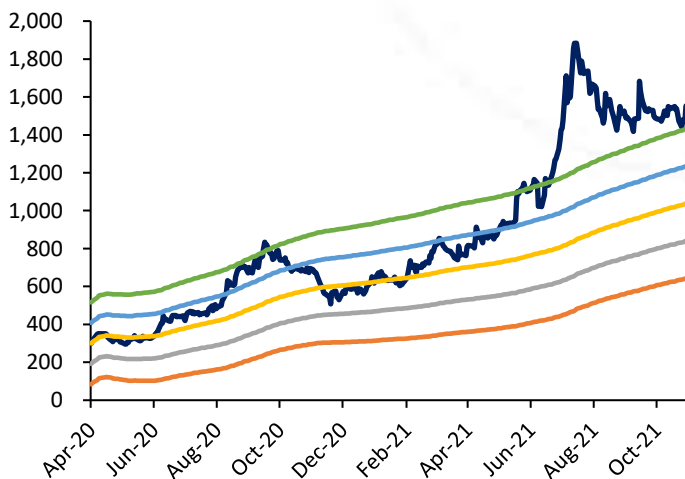
Investment Rationale

- **Significant scope for business growth** – FSSAI has allowed the use of 5% CBE in chocolates from January 2018 (from the earlier limit of 2.5%). This should lead to an increase in the consumption of CBE from 8,000 MTPA in 2018 to more than 20,000 MTPA by 2022. In developed markets the permissible limit is 10% and if the same is allowed in India, it will open up significant scope for growth to MIL.
- **Raw material availability is plentiful** – MIL sources Saal and Mango seeds from tribals of the nearby forest, while importing Shea seeds from western African countries. Availability of Saal and Mango seed is abundant in the Chhattisgarh Forest area and currently the company sources only 5% of the available supply. The abundant availability of raw material and scope for expansion citing the demand potential should enable MIL to plan future capacity expansion.
- **Strong client base** – MIL has a strong clientele with the world’s leading confectionery & cosmetic brands, like Ferrero, Mondelez, The Body Shop, L’Oréal, Unigra, Mitsui, Walter Rau, etc., sourcing its products.
- **Waste to revenue business model leads to high ESG score** – De-oiled cakes and gums are the by-products in the manufacturing of CBE. MIL sells de-oiled cakes as cattle feed, while supplying gums to cosmetic companies as an ingredient for skincare products. MIL converts forest waste (Shea & Saal seeds & Mango kernel) into CBE and also utilizes by-products, which reduces its waste discharge. This provides MIL with the high ESG score and should lead to a substantial re-rating of its valuation multiple.

A healthy balance sheet and strong business potential deserves re-rating

1 year forward P/E

Adj Price 22.8x 29.8x
36.8x 43.8x 50.8x



P/E Standard Deviation

P/E Average
1SD Lower Band 2SD Lower Band
1SD Lower Band 2SD Lower Band



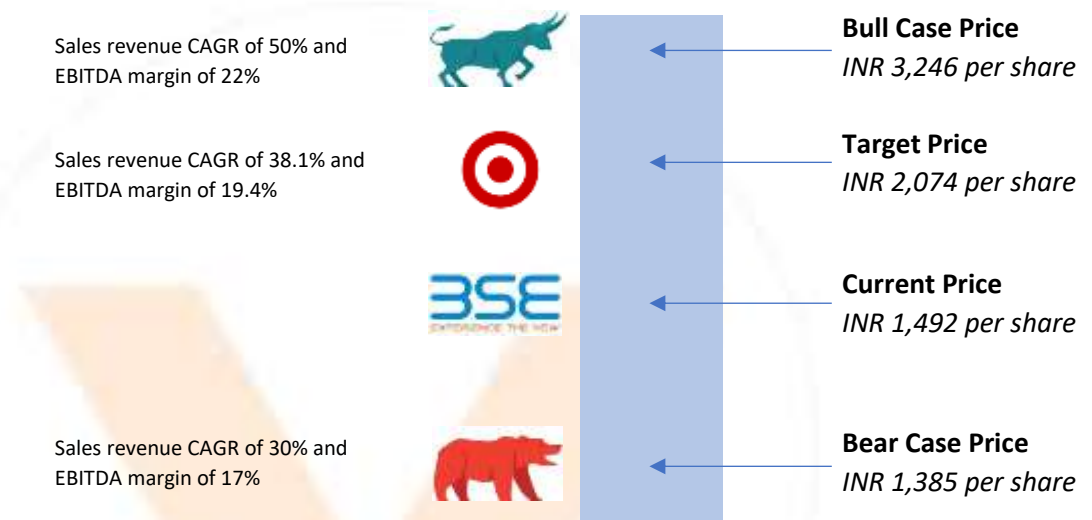
Source: Ventura Research

Our Bull and Bear Case Scenarios

We have prepared a Bull and Bear case scenario based on MIL's FY24 Revenue CAGR and EBITDA margin.

- **Bull Case:** We have assumed 50% revenue CAGR and 22% EBITDA margins, which will result in a Bull Case price target of INR 3,246 per share (an upside of 118% from CMP).
- **Bear Case:** We have assumed 30% revenue CAGR and 17% EBITDA margins, which will result in a Bear Case price target of INR 1,385 per share (a downside of 10% from CMP).

Bull & Bear Case Scenario



Investment Triggers

- MIL is expanding its existing capacity of 15,000 MTPA to 40,000 MTPA keeping in mind the burgeoning demand for CBE and its value-added products from the food and cosmetic industry.
- MIL generates revenue from waste. It converts forest waste (Shea & Saal seeds & Mango kernel) into CBE and also utilizes by-products, which reduces its waste discharge. This provides MIL with a high ESG score and should lead to a substantial re-rating of its valuation multiple.

Catalysts

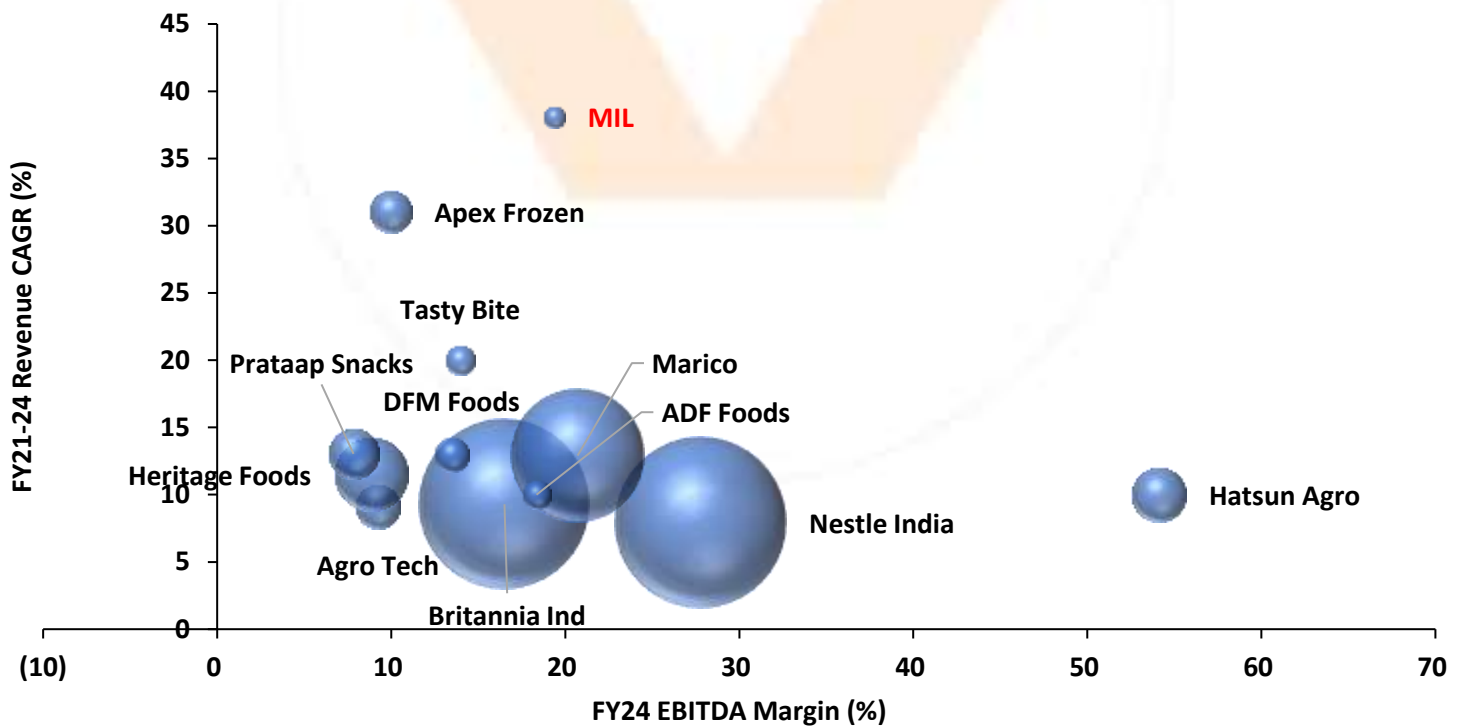
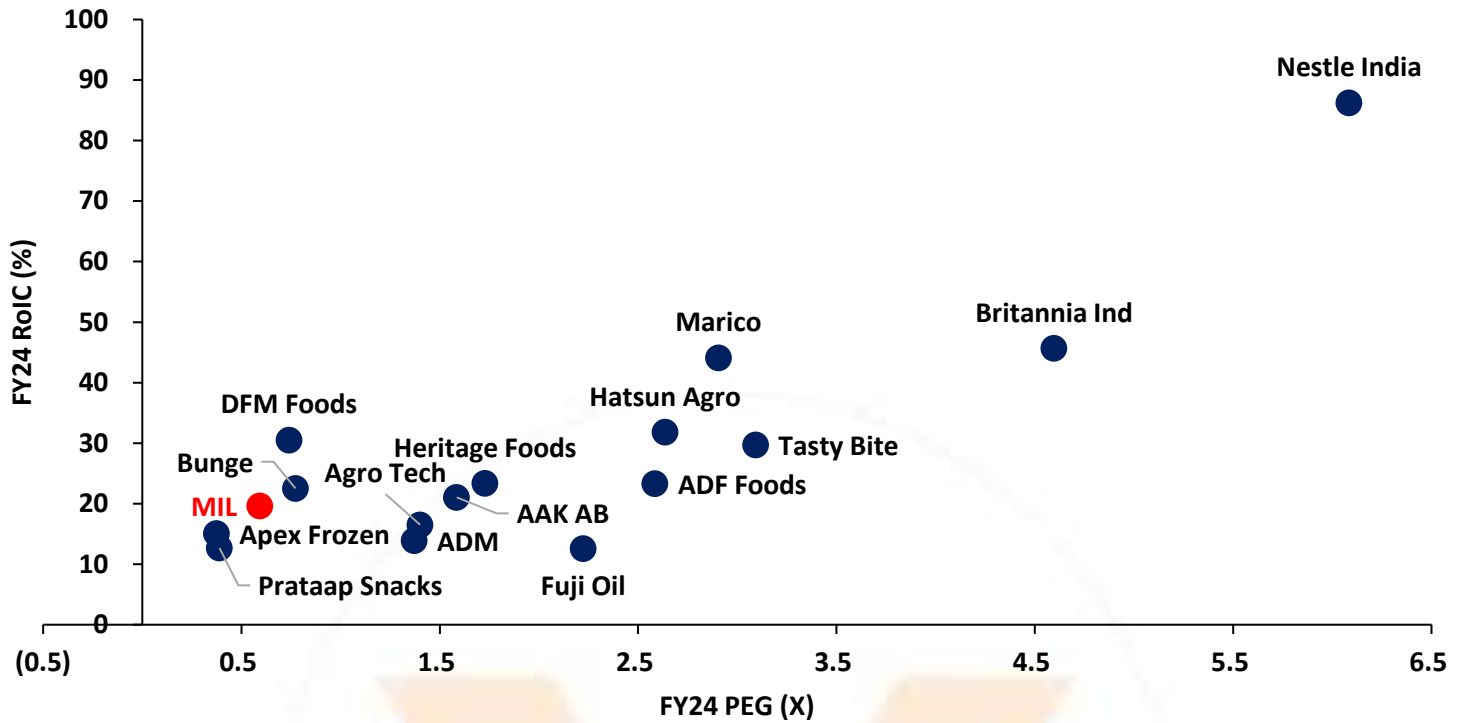
- FSSAI increased the CBE limit in chocolates from 2.5% to 5.0% in 2018. However, in developed markets, the permissible limit is 10% and if the same is allowed in India, it will open up significant scope for growth to MIL.

Valuation and Comparable Metric of Domestic and Global Food and CBE producers

Company Name	Mkt Cap	Price	PEG (X)	P/E (X)			P/BV (X)			EV/EBITDA (X)			RoE (%)			RoIC (%)			Sales			EBITDA Margin (%)			Net Margin (%)		
				2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024	2022	2023	2024
Domestic Peers (fig in INR cr, unless specified)																											
Manoram Industries Ltd.	1,778	1,492.0	0.6	61.7	42.5	28.8	6.4	5.6	4.7	34.1	23.9	17.4	10.4	13.2	16.3	14.4	16.1	19.6	302	422	549	17.6	18.2	19.4	9.6	9.9	11.3
Nestle India Ltd.	180,882	18,760.8	6.1	83.8	75.3	64.3	96.6	63.3	52.2	53.3	43.2	38.0	115.4	84.1	81.3	120.4	89.1	86.3	13,636	14,700	16,700	24.5	28.0	27.8	15.8	16.3	16.9
Britannia Industries Ltd.	88,735	3,685.1	4.6	49.6	42.9	37.6	22.4	18.4	15.3	36.5	34.0	30.7	45.2	42.8	40.7	50.2	47.8	45.7	14,052	15,518	17,148	17.4	16.8	16.5	12.7	13.3	13.8
Marico Ltd.	73,382	568.0	2.9	55.6	47.4	41.8	20.1	18.2	16.4	40.3	34.3	30.1	36.2	38.3	39.1	41.2	43.3	44.1	9,446	10,413	11,584	19.0	20.2	20.7	14.0	14.9	15.1
Hatsun Agro Product Ltd.	29,760	1,380.6	2.6	107.9	83.7	63.3	24.2	20.8	17.0	39.5	34.2	31.1	22.5	24.8	26.8	27.5	29.8	31.8	1,525	1,677	1,845	51.5	54.1	54.1	18.1	21.2	25.5
Tasty Bite Eatables Ltd.	4,205	16,388.6	3.1	89.1	74.2	61.9	18.5	16.8	15.3	67.3	56.1	46.7	20.8	22.7	24.7	25.8	27.7	29.7	462	555	666	14.0	14.0	14.0	10.2	10.2	10.2
Agro Tech Foods Ltd.	2,425	995.0	1.4	59.9	49.3	37.8	5.1	4.8	4.4	36.5	28.5	21.8	8.5	9.7	11.5	13.5	14.7	16.5	967	1,054	1,160	6.8	8.0	9.2	4.2	4.7	5.5
Heritage Foods Ltd.	2,468	532.0	1.7	17.1	15.1	13.2	3.4	2.9	2.4	9.8	8.8	7.8	19.8	19.0	18.4	24.8	24.0	23.4	2,722	3,083	3,429	9.1	8.9	8.8	5.3	5.3	5.5
ADF Foods Ltd.	1,723	860.6	2.6	31.3	28.4	25.9	5.7	5.2	4.7	22.2	20.2	18.4	18.3	18.3	23.3	23.3	23.3	406	447	492	18.3	18.3	18.3	13.6	13.6	13.6	
DFM Foods Ltd.	1,710	340.2	0.7	41.5	27.4	24.9	8.4	7.0	6.4	25.9	18.2	16.5	20.1	25.5	25.5	25.1	30.5	30.5	573	687	756	11.5	13.5	13.5	7.2	9.1	9.1
Prataap Snacks Ltd.	1,612	687.3	0.4	124.5	27.9	25.3	2.4	2.1	1.9	24.0	13.7	12.4	1.9	7.7	7.7	6.9	12.7	12.7	1,316	1,538	1,692	5.2	7.8	7.8	1.0	3.8	3.8
Apex Frozen Foods Ltd.	881	282.6	0.4	16.6	11.8	9.9	1.7	1.2	1.0	9.5	6.8	5.7	10.1	10.1	10.1	15.1	15.1	15.1	995	1,442	1,842	11.0	10.6	10.0	5.3	5.2	4.8
Global Peers (fig in USD mn, unless specified)																											
Fuji Oil Company (Japan)	2,100	24.0	2.2	19.8	17.9	16.3	1.4	1.3	1.2	9.8	9.0	8.3	6.9	7.3	7.6	11.9	12.3	12.6	3,648	3,748	3,814	8.8	9.1	9.6	2.9	3.1	3.4
AAK AB (Stokhome)	5,625	21.8	1.6	25.0	22.6	20.6	4.0	3.6	3.3	14.7	13.5	12.3	16.2	16.0	16.0	21.2	21.0	21.0	4,238	4,349	4,784	9.6	10.0	10.0	5.3	5.7	5.7
Bunge Ltd (USA)	12,945	92.1	0.8	9.3	8.5	7.7	1.5	1.4	1.4	6.7	6.6	6.2	16.4	16.1	17.5	21.4	21.1	22.5	50,099	55,109	60,620	5.0	5.0	5.0	2.8	2.8	2.8
Archer Deniel Midland (USA)	35,586	63.6	1.4	16.6	15.1	13.7	1.4	1.3	1.2	9.4	8.7	7.7	8.7	8.9	8.9	13.7	13.9	13.9	81,567	83,807	83,298	5.5	5.4	5.6	2.6	2.8	3.1

Source: Ventura Research & Bloomberg

Capacity expansion and strong demand outlook for CBE are key investment rationales



Source: Ventura Research, ACE Equity & Bloomberg

Financial Analysis and Projection

During FY18-21, revenues declined at a CAGR of 1.7% to INR 208 cr due to the reduction in trading volumes and focus on own manufacturing. However, EBITDA and net profit grew at a CAGR of 28.7% (to INR 36 cr) and 22.7% (to INR 18 cr), respectively, over the same period. EBITDA and net margins expanded by 949bps (to 17.1%) and 427bps (to 8.8%), respectively. Own manufacturing provided pricing power to the company and reduced operating expenses, which resulted higher profitability.

MIL's Annual Financial Summary

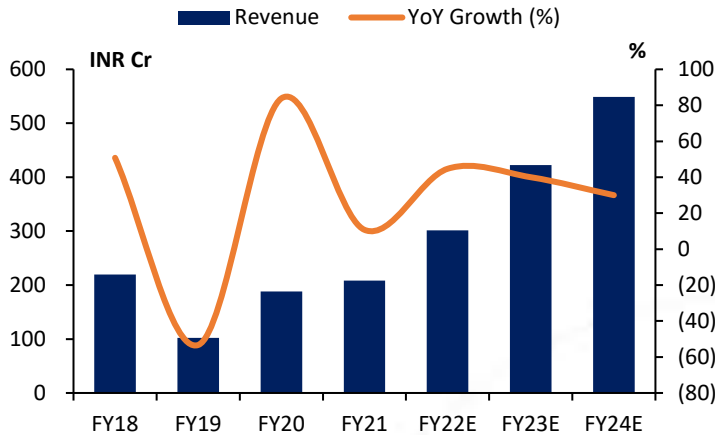
Fig in INR Cr (unless specified)	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E	FY26E	FY27E	FY28E	FY29E	FY30E
Capacity (MTPA)			15,000	15,000	15,000	33,750	40,000	40,000	40,000	75,000	75,000	75,000	75,000
Max revenue at available capacity			375.0	375.0	375.0	843.8	1,000.0	1,000.0	1,000.0	1,875.0	1,875.0	1,875.0	1,875.0
Reported Revenue	219.4	102.4	188.2	208.4	301.6	422.2	548.9	686.1	843.9	1,021.2	1,215.2	1,421.8	1,635.0
<i>YoY Growth (%)</i>	<i>50.8</i>	<i>(53.3)</i>	<i>83.8</i>	<i>10.7</i>	<i>44.7</i>	<i>40.0</i>	<i>30.0</i>	<i>25.0</i>	<i>23.0</i>	<i>21.0</i>	<i>19.0</i>	<i>17.0</i>	<i>15.0</i>
Raw Material Cost	176.6	44.1	78.5	124.9	179.0	253.3	329.3	411.7	506.4	612.7	729.1	853.1	981.0
<i>RM Cost to Revenue (%)</i>	<i>80.5</i>	<i>43.0</i>	<i>41.7</i>	<i>59.9</i>	<i>59.4</i>	<i>60.0</i>	<i>60.0</i>	<i>60.0</i>	<i>60.0</i>	<i>60.0</i>	<i>60.0</i>	<i>60.0</i>	<i>60.0</i>
Employee Cost	3.0	3.5	8.0	7.3	10.7	16.0	17.2	18.3	19.5	20.8	22.1	23.4	24.7
<i>Employee Cost to Revenue (%)</i>	<i>1.4</i>	<i>3.4</i>	<i>4.2</i>	<i>3.5</i>	<i>3.5</i>	<i>3.8</i>	<i>3.1</i>	<i>2.7</i>	<i>2.3</i>	<i>2.0</i>	<i>1.8</i>	<i>1.6</i>	<i>1.5</i>
Other Expenses	23.0	26.6	57.9	40.6	58.8	76.0	96.1	116.6	139.3	163.4	188.4	213.3	237.1
<i>Other Expenses to Revenue (%)</i>	<i>10.5</i>	<i>25.9</i>	<i>30.8</i>	<i>19.5</i>	<i>19.5</i>	<i>18.0</i>	<i>17.5</i>	<i>17.0</i>	<i>16.5</i>	<i>16.0</i>	<i>15.5</i>	<i>15.0</i>	<i>14.5</i>
EBITDA	16.7	28.3	43.9	35.6	53.0	76.9	106.3	139.5	178.8	224.3	275.7	332.1	392.2
<i>EBITDA Margin (%)</i>	<i>7.6</i>	<i>27.6</i>	<i>23.3</i>	<i>17.1</i>	<i>17.6</i>	<i>18.2</i>	<i>19.4</i>	<i>20.3</i>	<i>21.2</i>	<i>22.0</i>	<i>22.7</i>	<i>23.4</i>	<i>24.0</i>
Net Profit	9.9	19.1	23.3	18.3	28.8	41.9	61.8	85.2	103.9	135.2	175.0	219.3	267.1
<i>Net Margin (%)</i>	<i>4.5</i>	<i>18.6</i>	<i>12.4</i>	<i>8.8</i>	<i>9.6</i>	<i>9.9</i>	<i>11.3</i>	<i>12.4</i>	<i>12.3</i>	<i>13.2</i>	<i>14.4</i>	<i>15.4</i>	<i>16.3</i>
Adjusted EPS (INR)	8.3	16.0	19.6	15.4	24.2	35.1	51.9	71.5	87.2	113.4	146.8	184.0	224.1
<i>P/E (X)</i>	<i>179.1</i>	<i>93.3</i>	<i>76.2</i>	<i>97.0</i>	<i>61.7</i>	<i>42.5</i>	<i>28.8</i>	<i>20.9</i>	<i>17.1</i>	<i>13.2</i>	<i>10.2</i>	<i>8.1</i>	<i>6.7</i>
Adjusted BVPS (INR)	20.4	87.2	106.8	122.1	231.7	266.8	318.6	390.1	477.3	590.7	737.5	921.5	1,145.6
<i>P/BV (X)</i>	<i>73.2</i>	<i>17.1</i>	<i>14.0</i>	<i>12.2</i>	<i>6.4</i>	<i>5.6</i>	<i>4.7</i>	<i>3.8</i>	<i>3.1</i>	<i>2.5</i>	<i>2.0</i>	<i>1.6</i>	<i>1.3</i>
Enterprise Value	1,777.3	1,760.5	1,861.4	1,846.1	1,810.0	1,838.4	1,852.4	1,849.8	1,923.2	1,887.0	1,821.7	1,720.1	1,574.7
<i>EV/EBITDA (X)</i>	<i>106.4</i>	<i>62.3</i>	<i>42.4</i>	<i>51.8</i>	<i>34.1</i>	<i>23.9</i>	<i>17.4</i>	<i>13.3</i>	<i>10.8</i>	<i>8.4</i>	<i>6.6</i>	<i>5.2</i>	<i>4.0</i>
Net Worth	24.3	103.9	127.3	145.6	276.1	318.0	379.8	465.0	568.9	704.1	879.1	1,098.4	1,365.5
<i>RoE (%)</i>	<i>40.9</i>	<i>18.3</i>	<i>18.3</i>	<i>12.6</i>	<i>10.4</i>	<i>13.2</i>	<i>16.3</i>	<i>18.3</i>	<i>18.3</i>	<i>19.2</i>	<i>19.9</i>	<i>20.0</i>	<i>19.6</i>
Capital Employed	42.3	128.4	246.6	230.7	336.1	408.0	469.8	555.0	738.9	834.1	949.1	1,098.4	1,365.5
<i>RoCE (%)</i>	<i>191.9</i>	<i>203.8</i>	<i>92.1</i>	<i>(6.5)</i>	<i>45.7</i>	<i>21.4</i>	<i>15.2</i>	<i>18.1</i>	<i>33.1</i>	<i>12.9</i>	<i>13.8</i>	<i>15.7</i>	<i>24.3</i>
Invested Capital	23.1	86.0	210.2	213.3	307.7	377.9	453.8	536.3	713.7	812.7	922.4	1,040.0	1,161.8
<i>RoIC (%)</i>	<i>(1,941.0)</i>	<i>271.6</i>	<i>144.5</i>	<i>1.4</i>	<i>44.3</i>	<i>22.8</i>	<i>20.1</i>	<i>18.2</i>	<i>33.1</i>	<i>13.9</i>	<i>13.5</i>	<i>12.8</i>	<i>11.7</i>
Cash Flow from Operations	(11.3)	(11.0)	(60.1)	38.0	11.0	(11.6)	5.1	22.8	42.4	64.4	90.4	122.6	164.8
Cash Flow from Investing	(0.9)	(49.8)	(10.0)	(3.3)	(70.0)	(10.0)	(11.0)	(12.1)	(104.2)	(14.6)	(16.1)	(17.7)	(19.5)
Cash Flow from Financing	15.5	62.5	85.3	(44.6)	70.1	23.3	(8.1)	(8.1)	68.3	(53.5)	(69.0)	(73.2)	0.0
Net Cash Flow	3.4	1.7	15.2	(9.9)	11.0	1.6	(14.0)	2.6	6.5	(3.8)	5.3	31.7	145.4
Free Cash Flow	(13.9)	(31.7)	(89.1)	42.1	(45.2)	(5.9)	11.6	29.5	(41.0)	72.4	100.2	133.4	171.9
<i>FCF to Net Profit (%)</i>	<i>(139.5)</i>	<i>(166.2)</i>	<i>(381.8)</i>	<i>229.9</i>	<i>(156.7)</i>	<i>(14.2)</i>	<i>18.7</i>	<i>34.6</i>	<i>(39.5)</i>	<i>53.6</i>	<i>57.3</i>	<i>60.8</i>	<i>64.3</i>
<i>FCF to Net Worth (%)</i>	<i>(57.0)</i>	<i>(30.5)</i>	<i>(70.0)</i>	<i>28.9</i>	<i>(16.4)</i>	<i>(1.9)</i>	<i>3.0</i>	<i>6.3</i>	<i>(7.2)</i>	<i>10.3</i>	<i>11.4</i>	<i>12.1</i>	<i>12.6</i>
Total Debt	18.0	24.5	119.4	85.1	60.0	90.0	90.0	90.0	170.0	130.0	70.0	0.0	0.0
Net Debt	(1.2)	(17.9)	83.0	67.7	31.5	59.9	74.0	71.3	144.8	108.6	43.3	(58.4)	(203.7)
<i>Net Debt to Equity (X)</i>	<i>(0.0)</i>	<i>(0.2)</i>	<i>0.7</i>	<i>0.5</i>	<i>0.1</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>	<i>0.3</i>	<i>0.2</i>	<i>0.0</i>	<i>(0.1)</i>	<i>(0.1)</i>
<i>Net Debt to EBITDA (X)</i>	<i>(0.1)</i>	<i>(0.6)</i>	<i>1.9</i>	<i>1.9</i>	<i>0.6</i>	<i>0.8</i>	<i>0.7</i>	<i>0.5</i>	<i>0.8</i>	<i>0.5</i>	<i>0.2</i>	<i>(0.2)</i>	<i>(0.5)</i>

Source: Ventura Research

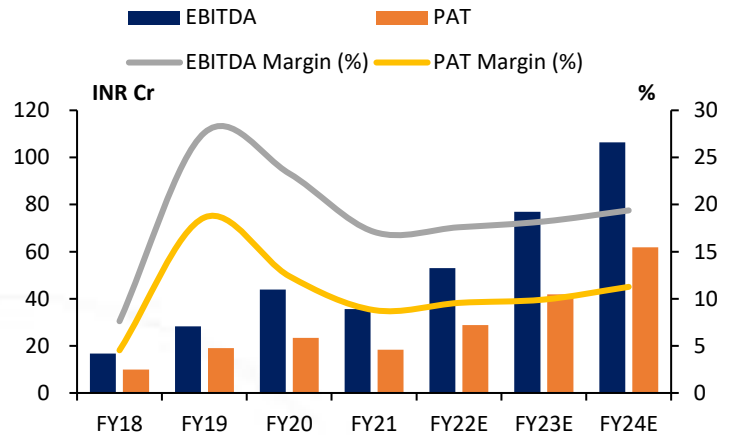
We expect revenues to grow to INR 549 cr (38.1% CAGR) by FY24 driven by the commencement of the new capacities of 25,000 MTPA (by Q1FY23). EBITDA and net earnings are expected to grow at a CAGR of 44.0% (to INR 106 cr) and 50% (to INR 62 cr), respectively over the forecast period. EBITDA and net margins are expected to grow to 19.4% (+228bps) and 11.3% (+247bps), respectively by FY24. Consequently, return ratios, RoE and RoIC, are expected to improve to 16.3% (+369bps) and 20.1% (+1,864bps), respectively by FY24.

MIL's Story in Charts

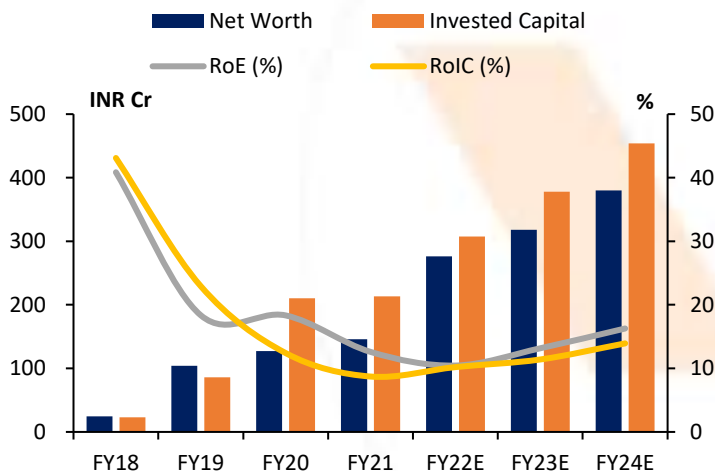
Upcoming capacity expansion to drive revenue growth



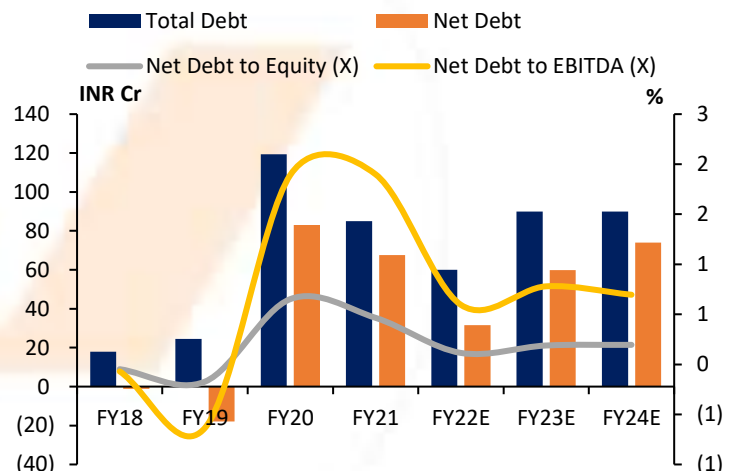
Margins to improve gradually on higher capacity utilization



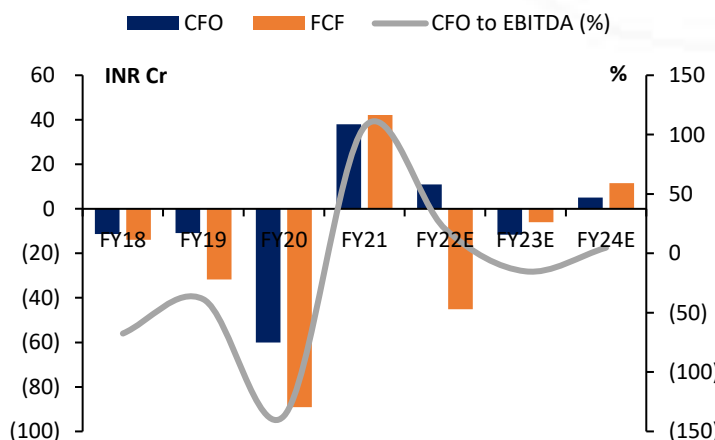
Return ratios to follow profitability



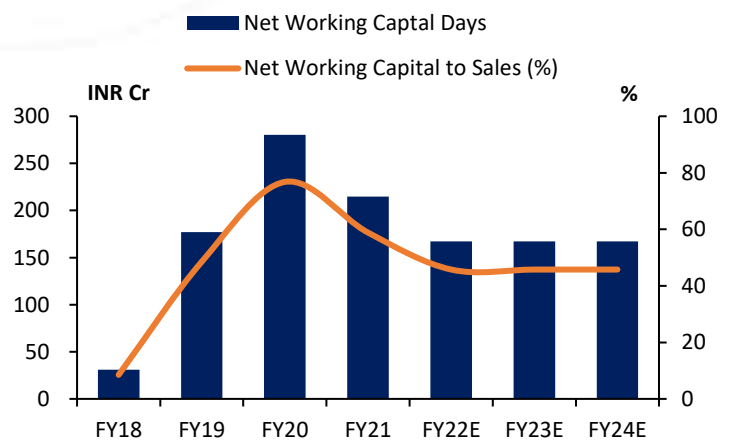
Total debt to remain at comfortable levels



Cash flow to pick up along with the utilization of new capacities

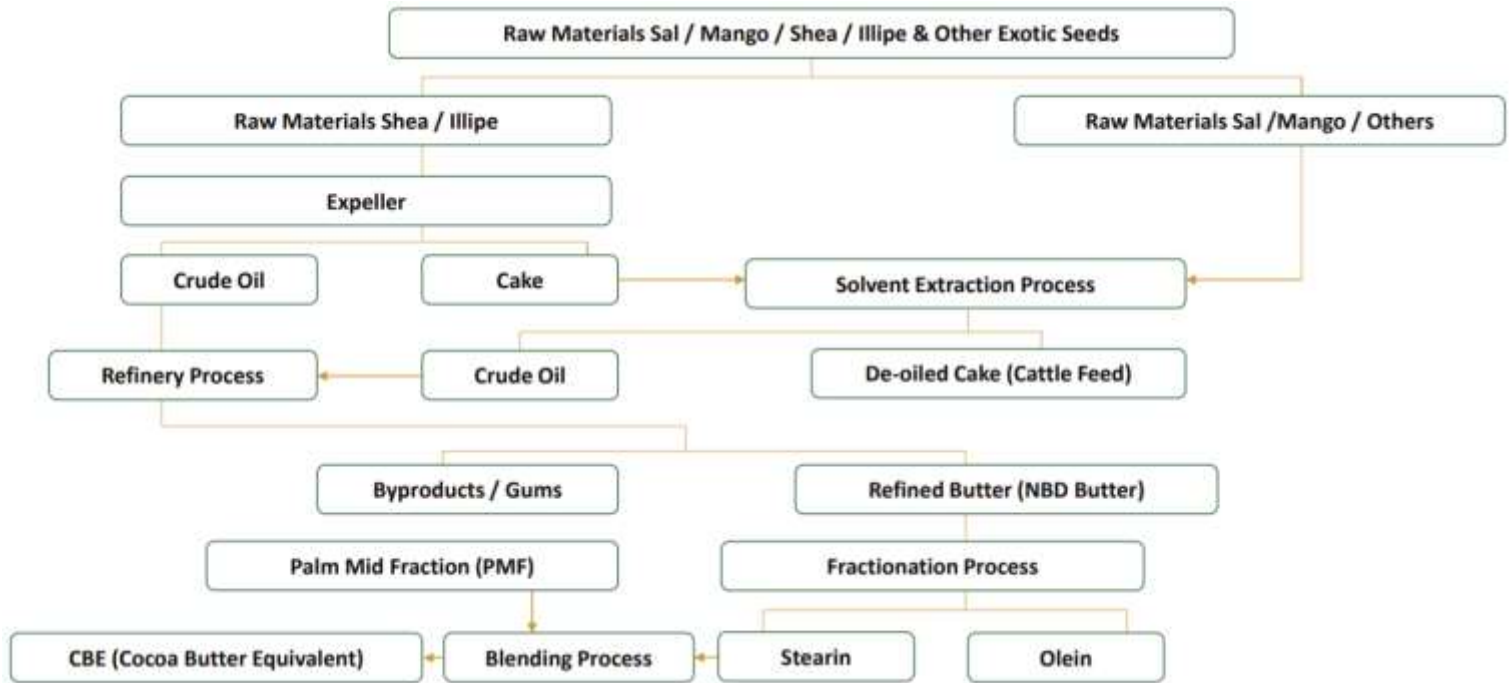


Working capital to ease gradually over the period of next 2-3 years



Source: Ventura Research

Manufacturing Process of CBE



Source: Company Reports & Ventura Research

Management Team

Key Persons	Designation	Details
Ms Vinita Saraf	Chairperson and MD	She has completed her bachelor's degree in commerce from Mount Camel Girls College, Bangalore. Her journey has been marked by ambitious and entrepreneur vision coupled with great vigour and hard work
Mr Kedarnath Agarwal	Executive Director	He is Law Graduate from Kolkata University in 1963. Vast experience of working in the food industry, worked with the Flour and Oil Mills for twenty years during which he served in various capacity inputs processing, quality control and marketing and Company law and legal divisions
Mr Shrey Saraf	Executive Director	A BBA in Business and Management from University of Exeter, UK. His presence in the Company and his dynamic young energy strengthens the process of Marketing, Customer and Business Development.
Mr Gautam Kumar Pal	Executive Director	He holds Doctorate in Management from National Inst. of Mgmt., (Mah.), studied Production and MBA in Prod. and Markt. from Amity University UP and also is B. Tech in Chemical. The Birkoni Plant is headed by him who has very vast experience in Specialty Oil and Fats / Butters Manufacturing and Quality Control
Mr Ashok Jain	CFO	A Chartered Accountancy by profession. He has vast experience of more than 10 years in senior Management of the Company.

Source: Company Reports & Ventura Research

Business Quality Score			
Key Criteria	Score	Risk	Comments
Management & Leadership			
Management Quality	10	Low	The management is of high quality, it has been able to deliver on guided lines; investor-friendly with timely updates on developments
Promoters Holding Pledge	10	Low	The promoter holding is 57.3% and there is no promoter pledging as of 30th Sept 2021.
Board of Directors Profile	10	Low	The average experience of directors is >10 years with significant experience in manufacturing, accounts/finance, strategic planning and operations
Industry Consideration			
Industry Growth	10	Low	FSSAI increased the limit of CBE in chocolates from 2.5% to 5.0% in FY18. However, it is still lower than the limit of 10% in developed markets.
Regulatory Environment or Risk	5	Medium	MIL supplies its products in both domestic and international markets and therefore exposed to international regulations
Entry Barriers / Competition	8	Low	MIL is the sole producer of CBE in India and there are only 7 producers globally. The company has developed long term B2B relationship with the global FMCG companies which reduces the risk.
Business Prospects			
New Business / Client Potential	8	Low	MIL has developed several value-added tailor-made products that form the ingredients (Shea oil, Sal oil, Mango Fats, Kokum butter & Mowrah fat) of CBE.
Business Diversification	8	Low	MIL has significantly diversified its product portfolio and supplies products/byproducts to food as well as the cosmetic industry
Market Share Potential	8	Low	MIL has almost 100% market share in India and there is no threat from the competition
Margin Expansion Potential	10	Low	MIL is expanding its capacity from 15,000 MTPA to 40,000 MTPA and the capacity utilization is expected to be robust. Operating leverage is expected to improve profitability
Earnings Growth	10	Low	Revenue growth along with the scope for margin expansion from 18% to over 20% is expected to trigger earnings growth
Valuation and Risk			
Balance Sheet Strength	10	Low	Sustainable and steady sales and low capex requirements to improve free cash flow and debt burden on the balance sheet
Debt Profile	8	Low	With the increase in FCF on account of strong revenue and earnings growth, the balance sheet is expected to remain healthy
FCF Generation	8	Low	With all the key drivers in place, we are expecting positive FCF generation. Lower capex requirements to improve FCF growth in the coming years.
Dividend Policy	3	High	MIL has never paid a dividend in the past.
ESG Score	10	Low	MIL converts forest waste into CBE and also utilizes by-products, which reduces its waste discharge. This provides MIL with the high ESG score
Total Score	136		
Ventura Score (%)	85	Low	The overall risk profile of the company is good and we consider it as a LOW-risk company for investments

Source: Company Reports & Ventura Research

Annual Report Takeaways

We analyzed the FY21 annual report of the company and our key qualitative observations are as follows:

Key Takeaways

- **Capacity expansion of existing facility:** MIL is expanding its production capacity from 15,000 MTPA to 40,000 MTPA. The new capacity will become operational from Q1FY23. The expansion strategy is aimed at
 - Catering for the increasing demand for CBE
 - Increasing yield
 - Enhancing control over production
 - Improving inventory management
- **Portfolio enhancement and business development:** MIL is planning to enhance its product portfolio with new custom-made categories of CBEs. It will help in improving business relations with existing clients and the acquisition of new clients in the global market.

Management & Leadership Team Turnover

Details on Board of Director and KMPs				
Board of Directors	FY18	FY19	FY20	FY21
Vinita Saraf	CMD	CMD	CMD	CMD
Ashish Bakliwal	ED	NEID	NEID	NEID
Jose Vailappallil Joseph				NEID
Mudit Kumar				NEID
Nipun Mehta				NEID
Kedarnath Agarwal		C	ED	ED
Shrey Ashish Saraf	ED	ED	ED	ED
Gautam Pal	ED	ED	ED	ED
Neeta Kanwar	NEID	NEID	NEID	NEID
Jose V Joseph	NEID	NEID	NEID	NEID
KN Agarwal	ED			

CMD = Chairperson & Managing Director

C = Chairperson

ED = Executive Director

NEID = Non Executive Independent Director

Source: Company Reports

Related Party Transactions

Related party transactions are not very high. The recent increase in FY20 and FY21 was due to the commencement of operations at the new manufacturing facility at Birconi.

Related Party Transactions are relatively low

Particulars (fig in INR Cr)	FY18	FY19	FY20	FY21
Purchases of Goods	0.0	0.0	0.0	7.7
Remuneration	1.0	1.0	1.9	1.9
Car Hire Charges	0.0	0.1	0.0	0.1
Closing Balance - Payable	0.0	0.0	0.3	0.6
Closing Balance - Receivable	0.0	0.0	0.0	12.8
Purchases of Goods	0.0	0.0	17.2	0.0
Advance Received	0.0	0.0	6.0	0.0
Advance Repayment	0.0	0.0	6.0	0.0
Car Hire Charges	0.0	0.0	0.1	0.0
Purchase of Goods	0.9	0.0	0.0	0.0
Sale of Vehicle	0.2	0.0	0.0	0.0
Loan Received	0.3	0.0	0.0	0.0
Loan Given	0.3	0.0	0.0	0.0
Sale of Investment	0.1	0.0	0.0	0.0
Total Related Party Transactions	2.8	1.1	31.6	23.2
<i>Transactions as % of Revenue (%)</i>	<i>1.3</i>	<i>0.5</i>	<i>14.4</i>	<i>10.6</i>

Source: Company Reports & Ventura Research

Auditor qualifications & significant notes to accounts

OP Singhania & Co is the auditor and there was no qualifications/emphasis of matters highlighted by them in the FY21 Annual Report.

Contingent Liabilities

There are no contingent liabilities with the company, except an INR 35,400 in FY20, which is related to the contract remaining to be executed.

Contingent Liabilities are reasonably high

Particulars (fig in INR Cr)	FY18	FY19	FY20	FY21
Contracts remaining to be executed	0.0	0.0	0.0	0.0

Source: Company Reports & Ventura Research

Key risk and concern areas

- MIL operates in tribal areas spread across the forests of Central India. Any adverse development in those areas due to Naxalite activities could adversely impact the operations of the company for an unlimited time period
- The company supplies its products to only two industries – confectionaries and cosmetics. Any slowdown in these two industries could significantly reduce the demand for MIL products.
- The company exports its products to developed markets and deals in foreign currencies and therefore is susceptible to risks relating to fluctuations in currency exchange rates.

Quarterly and Annual Financials

Fig in INR Cr (unless specified)	FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	FY21	Q1FY22	Q2FY22E	Q3FY22E	Q4FY22E	FY22E	FY23E	FY24E
Capacity (MTPA)	15,000					15,000					15,000	33,750	40,000
Max revenue at available capacity	375.0					375.0					375.0	843.8	1,000.0
Reported Revenue	188.2	29.7	76.6	41.1	61.1	208.4	61.6	70.0	80.0	90.0	301.6	422.2	548.9
<i>YoY Growth (%)</i>	<i>83.8</i>					<i>10.7</i>	<i>107.7</i>	<i>(8.6)</i>	<i>94.6</i>	<i>47.4</i>	<i>44.7</i>	<i>40.0</i>	<i>30.0</i>
Raw Material Cost	78.5	17.2	41.3	28.1	38.3	124.9	35.0	42.0	48.0	54.0	179.0	253.3	329.3
<i>RM Cost to Revenue (%)</i>	<i>41.7</i>	<i>57.9</i>	<i>53.9</i>	<i>68.4</i>	<i>62.7</i>	<i>59.9</i>	<i>56.9</i>	<i>60.0</i>	<i>60.0</i>	<i>60.0</i>	<i>59.4</i>	<i>60.0</i>	<i>60.0</i>
Employee Cost	8.0	1.7	3.4	0.8	1.5	7.3	2.7	2.7	2.7	2.7	10.7	16.0	17.2
<i>Employee Cost to Revenue (%)</i>	<i>4.2</i>	<i>5.6</i>	<i>4.5</i>	<i>1.9</i>	<i>2.4</i>	<i>3.5</i>	<i>4.3</i>	<i>3.8</i>	<i>3.3</i>	<i>3.0</i>	<i>3.5</i>	<i>3.8</i>	<i>3.1</i>
Other Expenses	57.9	5.7	16.0	5.1	13.8	40.6	14.6	14.7	14.7	14.7	58.8	76.0	96.1
<i>Other Expenses to Revenue (%)</i>	<i>30.8</i>	<i>19.1</i>	<i>20.9</i>	<i>12.3</i>	<i>22.6</i>	<i>19.5</i>	<i>23.7</i>	<i>21.0</i>	<i>18.4</i>	<i>16.4</i>	<i>19.5</i>	<i>18.0</i>	<i>17.5</i>
EBITDA	43.9	5.1	15.9	7.1	7.5	35.6	9.3	10.6	14.6	18.6	53.0	76.9	106.3
<i>EBITDA Margin (%)</i>	<i>23.3</i>	<i>17.3</i>	<i>20.7</i>	<i>17.4</i>	<i>12.3</i>	<i>17.1</i>	<i>15.0</i>	<i>15.1</i>	<i>18.2</i>	<i>20.7</i>	<i>17.6</i>	<i>18.2</i>	<i>19.4</i>
Net Profit	23.3	1.7	8.9	4.4	3.3	18.3	5.3	5.0	7.8	10.7	28.8	41.9	61.8
<i>Net Margin (%)</i>	<i>12.4</i>	<i>5.8</i>	<i>11.6</i>	<i>10.8</i>	<i>5.3</i>	<i>8.8</i>	<i>8.7</i>	<i>7.1</i>	<i>9.8</i>	<i>11.9</i>	<i>9.6</i>	<i>9.9</i>	<i>11.3</i>
Adjusted EPS (INR)	19.6	1.4	7.5	3.7	2.7	15.4	4.5	4.2	6.6	9.0	24.2	35.1	51.9
<i>P/E (X)</i>	<i>76.2</i>					<i>97.0</i>					<i>61.7</i>	<i>42.5</i>	<i>28.8</i>
Adjusted BVPS (INR)	106.8					122.1					231.7	266.8	318.6
<i>P/BV (X)</i>	<i>14.0</i>					<i>12.2</i>					<i>6.4</i>	<i>5.6</i>	<i>4.7</i>
Enterprise Value	1,861.4					1,846.1					1,810.0	1,838.4	1,852.4
<i>EV/EBITDA (X)</i>	<i>42.4</i>					<i>51.8</i>					<i>34.1</i>	<i>23.9</i>	<i>17.4</i>
Net Worth	127.3					145.6					276.1	318.0	379.8
<i>RoE (%)</i>	<i>18.3</i>					<i>12.6</i>					<i>10.4</i>	<i>13.2</i>	<i>16.3</i>
Capital Employed	246.6					230.7					336.1	408.0	469.8
<i>RoCE (%)</i>	<i>92.1</i>					<i>(6.5)</i>					<i>45.7</i>	<i>21.4</i>	<i>15.2</i>
Invested Capital	210.2					213.3					307.7	377.9	453.8
<i>RoIC (%)</i>	<i>144.5</i>					<i>1.4</i>					<i>44.3</i>	<i>22.8</i>	<i>20.1</i>
Cash Flow from Operations	(60.1)					38.0					11.0	(11.6)	5.1
Cash Flow from Investing	(10.0)					(3.3)					(70.0)	(10.0)	(11.0)
Cash Flow from Financing	85.3					(44.6)					70.1	23.3	(8.1)
Net Cash Flow	15.2					(9.9)					11.0	1.6	(14.0)
Free Cash Flow	(89.1)					42.1					(45.2)	(5.9)	11.6
<i>FCF to Net Profit (%)</i>	<i>(381.8)</i>					<i>229.9</i>					<i>(156.7)</i>	<i>(14.2)</i>	<i>18.7</i>
<i>FCF to Net Worth (%)</i>	<i>(70.0)</i>					<i>28.9</i>					<i>(16.4)</i>	<i>(1.9)</i>	<i>3.0</i>
Total Debt	119.4					85.1					60.0	90.0	90.0
Net Debt	83.0					67.7					31.5	59.9	74.0
<i>Net Debt to Equity (X)</i>	<i>0.7</i>					<i>0.5</i>					<i>0.1</i>	<i>0.2</i>	<i>0.2</i>
<i>Net Debt to EBITDA (X)</i>	<i>1.9</i>					<i>1.9</i>					<i>0.6</i>	<i>0.8</i>	<i>0.7</i>

Source: Ventura Research

Financial Analysis & Projections

Fig in INR Cr (unless specified)	FY20	FY21	FY22E	FY23E	FY24E	Fig in INR Cr (unless specified)	FY20	FY21	FY22E	FY23E	FY24E
Income Statement						Per share data & Yields					
Revenue	188.2	208.4	301.6	422.2	548.9	Adjusted EPS (INR)	19.6	15.4	24.2	35.1	51.9
YoY Growth (%)	83.8	10.7	44.7	40.0	30.0	Adjusted Cash EPS (INR)	26.0	22.1	31.6	48.7	66.4
Raw Material Cost	78.5	124.9	179.0	253.3	329.3	Adjusted BVPS (INR)	106.8	122.1	231.7	266.8	318.6
RM Cost to Sales (%)	41.7	59.9	59.4	60.0	60.0	Adjusted CFO per share (INR)	(50.4)	31.9	9.2	(9.8)	4.2
Employee Cost	8.0	7.3	10.7	16.0	17.2	CFO Yield (%)	(3.4)	2.1	0.6	(0.7)	0.3
Employee Cost to Sales (%)	4.2	3.5	3.5	3.8	3.1	Adjusted FCF per share (INR)	(74.7)	35.4	(37.9)	(5.0)	9.7
Other Expenses	57.9	40.6	58.8	76.0	96.1	FCF Yield (%)	(5.0)	2.4	(2.5)	(0.3)	0.6
Other Exp to Sales (%)	30.8	19.5	19.5	18.0	17.5	Solvency Ratio (X)					
EBITDA	43.9	35.6	53.0	76.9	106.3	Total Debt to Equity	0.9	0.6	0.2	0.3	0.2
Margin (%)	23.3	17.1	17.6	18.2	19.4	Net Debt to Equity	0.7	0.5	0.1	0.2	0.2
YoY Growth (%)	55.1	(18.7)	48.8	44.9	38.4	Net Debt to EBITDA	1.9	1.9	0.6	0.8	0.7
Depreciation & Amortization	7.7	8.0	8.8	16.2	17.3	Return Ratios (%)					
EBIT	36.2	27.7	44.2	60.7	89.0	Return on Equity	18.3	12.6	10.4	13.2	16.3
Margin (%)	19.2	13.3	14.7	14.4	16.2	Return on Capital Employed	10.6	8.1	9.3	10.6	13.5
YoY Growth (%)	31.7	(23.5)	59.7	37.2	46.7	Return on Invested Capital	12.4	8.7	10.2	11.4	13.9
Other Income	6.0	6.1	2.9	5.0	6.1	Working Capital Ratios					
Finance Cost	9.8	10.5	6.5	6.8	8.1	Payable Days (Nos)	42	13	13	13	13
Interest Coverage (X)	3.7	2.6	6.8	9.0	11.0	Inventory Days (Nos)	291	187	150	150	150
Exceptional Item	0.0	4.0	0.0	0.0	0.0	Receivable Days (Nos)	32	40	30	30	30
PBT	32.4	27.3	40.6	59.0	87.1	Net Working Capital Days (Nos)	280	215	167	167	167
Margin (%)	17.2	13.1	13.5	14.0	15.9	Net Working Capital to Sales (%)					
YoY Growth (%)	21.8	(15.6)	48.8	45.1	47.7	Valuation (X)					
Tax Expense	9.0	9.0	11.8	17.1	25.2	P/E	76.2	97.0	61.7	42.5	28.8
Tax Rate (%)	27.9	32.9	29.0	29.0	29.0	P/BV	14.0	12.2	6.4	5.6	4.7
PAT	23.3	18.3	28.8	41.9	61.8	EV/EBITDA	42.4	51.8	34.1	23.9	17.4
Margin (%)	12.4	8.8	9.6	9.9	11.3	Cash Flow Statement					
YoY Growth (%)	22.3	(21.4)	57.3	45.1	47.7	PBT	32.4	27.3	40.6	59.0	87.1
Min Int/Sh of Assoc	0.0	0.0	0.0	0.0	0.0	Adjustments	11.4	(2.2)	(2.5)	1.7	1.2
Net Profit	23.3	18.3	28.8	41.9	61.8	Change in Working Capital	(94.8)	21.9	(15.4)	(55.2)	(58.0)
Margin (%)	12.4	8.8	9.6	9.9	11.3	Less: Tax Paid	(9.0)	(9.0)	(11.8)	(17.1)	(25.2)
YoY Growth (%)	22.3	(21.4)	57.3	45.1	47.7	Cash Flow from Operations	(60.1)	38.0	11.0	(11.6)	5.1
Balance Sheet						Net Capital Expenditure	(28.0)	(8.9)	(70.0)	(10.0)	(11.0)
Share Capital	11.1	11.1	11.9	11.9	11.9	Change in Investments	18.0	5.6	(0.0)	0.0	0.0
Total Reserves	116.1	134.5	264.2	306.1	367.9	Cash Flow from Investing	(10.0)	(3.3)	(70.0)	(10.0)	(11.0)
Shareholders Fund	127.3	145.6	276.1	318.0	379.8	Change in Borrowings	95.0	(34.1)	(25.1)	30.0	0.0
Long Term Borrowings	0.5	0.2	0.0	0.0	0.0	Less: Finance Cost	(9.8)	(10.5)	(6.5)	(6.8)	(8.1)
Deferred Tax Assets / Liabilities	0.2	2.3	2.3	2.3	2.3	Proceeds from Equity	0.0	0.0	101.7	0.0	0.0
Long Term Provisions	0.2	0.3	0.3	0.4	0.5	Cash flow from Financing	85.3	(44.6)	70.1	23.3	(8.1)
Total Liabilities	128.2	148.4	278.8	320.8	382.6	Net Cash Flow	15.2	(9.9)	11.0	1.6	(14.0)
Net Block	51.4	56.6	117.8	111.6	105.3	Opening Balance of Cash	2.2	17.4	7.5	18.5	20.1
Capital Work in Progress	0.0	0.0	0.0	0.0	0.0	Closing Balance of Cash	17.4	7.5	18.5	20.1	6.0
Long Term Loans & Advances	0.1	1.2	1.8	2.5	3.2						
Other Non Current Assets	11.2	15.9	23.0	32.2	41.9						
Net Current Assets	65.6	74.7	136.2	174.5	232.2						
Total Assets	128.2	148.4	278.8	320.8	382.6						

Source: Company Reports & Ventura Research

Disclosures and Disclaimer

Ventura Securities Limited (VSL) is a SEBI registered intermediary offering broking, depository and portfolio management services to clients. VSL is member of BSE, NSE and MCX-SX. VSL is a depository participant of NSDL. VSL states that no disciplinary action whatsoever has been taken by SEBI against it in last five years except administrative warning issued in connection with technical and venial lapses observed while inspection of books of accounts and records. Ventura Commodities Limited, Ventura Guaranty Limited, Ventura Insurance Brokers Limited and Ventura Allied Services Private Limited are associates of VSL. Research Analyst (RA) involved in the preparation of this research report and VSL disclose that neither RA nor VSL nor its associates (i) have any financial interest in the company which is the subject matter of this research report (ii) holds ownership of one percent or more in the securities of subject company (iii) have any material conflict of interest at the time of publication of this research report (iv) have received any compensation from the subject company in the past twelve months (v) have managed or co-managed public offering of securities for the subject company in past twelve months (vi) have received any compensation for investment banking merchant banking or brokerage services from the subject company in the past twelve months (vii) have received any compensation for product or services from the subject company in the past twelve months (viii) have received any compensation or other benefits from the subject company or third party in connection with the research report. RA involved in the preparation of this research report discloses that he / she has not served as an officer, director or employee of the subject company. RA involved in the preparation of this research report and VSL discloses that they have not been engaged in the market making activity for the subject company. Our sales people, dealers, traders and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein. We may have earlier issued or may issue in future reports on the companies covered herein with recommendations/ information inconsistent or different those made in this report. In reviewing this document, you should be aware that any or all of the foregoing, among other things, may give rise to or potential conflicts of interest. We may rely on information barriers, such as "Chinese Walls" to control the flow of information contained in one or more areas within us, or other areas, units, groups or affiliates of VSL. This report is for information purposes only and this document/material should not be construed as an offer to sell or the solicitation of an offer to buy, purchase or subscribe to any securities, and neither this document nor anything contained herein shall form the basis of or be relied upon in connection with any contract or commitment whatsoever. This document does not solicit any action based on the material contained herein. It is for the general information of the clients / prospective clients of VSL. VSL will not treat recipients as clients by virtue of their receiving this report. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of clients / prospective clients. Similarly, this document does not have regard to the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The securities discussed in this report may not be suitable for all investors. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. Persons who may receive this document should consider and independently evaluate whether it is suitable for his/ her/their particular circumstances and, if necessary, seek professional/financial advice. And such person shall be responsible for conducting his/her/their own investigation and analysis of the information contained or referred to in this document and of evaluating the merits and risks involved in the securities forming the subject matter of this document. The projections and forecasts described in this report were based upon a number of estimates and assumptions and are inherently subject to significant uncertainties and contingencies. Projections and forecasts are necessarily speculative in nature, and it can be expected that one or more of the estimates on which the projections and forecasts were based will not materialize or will vary significantly from actual results, and such variances will likely increase over time. All projections and forecasts described in this report have been prepared solely by the authors of this report independently of the Company. These projections and forecasts were not prepared with a view toward compliance with published guidelines or generally accepted accounting principles. No independent accountants have expressed an opinion or any other form of assurance on these projections or forecasts. You should not regard the inclusion of the projections and forecasts described herein as a representation or warranty by VSL, its associates, the authors of this report or any other person that these projections or forecasts or their underlying assumptions will be achieved. For these reasons, you should only consider the projections and forecasts described in this report after carefully evaluating all of the information in this report, including the assumptions underlying such projections and forecasts. The price and value of the investments referred to in this document/material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. Future returns are not guaranteed and a loss of original capital may occur. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. We do not provide tax advice to our clients, and all investors are strongly advised to consult regarding any potential investment. VSL, the RA involved in the preparation of this research report and its associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report/document has been prepared by VSL, based upon information available to the public and sources, believed to be reliable. No representation or warranty, express or implied is made that it is accurate or complete. VSL has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed. The opinions expressed in this document/material are subject to change without notice and have no obligation to tell you when opinions or information in this report change. This report or recommendations or information contained herein do/does not constitute or purport to constitute investment advice in publicly accessible media and should not be reproduced, transmitted or published by the recipient. The report is for the use and consumption of the recipient only. This publication may not be distributed to the public used by the public media without the express written consent of VSL. This report or any portion hereof may not be printed, sold or distributed without the written consent of VSL. This document does not constitute an offer or invitation to subscribe for or purchase or deal in any securities and neither this document nor anything contained herein shall form the basis of any contract or commitment whatsoever. This document is strictly confidential and is being furnished to you solely for your information, may not be distributed to the press or other media and may not be reproduced or redistributed to any other person. The opinions and projections expressed herein are entirely those of the author and are given as part of the normal research activity of VSL and are given as of this date and are subject to change without notice. Any opinion estimate or projection herein constitutes a view as of the date of this report and there can be no assurance that future results or events will be consistent with any such opinions, estimate or projection. This document has not been prepared by or in conjunction with or on behalf of or at the instigation of, or by arrangement with the company or any of its directors or any other person. Information in this document must not be relied upon as having been authorized or approved by the company or its directors or any other person. Any opinions and projections contained herein are entirely those of the authors. None of the company or its directors or any other person accepts any liability whatsoever for any loss arising from any use of this document or its contents or otherwise arising in connection therewith. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Securities Market.

Ventura Securities Limited - SEBI Registration No.: INH00001634

Corporate Office: I-Think Techno Campus, 8th Floor, 'B' Wing, Off Pokhran Road No 2, Eastern Express Highway, Thane (W) – 400608