



IPO Note

NeoPolitan Pizza and Foods Limited

Recommendation: **AVOID!**

Company Background -

- **Incorporation:** NeoPolitan Pizza and Foods Limited was originally incorporated as "JRM Fertilizers Private Limited" on Feb 05, 2011. The registered office is located at Vadodara, Gujarat.
- **Business Activity:** The company is engaged restaurant operations under brand name "Neopolitan Pizza" and agricultural commodity trading.
- **Revenue Stream:** The company's majority revenue is generated from agricultural commodities (Rs. 4,057.73 lakhs) and QSR segment (Rs. 342.62 lakhs) for FY2024.
- **Human Resource:** The company has 13 permanent employees and 20 contract-basis employees as on March 31, 2024.

Objects of the Issue -

- Expansion of Retail Network by launching 16 new Quick Service Restaurants (QSR)
- Security Deposit and Advance Rent
- Brokerage Charges
- Funding Working Capital Requirements
- General Corporate Purposes

Promoters Name -

Mukund Purohit and Arti Mukund Purohit

Rationale for recommendation -

- ✓ The top line has seen sudden increase in FY2024 and bottom line has seen sudden increase in FY2023 which might not be sustainable in the future.
- ✓ The profitability margins have remained inconsistent over the years.
- ✓ The company had negative cash flow from operations for FY2023 and 2022.
- ✓ The company has high concentration of customers and suppliers.
- ✓ The QSR and trading industry is highly competitive and fragmented.
- ✓ The promoter shareholding is less than 50% post-issue.

IPO Details

Opening Date	Sep 30, 2024
Closing Date	Oct 04, 2024
Allotment Date	Oct 07, 2024
Listing Date	Oct 09, 2024
Stock Exchange	BSE SME
Lot Size	6,000 Shares
Issue Price Per Share	₹20
Issue Size	12.00 Cr.
Fresh Issue	12.00 Cr.
Offer for Sale	-
Application Amt	₹ 1,20,000 (6,000 shares)

INDUSTRY - Trading/Quick Service Restaurants

KPI's	KPIs (In Lakhs)		
	FY 22	FY 23	FY 24
Revenue	1,629.57	2,003.54	4,400.36
EBITDA	91.42	224.87	323.43
Net Profit	18.44	116.80	209.25
RoCE	4.45%	12.44%	16.84%
ROE	2.28%	8.45%	13.15%
P/E	39.22	14.93	10.53

Promoter Share Holding Pattern

Pre-Issue	Post
72.67%	47.03%

Valuation Parameters

Particulars	Pre-Issue	Post Issue
EPS	1.90	1.23
BVPS	14.46	16.42
P/E	10.53	16.25
P/BV	1.38	1.22
Mkt Cap (In Cr)	22.00	34.00

Lead Managers -

Turnaround Corporate Advisors Private Limited

Registrar -

Bigshare Service Private Limited

Business Overview -

NeoPolitan Pizza and Foods Limited is engaged in the business of restaurant operations under the brand name “NeoPolitan Pizza” and trading of agricultural commodities. As of March 31, 2024, they had 21 Restaurants located in more than 16 cities, spread across 2 states and union territories in India.



History:

NeoPolitan Pizza and Foods Limited had got listed on Emerge ITP Platform of National Stock Exchange of India Limited (NSE) on November 03, 2014. Since there was no fruitful purpose going to be achieved by keeping the Shares of the company listed with the NSE and since the company found no significant tangible advantage to the shareholders and the investors of the Company, the Company took effective steps for voluntary delisting of the company to avoid unnecessary financial and administrative burden due to multiple compliance of the various Regulations of securities and Exchange Board of India. The Company had made an application for delisting and NSE vide its letter dated May 31, 2018 hereby notified that the securities shall be delisted w.e.f. June 07, 2018 (i.e. w.e.f. closing hours of trading on June 06, 2018). Further the admissions to dealings in the securities were withdrawn w.e.f. June 14, 2018.

Subsidiary:

Neoindian Pizza Inc. was incorporated on August 18, 2023 under Stock Corporation, California. The object of the company is to operate Pizza outlets in USA. The company holds 100% shareholding.

Services:

QSR Segment:

A Quick Service Restaurant (QSR) is a restaurant that efficiently serves inexpensive meals that are always prepared in a uniform way. The meals are packaged so they can be eaten on the go; either taken away, delivered to the customer or eaten quickly in-store at the limited seating often available. Further, they operate QSR in 3 models i.e. COCO, FOCO and FOFO. The company offers Neopolitan-style pizza, which is a traditional Italian pizza made with fresh ingredients. The menu includes a variety of toppings, and the company offers gluten-free and vegetarian options. The newly re-designed concept offers a variety of Soup, Exotic Salads, freshly baked Bread, Pasta, Hand Tossed Pizza and Dessert including such popular items as flat bread pizzas and many more. Their best-selling meal is “**Unlimited Italian Meal**” which is sold for approx Rs. 199/- (Lunch) & Rs. 219/- (Dinner) for Kids and Rs. 269/- (Lunch) & Rs. 299/- (Dinner) for Adults.

Agricultural Commodities:

The company also engages in the trading of agricultural commodities. The company deals in products such as Cereals, Pulses & Grains like wheat, rice, chana dal, corn, masoor dal, maida, maize etc. The company operates on a B2B model and sell its products on a wholesale basis and they don't have any retail outlets.

Utilization of Net Proceeds:

The net proceeds of the issue will be utilized for expansion of Retail Network by launching 25 new Quick Service Restaurants (QSR) (Rs. 708 lakhs), security deposit and advance rent (Rs. 26 lakhs), brokerage charges (Rs. 13 lakhs) funding working capital requirements (Rs. 352 lakhs) and general corporate purposes (Rs. 71 lakhs).

Revenue Bifurcation Segement-wise -*(Amt in Lakhs)*

Particulars	FY 2022		FY 2023		FY 2024	
	Amt	%	Amt	%	Amt	%
Sale from Restaurants						
COCO	101.22	6.21	216.84	10.82	166.85	3.79
FOCO	0.00	0.00	16.35	0.82	138.92	3.16
FOFO	16.97	1.04	30.45	1.52	36.85	0.84
Total of Restaurant Business	118.19	7.25	263.64	13.16	342.62	7.79
Trading of Agricultural Commodities						
Cereals, Pulses & Grains	1,149.76	70.56	787.27	39.29	1,816.37	41.28
Fruits & Vegetables	361.63	22.19	952.63	47.55	2,241.36	50.94
Total of Trading	1,511.39	92.75	1,739.90	86.84	4,057.73	92.21
Total	1,629.58	100.00	2,003.54	100.00	4,400.35	100.00

Competition -

- 1. Market Competition:** The industry is competitive where the key factors of competition primarily comprise of variation in menu, their food and beverage quality and price.
- 2. Geographic Competition:** The company faces competition from international, national, regional and niche brands and unorganized players.
- 3. Barriers to entry:** Low barriers to entry.
- 4. Threat of Substitutes:** High threat of substitutes.
- 5. Bargaining Power of Buyers:** The bargaining power is high with the customers.
- 6. Bargaining Power of Suppliers:** The bargaining power is low with the suppliers.

Business Strategies -

1. The company intends expand their presence in India and is raising funds for setting up 16 new outlets.
2. The company intends to innovate their menu by introducing new flavours, ingredients and toppings to cater the demands of the customers.
3. The company intends to expand their product range by adding new agricultural commodities.
4. The company plans to leverage the synergy between their different business segments to promote their agricultural commodity trading segment. This will include cross-promotion, joint marketing campaigns, and offering exclusive deals to customers.

Risk Factors -

The company's significant portion of revenue is derived from top 10 customers of agricultural commodity which contributed to 72.67%, 81.80% and 92.07% for FY2022, 2023 and 2024 respectively.

The company is dependent on top 10 suppliers for purchase of agricultural commodity which contributed to 73.70%, 78.50% and 80.87% of the revenue generated for FY2022, 2023 and 2024 respectively.

The company's group entity Neopolitan Cab Tech Private Limited was under loss for FY2022, 2023 and 2024.

The company is highly dependent on Gujarat for revenue generation from QSR segment which contributed to 70.15%, 99.88% and 99.87% for FY2022, 2023 and 2024 respectively.

The company had negative cash flow from operations for FY 2023 and 2022.

PEER ANALYSIS –

Particulars	NeoPolitan Pizza and Foods Limited			Restaurant Brands Asia Limited			Barbeque-Nation Hospitality Limited		
	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24	FY 22	FY 23	FY 24
NP Margin	1.13%	5.83%	4.76%	-12.95%	-10.58%	-8.88%	-2.89%	1.36%	-1.05%
EBITDA Margin	5.61%	11.22%	7.35%	6.20%	7.05%	10.61%	18.09%	19.41%	18.06%
RoCE	4.45%	12.44%	16.84%	-7.44%	-7.18%	-4.63%	3.50%	9.47%	6.07%
ROE	2.28%	8.45%	13.15%	-18.83%	-26.80%	-34.78%	-6.63%	4.24%	-3.41%
EPS (INR)	0.51	1.34	1.90	-4.47	-4.48	-4.40	-7.03	4.37	-3.44
P/E	39.22	14.93	10.53	-	-20.11	-	-	144.89	-

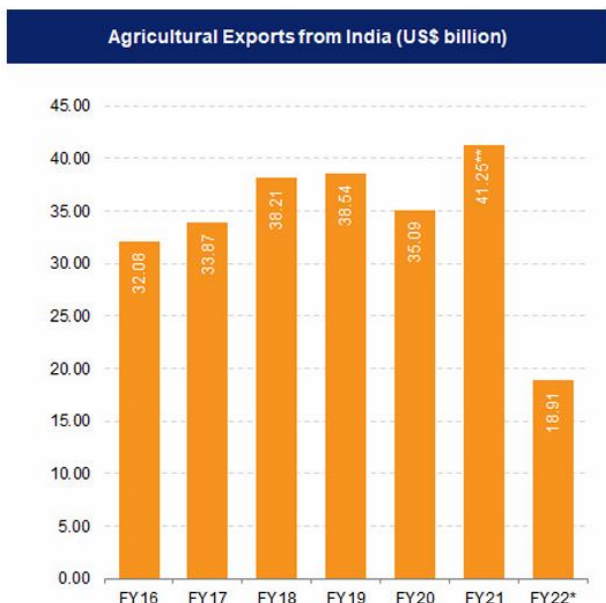
Interpretation –

- The company is not comparable to its peers on an apple-to-apple basis as they are involved in the QSR segment whereas NeoPolitan Pizza and Foods generate majority of their revenue from agriculture trading business.
- Both the peer companies are in loss.
- The company’s market cap is very less compared to its peer.

INDUSTRY OVERVIEW –

Agriculture Industry in India -

The Indian agricultural sector is predicted to increase to US\$ 24 billion by 2025. Indian food and grocery market is the world’s sixth largest, with retail contributing 70% of the sales. India’s agricultural and processed food products exports stood at US\$ 43.37 billion in FY23 (April 2022-January 2023). As per Second Advance Estimates for 2022-23 (Kharif only), total foodgrain production in the country is estimated at 153.43 million tonnes.

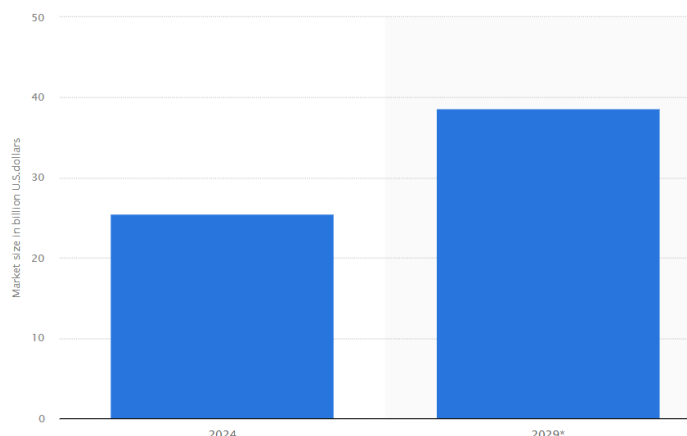


(Source:RHP)

Quick Service Restaurant Industry in India -

According to a report, the market for food services in India is predicted to increase from US\$ 41.1 billion in 2022 to US\$ 79.65 billion by 2028, with a CAGR of 11.19%. The market for quick service restaurants (QSRs) in the country is predicted to be worth US\$ 690.21 million in 2022 and US\$ 1069.3 million in 2027, rising at a CAGR of 9.15%, according to the report's additional findings. The QSR chain market is anticipated to increase at a CAGR of 23% over the course of FY20–25, making it the fastest-growing sub-segment overall in the food service industry.

Market Size of QSR in India



(Source:RHP)

Key Management -

- The overall management of the company is decent.
- The promoter and management have good experience in the industry.



Key Management Persons Name -	Mukund Purohit
Age	53
Designation	Promoter, Managing Director and CFO
Qualification	Diploma in Human Resource Management and Diploma in P C Application
Other Directorships	Ashri IT Services Private Limited

Key Management Persons Name -	Ashvin Chandel
Age	53
Designation and No. of years of experience	Executive Director, 30+ years of experience
Qualification	Bachelor of Science in Physics, Chemistry & Mathematics and Master of Science in Physics
Other Directorship	-

Key Management Persons Name -	Arti Mukund Purohit
Age	50
Designation and No. of years of Experience	Promoter and Executive Director, 25+ years of overall experience and 20+ years of experience Food & Beverages and finance
Qualification	Bachelor of Commerce (Honours)
Other Directorship	Ashri IT Services Private Limited and Neopolitan Cab Tech Private Limited

Key Management Persons Name -	Alok Kumar Sinha
Age	60
Designation and No. of years of experience	Independent Director, 30+ years of experience in planning and developing Educational Institutions
Qualification	Master of Education
Other Ventures	Troekuh LLP

Key Management Persons Name -	Nishit Dushyant Shah
Age	48
Designation and No. of years of experience	Independent Director, 29+ years of experience in Accounts, Finance, Taxation, Law, Management, Outsourcing Business, and Banking Regulations
Qualification	Master of Commerce, Bachelor of Commerce and Chartered Accountant
Other Directorship	Rajgor Castor Derivatives Limited and Kenrik Industries Limited

Key Management Persons Name -	Nishit Bharatbhai Popat
Age	31
Designation and No. of years of experience	Non-Executive Independent Director, 8+ years of experience in Corporate Laws
Qualification	Master of Commerce, Bachelor of Commerce and Bachelor of Laws
Other Directorship	Aadk Petroleum Private Limited, TGB Banquets and Hotels Limited and Rajgor Agro Limited

FINANCIAL SNAPSHOT

Statement of Profit and Loss			Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24
Revenue from Operations	1,629.57	2,003.54	4,400.36
Other Income	1.24	1.07	0.71
Total Income	1,630.81	2,004.61	4,401.07
Expenses			
Purchases	1,478.73	2,118.87	3,967.76
Changes in Inventories of finished goods, work-in-progress	-	-417.41	-10.17
Employee Benefit Expenses	22.48	34.12	62.69
Finance Cost	18.52	30.10	0.34
Depreciation and Amortization Expense	42.81	42.07	42.26
Other expenses	36.94	43.09	56.65
Total Expenses	1,599.48	1,850.84	4,119.53
EBITDA	91.42	224.87	323.43
EBITDA Margin	5.61%	11.22%	7.35%
Profit/(Loss) before tax	31.33	153.77	281.54
Tax Expense			
Provision for tax	0.28	26.42	74.48
Provision for Deferred Tax	12.89	10.27	-2.19
Mat Credit Entitlement	-0.28	0.28	-
Total Tax	12.89	36.97	72.29
Profit/(Loss) for the year	18.44	116.80	209.25
Net Profit Margin	1.13%	5.83%	4.76%

Statement of Assets and Liabilities			Amt in Lakhs.
Particulars	FY 22	FY 23	FY 24
EQUITY AND LIABILITIES			
1. Shareholders' funds			
Share Capital	871.29	1,100.00	1,100.00
Reserves and surplus	-63.90	281.61	490.86
Total Equity	807.39	1,381.61	1,590.86
2. Non-current liabilities			
Long-term borrowings	259.45	68.82	59.19
Other Long-term provisions	26.12	19.29	19.29
Total Non-current liabilities	285.57	88.11	78.48
3. Current liabilities			
Short-term Borrowings	0.01	-	-
Trade Payables	170.16	272.81	242.85
Other Current Liabilities	31.99	36.80	250.03
Short-term provisions	5.82	32.25	76.05
Total Current liabilities	207.98	341.86	568.93
Total Liabilities	493.55	429.97	647.41
Total Equity and Liabilities	1,300.94	1,811.58	2,238.27
ASSETS			
1. Non-current assets			
Tangible Assets	276.59	238.37	198.28
Intangible Assets	0.19	0.13	0.06
Non-Current Investments	-	-	300.00
Deferred Tax Assets (Net)	25.80	15.54	17.73

Particulars	FY 22	FY 23	FY 24
Long term loans and advances	58.10	-	-
Other Non- current Assets	27.89	22.84	2.68
Total Non-Current assets	388.57	276.88	518.75
2. Current assets			
Inventories	-	417.41	427.58
Trade Receivables	902.37	720.08	771.91
Cash & Cash equivalents	4.24	22.64	40.07
Short term loans and advances	1.42	364.57	467.25
Other Current Assets	4.33	10.02	12.70
Total Current assets	912.36	1,534.72	1,719.51
Total Assets	1,300.93	1,811.60	2,238.26

Cash Flow Statement	Amt in Lakhs.		
Particulars	FY 22	FY 23	FY 24
Net Cash Flow from Operating Activities	-508.92	-272.91	329.18
Net Cash Flow from Investing Activities	-38.70	54.32	-302.11
Net Cash Flow from Financing Activities	549.07	236.99	-9.64

Key Ratios

Per Share Data	FY 22	FY 23	FY 24	Valuation Ratios (x)	FY 22	FY 23	FY 24
Diluted EPS	0.51	1.34	1.9	EV/EBITDA	11.62	6.35	4.98
BV per share	9.27	12.56	14.46	Market Cap / Sales	2.09	1.70	0.77
Operating Ratios				P/E	39.22	14.93	10.53
EBITDA Margins	5.61%	11.22%	7.35%	Price to Book Value	2.16	1.59	1.38
PAT Margins	1.13%	5.83%	4.76%	Solvency Ratios			
Inventory days	-	76.04	35.47	Debt / Equity	0.32	0.05	0.04
Debtor days	202.12	131.18	64.03	Current Ratio	4.39	4.49	3.02
Creditor days	42.00	46.99	22.34	Quick Ratio	4.39	3.27	2.27
Return Ratios				Asset Turnover	1.25	1.11	1.97
RoCE	4.45%	12.44%	16.84%	Interest Coverage Ratio	2.62	6.07	826.97
RoE	2.28%	8.45%	13.15%				

INTERPRETATION -

1. The top line had seen an increase in FY2023 by 23% which was due to significant uptick in agricultural trading and a sudden increase can be seen in FY2024 by 120% which was due to a sharp rise in revenue from agriculture trading.
2. The net profit has increased over the years by 533% in FY2023 and 80% in FY2024. The sudden jump in FY2023 raises concern and might not be sustainable in the long run.
3. The PAT margin and EBITDA margin have been inconsistent over the years.
4. The RoCE and ROE have increased over the years.
5. The PE ratio has improved over the years.
6. The company had negative cash flow from operations for FY 2023 and 2022.

LEAD MANAGER TRACK RECORD –

The lead manager to the issue is Turnaround Corporate Advisors Private 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 –

Turnaround Corporate Advisors Private Limited –

Sr. No.	Company Name	Issue Size in Cr.	Issue Price/Share (In INR)	Listing Date	CMP* (INR)
1.	City Crops Agro Limited	15.00	25.00	Oct 10, 2023	25.95
2.	Adishakti Loha and Ispat Limited	2.00	11.00	Oct 13, 2021	10.64
3.	Avon Moldpast Limited	4.51	51.00	Jul 26, 2018	-

The company has handled 1 mandate in the past three years (including the current year).

*CMP for the above-mentioned companies is taken as of 30th Sep 2024.

As per the offer document, the above-mentioned mandates all have opened at a premium on the listing day.

Recommendation -

NeoPolitan Pizza and Foods Limited has been in the industry since 2011 and has good experience in the industry. The management overview of the company is decent.

The P/E on a post-IPO basis is around 16.25 times which makes it fairly priced compared to its peers PE.

The company's top line has increased over the years but a sudden increase can be seen for FY2024 and the bottom line has also increased over the years but a sudden increase can be seen for FY2023 which raises concern and might not be sustainable in the long run. The profitability margins have seen inconsistency over the years. Also, the company had negative cash flow from operations for FY2023 and 2022.

The company has high concentration of customers and suppliers for their agricultural commodity trading and loss of any may affect the business operations adversely. Also, the promoter shareholding post-issue is less than 50% which raises slight concern.

The company's restaurant operations are highly concentrated in Gujarat and they are raising funds for expansion in Gujarat itself rather than increasing their presence in other states. Also, the industry is highly competitive and fragmented.

The RHP released by the company has many mismatches as well.

Thus, investors can **AVOID** this IPO.

Disclaimer

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