

GOEL FOOD PRODUCTS LIMITED

A REVIEW REPORT ON GOEL FOOD PRODUCTS LIMITED IPO

IPO Details

| | |
|---------------------------|---|
| Opening Date | June 15, 2022 |
| Closing Date | June 20, 2022 |
| Stock Exchange | BSE SME |
| Status | Active |
| Lot Size | 1600 Shares |
| Issue Price | ₹ 72 per share |
| Issue Size | 10,01,600 Equity shares of FV of ₹ 10 (aggregating up to ₹ 721.15 Lakh) |
| Fresh Issue | 5,00,800 equity shares of FV of ₹10 (aggregating up to ₹360.58 lakh) |
| Offer for Sale | 5,00,800 equity shares of FV of ₹10 (aggregating up to ₹360.58 lakh) |
| Application Amount | ₹ 1,15,200 |

IPO Objective

- To meet working capital requirements
- General Corporate Purposes

Company Background

- Company was incorporated in the year 1996 in Kolkata.
- Company initially started as an Indian Snacks and Sweets manufacturing company.
- Company is now also providing Event Management services, Hotel and Guest House services.
- It has 8 Banquet Halls, 2 Indian Snack and Sweets shops, 1 Hotel and 1 Guest House.
- It operates and manages Banquet Hall and Indian Snacks and Sweets shops under the brand name “BIKA”

Promoter of the Company

1. Hilltop Healthcare Centre Limited
2. Mr. Dinesh Goyal

Pre-Issue Shareholding

| Category | No. of Shares | % of Total Shares |
|---------------------------|----------------------|--------------------------|
| Promoter & Promoter Group | 32,68,800 | 99.98 % |
| Public | 800 | 0.02 % |

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Company Overview

Goel Food Products Limited is a Kolkata based company incorporated in the year 1996. It started as an Indian Snacks and Sweets manufacturing unit. After a decade of dealing in the snacks and sweets sector, it has slowly and gradually entered providing event management services to its clients which includes Marriages, Sangeet, Ring Ceremony, Birthday Parties, Anniversary Parties, Kitty Parties, Corporate Events, Kirtans (Devotional Singing) and Thread Ceremony. In addition to the above mentioned products and services, the company also generates rent income from its Hotel and Guest House. It operates in 4 locations of Kolkata and has 8 Banquet Halls, 2 Indian Snacks and Sweet Shops, 1 Hotel and 1 Guest House.

Analysis

Established in 1996, company has existence of more than 26 years in the snacks and sweet industry. It started its Event Management services after 2009 which helps it to have a good track record in its event management services as well. Company earns most of its revenue from Snacks and Sweets items and Catering & Hall charges. Up to 31st Dec 2021, 51.49% of its revenue was from selling of Snacks and Sweet items and 28.41% of its revenue was from Banquet Hall services. Company also earns around 12.43% of its revenue from rent. So the company has multiple sources of Income. However, the business model is not a promising one as there are many retail outlets providing snacks and sweets, many banquet hall service providers, many hotel and guest house service providers available in the market. It can be said that the company operates in a very fragmented market. Also the company has its presence only in Kolkata and any geographical or political or demographical changes in the city would adversely affect the business. The business does not seem to be growing and seems to have entered the stable stage. The company has to plan to have its operations outside the city and try to have some unique product or service segment in its revenue model, which is quite a challenging task in itself.

Industry Charts

Exhibit 1: Indian Packaged Sweet Industry to grow at a CAGR of 19.40% from FY 21 to FY 27

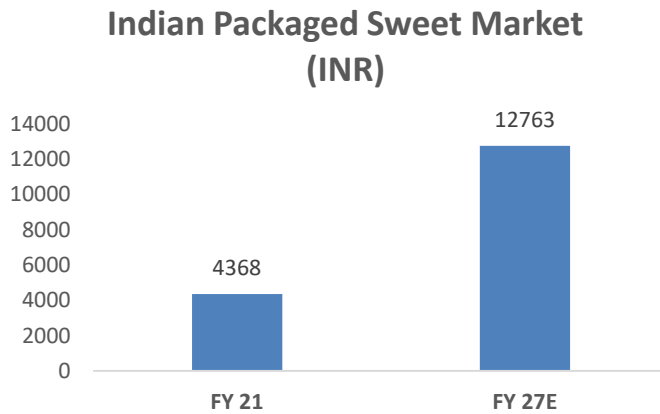


Exhibit 2: Indian Travel Market expected to grow at a CAGR of 7.57% from FY 20 to FY 27

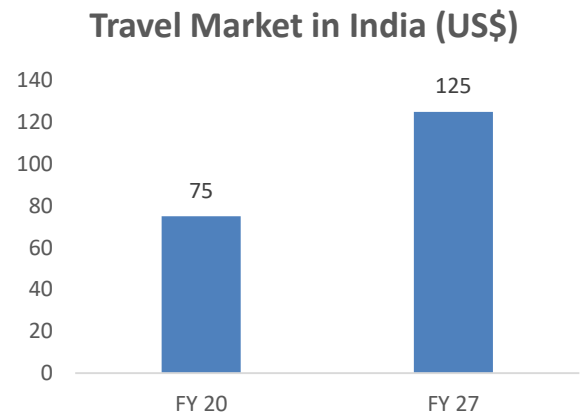


Exhibit 3: Travel and Tourism's total contribution to GDP

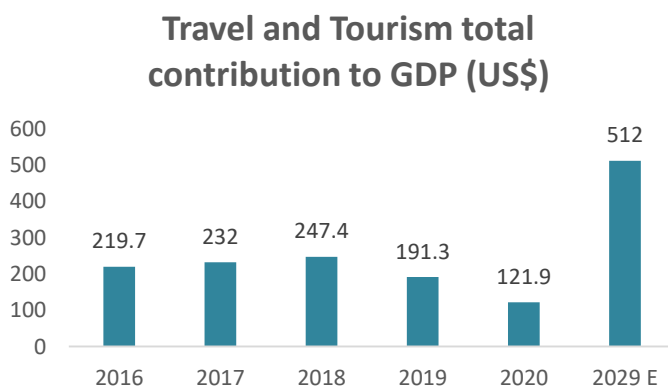
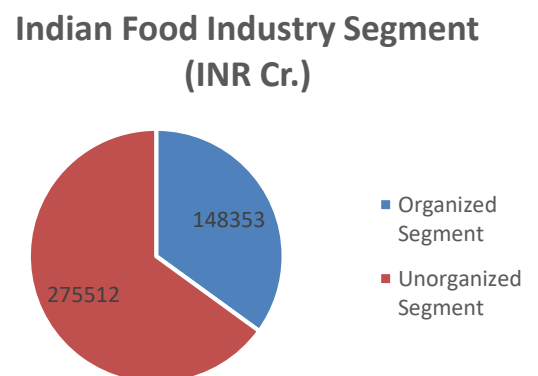


Exhibit 4: Indian Food Industry Segment



(Source: ibef.org, Imarcgroup.com, Indiancompanies.in)

Investment Overview

Snacks, Sweet and Tourism Industry

Snacks and Sweet industry is one of the oldest industry in India. The Industry currently employs more than 1 crore people. It has more than 100,000 manufacturers across the country and makes around 500 types of mithai, namkeens and savouries sold across India. A few of the renowned ones are Haldirams, Balaji, Bikano, Bikaji, Yellow Diamond, Cornitos – the brands have not only achieved local but also a global footprint. In fact, the branded segment covers about 30% of this market and is growing at 25% per annum

Emerging as one of the key drivers of growth in past few years before COVID, the Indian Travel Market is expected to reach US \$ 125 billion in FY 2027. International Tourist Arrival in India is expected to reach 30.5 million by 2028. From the above infographics it can be seen that the market has been significantly hit by the outbreak of COVID-19 disease and thereafter though the market has rebounded, but the previous target level seems hard to be achieved. People have become more reluctant to travel than ever before. The foreign exchange earnings from travel and hospitality grew at a CAGR of 7% but dipped in 2020 due to the pandemic. In 2020, the Indian tourism sector accounted for 39 million jobs in the country which is 8% of the total employment of the country.

Although the industry prospect shows a decent number in the coming years, but those with greater share of market seems to be more beneficial than those with less control over the market.

(Source: ibef.org, casereads.com)

Addressable Market for Goel Food Products Limited

Company is currently operating in 4 locations only in the Kolkata city. The company can expand its reach to rest of India as well in the coming times. Considering the business model, the company would only operate in the domestic market and international market seems to be out of question.

Competition

The industry, also mentioned by company in their prospectus, is very competitive. The company competes with companies belonging in the hospitality sector, operating in the same geographies as that of the company.

The industry has low barriers to entry and threat of new entrant is very high. Operating in a fragmented market, competition depends on various factors, such as the location, Food, Décor, health and safety records, availability of skilled personnel and of course pricing.

Peer Analysis

As mentioned in the prospectus, the peers of the company are TGB Banquets and Hotels Limited and EIH Limited.

The key measures of these companies have been highlighted in the table below –

| Company | Goel Food Products Limited* | TGB Banquets and Hotels Limited | EIH Limited |
|----------------------------|------------------------------------|--|--------------------|
| Net Profit (INR Cr) | 1.88 | -20.37 | -118.21 |
| EBITDA (INR Cr) | 4.26 | -8.9 | 29.88 |
| Return on Capital Employed | 8.52% | -14.50% | -2.72% |
| Return on Equity | 19.96% | -26.73% | -3.78% |
| EPS (INR) | 5.37 | -6.96 | -1.89 |
| P/E** (Times) | 10.24 | - | - |

* Taken up to Dec-21

**P/E has been calculated as on 16/06/2022

The company has performed well with comparison to its peers in the recent times. However, doing slightly well from the peers would not have raised any question, but doing so exceptionally well than its peers raises eye-brows and question of deeper analysis. Also the companies mentioned cannot be compared on apple-to-apple basis.

Promoters' Profile

Hilltop Healthcare Centre Limited

- **Hilltop Healthcare Centre Limited** is the Corporate Promoter of the Company.
- It was incorporated on July 19, 1994 and the business commenced on August 16, 1994.
- It holds 21,12,000 equity shares representing 64.60% of pre-issue paid up capital of the company.

Mr. Dinesh Goyal



- **Mr. Dinesh Goyal** is the promoter of the company and has been associated with the company since its incorporation.
- He has more than two decades of experience in the field of finance, management, strategy making, he handles the overall affairs of the Company.
- He has Master's Degree in Engineering from the University of South Carolina in the year 1998 and has a Bachelor's Degree in Commerce from University of Calcutta in the year 1996.

Analysis on the Company's Promoter and Board of Directors

Mr. Dinesh Goyal, Chairman and Managing Director of the company has over 20 years of professional experience. He is associated with the company since its incorporation. The promoter has good experience and is very well versed with the company's business operations. He looks after the overall business and guides the strategic decisions of the company. His decisions are vital for the business and his experience suggests that his actions could be proved to be fruitful for the business.

Ms. Rashmi Goyal is the executive director of the company and has been on board since 2012. She has more than 9 years of experience in operational and administrative work. She looks after planning and co-ordinating administrative task of the business and is not involved in the strategic decisions of the company.

The Non-Executive and Independent Directors of the company do not hold good experience in the field of business in which the company operates.

Looking at the management, it looks like the company's decision is dependent only on one person, its Chairman. Also, the Managing Director holding the Chairman position in the Board might result in conflict of Interest and is not considered to be a good corporate governance decision from shareholders' point of view. The other promoter of the company, Hilltop Healthcare Centre Limited is also promoted by Mr. Dinesh Goyal and Ms. Rashmi Goyal which suggests that the corporate promoter is also significantly influenced by the Goyal family.

So, although Managing Director being experienced, the Board outlook is negative for the company.

Financial Snapshot

(Amount in Lacs)

| Particulars | As at 31st March, 2020 | As at 31st March, 2021 | As at 31st December, 2021 |
|------------------------------------|------------------------|------------------------|---------------------------|
| Profit and Loss | | | |
| Revenue from operation | 1,548.24 | 713.66 | 1,173.55 |
| Other income | 58.60 | 40.19 | 27.13 |
| Total Revenue | 1,606.84 | 753.85 | 1,200.68 |
| | | | |
| Expenses | 1,253.37 | 528.75 | 774.71 |
| Depreciation and Amortisation Cost | 95.84 | 93.99 | 78.45 |
| Finance Cost | 167.46 | 118.26 | 102.02 |
| | | | |
| Total Expenses | 1,516.67 | 741.00 | 955.18 |
| PBT | 90.17 | 12.85 | 245.50 |
| EBITDA | 353.47 | 225.10 | 425.97 |
| EBITDA Margin | 22.83% | 31.54% | 36.30% |
| | | | |
| Net Profit | 63.10 | -0.76 | 187.65 |
| Net Profit Margin | 4.08% | -0.11% | 15.99% |
| Balance Sheet | | | |
| Total Borrowings | 2,264.36 | 1,489.13 | 2,850.80 |
| Net Worth | 754.48 | 753.73 | 941.38 |
| Fixed Assets | 1,865.89 | 1,806.37 | 1,755.06 |
| Net Working Capital | 103.23 | 197.01 | 722.22 |
| | | | |
| Financial Measures | | | |
| Inventory Turnover Ratio | 17.58 | 5.80 | 20.65 |
| Receivables Turnover Ratio | 102.46 | 70.24 | 15.45 |
| Payables Turnover Ratio | 2.64 | 2.41 | 1.69 |
| Fixed Assets Turnover Ratio | 0.83 | 0.40 | 0.67 |
| Return on Capital Employed | 11.94% | 6.02% | 9.15% |
| Return on Equity | 8.36% | -0.10% | 19.96% |
| Debt-Equity Ratio | 3.00 | 1.98 | 3.03 |

(The data has been taken and calculated from the financials given in the prospectus)

Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA)

The EBITDA of the company has grown from Rs. 353.47 lacs in 2020 to 425.97 lacs up to Dec'21 growing at a CAGR of 11%, which looks to be a decent and sustainable growth. The EBITDA margin has also grown from 22.83% in FY 2021 to 36.30% up to Dec'21, reflecting healthy and sound EBITDA margin.

Net Profit

The net profit of the company has grown from Rs. 63.10 lacs in 2020 to Rs. 187.65 lacs up to Dec'21 growing at CAGR of 86%. Such a growth seems to be supernormal and unsustainable.

Finance Cost.

The finance cost of the company is majorly towards Secured and Unsecured Loans taken from Banks. The finance cost with relation to total revenue has come down to 8% in Dec'21 from 10% in FY 2020 despite of increasing in long-term borrowings which suggests that the company might have been able to take loans at more favourable interest rates than before.

Financial Measures/Ratios

The RoCE has come down slightly from 11.94% in 2020 to 9.15% in Dec'21, but still looks good at such a decent rate.

The ROE of the company also has increased quite heavily from 8.36% in FY 2020 to 19.96% in Dec'21. Since the increase in net profit does not to be sustainable, we can say that the ROE also looks to be quite aggressive. Also when we compare it to RoCE it shows that the company has taken substantial debt with comparison to equity and it can also be noticed from the fact that the company has a Debt-Equity ratio of around 3.

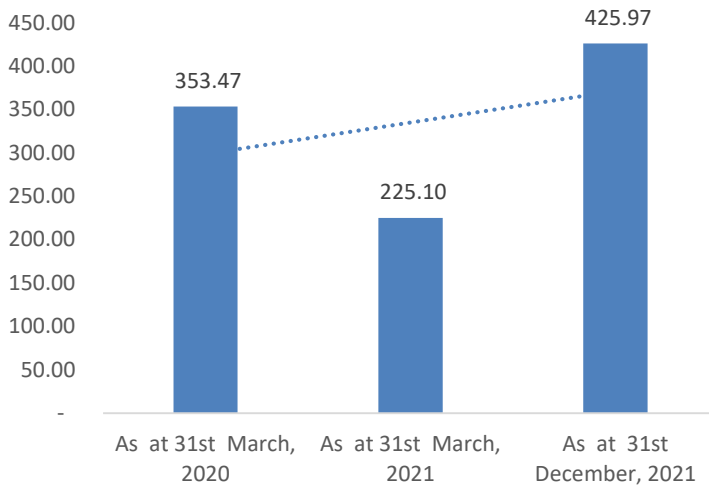
The Receivables turnover ratio of the company is constantly coming down in recent years. In FY 2020 it was 102.46 times and in Dec'21 it was 15.45 showing that the company has not been managing its receivables effectively.

The Payables turnover ratio of the company has been decreasing gradually and has been around 2 showing good management of Company's payables.

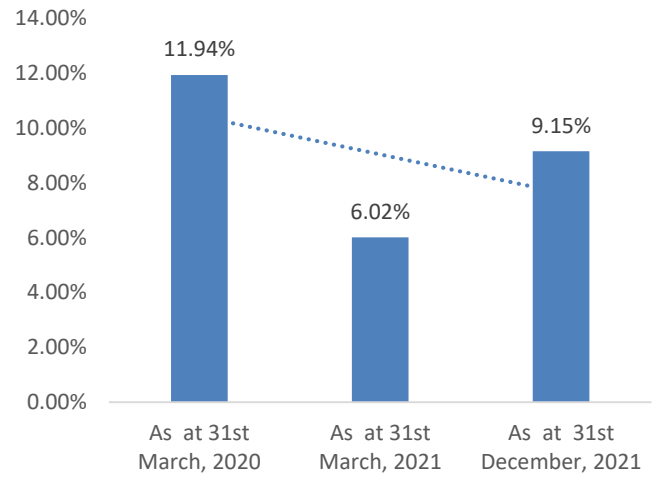
To be cautious, it can be felt that the company might have taken an aggressive approach to increase the working capital gap and require funds from public to fill that gap.

Financial Graph

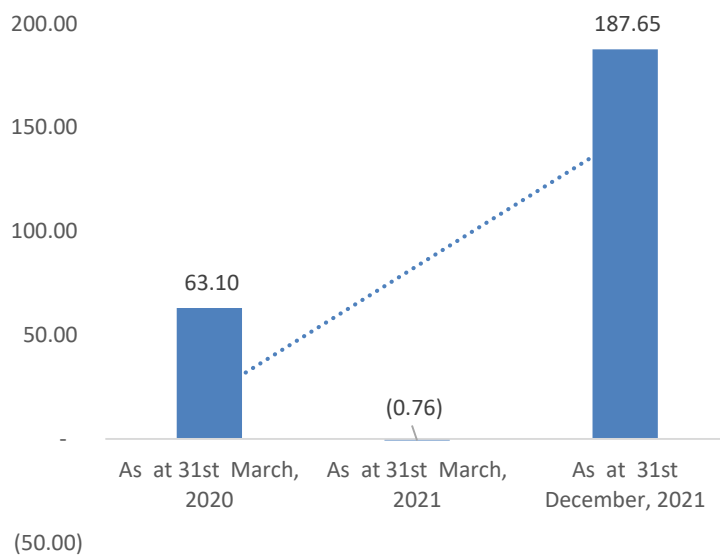
EBITDA (In Lacs)



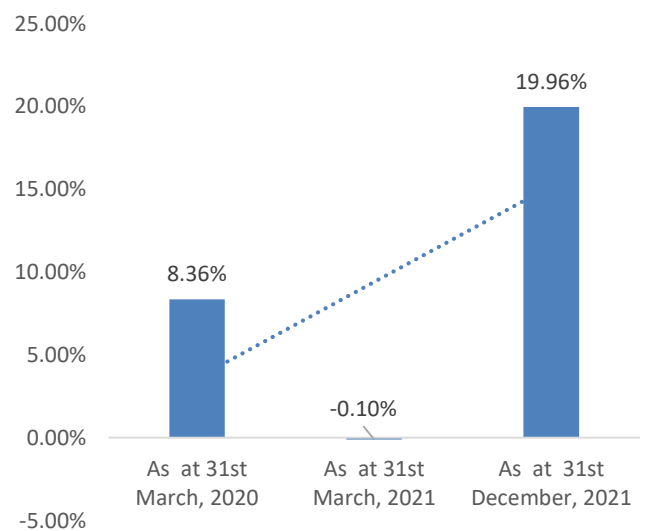
Return on Capital Employed



Net Profit (In Lacs)



Return on Equity



Key Risk Factors

1. Company has a contingent liability regarding Income Tax demands / Notices before CIT Appeals / TDS of Rs. 0.00899 lakhs.
2. The company has failed to obtain “No Objection Certificate” from few of its lenders like Kotak Mahindra Bank, Standard Chartered Bank, HDFC Bank & Dialmer Finance Limited.
3. There are certain discrepancies/errors noticed in some of the corporate records relating to forms filed with the Registrar of Companies and other provisions of Companies Act, 1956/2013. Any penalty or action taken by any regulatory authorities in future for non-compliance with provisions of corporate and other law could impact the financial position of the Company to that extent.
4. The group companies such as Hilltop Healthcare Centre Limited, Eragon Sales Private Limited and Ujesh Banquets Private Limited have been incurring loss.
5. Some of the property used by the Company for the purpose of its operations is not owned by it. Any termination of the relevant lease or leave and license agreement in connection with such property or company's failure to renew the same could adversely affect our operations.

Track Record of Merchant Banker/Lead manager

The lead manager to the issue is Gretex Corporate Services Limited and the previous issue details have been taken from the Prospectus. A table has been set below highlighting the details of the IPO of some of the companies handled by the Lead Manager in recent times –

| Sr. No. | Company Name | Issue Size in Cr. | Issue Price/Share (In INR) | Listing date | CMP# (INR) |
|---------|---------------------------------------|-------------------|----------------------------|--------------------|------------|
| 1. | B & B Triplewall Containers Limited | 19.99 | 36.00 | October 15, 2018 | 215.00 |
| 2. | BCPL Railway Infrastructure Limited | 17.01 | 35.00 | October 29, 2018 | 31.85 |
| 3. | Misquita Engineering Limited | 1.93 | 27.00 | October 04, 2019 | 36.20 |
| 4. | Anuroop Packaging Limited | 2.64 | 13.00 | November 21, 2019 | 22.00 |
| 5. | Billwin Industries Limited | 2.46 | 37.00 | June 30, 2020 | 23.00 |
| 6. | G M Polyplast Limited | 8.09 | 159.00 | October 14, 2020 | 228.00 |
| 7. | Niks Technology Limited | 2.01 | 201.00 | March 31, 2021 | 200.00 |
| 8. | PlatinumOne Business Services Limited | 3.89 | 82.00 | September 16, 2021 | 128.30 |
| 9. | Markolines Traffic Controls Limited | 39.99 | 78.00 | September 27, 2021 | 94.00 |
| 10. | Clara Industries Limited | 3.02 | 43.00 | December 29, 2021 | 100.50 |

#CMP is taken as on 16th June 2022

Since 2017 the Lead Manager has made 24 IPO Listings 20 IPOs had positive listing and 4 IPOs had negative listing..

Recommendation

Based on the Business track record, Products/Services, Competitive Scenario, Management Background and Experience, Financial Measures, Peer Analysis and Industry Outlook, we would like to state that one **should avoid** applying in the IPO. Although the company has good track record of existence, the business model is not very promising and is also highly competitive.

The management of the company has decent experience, but is again dependent mainly on the strategic decision of a single personnel.

Also there is Offer for Sale in this IPO, where Mr. Dinesh Goyal and Ms. Rashmi Goyal are selling part of their existing stakes. We restrain ourselves for applying and advising to apply in those SME IPOs where there is Offer for Sale and the sole objective for raising funds is not only for business growth.

The financials of the company has been decent but considering the size, the IPO price seems to be overpriced at P/E multiple of around 10 whereas the peer companies are unable to provide positive earnings per share to its shareholders'. The extraordinary performance of the company at the time of IPO raises concerns.

To conclude, one should **avoid** applying in the IPO.

Disclaimer

We are not SEBI registered and not a certified Research Analyst. The information provided here is for education purposes only. We will not be responsible for any of your profit/loss with these suggestions. Consult your financial advisor before taking any decisions.