



Madhusudan Masala Limited

IPO Note



IPO Details	
Opening Date	Sept 18, 2023
Closing Date	Sept 21, 2023
Stock Exchange	NSE SME
Lot Size	2,000 Shares
Issue Price	₹ 66 to ₹ 70 per share
Issue Size	Aggregating up to 23.80 Cr.
Fresh Issue	Aggregating up to 23.80 Cr.
Offer for Sale	-
Application Amount	₹ 1,40,000

IPO Objective	
Working Capital Requirements.	
General Corporate Purposes.	

Pre-Issue Shareholding		
Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	95,00,000	100.00%
Public	-	-

Promoter of the Company	
1	Dayalji Vanraavan Kotecha
2	Vijaykumar Vanraavan Kotecha
3	Rishit Dayalaji Kotecha
4	Hiren Vijaykumar Kotecha
5	Foram Rishit Kotecha
6	Mayuri Hiren Kotecha

Competitive Strengths	
1	Brand name with heritage and legacy of over four decades.
2	Consistent focus on quality.
3	Long-standing relationship with the customers.
4	Diversified Product Portfolio
5	In-house manufacturing capabilities

Company Background	
○	Madhusudan Masala Limited was originally formed as a partnership firm in the year 1982 and has its registered office in Gujarat.
○	The Company is engaged in the business of manufacturing and processing more than 32 types of Spices.
○	The Company sells its products under the brand names such as “DOUBLE HATHI” and “MAHARAJA”.
○	The Company has two product segments - Ground spices, and Blend spices.
○	As of 31 st March 23, the Company has 304 employees on its payroll.

Market Capitalization	
(In Cr.)	
Pre-Issue	Post-Issue
₹ 67	₹ 90

Financial Summary			
(In Lacs)			
For the Period Ended	Mar-21	Mar-22	Mar-23
Total Assets	2,599.90	3,514.29	5,736.51
Net Assets	1,094.09	31.07	1,099.10
Total Borrowings	966.39	2,819.53	4,217.20
Total Revenue	6,875.18	6,651.81	12,750.57
Profit After Tax	44.99	81.30	575.90

Tentative Timeline	
Opening Date	Sept 18, 2023
Closing Date	Sept 21, 2023
Basis of Allotment	Sept 26, 2023
Initiation of Refunds	Sept 27, 2023
Credit of Shares to Demat	Sept 29, 2023
Listing Date	Oct 03, 2023



Company Background and Analysis

The Company was originally formed as a partnership firm registered in the year 1982. The company was converted from a partnership firm to a private limited company in the year 2021. The company is engaged in the business of manufacturing and processing more than 32 types of Spices under the brand names of “DOUBLE HATHI” and “MAHARAJA”. The company also sell products like Whole Spices, Tea and Other Grocery Products like Rajgira flour, Papad, Soya Products, Asafoetida (Hing), Achar masala (Ready pickle powder), Sanchar (Black salt powder), Sindhalu (Rock salt powder), Katlu powder (Food supplement), Kasuri Methi (Dry fenugreek) etc under the brand name of “DOUBLE HATHI” and also generate revenue from trading of whole spices and food grains through unbranded sales.

The company's range of spices includes –

1. Ground Spices – Chilli Powder, Turmeric Powder, Coriander Powder, and Coriander Cumin Powder
2. Blend Spices - Garam Masala, Tea Masala, Chhole Masala, Sambhar Masala, Pav Bhaji Masala, Pani Puri Masala, Sabji Masala, Kitchen King Masala, Chicken Masala, Meat Masala, Chatpata Chat Masala, Butter Milk Masala, Chewda Masala, Dry Ginger Powder (Sunth), Black Pepper Powder (Mari), Dry Mango Powder (Aamchur) etc.

The Double Hathi portfolio of ground spices comprises premium quality spices whereas the value-for-money segment of ground spices is offered under the Maharaja portfolio. The company also sell tea and other grocery products like papad, soya products, Asafoetida (Hing), black salt, rock salt etc. procured through third-party manufacturers and packaged under the brand name of “DOUBLE HATHI”.

The company’s manufacturing process includes – Drying spices, Cleaning, Grinding, Blending, Sieving, and Packing. The company’s raw material requirements include whole spices such as chilli, coriander seeds, cumin seeds, and turmeric. The company is largely dependent on the agricultural industry for almost all of the raw materials including, whole spices, rajgira etc.

Geography-wise revenue break-up according to off-line and online sales for the fiscal year ended 2021, 2022, and 2023 are given below –

(Amount in Lakhs)

Sales	Product Category	Fiscal 2021		Fiscal 2022		Fiscal 2023	
		Amount	%	Amount	%	Amount	%
Own Brand Sales	Blended Spices	237.34	3.46	160.18	2.45	94.69	0.74
	Ground Spices	2,266.02	33.00	2,170.48	33.18	3,143.63	24.71
	Other Grocery Products	121.60	1.77	149.01	2.28	166.29	1.31
	Tea	237.31	3.46	125.46	1.92	76.06	0.60
	Whole Spices	1,958.45	28.52	1,616.89	24.72	2,523.15	19.83
Other Sales	Whole Spices	1,243.29	18.10	627.03	9.59	3,790.99	29.79
	Food Grains	803.32	11.70	1,691.75	25.86	2,929.59	23.02
	Total	6,867.33	100.00	6,540.80	100.00	12,724.40	100.00

To conclude, the company was originally formed as a partnership firm in the year 1982. The Company is engaged in the business of manufacturing and processing more than 32 types of Spices. Most of the revenue is generated from the state of Gujarat and the second major revenue-generating state is Maharashtra for the company. The company is raising total gross proceeds of Rs. 23.80 Cr.



Business Strategies

- 1. Expand the market presence to other states of India and increase the distribution network.**
The company gradually intends to expand its business operations to other states of the country. The company intends to use modern trade channels, which comprise supermarkets and hypermarkets and general trade channels which include smaller retail stores. The company plans to continue the strategy of diversifying and expanding its presence in other states for the growth of the business.
- 2. Scale up branding, promotional, and digital activities.**
The company intends to continue and expand its offline marketing initiatives including the display of banners & hoardings, road show marketing, and advertisements in theatres, newspapers, TV channels etc. to focus on brand-building initiatives of the company.
- 3. Continue to strengthen the existing product portfolio and diversify into products with attractive growth and profitability prospects.**
The company seeks to develop new products to cater to the evolving requirements of a large customer base and cover newer customer segments.
- 4. Modernization and Expansion in the existing manufacturing facility.**
The company intends to modernize the existing manufacturing facility with the latest technology and automation. The new plant and machinery that the company intends to install is focused on less manpower requirement in the production plant with an atmospheric, contactless, low-temperature grinding process. The installation of new plant & machinery will enhance the efficiency and effectiveness of the manufacturing activities. The company also intends to build multi-commodity agri products cold storage with a capacity of 4029 MT.
- 5. Focus on consistently meeting the quality standards.**
The company intends to focus on adhering to the quality standards of the products. Quality of the product is very important for the company from both dealer and end-user point of view.
- 6. Maintaining cordial relationships with the suppliers, customers, and employees.**
The company believes in maintaining good relationships with the suppliers, customers and employees which are the most important factors to keep the Company growing. The company believes that establishing strong, mutually beneficial long-term relationships with strategic suppliers is a critical step in improving performance across the supply chain, generating greater cost efficiency, and enabling the business to grow and develop.

Competitive Scenario and Peer Mapping

Competition

The company operates in a highly competitive industry. The company operates in a very fragmented market. The company faces competition from organized players, unorganized local suppliers, and other retailers. The barrier to entry in the market in which the company operates is low. The bargaining power with the suppliers is high and the bargaining power with the customers is relatively low.



Peer Analysis

The comparison of the key performance indicators of the listed peers as of Mar-23 is given -

Particulars	Madhusudan Masala Limited	NHC Food Limited
	31st Mar 2023	31st Mar 2023
Net Profit Margin	4.53%	1.22%
EBITDA Margin	8.91%	4.27%
Return on Capital Employed	30.64%	8.57%
Return on Equity	52.40%	7.69%
EPS (INR)	6.94	1.48

The comparison of the key performance indicators of the listed peers as of Mar-22 is given -

Particulars	Madhusudan Masala Limited	NHC Food Limited
	31st Mar 2022	31st Mar 2022
Net Profit Margin	1.24%	0.65%
EBITDA Margin	3.31%	3.27%
Return on Capital Employed	5.89%	6.25%
Return on Equity	261.67%	4.17%
EPS (INR)	15.41	1.24

The comparison of the key performance indicators of the listed peers as of Mar-21 is given -

Particulars	Madhusudan Masala Limited	NHC Food Limited
	31st Mar 2021	31st Mar 2021
Net Profit Margin	0.66%	0.66%
EBITDA Margin	4.22%	2.63%
Return on Capital Employed	9.10%	4.35%
Return on Equity	4.11%	4.55%
EPS (INR)	8.53	1.16

Based on the above analysis, the company's margins and ratios are relatively higher when compared to its peer company NHC Food Limited.

Industry Overview

Exhibit 1: Indian Spice Production (million tonnes)

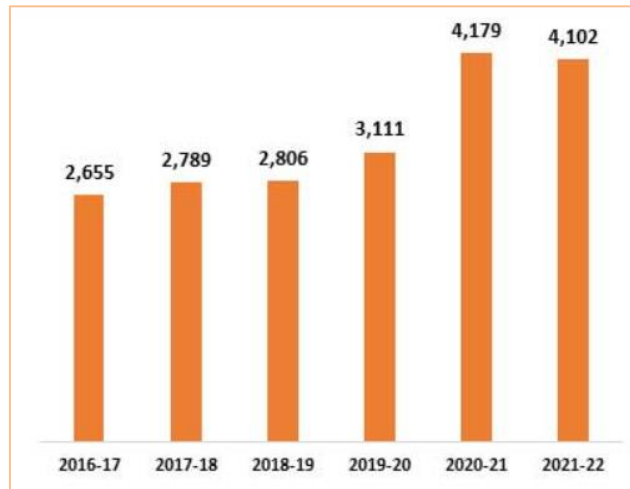
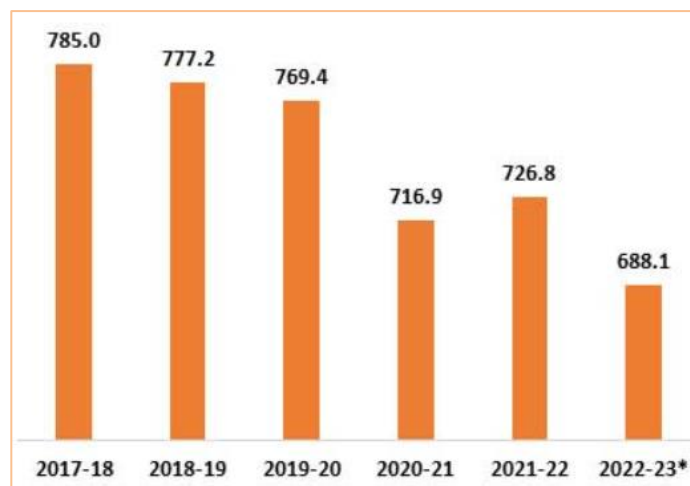
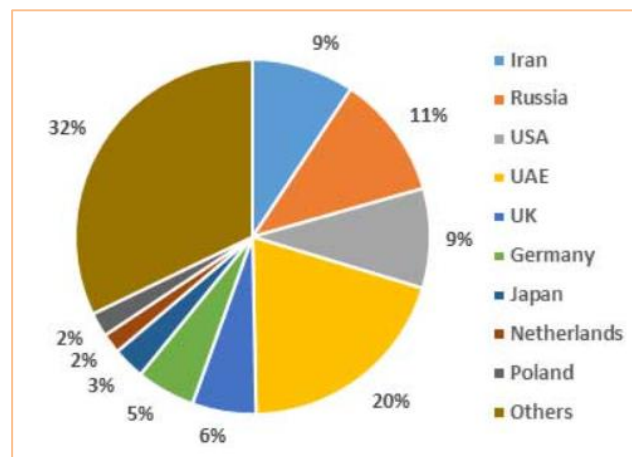


Exhibit 2: Indian Tea Exports (US\$ million)



*April-January 2023

Exhibit 2: India's country-wise share revenue from tea exports (2022-23*)



(Source: ibef.com)



Spices Industry Overview -

India is the largest producer, exporter, and consumer of spices in the world and exports spices and spice products to more than 180 countries. In India, about 10.88 million tonnes of spices are produced annually. The export of spices from India accounts for around 14 per cent of the total production. India is the global hub for spice processing and the world leader in the production and export of major spices like chilli, turmeric, cumin, coriander, fennel, and value-added products viz. spice oils and oleoresins, curry powder etc.

During 2021-22, India exported 15,31,154 MT of spices and spice products valued at Rs. 30,576 crore (US\$ 4,102.29 million). Export of small cardamom, a mandate crop of Spices Board, scaled new heights in FY 2021-22. During 2021- 22, 10,572 MT of small cardamom, valued at Rs. 1,37,570.40 lakh have been exported from the country as against 6486 MT, valued at Rs.1,10,346.58 lakh, in FY 2020-21.

India's export of spices increased from 8,17,250 MT valued at Rs. 13,73,539 lakh (US\$ 2,268 million) in 2013- 14 to 15,31,154 MT valued at Rs. 30,57,644 lakh (US\$ 4,102.29 million) in 2021-22 registering an increase of 87 per cent in volume, 123 per cent in value (Rs.) and 81 per cent in value (US\$)

During 2020-21, the export of chilli, ginger, cardamom (small & and large), coriander, turmeric, celery, cumin, fennel, fenugreek, other seeds such as ajwan seed, mustard, aniseed, nutmeg & mace; other spices such as asafoetida, tamarind, etc., expanded both in value and volume as compared to 2019-20. Even the export of value-added products such as spice oils & and oleoresins grew both in terms of value and volume; the export of curry powder/paste increased in terms of value and the export of mint products increased in terms of volume.

India is the second-largest producer of tea globally. Indian tea is one of the finest in the world due to strong geographical indications, heavy investment in tea processing units, continuous innovation, augmented product mix, and strategic market expansion. As of a 2018 survey, a total of 6.37 lakh hectares of area was cultivated in India for tea production. India is also among the world's top tea-consuming countries, with 80% of the tea produced in the country consumed by the domestic population. India's total tea production for the calendar year 2020 was 1,257.52 million kg and for the financial year 2020-21, it was 1,283 million kg. In May 2022, India's tea production stood at 127.11 million kgs, and it was at 91.77 million kg in April 2022. From January-September 2022, India's tea production stood at 984.67 million kg.

Food Processing Sector -

Over the last five years ending FY21, the food processing industries sector has been growing at an average annual growth rate of around 8.3 per cent. The food processing sector is of enormous significance for India's development because of the strong connections and interactions it promotes between industry and agriculture. The value of agri-food exports, including processed food exports, was about 10.9 per cent of India's total exports during 2021-22 points the Survey.

(Source: prospectus)



Key Managerial Personnel

Rishit Dayalaji Kotecha, aged 42, is one of the Promoters, Chairman, and Managing Director of the company. He has an experience of around 20 years in the spices industry. He has completed a B.Sc. in Physics and Instrumentation. He has a wide knowledge of marketing and finance activities and looks after the financial, compliance and marketing activities of the company.

Hiren Vijaykumar Kotecha, aged 37, is one of the Promoters, and a Whole-Time Director of the company. He has an experience of around 20 years in the spices industry. He has completed his bachelor's degree in commerce. He looks after the planning, operations, and packaging activities of the company.

Dayalji Vanravan Kotecha, aged 75, is one of the Promoters, and Non-Executive Director of the company. He is the founder of the company and has an experience of around 41 years in the spices industry.

Vijaykumar Vanravan Kotecha, aged 66, is one of the Promoters and Non-Executive Director of the Company. He is the founder of the company and has an experience of around 41 years in the spices industry.

Foram Rishit Kotecha, aged 41, is one of the Promoters, and Non-Executive Director of the Company. She has completed her Bachelor of Science in Zoology and has completed her diploma in Food and Nutrition. She has an overall experience of 10 years in the field of food testing and recipe development of spice products.

Mayuri Hiren Kotecha, aged 35, is one of the Promoters, and Non-Executive Director of the company. She has completed the Higher Secondary Certificate Examination. She has an overall experience of 10 years in the field of real estate management.

Hasmukhbai Ishwarlal Hindocha, aged 61, is the Independent Director of the company. He has completed his graduation in commerce and has passed his LLB. He has an overall experience of 19 years in the field of law as an advocate.

Parth Bipin Sukhparia, aged 52, is the Independent Director of the company. He has completed his graduation in commerce and has completed his LLB. He has an overall experience of 28 years in the field of media consultant, writer, and journalist.

Chintan Ashokbhai Mehta, aged 32, is the Independent Director of the company. He has completed a Master of Commerce. He has an overall experience of 10 years in the field of accounting.

To conclude, the company has 6 promoters, 4 of the promoters have enormous experience in the industry in which the company operates and the remaining 2 promoters have good experience in their respective fields. The remaining management also has good experience in the fields which help in the growth of the business.



Financial Snapshot

Profit and Loss Statement			(In Lacs)
Particulars	FY 21	FY 22	FY 23
Revenue from Operations	6,868.03	6,540.81	12,721.60
Other Income	7.15	111.00	28.97
Total Income	6,875.18	6,651.81	12,750.57
Expenses			
Cost of Material Consumed	6,087.40	6,316.04	12,060.64
Change in Inventories	101.95	-353.62	-934.51
Employee benefits expense	123.67	95.48	109.91
Finance costs	179.35	163.90	326.77
Depreciation and Amortization expense	55.96	66.72	62.64
Other expenses	265.10	266.26	351.89
Total Expenses	6,813.43	6,554.78	11,977.34
Earnings Before Interest, Taxes, Depreciation & Amortization	289.91	216.65	1,133.67
EBITDA Margin	4%	3%	9%
Profit before exceptional and extraordinary items and tax	61.75	97.03	773.23
Exceptional items	0	0	0
Profit/(Loss) before tax	61.75	97.03	773.23
Tax Expense			
Current Tax	19.22	19.68	199.17
Deferred tax	-2.46	-3.95	-1.84
Total Tax Expense	16.76	15.73	197.33
Profit/(Loss) for the year	44.99	81.30	575.90
Net Profit Margin	0.65%	1.22%	4.52%

Balance Sheet			(In Lacs)
Particulars	FY 21	FY 22	FY 23
EQUITY AND LIABILITIES			
Equity			
Share Capital (Partner's Capital)	1,094.09	1.00	500.00
Reserves and Surplus	-	30.07	599.10
Total Equity	1,094.09	31.07	1,099.10
Liabilities			
Non-current liabilities			
Borrowings	552.12	1,574.85	1,415.48
Other Non-Current Liabilities	1.00	1.00	1.00
Deferred Tax Liabilities (Net)	16.90	12.95	11.11
Long term provisions	15.35	18.20	15.78
Total Non-current liabilities	585.37	1,607.00	1,443.37
Current liabilities			
(i) Short Term Borrowings	414.27	1,244.68	2,801.72
(ii) Trade Payables			
Total Outstanding dues of micro-enterprises and small enterprises			
Total Outstanding dues of creditors other than micro-enterprises and small enterprises	463.86	589.78	124.12
Other Current Liabilities	11.06	8.69	47.99
Short-Term Provisions	31.25	33.08	220.22



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IPO Note



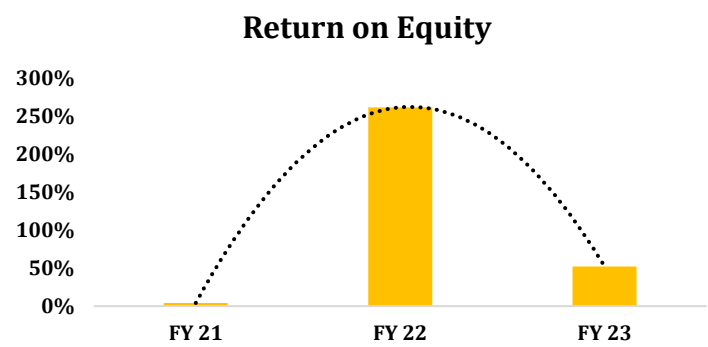
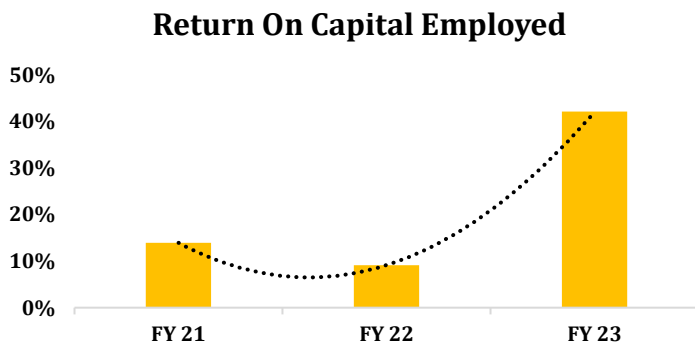
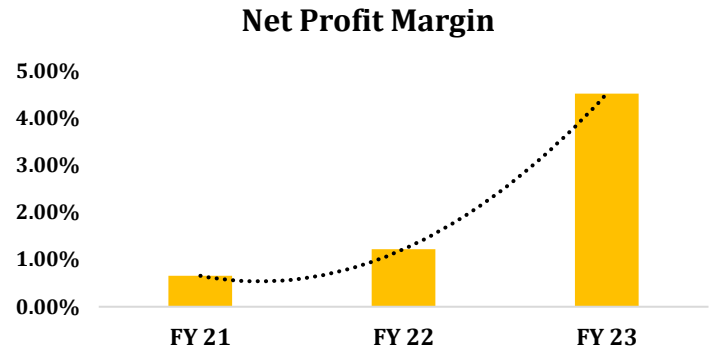
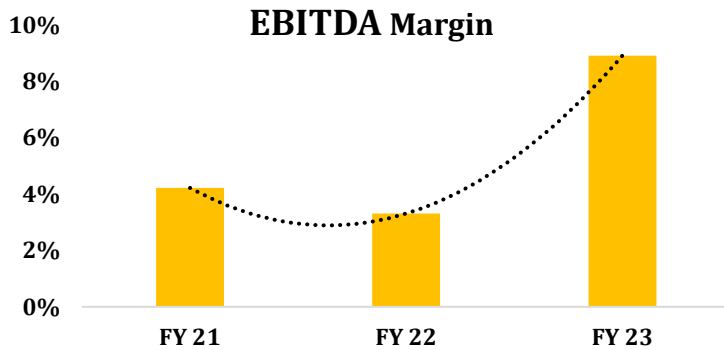
Balance Sheet			(In Lacs)
Total Current liabilities	920.44	1,876.23	3,194.05
Total Liabilities	1,505.81	3,483.23	4,637.42
Total Equity and Liabilities	2,599.90	3,514.30	5,736.52
ASSETS			
Non-Current Assets			
Property, Plant and Equipment	463.40	419.66	968.70
Intangible assets	-	-	-
Non-current Investments	0.36	0.36	0.36
Deferred tax assets (Net)	-	-	-
Long-term loans and advances	13.04	13.64	31.18
Other Non-Current Assets	-	-	-
Total Non-Current assets	476.80	433.66	1,000.24
Current Assets			
Current Investments	-	-	-
Inventories	745.78	1,584.99	2,292.72
Trade Receivables	1,255.59	1,263.01	1,648.32
Cash and Cash Equivalents	27.94	24.23	40.64
Short-Term Loans and Advances	93.79	208.40	754.59
Other current assets	-	-	-
Total Current assets	2,123.10	3,080.63	4,736.27
Total Assets	2,599.90	3,514.29	5,736.51

Cash Flow Statement				(In Lacs)
Particulars	FY 21	FY 22	FY 23	
Net Cash Flow from Operating Activities	197.65	-479.36	-828.51	
Net Cash Flow from Investing Activities	-79.27	41.19	-628.80	
Net Cash Flow from Financing Activities	-87.06	460.62	1,569.89	

*Ratios are not suitable for comparison due to the company converting from a partnership firm to a private limited for FY 22.

Ratio Sheet			
Particulars	FY 21	FY 22	FY 23
Per Share Data			
Diluted EPS	8.53	15.41	6.94
BV per share	8.48	0.24	8.52
Operating Ratios (%)			
EBITDA Margins	4%	3%	9%
PAT Margins	1%	1%	5%
Inventory days	39.63	88.45	65.78
Debtor days	66.73	70.48	47.29
Creditor days	29.20	31.65	3.83
Return Ratios (%)			
RoCE	14%	9%	42%
RoE	4%	262%	52%
Valuation Ratios (x)			
EV/EBITDA	7.01	13.05	4.65
Market Cap / Sales	1.31	1.38	0.71
P/E	8.21	4.54	10.09
Price to Book Value	8.25	290.63	8.22
Solvency Ratios			
Debt / Equity	0.88	90.75	3.84
Current Ratio	2.31	1.64	1.48
Quick Ratio	1.50	0.80	0.77
Asset Turnover	2.64	1.86	2.22
Interest Coverage Ratio	1.30	0.91	3.28

Financial Charts



Key Risk Factors

1. The Company has experienced negative cash flows from operations in the recent past Fiscal year 2022, and 2023, and may have negative cash flows in the future.
2. The Company, Promoters and Directors are involved in certain legal proceedings and potential litigations. Any adverse decision in such proceedings may render us/them liable to liabilities/penalties/prosecutions and may adversely affect the business and results of operations. 1 taxation case against the company amounting to Rs. 2.21 lakhs, 5 criminal proceedings filed by the company amounting to Rs. 5.16 lakhs. 2 taxation cases against the director amounting to Rs. 0.34 lakhs.
3. The company has contingent liabilities as stated in the Restated Financial Statements amounting to Rs. 2.21 lakhs could affect the financial condition.



Track Record of Lead Manager

The lead manager to the issue is Hem Securities Limited. A table has been set below highlighting the details of the IPO of the last companies handled by the Lead Managers in recent times –

Hem Securities Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Asarfi Hospital Limited	26.94	52.00	July 26, 2023	127.95
2.	Kaka Industries Limited	21.23	58.00	July 19, 2023	180.50
3.	Greenchef Appliances Limited	53.62	87.00	July 06, 2023	128.00
4.	Hemant Surgical Industries Limited	24.84	90.00	July 05, 2023	222.95
5.	Vasa Denticity Limited	54.07	128.00	June 02, 2023	458.20
6.	Labelkraft Technologies Limited	4.75	55.00	March 23, 2023	79.00
7.	Systango Technologies Limited	34.82	90.00	March 15, 2023	265.00
8.	Macfos Limited	23.74	102.00	March 01, 2023	320.00
9.	Earthstahl & Alloys Limited	12.96	40.00	February 08, 2023	65.98
10.	Chaman Metalics Limited	24.21	38.00	January 16, 2023	67.30

*CMP for all the above-mentioned companies is taken as of 13th September 2023.

As per the offer document, Hem Securities Limited has had 26 mandates in the last three fiscal years. Hem Securities Limited's above-mentioned mandates have opened at premiums on the listing day.



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IPO Note



Recommendation

The company has been in the industry since 1982 and has enormous experience in the industry. The company has seen a sudden surge in its top line of the financials and the margins have also seen a sudden increase for FY 23.

The PE on an annualised and post-IPO basis is around 15.68 times which seems to be fairly priced by looking at the performance of the company.

The company operates in a very competitive segment and in a fragmented market. The management outlook of the company is satisfactory, and the company has been in the industry for a very long time. The financial outlook of the company is not that satisfactory with the margins seeing a sudden increase. The company has also had negative operating cashflows for 2 consecutive years which raises concerns about sustainability and the sudden increase in the finances. Thus, we recommend **Risk Averse Investors should wait, and Risk Seekers should apply.**



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