

IPO Details	
Opening Date	Oct 27, 2023
Closing Date	Oct 31, 2023
Stock Exchange	NSE SME
Lot Size	1,200 Shares
Issue Price	₹ 91 per share
Issue Size	Aggregating up to 16.07 Cr.
Fresh Issue	Aggregating up to 16.07 Cr.
Offer for Sale Application	-
Amount	₹ 1,09,200

IPO Objective	
Funding additional working capital requirements	
General Corporate Purposes	

Pre-Issue Shareholding		
Category	No. of Shares	% of Total Shares
Promoter & Promoter Group	38,19,200	77.44%
Public	11,12,464	22.56%

Promoter of the Company	
1	B. Manjunath Mallya
2	Shobitha Malya
3	Sneha Vinayak Kudva
4	Yogish Mallya

Competitive Strengths	
1	Distributor of Choice.
2	Distribution of a variety of products.
3	Strong and long-standing customer relationships.
4	Experienced Promoters and Management.

Company Background	
○	Shanthala FMCG Products Limited was originally incorporated in the year 1996 and has its registered office in Karnataka.
○	The company is an FMCG product distributor for large-size FMCG Companies in India for whom they distribute branded packaged foods, personal care products, Education and Stationery products, Matches and Agarbatti, and tobacco products.
○	The company strives to bring the best global products to its customers by providing last-mile connectivity to large consumer product companies.
○	At present the company's area of operation is in the district of Coorg, Karnataka.
○	As of 30 th September 2023, the Company has 26 full-time employees, and 5 workers on a daily wage basis on its payroll.

Market Capitalization (In Cr.)	
Pre-Issue	Post-Issue
₹ 45	₹ 61

Financial Summary (In Lacs)			
For the Period Ended	Mar-21	Mar-22	Mar-23
Total Assets	569.67	615.79	657.21
Net Assets	120.97	125.49	143.22
Total Borrowings	405.56	466.19	447.04
Total Revenue	3,955.67	3,254.57	4,077.25
Profit After Tax	14.41	4.52	17.67

Tentative Timeline	
Opening Date	Oct 27, 2023
Closing Date	Oct 31, 2023
Basis of Allotment	Nov 03, 2023
Initiation of Refunds	Nov 06, 2023
Credit of Shares to Demat	Nov 07, 2023
Listing Date	Nov 08, 2023

Company Background and Analysis

The Company was originally started in the year 1996 as a proprietorship firm. The company is an FMCG product distributor for large-size FMCG Companies in India for whom they distribute branded packaged foods, personal care products, Education and Stationery products, Matches and Agarbatti, and tobacco products. The company also distributes for one of the largest FMCG MNC companies in India. The company distributes branded Beauty and Wellbeing, Nutrition, Personal care, and home care products for them. The company also distributes Oil, Sugar, and Atta for M.K. Agrotech Pvt. Ltd, sold under their brand name Sunpure. The company strives to bring the best global products to its customers by providing last-mile connectivity to large consumer product companies. At present the company's area of operation is in the district of Coorg, Karnataka.

Brief description of products the company distributes for FMCG Companies –

1. Food Products – Atta, Salt, Ready to Eat, Ready to Cook, Biscuits, Wafers.
2. Personal care products – Bathing Soap, Liquid Soap, Shampoos, Conditioners Creams, Face Wash
3. Home care products – Detergent powder, Fabric Softeners, Floor Cleaners, Toilet Cleaners etc
4. Matches and Agarbatti – Safety Matchbox, Incense Stick
5. Beauty and Wellbeing products – Perfumes, Deodorant, Fairness Cream, Hair Grooming Gel, Hair Oil
6. Nutritional products – Coffee, Tea, Mayonnaise, Jam, Soup
7. Tobacco products - Cigarettes

The distribution category of products for some of the large FMCG Companies -

ITC	M K Agrotech	Hindustan Unilever
Tobacco products	Edible Oil	Beauty and wellbeing products
Food products	Food products	Nutritional products
Personal care products		Personal care products
Home care products		Home care products
Matches and Agarbatti		

Revenue bifurcation for the FY ended 2021, 2022, 2023, and as of August 31, 2023, are as follows –

(Amount in Lakhs)

Particulars	Fiscal 2021		Fiscal 2022		Fiscal 2023		As of August 31, 2023	
	Amount	%	Amount	%	Amount	%	Amount	%
ITC Products -								
Tobacco Products	2,044.89	52.04	1,816.35	56.31	2,529.78	62.44	1,056.58	67.12
Non-Tobacco Products	665.94	16.95	537.10	16.65	709.98	17.52	517.66	32.88
Total	2,710.83	68.98	2,353.45	72.96	3,239.76	79.96	1,574.24	38.85
Other Companies -								
Revenue	1,218.81	31.02	872.42	27.04	811.83	20.04	-	-
Total	3,929.64	100.00	3,225.87	100.00	4,051.59	100.00	1,574.24	100.00

To conclude, the company was incorporated in the year 2014. The company is an FMCG product distributor for the large-size FMCG companies in India. The company generates the majority of its revenue from the tobacco products supplied by ITC which consists of cigarettes. The company does not have much contribution to revenue from other FMCG Companies as compared to its main revenue generator ITC which has been associated with the company since 2007. The company has recently onboarded Hindustan Unilever Limited (HUL) as one of its suppliers during August 2023.

Business Strategies

1. Leveraging the existing product portfolio –

The company distributes products from various companies such as HUL, ITC, etc which helps them to bring a range of products ranging from Foods, Beauty and wellbeing, and Personal care to home care which cater to everyday as well as aspirational needs of its customers.

2. Leveraging the Infrastructure –

The company acts as a last-mile delivery agent for large consumer companies in difficult-to-reach areas and caters to the district of Coorg where the client base is scattered, and the average order size is low. The company has created a team of well-trained field staff who reach every retail, and wholesale outlet in the area and help to serve them with regular supply materials.

3. Inorganic Growth –

The company intends to explore the acquisition of businesses, which will help them enter new geographies where considerable business opportunities would be available to grow the business. Strategic acquisitions of small distributors in different geographies that are near the present area of operation targeted to increase product portfolio and penetrate newer markets will be the focus of the Company going forward.

Competitive Scenario and Peer Mapping

Competition

The company faces significant competition in this Industry. The company also faces competition from large retail store chains and online platforms, which source their products directly from the manufacturers. The barrier to entry in such a sector is low. The bargaining power with the suppliers is high and the bargaining power with the customers is also high in the sector in which the company operates.

Peer Analysis

The company believes there are no listed companies in India that are engaged in a similar business as per their offer document.

Industry Overview

Exhibit 1: Indian FMCG Market

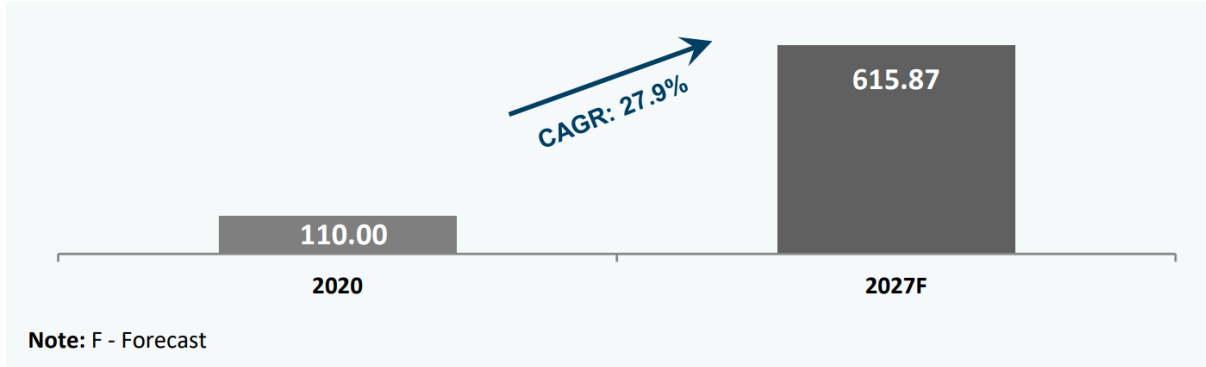


Exhibit 2: Rural areas drive FMCG in Q4 2020 (% Growth)

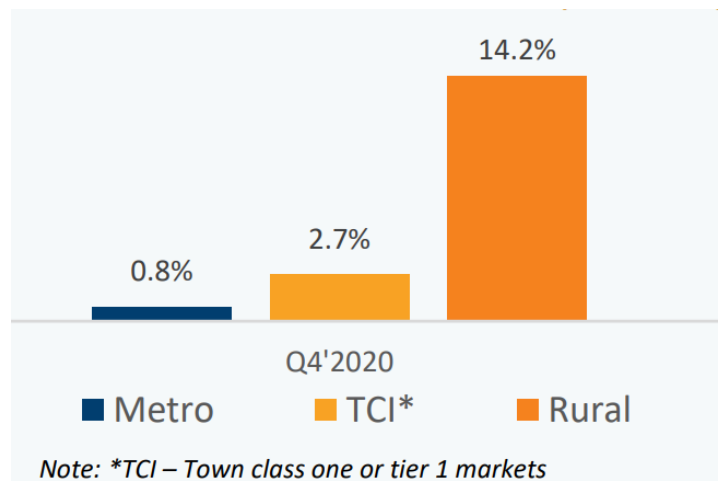
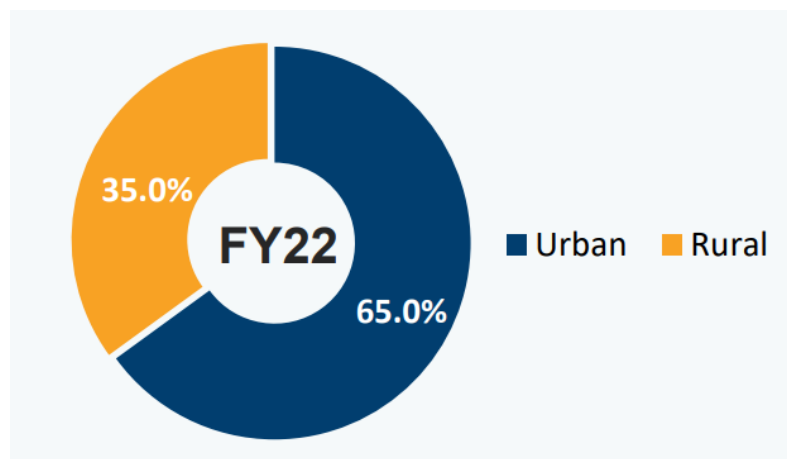


Exhibit 3: Urban-Rural Industry Break-up



(Source: ibef.org)

FMCG Industry Overview -

The FMCG sector in India expanded due to consumer-driven growth and higher product prices, especially for essential goods. The FMCG sector provides employment to around 3 million people accounting for approximately 5% of the total factory employment in India. FMCG sales in the country were expected to grow 7-9% by revenues in 2022-23. The key growth drivers for the sector include favourable Government initiatives & policies, a growing rural market and youth population, new branded products, and the growth of e-commerce platforms. Resilience needs to be the key factor in the manufacturing process, daily operations, retail and logistic channels, consumer insights, and communication that will help FMCG companies to withstand the test of time and create more value for consumers in the long run.

The fast-moving consumer goods (FMCG) sector is India's fourth-largest sector and has been expanding at a healthy rate over the years as a result of rising disposable income, a rising youth population, and rising brand awareness among consumers. With household and personal care accounting for 50% of FMCG sales in India, the industry is an important contributor to India's GDP.

India is a country that no FMCG player can afford to ignore due to its middle-class population which is larger than the total population of the USA. The Indian FMCG market continues to rise as more people start to move up the economic ladder and the benefits of economic progress become accessible to the general public. More crucially, with a median age of just 27, India's population is becoming more consumerist due to rising ambitions. This has been further aided by government initiatives to increase financial inclusion and establish social safety nets.

Growing awareness, easier access, and changing lifestyles have been the key growth drivers for the sector. The urban segment (which accounts for a revenue share of around 55%) is the largest contributor to the overall revenue generated by the FMCG sector in India. However, in the last few years, the FMCG market has grown at a faster pace in rural India compared to urban India. Semi-urban and rural segments are growing at a rapid pace and FMCG products account for 50% of the total rural spending.

Distribution and Sales Channels –

Retail is one of India's fastest-growing industries. According to Forrester Research, India's retail sector was valued at \$883 billion in 2020, and the retail market is expected to grow to \$1.3 trillion by 2024. There are approximately 12 million retail distribution outlets in the country, the majority of which are family owned. The fast-moving consumer goods (FMCG) sector is expected to increase at a rate of 10-12 percent annually over the next 10 years. According to Boston Consulting Group, India's consumption will quadruple to \$4 trillion by 2025 as rising wealth drives changes in consumer behaviour and spending patterns. Shanthala FMCG Products Limited – Draft Prospectus 76 India's E-Commerce income is expected to rise from \$46.2 billion in 2020 to \$111.40 billion by 2025. India is expected to become the world's fastest-growing E-Commerce market, supported by strong investment and a rapid increase in the number of internet users.

The E-Commerce market is expected to generate \$64 billion of India's \$2.6 trillion gross domestic product (GDP) in 2021, despite production and labour shortages, transportation disruptions, and other delays that have characterized one of the most difficult years for global supply chains. Most Indian manufacturers use a three-tier selling and distribution structure that has evolved over the years. This structure involves distributors, wholesalers, and retailers.

(Source: prospectus)

Key Managerial Personnel

B Manjunath Mallya, aged 54, is one of the Founding Promoters, Chairman, and Managing Director of the company. He has passed his second year B. Com. He has more than 20 years of experience in the field of supply and distribution of FMCG products in Coorg district, Karnataka. His role is to strategize for future growth plans for the company.

Shobitha Malya, aged 44, is one of the Founding Promoters, and Executive Director of the company. She has completed a five-year LL.B. degree course. She has more than 10 years of experience in the field of office administration, coordinating and streamlining purchases.

Sneha Vinayak Kudva, aged 46, is one of the Promoters of the company. She has done Bachelor of Business Management. She has 15 years of experience in accounts and administration. She has been working as Chief Financial Officer at Virtuous Capital Limited for the last 15 years. Other than shareholder she has no role in the activities of Shanthala.

Yogish Mallya, aged 50, is one of the Promoters of the company. He is an undergraduate by qualification but has more than 20 years of experience in the field of handling the distribution business of M/s. Shanthala Enterprises and handling its finance & and accounting, tax, etc. As CFO he plays an important role in managing finances and day-to-day financial affairs, accounts, and audit-related matters and guiding the Company for future growth plans.

Smita Arjun Patil, aged 42, is the Non-Executive Independent Director of the company. She has completed her Bachelor of Education, and M. A. She is having 5 years of experience in the field of teaching Hindi and Marathi.

Ravikant Moreshwar Mhatre, aged 52, is the Independent Director of the company. He has completed his B. Com. He has experience of more than 20 years in the supply of sports merchandising. He has his own business of sourcing quality sports merchandising from the manufacturers and supplying them to education institutes.

Shivani Shivshankar Tiwari, aged 35, is the Independent Director of the company. She has completed her B. Com. and M. Com. She is also a qualified company secretary. She has over 5 years of experience in the field of secretarial and legal compliance.

To conclude, the company has 4 promoters, who have vast experience and knowledge in the fields in which the company operates but only 3 promoters are linked with the company and one promoter does not have any role in the activities of the company. The Directors of the company have good knowledge and experience in the fields which are linked to the main operation of the business and also in the fields which help in the overall growth of the business.

Financial Snapshot

Profit and Loss Statements				
(In Lacs)				
Particulars	FY 21	FY 22	FY 23	Aug-23
Revenue from Operations	3,929.64	3,225.87	4,051.59	1,574.24
Other Income	26.03	28.70	25.66	11.34
Total Income	3,955.67	3,254.57	4,077.25	1,585.58
Expenses				
Cost of Goods Sold	3,810.31	3,132.55	3,935.81	1,511.57
Employee benefits expense	36.40	45.46	49.01	24.85
Finance costs	43.98	39.94	40.92	16.23
Depreciation and Amortization expense	1.49	1.70	1.78	0.53
Other expenses	43.50	28.57	23.48	18.74
Total Expenses	3,935.68	3,248.22	4,051.00	1,571.92
Earnings Before Interest, Taxes, Depreciation & Amortization	39.43	19.29	43.29	19.08
EBITDA Margin	1.00%	0.60%	1.07%	1.21%
Profit/(Loss) before tax	19.99	6.35	26.25	13.66
Tax Expense				
Provision for Taxation	5.58	1.83	8.52	3.51
Provision for Deferred Tax	-	-	0.06	(0.04)
Total Tax Expense	5.58	1.83	8.58	3.47
Profit/(Loss) for the year	14.41	4.52	17.67	10.19
Net Profit Margin	0.36%	0.14%	0.43%	0.64%

Balance Sheet				
(In Lacs)				
Particulars	FY 21	FY 22	FY 23	Aug-23
EQUITY AND LIABILITIES				
Equity				
Share Capital	50.00	50.00	50.00	493.17
Reserves and Surplus	70.97	75.49	93.22	56.15
Total Equity	120.97	125.49	143.22	549.32
Liabilities				
Non-current liabilities				
Long Term Borrowings	262.89	204.69	168.64	150.03
Long Term Provisions	-	-	-	-
Deferred Tax Liabilities (Net)	-	-	-	-
Total Non-current liabilities	262.89	204.69	168.64	150.03
Current liabilities				
Short Term Borrowings	142.67	261.50	278.40	95.23
Trade Payables	19.83	14.70	37.96	5.74
Other Current Liabilities	17.44	7.13	11.34	5.27
Short-term provisions	5.87	2.28	17.59	21.71
Total Current liabilities	185.81	285.61	345.29	127.95
Total Liabilities	448.70	490.30	513.93	277.98
Total Equity and Liabilities	569.67	615.79	657.15	827.30
ASSETS				
Non-Current Assets				
Tangible Assets	237.40	236.79	235.67	235.54
Non-Current Investments	-	43.40	45.48	46.53
Long-term Loans and Advances	-	16.58	16.93	16.93
Total Non-Current assets	237.40	296.77	298.08	299.00
Current Assets				
Inventories	79.08	111.04	107.50	136.25
Investments				

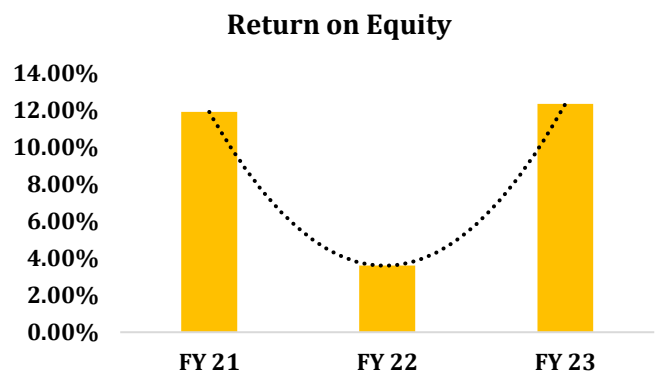
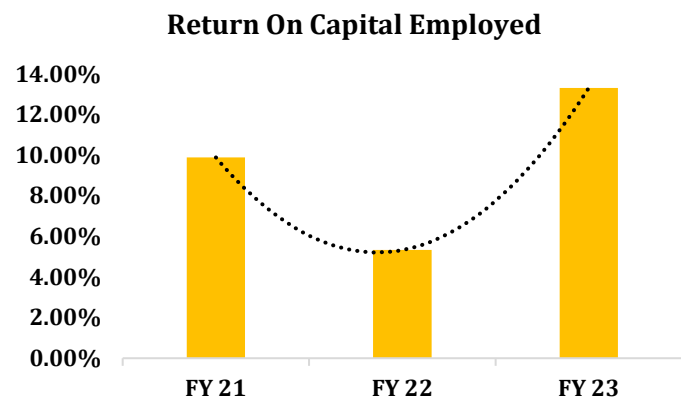
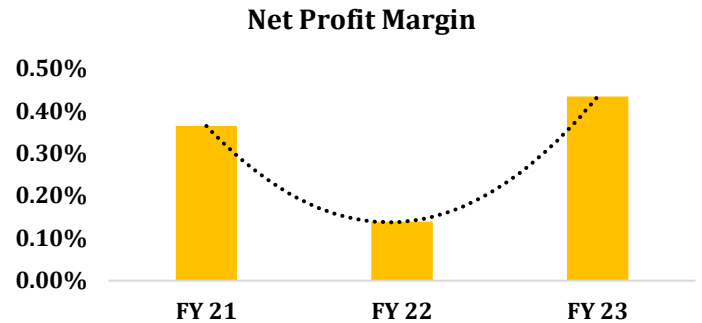
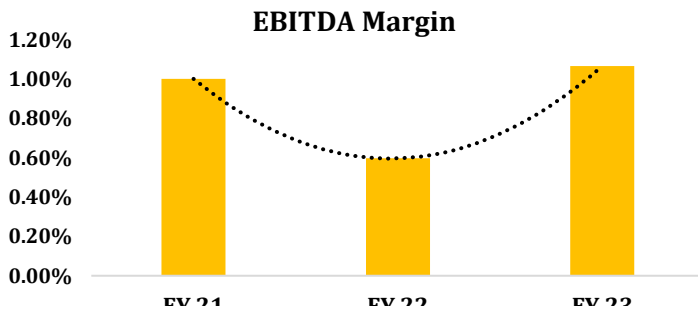
Balance Sheet				(In Lacs)
Trade Receivables	171.37	75.50	99.85	243.01
Cash and Cash Balances	48.63	64.23	137.57	94.17
Short-term loans and advances	-	64.00	14.02	38.62
Other Current Assets	33.19	4.25	0.19	16.27
Total Current assets	332.27	319.02	359.13	528.32
Total Assets	569.67	615.79	657.21	827.32

Cash Flow Statement				(In Lacs)
Particulars	FY 21	FY 22	FY 23	Aug-23
Net Cash Flow from Operating Activities	13.91	27.28	110.84	(231.24)
Net Cash Flow from Investing Activities	25.48	(32.37)	22.57	9.89
Net Cash Flow from Financing Activities	(45.77)	20.69	(60.07)	177.95

Ratio Sheet				
Particulars	FY 21	FY 22	FY 23	Aug-23*
Per Share Data				
Diluted EPS	2.88	0.90	3.55	0.37
BV per share	1.81	1.87	2.14	33.12
Operating Ratios (%)				
EBITDA Margins	1%	1%	1%	1%
PAT Margins	0%	0%	0%	1%
Inventory days	7.35	12.56	9.68	13.24
Debtor days	15.92	8.54	9.00	23.62
Creditor days	1.90	1.70	3.52	0.57
Return Ratios (%)				
RoCE	9.88%	5.33%	13.31%	1.02%
RoE	11.91%	3.60%	12.34%	1.86%
Valuation Ratios (x)				
EV/EBITDA	12.12	27.34	10.46	50.48
Market Cap / Sales	1.55	1.89	1.50	1.61
P/E	31.60	101.11	25.63	248.46
Price to Book Value	50.39	48.57	42.56	2.75
Solvency Ratios				
Debt / Equity	3.35	3.71	3.12	0.08
Current Ratio	1.79	1.12	1.04	4.13
Quick Ratio	1.36	0.73	0.73	3.06
Asset Turnover	6.90	5.24	6.16	4.57
Interest Coverage Ratio	0.86	0.44	1.01	1.14

*Ratio sheet for Aug-23 is annualized.

Financial Charts



Key Risk Factors

1. There are certain outstanding legal proceedings involving the Company, and Promoters amounting to Rs. 33.09 lakhs which may adversely affect the business, financial condition, and result of operations.
2. The company has experienced negative operating cash flow for the period ended August 2023 and any such negative cash flows in the future could adversely affect the business, results of operations, and prospects.

Track Record of Lead Manager

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

First Overseas Capital Limited -

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	Pyramid Technoplast Limited	153.05	166.00	August 29, 2023	203.00
2.	Synoptics Technologies Limited	54.03	237.00	July 13, 2023	146.00
3.	Cell Point (India) Limited	50.34	100.00	June 28, 2023	48.5
4.	Kore Digital Limited	18.00	180.00	June 14, 2023	327.00
5.	Nirman Agri Genetics Limited	20.30	99.00	March 28, 2023	220.00
6.	SVJ Enterprises Limited	6.12	36.00	March 09, 2023	71.0
7.	Amanaya Ventures Limited	2.76	23.00	March 09, 2023	13.2
8.	Ducol Organics and Colours Limited	31.51	78.00	January 19, 2023	142.00
9.	SVS Ventures Limited	11.24	20.00	January 12, 2023	7.70
10.	QMS Medical Allied Services Limited	56.87	121.00	October 11, 2022	155.00

*CMP for the above-mentioned companies is taken as of 25th October 2023.

As per the offer document, First Overseas Capital Limited has had 18 mandates in the last three years (including the current year). For First Overseas Capital Limited, 1 opened at par, 1 opened at discounts, and all the remaining mandates have opened at premiums on the listing date.

Recommendation

The company has been in the industry since 1996 and has vast experience in the industry. The company had seen a decrease in revenue and net profit for FY 2022 but has seen a sudden surge in FY 2023 in both the top line and bottom line of its financials which may or may not sustain going forward.

The PE on an annualized and post-IPO basis is 344.95 times which is highly priced by looking at the performance of the company.

The company operates in a competitive segment. The management outlook of the company is decent. The company does not provide any unique services and the barrier to entry is also low. The financial outlook of the company is not that satisfactory. The company does not have any unique strategies for expansion, growth, or retention. The company's P/E ratio post-IPO basis is high. From the above-highlighted points, we believe we have a neutral opinion on this IPO. Thus, we recommend **AVOID** for this IPO keeping in mind that it is for long-term investment.



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