Initiating Coverage
14th January 2025

# Foods & Inns Ltd.

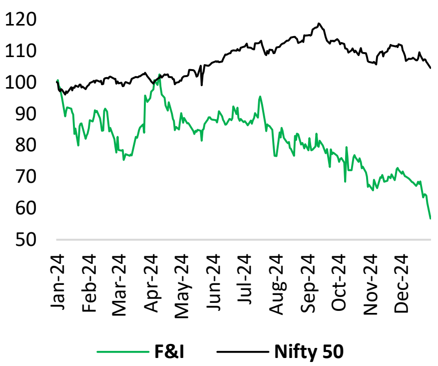
| CMP: INR 96 | |
|---|---|
| Rating: BUY | |
| TP: 413 | |
| **Stock Info** | |
| BSE | 507552 |
| NSE | FOODSIN |
| Bloomberg | FI:IN |
| Reuters | FDSI.BO |
| Sector | FMCG |
| Face Value (INR) | 1 |
| Equity Capital (INR cr) | 5.68 |
| Mkt Cap (INR cr) | 715 |
| 52w H/L (INR) | 178/ 95 |
| Avg Yearly Volume (in 000') | 296 |

**Shareholding Pattern %**
*(As on December 2024)*

| | |
|---|---|
| Promoters | 25.47 |
| FII | 1.37 |
| DII | 1.14 |
| Public & Others | 72.03 |

| Stock Performance (%) | 1m | 3m | 12m |
|---|---|---|---|
| Foods & Inns | (19.6) | (24.3) | (42.8) |
| Nifty 50 | (6.5) | (7.8) | 5.8 |

**Foods & Inns Vs Nifty 50**

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**Foods & Inns is engaged in the business of processing and marketing tropical fruit pulps, purees, concentrates, spray dried fruit & vegetable powders, various spices (Kusum Masala), frozen fruits, vegetables & snacks, Tetra Recart (RTC and RTE), Puff Pastry Sheets, and Pectin. The company operates 7 integrated plants across Maharashtra, Gujarat, and Andhra Pradesh**.

**Pectin Import Substitution poses a huge untapped opportunity:** The company has started commercial production of pectin, a vegan gelatin, extracted from mango skin, which would otherwise be waste. Currently, ~95% of India's pectin requirement is imported, thus there is an opportunity to substitute imports with locally produced pectin. Pectin production is undergoing testing and approval by large brands, a process that takes time but is crucial for mass adoption.

**Product diversification improves existing utilization levels:** Later, to improve Asset utilization during the Mango off-season, they began adding other pulpy products like Tomatoes, Guava, Papaya, Banana, Tamarind, Chili, Ginger, and Garlic to their portfolio.

**Strides made in branded and value-added products**: There has been a growing focus on brand sales across segments, with Tetra Recart (a new packaging technology)—Pulp & Paste: 'Madhu'; Frozen Foods and RTE/RTC—'Green Top'; Spices: 'Kusum'. Additionally, the company produces Spray-Dried Powders and Pectin.

**Continuously adding new geographies:** The company has actively been adding new geographies to its clientele. Recently they forayed into Hong Kong for tomato-based canned products, and into the Gulf for the B2C brand Greentop in the vegetable category.

**Industry consolidation with the entry of large conglomerates into India:** The entry of large conglomerates into the consumer beverage space like Tata, Adani, and Reliance has intensified the need to secure raw material availability, with major clients like Coca-Cola investing around USD 1 Bn to expand capacity and market reach in the country. F&I currently fulfills a majority of the mango pulp requirement for Coke (Maaza).

**Exploration of domestic opportunities:** They have partnered with Punjab and Sind across their retail outlets for the distribution of Greentop products. The initial launch will be across a few A1 stores and will be expanded later.

| INR Mn | FY23 | FY24 | FY25E | FY26E | FY27E | FY28E |
|---|---|---|---|---|---|---|
| Net Sales | 9,994 | 10,201 | 10,753 | 11,988 | 13,448 | 14,875 |
| *YoY* | *58%* | *2%* | *5%* | *11%* | *12%* | *11%* |
| EBITDA | 994 | 1,203 | 1,328 | 1,515 | 1,734 | 1,958 |
| PAT | 474 | 367 | 583 | 698 | 878 | 1,063 |
| *YoY* | 210% | -23% | 59% | 20% | 26% | 21% |
| EPS (INR) | 9.3 | 6.5 | 8.0 | 9.5 | 12.0 | 14.5 |
| *YoY* | *206%* | *-30%* | *23%* | *20%* | *26%* | *21%* |
| EBITDA Margin (%) | 9.95% | 11.80% | 12.35% | 12.63% | 12.89% | 13.16% |
| EV/EBITDA (x) | 8.3 | 7.5 | 6.0 | 4.9 | 3.9 | 2.7 |
| P/E (x) | 11.7 | 16.9 | 13.7 | 11.5 | 9.1 | 7.5 |

*Source: Company, Arihant Capital*

**Outlook and Valuation:**

**With a good monsoon, crops like tomato, guava, papaya, and vegetables will have higher production in FY25. Whilst domestic juice consumption during monsoon tends to be lower, it will pick up post- during the summer months. The coming summer is expected to be severe, and juice manufacturers will be ready to catch up for the season. Q2 and Q3 are not good for the Indian beverage industry, the company is mostly dependent on export demand during these quarters. Q4 and Q1 tend to peak in domestic sales. As per the latest updates from their branded presence, we expect a bumper sale in this period because all the capacity they built up in the last 2 years is in operation now.**

**Due to the demand/supply issues in the local market, freight issues, and non-availability of vessels in the international market. There were shipment delays, which were a major cause of the lower top line in FY24-H1FY25. Due to these delays, the company is holding inventory booked by customers in Crop year 2023 which is expected to move by March 2025. Major brands have agreed to give an additional inventory carrying cost (indicative of their commitment, as there are no cancellations despite delays). Generally, the bulk of orders received from May to August are called off (delivered) within 15 to 17 months of order confirmation. Concerning exports, tie-ups depend on container pricing and availability; but these too are against confirmed orders.**

**The company is seeing good traction on call-offs as customers follow up against annual orders and most orders from big clients have already been confirmed.**

**Mango has a natural growth potential but sometimes there are ups and downs in crop availability due to seasonal variation (a summer crop). However, the non-mango focus is mainly on tomatoes (a winter crop), where good growth is expected. The other growth lever is the frozen segment which has shown promising potential over the last year, especially in the US and Europe markets. Ex- mango, these two verticals have major growth potential. Another focus area is spices. They have recently started retailing spice in Delhi and Mumbai. Currently, penetration is a little slow. But this is its teething problem which is in the process of being overcome. In a couple of years, spices will contribute substantially to overall revenue.**

**Apart from the pastry line, there is no further capex apart from the replacement capex and a few small investments.**

**Given the strides the company is making across both the core business of pulping and all emerging businesses- all of which are heavily margin accretive will lead to a new, higher level of stable margins and better asset utilization. Additionally, the ongoing theme of market consolidation, the entry of large conglomerates that prefer organized players, and rural investment are structurally beneficial to them.**

**We Initiate with a BUY rating, and a Target Price of INR 413 via DCF, yielding an upside of 372%.**

**Business Overview:**

Foods & Inns (F&I) is a leading agro-processor in India and has been operational for upwards of 50 years. It is the only listed player in India that offers a comprehensive gamut of products such as:

1. **Aseptic Pulp/Puree of Fruits and Vegetables-** Pulping of Mango, Guava, Banana, Tomato, Papaya, Tamarind, Chili, Ginger, and Garlic. Ideal for beverages, dairy, and confectionery.
2. **Spray Dried Powders-** Powdering of Lemon, Tomato, Cheese, Beetroot, Mango, Caramel, Honey, and Tamarind. Fruit and vegetable powders are used in flavoring, baking, and nutritional supplements.
3. **Frozen Foods (RTC and RTE)-** Individually Quick Frozen (IQF) and blast frozen fruits, vegetables and snacks. Spiralized and diced Vegetables, fruit and vegetable pulp. They process Beetroot, Zucchini, Sweet Potato, Mango, Blackberry, Indian Snacks, Flat Bread, other Fruits and Vegetables. Suitable for retail and food service industries.
4. **Spices (Kusum Masala)-** Chili Powder, Turmeric, Curry, Black Pepper, Garlic, Ginger, and Other Whole Ground Blends
5. **Pectin-** A vegetarian alternative to gelatin and has its application as a thickening agent in jams, jellies, and pickles, as well as in the skin care industry as it is used in lotions, creams, etc. It also has its use cases in digestive health, weight & cholesterol management.
6. **Canned Products-** RTE Fruit and Vegetable products. Cater to domestic and International Markets.
7. **Tetra Recart-** RTE, RTC, Pulp Cut, Fruits & Vegetables. Cater to domestic and International Markets. Tetra Recart packaging is designed to maintain food quality. It has a lower carbon footprint compared to traditional packaging methods and is more sustainable. Additionally, it extends the shelf life of products up to two years without the need for preservatives.
8. **Puff Pastry Sheets-** For Samosa, Spring Rolls and Other Confectionery Items

They also have a **B2C branded presence** as under:


*Source: Annual Report*

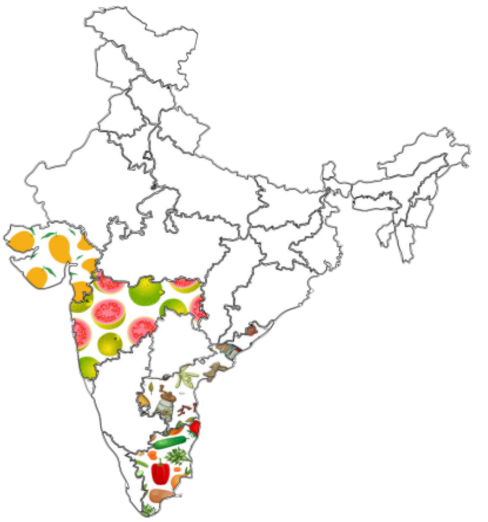
### FY24 sales mix:

Sales (₹ Crores) | % (Sales)

| Region | % (Sales) | Sales (₹ Crores) |
|---|---|---|
| India | 64.1% | 620 |
| Europe | 10.5% | 100 |
| The Middle East | 3.5% | 29 |
| The UK | 5.6% | 54 |
| The US | 6.8% | 66 |
| Rest of Asia | 5.6% | 23 |
| Canada | 1.7% | 16 |
| Russia | 0.5% | 05 |
| New Zealand | 0.4% | 04 |
| China | 1.2% | 11 |

*Source: Annual Report*

### Manufacturing Footprint:



2 Logistics Centres in Mumbai & Chennai

Installed Solar Panels which generated 6.39 lacs units of electricity in FY23, resultant saving of Rs 5.16 Mn in power cost

| State | Location | Product Line | Capacity (MT/Hr) |
|---|---|---|---|
| 1. Maharashtra | Nashik - Gonde* | Aseptic | 13* |
| | | Spray Drying | 0.25 |
| | | **Spice Plant** | |
| | | Blending | 1.5 |
| | | Grinding | 1 |
| | | ETO | 0.5 |
| | Nashik - Sinnar | Frozen Vegetables | 0.7 |
| | | Frozen Snacks | 0.5 |
| | | Frozen Bread | 0.25 |
| | | Frozen Puree | 2 |
| | | Puff Pastry Sheets | 0.1 |
| | Ahmednagar (Leased Plant) | Aseptic | 8* |
| | | Concentrate | 2 |
| 2. Gujarat | Valsad | Aseptic | 4 |
| | | Canning | 5 |
| | Vankal | Aseptic | 6 |
| | | Tetra Recart | 3 |
| | | IQF | 0.8 |
| | | Plate Freezer | 2 |
| | | Blast Freezer | 1.3 |
| 3. Andhra Pradesh | APP | Aseptic | 5 |
| | FPP1 | Aseptic | 18 |
| | FPP2 | Aseptic | 4 |
| | FPP3 | Canned | 2 |

Greenfield Project; Tetra Recart facility commissioned in Mar-23

Brownfield expansion; All greenfield and brownfield are part of the PLI Scheme

### Timeline:

**1970** – Commissioned the first production line supplying spray-drying egg powder.

**1980** – Acquisition of fruit canning line in Valsad, Gujarat from Coca-Cola India.

**1990** – Investment in aseptic fruit processing technologies in Chittoor, Andhra Pradesh - Acquisition of frozen food manufacturing unit in Nashik, Maharashtra.

**2000** – First company to introduce mono block PLC and multi-tube sterilizers for high flavor products, increased processing capacity.

**2010** – Focus on sustainability and community development, first company to certify farmers under various programs; strong efforts on waste management and building circular manufacturing facilities. Increased exposure to food service business.

**2019** – Acquisition of branded spice company Kusum Masala, foray into B2C business including frozen products, tetra-cart & others.

**2022** – Disclosing our carbon footprint on the CDP platform.

**2023** – Commissioned new Tetra Recart facility at Gujarat. Doubled Spray Drying facility in Gonde, Nashik to 1,050 MTPA from 500 MTPA and commercialized new Pastry Line.

**2024** – Inaugurated Pectin JV facility at Chittoor and started product testing in Jan'24.

*Source: Company Presentation*

**Marquee customers:**

Coca-Cola | PEPSICO | Nestlé
LACNOR | Unilever | paper boat drinks and memories
symrise | KraftHeinz | epigamia GREEK YOGURT
RIEDEL THE WINE GLASS COMPANY WINE FRIENDLY | DÖHLER | AGRANA
WILD WE CREATE Great Taste | les vergers boiron | BARR SOFT DRINKS

*Source: Company Presentation*

**Pulping:**

The company is primarily engaged in mango pulping wherein it processes a wide variety of mangoes like Alphonso, Kesar, Totapuri, etc.

In off- mango season, they pulp Guava, Tomato, Chilly, Papaya, Banana, Tamarind, Ginger, Garlic, etc, with minimal modifications to existing machinery, to utilize assets and fixed overheads.

In India, their market share in mango pulping is ~76% (~15% globally), ~6% (0.2% globally) in tomato pulping, and ~3% (1% globally) in guava pulping.

They have an in-house brand "Madhu" for domestic & export markets, in retail & online platforms, and in canned & Tetra Recart packaging.



*Source: Company Presentation*

**Spray Drying:**

The Company offers an array of powders, including vegetable, fruit, herbal, protein, and flavor types. These powders are incorporated into cereals, snacks, sports drinks, infant formula, and dietary supplements. They recently added value-added products like Honey Powder, Cheese Power, etc.


*Source: Company Presentation*

**Frozen Foods:**

They offer a wide range of frozen fruits, vegetables, snacks, and flatbreads. They cater to global brands and large-format modern retail through the white label mode, and they have a HORECA presence.


*Source: Company Presentation*

They also have an in- house brand “Greentop” for D2C RTC/ RTE and vegetables available in Tetra Recart as well.


*Source: Company Presentation*

**Spices & Masala:**

In FY19 they acquired Kusum Spices- a 50 year old brand with a domestic and export presence to 12+ countries including the US, UK, Oman, and UAE.

Kusum Masala sells 70+ products across: Ground; Blended, and Whole spices.


*Source: Company Presentation*

**Pectin:**

They recently set up a Pectin manufacturing facility in Chittoor, Andhra Pradesh, which is the largest Mango Pulping belt in India. The Pectin produced by the Company has already been approved by some large MNCs and Indian companies.

This business converts mango waste (skin and kernel) which is 50% of the mango into a VAP.

*Pectin*
*Source: Company Presentation*

*Pectin plant at Chittoor, Andhra Pradesh*
*Source: Company Presentation*

**Industry Overview:**

**Pulping:**

The global fruit and vegetable pulp market, valued at USD 2.92 Bn in FY22, is projected to register a CAGR of 6.4% from FY23 to FY30. This growth is driven by a shift in consumer preferences toward natural drinks and juices made from fruit and vegetable pulp. The fruit pulp market in India is expected to expand by USD 165.5 Mn, with a CAGR of 8.09% from 2023 to 2028. Several significant factors propel this growth. Urbanization and changing consumer lifestyles are the main drivers, leading to increased demand for convenient and healthy food options. Processed fruits, such as pulps, are becoming popular for their long shelf life and ease of use. Additionally, a surge in health awareness and the growing appeal of functional foods are boosting market growth. Together, these factors present the fruit pulp market as an appealing investment opportunity for businesses.

Mango Pulping: The current industry size is 508,000 MT (INR 5,250 Cr) within which India's share is 79-80%.

Tomato Pulping: The current industry size is 4,619,141 MT (INR 36,000 Cr) within which India's share is ~2%.

Guava Pulping: The current industry size is 500,000 MT (INR 2,250 Cr).

Other Pulp: The current industry size is INR 1,900,000 Cr.

**Spray Drying:**

In 2023, the Indian spray-dried foods market was valued at USD 57.7 Bn. The sector is propelled by a flourishing food processing industry and increasing demand for functional foods. Spray-dried products offer extended shelf life, reduced storage needs, and ease of transportation. Additionally, India's rapid urbanization and economic progress have spurred a growing appetite for convenient, ready-to-eat, and ready-to-cook foods (RTE, RTC), further boosting the market. The market is projected to reach USD83.9 Bn by 2032, with a CAGR of 4.25% from 2024 to 2032.

**Frozen Foods:**

In 2023, the global frozen foods market was valued at USD 284.2Bn(~INR 20 Lakh Cr) and is anticipated to reach USD363.7Bn by 2028, reflecting a CAGR of 5.1%. A significant advantage of frozen foods is their extended shelf life, which aids in reducing food waste. Frozen foods offer convenience with extended storage periods and quick cooking times, reducing grocery shopping and meal preparation. Globalization has had a major impact as well, offering a wide variety of international cuisines in frozen form.

India's frozen food market is expected to reach USD 4.28 Bn by 2028. Rapid urbanization and busy lifestyles have driven the demand for convenient and time-saving food options, making frozen foods popular among busy individuals and families. Rising disposable income levels have further boosted market growth as consumers are increasingly willing to invest in high-quality food products. The expansion of modern retail formats, along with improved cold chain infrastructure and storage facilities, has enhanced the accessibility and visibility of frozen food products. With its youthful population and rapidly changing food preferences, India represents a high-potential market for frozen foods. Companies are also innovating with new product variants and broadening their distribution networks.

**Spices and Masala**

India's spice market, valued at USD 7.80 Bn in 2023, is projected to expand at a CAGR of 8.11% from 2024 to 2032, reaching USD 15.74 Bn by 2032. It is poised for robust growth, fueled by rising domestic consumption and escalating export demand. Innovations in processing and packaging will enhance quality and freshness while the e-commerce segment will expand, offering convenient access to diverse spice varieties and fostering direct-to-consumer sales. India's spices are likely to gain a stronger foothold in international markets through strategic marketing and adherence to global standards. Companies will explore new spice blends to align with evolving culinary trends, and government initiatives will boost production and market competitiveness.

**Packaged Foods & Tetra Recart**

Tetra Recart is revolutionizing packaging with its eco-friendly carton solution, providing a sustainable alternative to traditional canning methods. This innovative packaging option is designed to be environmentally friendly, with lower carbon emissions compared to steel cans and juice jars. It offers about 25% greater efficiency in storage and transport than cans, thereby enhancing the overall sustainability of the supply chain. Additionally, the capital expenditure associated with Tetra Recart falls is within the scope of the committed capex under the Production Linked Incentive (PLI) scheme. Tetra Recart extends the shelf life of products up to two years without the need for artificial preservatives, reducing food waste and ensuring long-lasting freshness. The Indian canned food market size is INR 10,250 Cr.

**Pectin**

The global pectin market is expected to grow at a compound annual growth rate (CAGR) of 6.9% from 2024 to 2032. The pectin industry is growing due to the increasing demand for natural and clean-label ingredients in food and beverages, as well as the rising popularity of organic and herbal cosmetics. Pectin is a naturally occurring polysaccharide found in plant cell walls that is used in a variety of industries:

Food and beverage- As a gelling agent, stabilizer, and thickener in jams, jellies, fruit preserves, and confectionery. It can also be added to fruit juices and milk-based beverages.

Pharmaceuticals- As a binding agent in tablets and capsules to ensure uniform drug distribution and controlled release.

Cosmetics- As a thickening agent and stabilizer in skincare products.

Textiles- In textile sizing and finishing to help dye and pigment application on fabrics.

India's pectin industry is characterized by a lack of domestic production to meet demand, and the country's abundant citrus fruits being a valuable resource for pectin extraction. However, India doesn't have large apple or citrus processing industries, and collecting waste can be more expensive than the product itself.  95% of India’s pectin requirements are imported from Brazil, China and Mexico.

The Indian Pectin market size is INR 300 Cr (2,500 MT)

**Investment Rationale:**

**Improving asset utilization through product diversification:**

Owing to the seasonality of mango availability, and the dependence of the company on mango pulping, most of the revenues were derived during mango season- Q4. Asset utilization would go over 100% during this time, to an extent that some pulping would have to be outsourced, and for the rest of the year, utilization would dwindle.

To smoothen out the impact of seasonality and reduce the dependence on mango, the company has been diversifying into producing other pulps like guava, tomato, ginger, etc.

They have recently added a tomato processing line at their existing Nashik plant, a prime region for tomato pulp production (effectively more than doubling their tomato processing capacity), and they have begun exporting tomatoes to Spain and Sri Lanka. Earlier they used to outsource tomato processing to a plant in Ahmednagar which was leased.

Tensions between Russia and Ecuador have opened up an opportunity for India in the banana pulp market- to supply banana pulp to Russia for baby food, which is expected to materialize by FY25-FY26. They have started banana processing and sampling has already been submitted. The new tomato processing capacity in Gonde can also process banana.

| Revenue (INR Cr) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Mango Pulp | 816 | 734 | 755 | 784 | 822 |
| | *68%* | *-10%* | *3%* | *4%* | *5%* |
| Tomato Pulp | 55 | 49 | 51 | 54 | 57 |
| | *161%* | *-11%* | *4%* | *5%* | *6%* |
| Guava Pulp | 27 | 26 | 28 | 31 | 34 |
| | *-7%* | *-3%* | *9%* | *9%* | *9%* |
| Other Pulp (Chili, Garlic, Banana, ginger, etc.) | 8 | 6 | 6 | 6 | 7 |
| | *-47%* | *-31%* | *6%* | *6%* | *6%* |
| **Pulping Total** | **906** | **815** | **840** | **875** | **920** |
| | *64%* | *-10%* | *3%* | *4%* | *5%* |

| % of pulping | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Mango Pulp | 90.11% | 90.12% | 89.84% | 89.60% | 89.38% |
| Tomato Pulp | 6.04% | 6.02% | 6.09% | 6.16% | 6.24% |
| Guava Pulp | 2.97% | 3.19% | 3.37% | 3.53% | 3.67% |
| Other Pulp | 0.88% | 0.68% | 0.69% | 0.71% | 0.71% |

| Key Ratios | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Sales/Assets | 1.23 | 0.99 | 0.98 | 1.01 | 1.05 |

*Source: Company, Arihant Capital*

We have factored in an increasing share of ex- mango pulps leading to an improvement in asset utilization. Though, another reason for this improvement is an increase in non- pulp revenues which will be touched upon later in the report.

**Pectin presents a sizable opportunity for import substitution:**

The Company has established a state-of-the-art Pectin manufacturing facility in Chittoor, Andhra Pradesh, located in India's largest mango pulping belt. This strategic location is crucial as it allows Foods & Inns to efficiently utilize the mango byproducts. Lab test results of the Company's Pectin are already receiving approval from major MNCs and Indian companies. Typically, about 50% of a mango's weight is waste, including skins and kernels, which requires proper disposal and incurs significant costs.

The Pectin project addresses this challenge by converting this waste into a valuable, high-quality product. This initiative not only reduces waste management costs but also supports sustainability by creating a valuable segment that contributes to environmental stewardship and enhances overall operational efficiency.

The new facility was set up as a JV and has a capacity of 150 MT with a revenue potential of INR 15 Cr, out of which INR 7.5 Cr will accrue to F&I on account of a 50% JV. This is expected to start flowing in from FY26. The Indian market size for pectin is INR 300 Cr (2,500 MT), and so far, >95% of domestic demand in imported which represents a significant opportunity for import substitution. The global size for the same is slated to reach around INR 7,500 Cr by 2027.

JV project commercial run has already started with the first round of production though there is further fine tuning required to improve cost efficiency.

| INR Cr | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|
| Pectin | 0 | 1.9 | 7.5 | 7.5 |

*Revenue Share of Pectin*
*Source: Company, Arihant Capital*

**Industry consolidation with the entry of large conglomerates into India:**

The entry of large conglomerates into the consumer beverage space like Tata, Adani and Reliance has intensified the need to secure raw material availability, with major clients like Coca-Cola investing around USD 1 Bn to expand capacity and market reach in the country. F&I currently fulfills a majority of the mango pulp requirement for Coke for Maaza.

These companies procure only from organized players that possess international quality control certifications- which act as entry barriers for competition. It is for these reasons that we foresee the market getting dominated by large players as smaller ones move further out of the picture down the line.

*F&I's Certifications*
*Source: Company, Arihant Capital*

Additionally, rural electrification and road infrastructure being encouraged over the past few budgets is boosting soft drink penetration in lower tier regions- another positive for large drink players with widespread distribution networks.

**Supply side deficiencies get filled and raw material prices moderate:**

The reason for subpar performance in H1FY25 was due to supply side issues for mangoes and tomatoes which caused crop output to be low and procurement prices to be high. This situation has eased up significantly post September'24, especially with tomatoes- as the retail price of tomatoes is on the decline as the arrival of the fresh crop has picked up momentum in the wholesale markets on the back of improved supply. The all-India average retail price of tomato fell to INR 52.35 per kg as of November $14^{th}$ 2024 which is 22.4% lower than INR 67.50 per kg on October $14^{th}$ 2024. The company has recently doubled their tomato processing capacity to keep up with the inflow.

The mango crop is expected to do better this year, but will still be priced at the higher end. Overall, H2FY25 will show a certain growth compared to last year, but will not be anything spectacular. A majority of the expected improvement in performance will be visible in FY26 due to the company's dependency on mango.

The tomato crop output has been stunted for H1FY25, as tomato is an Indian winter crop, however, supply has been improving with the onset of winter, prices have started to correct now.

**Spray Drying as an attractive opportunity:**

There are many factors working or the company like- rising demand for food product diversification, longer shelf life (spray drying can preserve perishable foods for up to 24 months), convenience food products, etc. There is a strong demand from bakery and confectionary segments- it is majorly a B2B product.

The current energy crisis in the European markets is shifting the entire demand of spray dried powders to the Asian continent which is massively beneficial for F&I.

In 2023, the company doubled Spray Drying facility in Gonde, Nashik to 1,100 MTPA from 500 MTPA. The expanded capacities are now running close to full capacity from the month of October 2024 and has already attained full capacity utilization. They might add another spray drying unit in the near future.

In 2024, they also forayed into value-added products like Honey Powder, Cheese Power, etc.

This segment has the potential to reach a revenue of INR 500 Mn by FY28, and has already attained a stable 25% EBITDA Margin.

| INR Cr | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|---|
| Spray Drying | 19 | 18 | 18 | 20 | 22 | 24 |
| *YoY* | | *-6%* | *0%* | *10%* | *10%* | *10%* |

*Revenue Share of Spray Drying*
*Source: Company, Arihant Capital*

**Continuous inflow of PLI Benefits for the foreseeable future:**

Now that the company has completed all of the committed capex under the PLI scheme, we expect them to receive a sizable PLI benefit into their top line for the next 3 years to the tune of ~INR 25 -30 CR each year from the govt. of India.

**Consumer Spices undergoing market consolidation is favorable for branded players:**

There is a visible and ongoing shift from unorganized to branded products being witnessed domestically, with many large retail brands acquiring spice & masala companies.

The current consolidation happening in the industry which will lead to market share gain for Organized Players (currently at ~36%).

Kusum has recently renewed its packaging and expanded its retail footprint, and is working on increased sourcing from pesticide-compliant certified farmers to meet international standards alongside new product verticals like sterilized spices to make themselves more viable to other countries.

The Government of India is also promoting the spice industry through various support programs and export strategies.

| INR Cr | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|---|
| Spices & Masala | 16 | 18 | 23 | 25 | 29 | 32 |
| *YoY* | | *15%* | *25%* | *10%* | *15%* | *10%* |

*Revenue Share of Kusum Spices*
*Source: Company, Arihant Capital*

**Tetra Recart as a rising star in Indian market:**

The company adopted Tetra Recart- commissioning the first facility in Gujarat, in 2023, to reduce its carbon footprint and unlock new business opportunities as foreign clients are showing a growing preference for the product as it is 25% more efficient to store and transfer compared to cans. F&I uses it for captive consumption and commercial sale of in- house brands- Madhu and Greentop.

Product development along with product testing with brands as per their requirement is ongoing, which is helping build momentum in Tetra Recart for the coming years. The capex incurred under this segment is part of committed capex under PLI.

Currently, the opportunity size in Tetra Recart with existing facilities is INR 90-100 Cr on the back of a newly set-up capacity of 6,000 packs per hour, which can further be expanded to meet growing demand. This is the first Tetra Recart machine in India with no other supplier.

| INR Cr | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| Tetra Recart | 0 | 0.5 | 1 | 2 | 4 |
| *YoY* | | | *100%* | *100%* | *100%* |

*Revenue Share of Tetra Recart Products*
*Source: Company, Arihant Capital*

**Exploration of domestic opportunities will further retail presence:**

They have partnered with Punjab and Sind across their retail outlets for distribution of Green Top products. The initial launch will be across a few A1 stores will be expanded later on.

**Profitability boost from the Non- Pulp business**

Since the pulping business runs on a cost-plus model, the extent of margin expansion in it is limited, hence, major jumps in profitability must come from the non- pulp value added side which is a key focus area for the company.

| Particulars | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|---|
| Gross Profit Per Kg (INR) | 28 | 29 | 31 | 35 | 38 | 41 |
| | | 2.69% | 7.62% | 13.79% | 8.22% | 8.43% |
| Revenue per Kg (INR) | 81 | 97 | 100 | 103 | 109 | 117 |
| | | 19.75% | 3.50% | 3.03% | 6.18% | 6.83% |
| EBITDA per Kg (INR) | 3 | 3 | 2 | 5 | 9 | 10 |
| | | -4.33% | -24.78% | 116.20% | 93.37% | 15.30% |

*Source: Company, Arihant Capital*

**Non- Pulp value added segment strengthened with consistent R&D and capacity building**

Additionally, the offtake in non- pulp value added products (largely in frozen vegetables and snacks) has also been encouraging- with the new pastry line warranting an encouraging response from the international market. To meet this demand, the company plans to add 2 new pastry lines in the immediate future.

The pastry line was initially started for internal consumption purposes- to make dough for frozen foods like samosas, paratha, etc- under the Greentop RTC line, however, the excess pastry produced, especially puff pastry, was sold, and is now very well received domestically- facing no competition, besides from imported brands like Switz.

The company has also started work on cocoa butter equivalents (CBEs) made from mango waste with some trial sampling done this year. Despite it being in its nascent stages, there is a massive untapped potential here as cocoa prices have gone up and there is a tremendous demand for CBEs.

They are also in the process of adding a new machine to the frozen food division, which will entail capex of INR 2.5 Cr.

| Revenue Mix In Cr | FY22 | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|---|
| Mango Pulp | 487 | 816 | 734 | 755 | 784 | 822 |
| | | *68%* | *-10%* | *3%* | *4%* | *5%* |
| Tomato Pulp | 21 | 55 | 49 | 51 | 54 | 57 |
| | | *161%* | *-11%* | *4%* | *5%* | *6%* |
| Guava Pulp | 29 | 27 | 26 | 28 | 31 | 34 |
| | | *-7%* | *-3%* | *9%* | *9%* | *9%* |
| Other Pulp (Chili, Garlic, Banana, ginger, etc.) | 15 | 8 | 6 | 6 | 6 | 7 |
| | | *-47%* | *-31%* | *6%* | *6%* | *6%* |
| **Pulping Total** | **552** | **906** | **815** | **840** | **875** | **920** |
| | | *64%* | *-10%* | *3%* | *4%* | *5%* |
| Frozen Fruits, Vegetables & Snacks | 22 | 30 | 48 | 64 | 84 | 109 |
| | | *35%* | *59%* | 35% | 30% | 30% |
| Spices & Masala | 16 | 18 | 23 | 25 | 29 | 32 |
| | | *15%* | *25%* | *10%* | *15%* | *10%* |
| Spray Drying | 19 | 18 | 18 | 20 | 22 | 24 |
| | | *-6%* | *0%* | 10% | 10% | 10% |
| Pectin | | | | 2 | 7.5 | 7.5 |
| | | | | | 300% | 0% |
| Tetra Recart | | | 0.5 | 1.0 | 2.0 | 4.0 |
| | | | | 100% | 100% | 100% |
| PLI | | | 25 | 25 | 34 | 30 |
| | | | | 0% | 33% | -12% |
| Others (Export Incentives) | 23 | 27 | 65 | 98 | 146 | 219 |
| | | *16%* | *141%* | 50% | 50% | 50% |
| **Total** | **632** | **999** | **994** | **1,075** | **1,199** | **1,345** |
| | | *58%* | *-1%* | *8%* | *11%* | *12%* |

*Revenue Share of pulp and non- pulp products*
*Source: Company, Arihant Capital*

**Peer Review:**

The company has no direct listed peers, except for Jain Irrigation Systems Ltd which only derives 20-30% of its top line from agro processing and pulping- under the brand 'Jain Farm fresh'. The subsidiary- Jain Farm Fresh Foods Limited manufactures dehydrated onion and vegetable products, Aseptic fruit purees, concentrates, clarified juices, IQF, and Frozen products.

| FY24 (INR Mn) | Revenue | PBT | PAT | Assets | Liabilities | Reserves | Share Capital | PAT Margin | PBT Margin | ATR (x) | ROE |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Foods & Inns** | **10,201** | **646** | **367** | **10,272** | **6,287** | **3,929** | **57** | **3.60%** | **6.33%** | **0.99** | **9.21%** |
| Jain Farm Fresh Foods | 6,713 | 23 | 10 | 21,300 | 11,877 | 9,129 | 294 | 0.15% | 0.35% | 0.32 | 0.10% |

*Source: Company, Arihant Capital*

**Key persons:**

| Key Person | Deignation | About |
|---|---|---|
| Mr. Bhupendra Dalal | Chairman & Non-Executive, Non-Independent Director | He worked towards acquisition of fruit canning plan at Valsad built by Coca-Cola Corporation, causing F&I to change its course to become a major force in fruit processing. |
| Mr. Milan Dalal | Promoter and Managing Director | He has experience in entrepreneurship across Agricultural commodities processing, printing, retail, broking and real estate. |
| Mr. Moloy Saha | Chief Executive Officer | Cost Accountant and a seasoned Finance & Operations professional with experience across the Food & Beverages Sector since 2003. |
| Mr. Anand Krishnan | Chief Financial Officer | Chartered Accountant with experience across Corporate Finance, Accountancy, Management, Business Strategy, Treasury, Valuations, Acquisitions as well as IR. |

*Source: Company, Arihant Capital*

| Income statement (INR mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Net Sales** | 9,994 | 10,201 | 10,753 | 11,988 | 13,448 |
| *YoY (%)* | *58.09%* | *2.08%* | *5.41%* | *11.49%* | *12.17%* |
| **Adjusted COGS** | **7,008** | **7,113** | **7,062** | **7,794** | **8,673** |
| *YoY (%)* | *70.14%* | *1.49%* | *-0.71%* | *10.37%* | *11.27%* |
| **Personnel/ Employee benefit expenses** | 405 | 419 | 541 | 603 | 677 |
| *Manufacturing & Other Expenses* | 1,587 | 1,466 | 1,822 | 2,076 | 2,364 |
| **Total Expenditure** | **9,000** | **8,998** | **9,425** | **10,473** | **11,714** |
| *YoY (%)* | *103.04%* | *21.06%* | *10.33%* | *14.07%* | *14.45%* |
| **EBITDA** | **994** | **1,203** | **1,328** | **1,515** | **1,734** |
| *YoY (%)* | *103.04%* | *21.06%* | *10.33%* | *14.07%* | *14.45%* |
| ***EBITDA Margin (%)*** | 9.95% | 11.80% | 12.35% | 12.63% | 12.89% |
| Depreciation | 140 | 164 | 208 | 216 | 229 |
| % of Gross Block | 5.73% | 4.91% | 5.68% | 5.33% | 5.02% |
| **EBIT** | **854** | **1,039** | **1,120** | **1,298** | **1,505** |
| EBIT Margin (%) | 8.54% | 10.19% | 10.42% | 10.83% | 11.19% |
| Interest Expenses | 277 | 461 | 505 | 488 | 472 |
| Non-operating/ Other income | 21 | 67 | 127 | 145 | 167 |
| **PBT** | **646** | **644** | **742** | **956** | **1,201** |
| Tax-Total | 172 | 277 | 159 | 258 | 324 |
| **Profit After Tax** | **474** | **367** | **583** | **698** | **878** |
| PAT Margin | 4.74% | 3.60% | 5.42% | 5.82% | 6.53% |
| Shares o/s/ paid up equity sh capital | 51 | 57 | 73 | 73 | 73 |
| Adj EPS | 9 | 6 | 8 | 10 | 12 |

| Balance sheet (INR Mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Sources of Funds** | | | | | |
| Equity Share Capital | 51 | 57 | 73 | 73 | 73 |
| Reserves & Surplus/ Other Equity | 3,073 | 3,929 | 4,512 | 5,210 | 6,087 |
| **Networth** | **3,123** | **3,986** | **4,585** | **5,283** | **6,160** |
| Unsecured Loans/ Borrowings/ Lease Liabilities | 51 | 16 | 16 | 16 | 16 |
| Other Liabilities | 293 | 544 | 558 | 588 | 630 |
| **Total Liabilities** | **4,989** | **6,287** | **6,442** | **6,545** | **6,691** |
| **Total Funds Employed** | **8,112** | **10,272** | **11,026** | **11,828** | **12,852** |
| **Application of Funds** | | | | | |
| **Net Fixed Assets** | **2,347** | **2,852** | **2,926** | **3,077** | **3,320** |
| Investments/ Notes/ Fair value measurement | 292 | 307 | 352 | 409 | 479 |
| **Current assets** | **5,550** | **7,193** | **7,854** | **8,479** | **9,232** |
| Inventory | 3,328 | 3,843 | 3,363 | 3,248 | 3,097 |
| *Days* | *141* | *184* | *174* | *152* | *130* |
| Debtors | 1,504 | 1,754 | 1,718 | 1,789 | 1,868 |
| *Days* | *45* | *58* | *58* | *54* | *51* |
| Other Current Assets | 468 | 1,126 | 1,191 | 1,259 | 1,333 |
| Cash and Cash equivalent | 173 | 387 | 1,474 | 2,042 | 2,752 |
| **Current Liabilities/Provisions** | **4,398** | **5,343** | **5,584** | **5,778** | **6,005** |
| Creditors / Trade Payables | 1,244 | 941 | 1,151 | 1,284 | 1,440 |
| *Days* | *46* | *39* | *39* | *39* | *39* |
| Liabilities | 28 | 113 | 124 | 136 | 148 |
| **Net Current Assets** | **1,152** | **1,850** | **2,269** | **2,701** | **3,227** |
| **Total Asset** | **8,112** | **10,272** | **11,026** | **11,828** | **12,852** |
| **Total Capital Employed** | **6,960** | **8,422** | **8,757** | **9,127** | **9,625** |

| Cash Flow Statement (INR mn) | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Profit After tax** | **646** | **644** | **742** | **956** | **1,201** |
| Depreciation and amortisation | 140 | 164 | 208 | 216 | 229 |
| Interest adjustment | 255 | 394 | 379 | 343 | 305 |
| **Change in assets and liabilities** | 882 | 952 | 1,205 | 1,294 | 1,448 |
| Inventories | -1,234 | -515 | 480 | 115 | 150 |
| Trade receivables | -558 | -250 | 37 | -72 | -78 |
| Trade payables | -56 | -303 | 211 | 132 | 156 |
| Other Liabilities and provisions | 136 | 130 | 20 | 50 | 58 |
| Other Assets | 42 | -683 | -44 | -47 | -49 |
| Taxes | -60 | 187 | -7 | -19 | -17 |
| **Net cash from operating activities** | **263** | **574** | **1,902** | **1,454** | **1,668** |
| Net Sale/(Purchase) of assets, CWIP | -605 | -669 | -281 | -367 | -472 |
| Net Sale/(Purchase) of investments | -102 | -7 | -27 | -37 | -48 |
| Others | 11 | 60 | 109 | 125 | 145 |
| **Net cash from investing activities** | **-696** | **-616** | **-199** | **-279** | **-374** |
| Interest expense | 17 | -176 | -11 | -11 | -12 |
| Dividend paid | -13 | -27 | -37 | -37 | -37 |
| Other financing activities | 408 | 34 | -488 | -487 | -472 |
| **Net cash from financing activities** | **531** | **74** | **-615** | **-607** | **-584** |
| **Closing Balance** | **123** | **155** | **1,243** | **1,810** | **2,520** |

*Source: Company, Arihant Capital*

| Key Ratios | FY23 | FY24 | FY25E | FY26E | FY27E |
|---|---|---|---|---|---|
| **Solvency Ratios** | | | | | |
| Debt / Equity | 0.92 | 0.98 | 0.85 | 0.74 | 0.63 |
| Net Debt / Equity | 0.86 | 0.88 | 0.53 | 0.35 | 0.19 |
| Debt / EBITDA | 2.89 | 3.24 | 2.93 | 2.57 | 2.25 |
| Current Ratio | 2.72 | 2.91 | 1.82 | 1.22 | 0.66 |
| **DuPont Analysis** | | | | | |
| Sales/Assets | 1.23 | 0.99 | 0.98 | 1.01 | 1.05 |
| Assets/Equity | 2.60 | 2.58 | 2.41 | 2.24 | 2.09 |
| RoE | 15.18% | 9.21% | 12.71% | 13.21% | 14.25% |
| **Per share ratios** | | | | | |
| Reported EPS | 9.31 | 6.47 | 7.97 | 9.55 | 12.00 |
| Dividend per share | 0.25 | 0.47 | 0.50 | 0.50 | 0.50 |
| BV per share | 61.32 | 70.21 | 62.70 | 72.25 | 84.25 |
| Cash per Share | 31.94 | 33.63 | 40.48 | 49.23 | 60.01 |
| Revenue per Share | 196.20 | 179.71 | 147.06 | 163.95 | 183.91 |
| **Profitability ratios** | | | | | |
| Net Profit Margin (PAT/Net sales) | 4.74% | 3.60% | 5.42% | 5.82% | 6.53% |
| Gross Profit / Net Sales | 29.88% | 30.28% | 34.32% | 34.98% | 35.51% |
| EBITDA / Net Sales | 9.95% | 11.80% | 12.35% | 12.63% | 12.89% |
| EBIT / Net Sales | 8.54% | 10.19% | 10.42% | 10.83% | 11.19% |
| ROCE (%) | 8.51% | 13.06% | 11.80% | 12.02% | 13.08% |
| **Activity ratios** | | | | | |
| Inventory Days | 141.21 | 184.02 | 173.81 | 152.08 | 130.36 |
| Debtor Days | 44.74 | 58.29 | 58.31 | 54.48 | 50.69 |
| Creditor Days | 46.46 | 39.08 | 39.08 | 39.08 | 39.08 |
| **Leverage ratios** | | | | | |
| Interest coverage | 3.09 | 2.25 | 2.22 | 2.66 | 3.19 |
| Debt / Asset | 0.4 | 0.4 | 0.4 | 0.3 | 0.3 |
| **Valuation ratios** | | | | | |
| EV / EBITDA | 7.63 | 6.98 | 5.50 | 4.45 | 3.48 |
| PE (x) | 10.31 | 14.84 | 12.04 | 10.06 | 8.00 |
| OCF/EBITDA (%) | 26.42 | 47.65 | 143.23 | 96.00 | 96.24 |

*Source: Company, Arihant Capital*

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| Stock Rating Scale | Absolute Return |
|---|---|
| BUY | >20% |
| ACCUMULATE | 12% to 20% |
| HOLD | 5% to 12% |
| NEUTRAL | -5% to 5% |
| REDUCE | -5% to -12% |
| SELL | <-12% |

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