Manpasand Beverages

IPO Note – Valuation expensive

Investment rationale:

Capacity expansion to trigger growth: Currently the company has three manufacturing plants having a total capacity of around 9 lakh litres per day. The company is now setting up a new manufacturing facility in Haryana/Punjab, at a capex of around ₹152cr, which will increase the total capacity by around 50%. Going forward, we believe this new plant will drive additional growth for the company.

A strong regional brand supported by a wide distribution network: The company has a strong brand - Mango Sip, having presence in rural and semi urban regions, ie mainly in Punjab, Bihar, Maharashtra, Gujarat, and Uttar Pradesh. Also, the company has a wide distribution network including 73 consignee agents and 654 distributors spread across 24 states in India to whom it sells directly. The company's sales and distribution network is strategically spread across different regions in India, and has an especially strong outreach in certain semi urban and rural markets.

Investment concern:

Overall slowdown in rural markets could impact discretionary spending: A major portion of the company's revenue comes from rural markets owing to the company's strong presence in these areas, backed by a wide distribution network. The Indian rural story is currently going through an adverse phase due to unseasonal rains in the recent past which impacted crops extensively, and due to lower hike in minimum support prices (MSPs), thus curtailing rural incomes. Thus, going forward, any further slowdown in rural markets could likely result in lower spending on discretionary products.

High dependency on a single brand: The company started operations with its flagship brand 'Mango Sip' in the year 1997; since then, the brand has been the largest contributor to the company's revenues. In the last three years, more than 97% of the company's revenue has been contributed by 'Mango Sip' alone.

Outlook and Valuation: MBL is highly dependent on a single brand (Mango Sip) which currently has rural and semi urban focus. Going forward, for penetrating the brand in urban markets, MBL would face stiff competition from strong existing brands like Frooti, Slice, Mangola, Pepsi, Coca cola etc.

On the price to earnings per share (EPS; post-IPO) front, the company is valued at 95x 9MFY2015 annualized numbers, while its close peer - Dabur is trading at 44x FY2015 numbers. Further, other FMCG companies like ITC and HUL are also trading at a lower multiple than MBL inspite of bigger brands in their portfolios, wide pan India distribution networks, and higher ROEs, coupled with their proven track records. **Hence, we recommend NEUTRAL on the issue due to expensive valuation.**

Key Financials

Y/E March (₹ cr)	FY2013	FY2014	9MFY15
Net Sales	240	294	239
Net Profit	22	20	13
OPM (%)	16.1	15.5	15.2
EPS (₹)	5.9	5.5	3.4
P/E (x)*	53.8	58.7	-
P/BV (x)*	14.4	11.4	-
EV/Sales (x)*	4.7	3.9	-
EV/EBITDA (x)*	29.2	25.1	-

*Source: Company, Angel Research; Note: *The above numbers are considering subscription at the upper end of the price band*

NEUTRAL

Issue Open: June 24, 2015
Issue Close: June 26, 2015

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹37.6cr

Fresh Issue**: 1.25cr Shares

Post Eq. Paid up Capital: ₹50cr

Market Lot: 45 Shares

Fresh Issue (amount): ₹400cr

Price Band: ₹290-320

Post-issue implied mkt. cap ₹1,452cr*-1,602cr**

*Note:*at Lower price band and **Upper price band*

Book Building

QIBs	75%
Non-Institutional	15%
Retail	10%

Post Issue Shareholding Pattern(%)

Promoters Group	50.4
MF/Banks/Indian FIs/FIIs/Public & Others	49.6

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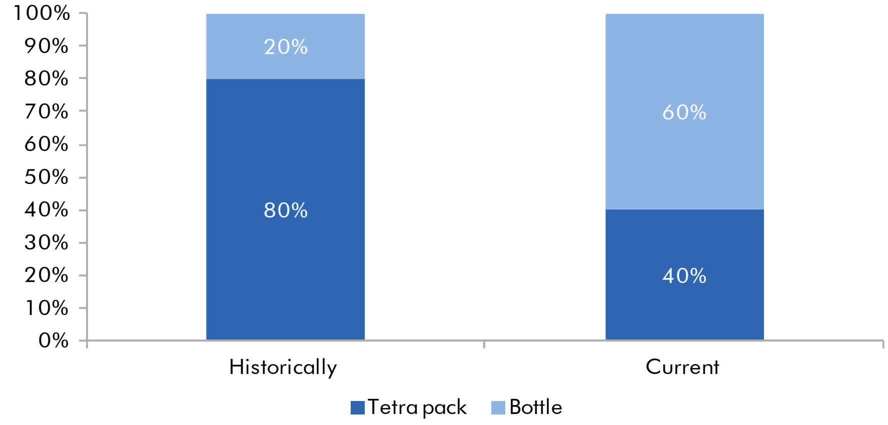
Company background

Manpasand Beverages was incorporated in 1997 and is based in Vadodara, Gujrat. It operates as a fruit drink manufacturing company in India. The company offers a mango based fruit drink under the 'Mango Sip' brand, fruit drinks and carbonated fruit drinks under the 'Fruits Up' brand, and fruit drinks with energy replenishing qualities under the 'Manpasand ORS' brand. It also offers an apple flavoured fruit drink under the 'Apple Sip' brand, and bottled water under the 'Pure Sip' brand. All of the company's brands have a distribution focus towards semi urban and rural markets. The company has two manufacturing facilities in Vadodara (Gujrat) and one in Varanasi (Uttar Pradesh). Of the two facilities in Gujrat, one has just commenced commercial production, ie from April 2015. As of March 2015, MBL has a wide distribution network including 73 consignee agents and 654 distributors spread across 24 states in India to whom it sell directly. The company also sells directly to Indian Railway Catering and Tourism Organization ("IRCTC") approved vendors.

Exhibit 1: Sales mix –Tetra pack vs Bottle



Source: Company, Angel Research

Exhibit 2: Tetra pack

Source: Company, Angel Research

Exhibit 3: Bottle

Source: Company, Angel Research

Issue details

MBL is backed by venture capital fund SAIF Partners (which holds ~30%), private equity firm Aditya Birla Private Equity (which holds ~3%) while promoters hold ~67% in the company. The company is raising money through an IPO (fresh issue) via the book building process aggregating to ₹400cr. Shares could be subscribed to in the price band of ₹290-320 (face value of shares: ₹10/- each). The fresh issue of shares will constitute ~27% of the post-issue paid-up equity share capital of the company.

Exhibit 4: Shareholding pattern

Particulars	Pre-Issue		Post-Issue	
	No. of shares	(%)	No. of shares	(%)
Promoter group	2,52,40,500	67.2	2,52,40,500	50.4
Others	1,23,13,500	32.8	2,48,13,500	49.6
Total	3,75,54,000	100.0	5,00,54,000	100.0

Source: Company, Angel Research

Objects of the offer

- Setting-up of a new manufacturing facility in the state of Haryana/Punjab which would cost around ₹152cr.
- Modernization of manufacturing facilities, ie Vadodara 1 Facility and Varanasi Facility, which would cost around ₹39cr.
- Setting-up of a new corporate office at Vadodara, which would cost around ₹22cr.
- Repayment/prepayment of certain borrowings availed by the company to the tune of ₹100cr; while the balance would be utilized towards general corporate purposes.

Key investment rational

Capacity expansion to trigger growth

Currently the company has three manufacturing plants (two plants in Vadodara and one in Varanasi) which have a total capacity of around 9 lakh litres per day. The company is now setting up a new manufacturing plant in Haryana/Punjab, at a capex of around ~₹152cr, which will likely increase total capacity by 50%. The company is also modernizing its existing facilities at Vadodara and Varanasi at an estimated cost of ~₹39cr. Going forward, we believe the new plant will drive additional growth for the company.

A strong regional brand with a wide distribution network

The company has a strong brand - Mango Sip which has presence in rural and semi urban markets, mainly Punjab, Bihar, Maharashtra, Gujarat and Uttar Pradesh. Mango Sip contributed by more than 97% to the company's total revenue in FY2014. The brand is supported by a wide distribution network including 73 consignee agents and 654 distributors spread across 24 states in India to whom the company sells directly. In addition, the company's consignee agents and distributors also engage a number of super stockists, other distributors and sub distributors who distribute the company's products to a number of retail outlets. The company's sales and distribution network is strategically spread across different regions in India, and has an especially strong outreach in certain semi urban and rural markets.

Exhibit 5: Distribution network

States	Distributors
Punjab	96
Bihar	75
Maharashtra	73
Gujarat	53
Delhi	47
Haryana	44
Rajasthan	38
Uttar Pradesh	38
Chhattisgarh	36
Karnataka	33
Jharkhand	21
Uttarakhand	12
Assam	10
Madhya Pradesh	9
Himachal Pradesh	8
Andhra Pradesh	7
Goa	7
Manipur	5
Orissa	5
Kerala	3
Tamil Nadu	2
Jammu & Kashmir	1
Telangana	1

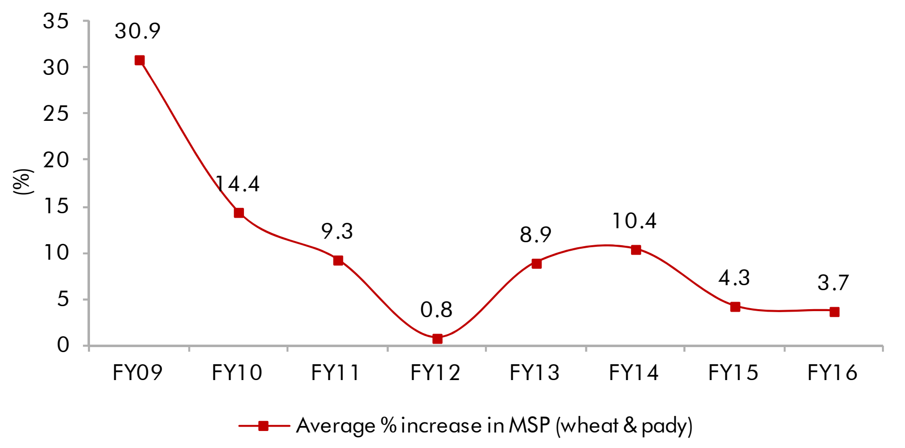
Source: Company, Angel Research

Key investment concerns

Overall slowdown in rural markets could impact discretionary spending

A majority of the company's revenue comes from rural markets through sales of discretionary products like fruit drinks. The Indian rural story, in the recent past, has been negatively impacted due to unseasonal rain which adversely affected crops. Further, lower hike in MSPs (in FY2015, price hike was of 4.3% compared to last six years' average hike of 12.5%) has also curtailed income in rural hands. Also, for FY2016, the government has announced a hike in MSP of around 3.7%, which is even lower than in FY2015. Considering the above factors, we see less scope for discretionary spending to expand in rural markets in the near term.

Exhibit 6: Historical average MSP Price trend growth



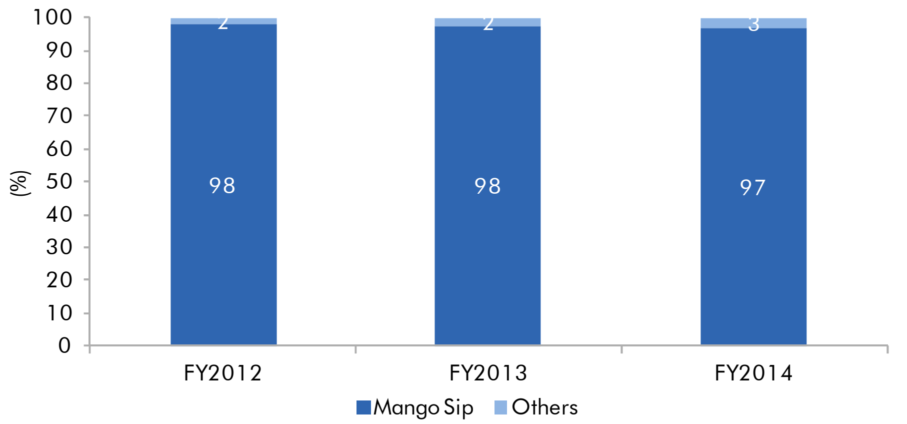
Source: Company, Angel Research

Higher dependency on a single brand

The company started operations with its flagship brand "Mango Sip" in the year 1997; since then, the brand has been the largest contributor to the company's revenues. In the last three years, more than 97% of the company's revenue has been contributed by "Mango Sip" alone.

As against this, other listed FMCG companies like HUL, ITC, Dabur etc have a well diversified product portfolio, thereby not being subject to the single product dependency risk, to a fair extent. Although MBL has launched a few brands in FY2015 to restrain the single brand dependency risk, it will take time for these brands to take off; as of now, the contribution of these brands is insignificant for the company.

Exhibit 7: Mango Sip brand's contribution to total revenue



Source: Company, Angel Research

Expensive Valuation

During FY2014, MBL reported a top-line of ~₹294cr and a bottom-line of ~₹20cr. For 9HFY2015, the company has reported a top-line of ₹239cr and a net profit of ₹13cr.

MBL is highly dependent on a single brand (Mango Sip) which currently has rural and semi urban focus. Going forward, for penetrating the brand in urban markets, MBL would face stiff competition from strong existing brands like Frooti, Slice, Mangola, Pepsi, Coca cola etc.

On the price to earnings per share (EPS; post-IPO) front, the company is valued at 95x 9MFY2015 annualized numbers, while its close peer - Dabur is trading at 44x FY2015 numbers. Further, other FMCG companies like ITC and HUL are also trading at a lower multiple than MBL inspite of bigger brands in their portfolios, wide pan India distribution networks, and higher ROEs, coupled with their proven track records. **Hence, we recommend NEUTRAL on the issue due to expensive valuation.**

Exhibit 8: Valuation table

	MBL	Dabur	ITC	HUL
PE	95	44	25	43
ROE (%)	9	32	30	108

Source: Company, Angel Research; Note: MBL's 9MFY15 numbers are annualised for comparison; other peers FY15 numbers have been taken. Valuation Ratio at the upper price band

Risks to upside

(a) Improvement in economic growth and better than expected monsoon would likely increase crop produce, which would lead to higher disposable incomes in the hands of the rural consumer. This would be a risk to our recommendation.

(b) Success of recently launched brands and their higher contribution to overall revenue of the company would be a risk to our recommendation.

Profit & Loss

Y/E March (₹ cr)	FY2013	FY2014	9MFY2015
Total operating income	**240**	**294**	**239**
Total Expenditure	**202**	**249**	**203**
Cost of Materials	148	172	143
Personnel Expenses	7	8	7
Others Expenses	46	68	53
EBITDA	**39**	**46**	**36**
(% of Net Sales)	*16.1*	*15.5*	*15.2*
Depreciation& Amortisation	10	15	15
EBIT	**29**	**31**	**21**
(% of Net Sales)	*11.9*	*10.5*	*9.0*
Interest & other Charges	4	8	8
Other Income	0	0	0
(% of PBT)	*1.3*	*0.2*	*2.6*
Share in profit of Associates	-	-	-
Recurring PBT	**25**	**23**	**14**
Prior Period & Extraordinary Expense/(Inc.)	-	-	-
PBT (reported)	**25**	**23**	**14**
Tax	2	3	1
(% of PBT)	*9.1*	*11.5*	*10.2*
PAT (reported)	**22**	**20**	**13**
Restatement Adjustments	(0)	(0)	0
PAT after MI (reported)	**22**	**20**	**13**
ADJ. PAT	**22**	**20**	**13**
(% of Net Sales)	*9.3*	*7.0*	*5.3*
Basic EPS (₹)	**6.6**	**6.0**	**3.4**

Balance Sheet

Y/E March (₹ cr)	FY2013	FY2014	9MFY2015
SOURCES OF FUNDS			
Equity Share Capital	3	3	38
Reserves& Surplus	72	92	147
Shareholders Funds	76	96	185
Minority Interest	-	-	-
Total Loans	47	65	89
Deferred Tax Liability	-	0	-
Total Liabilities	123	161	273
APPLICATION OF FUNDS			
Fixed Assets	93	92	80
Capital Work-in-Progress	-	-	105
Investments	0	0	0
Current Assets	71	106	144
Inventories	21	42	41
Sundry Debtors	33	48	43
Cash	6	5	10
Loans & Advances	10	11	45
Other Assets	2	1	5
Current liabilities	41	38	55
Net Current Assets	30	69	88
Deferred Tax Asset	0	-	0
Total Assets	123	161	273

Cash flow statement

Y/E March (₹ cr)	FY2013	FY2014	9MFY2015
Profit before tax	25	23	14
Depreciation	10	15	15
Change in Working Capital	(1)	(41)	18
Interest / Dividend (Net)	(0)	0	0
Others	(1)	5	4
Cash Flow from Operations	32	2	51
(Inc.)/ Dec. in Fixed Assets	(48)	(15)	(138)
(Inc.)/ Dec. in Investments	(0)	-	(0)
Cash Flow from Investing	(48)	(15)	(138)
Issue of Equity	-	-	-
Inc./(Dec.) in loans	16	(3)	89
Dividend Paid (Incl. Tax)	7	22	11
Interest / Dividend (Net)	(4)	(8)	(8)
Cash Flow from Financing	19	11	92
Inc./(Dec.) in Cash	3	(1)	5
Opening Cash balances	2	5	4
Closing Cash balances	5	4	9

Key Ratios

Y/E March	FY2013	FY2014
Valuation Ratio (x)		
P/E (on FDEPS)	53.8	58.7
P/CEPS	36.9	34.0
P/BV	14.4	11.4
EV/Sales	4.7	3.9
EV/EBITDA	29.2	25.1
EV / Total Assets	0.7	0.6
Per Share Data (₹)		
EPS (Basic)	5.9	5.5
EPS (fully diluted)	5.9	5.5
Cash EPS	8.7	9.4
Book Value	22.2	28.1
Turnover ratios (x)		
Asset Turnover	2.6	3.2
Inventory / Sales (days)	32	52
Receivables (days)	49	59
Payables (days)	28	22
Working capital cycle (days)	53	89

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