

Maharaja Foods Limited

Initial Public Offering

Report date: 28.06.2024

Size of the offer	LKR 125 Mn
No. of shares to be issued	25,000,000
Price per share	LKR 5.00
Stake on offer	20% on post IPO shareholding
Objectives of the offer	<ul style="list-style-type: none"> • Setting up of a Raw Rice Plant (LKR 26.5 Mn) and a Rice Polishing Plant (17.5 Mn) • Payment for machinery purchased for Gingelly Oil Plant (LKR 6 Mn) • Working Capital Requirements (LKR 30 Mn) • Expansion of the Building to Increase Warehouse Capacity (LKR 25 Mn) • Partial Settlement of Borrowings (LKR 20 Mn)
Issue opening date	04 th July 2024
Board to be listed	Empower Board
Auditors to the offer	Tudor V. Perera & Co., Chartered Accountants

Company Overview

Maharaja Foods Limited began its journey as Vijeya Enterprises, a family-owned business founded in 1989 by the visionary entrepreneur Mr. Sivasaraman Guganathan.

MFL's product portfolio includes rice and rice-based products, flour and flour-based products, spices, and various other items. Over 40% of the revenue comes from rice and rice-based products, while more than 49% is generated from other products. The products and raw materials are sourced locally as well as imported when required. Manufacturing is carried out at the common processing plant in Wattala. MFL now primarily serves consumers in France, the United Kingdom, the European Region, Australia, and Singapore. In France and the UK, MFL's products cater to the culinary preferences of Indian and Sri Lankan expatriates through local distributors. In Australia, MFL targets the Asian expatriate community with a diverse range of ethnic food offerings, ensuring their products are readily accessible to end consumers.

In the financial year 2024, the group achieved a revenue of LKR 497 million, marking a 25% growth compared to the previous year. The company exported products worth LKR 317 million, representing 64% of the total revenue. Additionally, the company recorded a net profit of LKR 31 million, with a net profit margin of 6%, reflecting a year-over-year increase in net income of 61%.

Looking back at its history, in 1995, the company made its first export shipment of Sri Lankan rice to regions with significant Asian expatriate populations, addressing the demand for ethnic foods. In 2012, Maharaja Foods (Private) Limited (MFL) was established under the leadership of Mr. Guganathan and his family. Following Mr. Guganathan's passing in 2016, his spouse, Mrs. Thavamalar Guganathan, assumed leadership, transforming MFL into a women-owned enterprise. On March 6, 2024, the company transitioned to a limited liability company.

Initially serving both local and international markets, Maharaja Foods Limited made a strategic decision in 2022 to focus exclusively on exports. Consequently, local distribution responsibilities were transferred to its wholly owned subsidiary, Maharaja Marketing (Pvt) Limited, which was incorporated the same year.

Investment Highlights

Export revenue is 64% of total revenue

Prior to FY 23/24, the company primarily generated revenue from sales to local customers. However, in FY 2024, there has been a significant shift in focus towards exports. Consequently, exports now account for 64% of the company's total revenue, a notable increase from 40% in FY 2023.

Major export destinations are European Union, UK, Australia and Singapore

MFL specializes in exporting ethnic food products to several countries including those in the European Union, UK, Australia, and Singapore. The company strategically targets the South Asian Diaspora community, particularly Sri Lankans and Indians. This strategy involves forming partnerships with distributors who help distribute MFL's products across Europe and Australia. This approach allows MFL to effectively engage its target audience and tap into the diverse consumer base in these regions. By leveraging these distribution channels, MFL aims to expand its market footprint, strengthen its ties with the South Asian Diaspora, enhance brand visibility, and capitalize on growth opportunities.

Growth plans

- The company plans to establish a new raw rice plant and a rice polishing plant. The estimated costs are LKR 26.5 million for the raw rice plant and LKR 17.5 million for the rice polishing plant. The rice polishing plant will process fine polished rice and is equipped with machinery capable of handling 1,000 kg per hour. It includes components like a rice de-stoner, rice whitener, and rice grader, suitable for processing various types of rice. There is a strong demand for polished rice in markets such as Singapore, Dubai, and Europe.
- MFL has successfully ordered and received the necessary machinery for its upcoming Gingelly Oil product line. The plant will be capable of processing 20 kg per hour using a semi-automated machine that includes an oil extractor, filters, bottle filling machine, and oil storage tank. Gingelly oil, which serves as an alternative to coconut or other cooking oils, is in demand both locally and in overseas markets where there are communities of Asian, Sri Lankan, and Indian expatriates. Establishing this plant will allow MFL to produce Gingelly oil internally, replacing the current practice of purchasing from external suppliers.
- As part of its strategy to internally manufacture rice and gingelly oils, the Company has recognized the necessity for additional storage space for raw materials and finished goods within its current premises. Consequently, an expansion of the buildings is planned, coinciding with the installation of the raw rice processing plant and gingelly oil plant. MFL has earmarked LKR 25 million to establish necessary warehouse facilities at the processing plant in Mabola, Wattala, which will encompass an approximate floor area of 2,500 square feet.

Investment Risks

- Food manufacturing and exporting companies are significantly influenced by laws and regulations, which cover food safety, quality, export regulations, sanitary and phytosanitary measures, labeling mandates, environmental responsibilities, labor laws, and traceability systems.
- Supply chains with multiple suppliers and logistics channels are vulnerable to disruptions like natural disasters, transportation issues, or geopolitical tensions, leading to delays, shortages, and increased costs.

- Exporting food products involves navigating through trade barriers, tariffs, and import regulations imposed by foreign governments. Changes in trade policies or geopolitical tensions can impact market access and profitability.
- Currency exchange rate fluctuations can impact the competitiveness of food products based on imported raw materials and profit margins, adding financial risk for food exporters. However, as MFL relies on local raw material supplies, this risk is modest.

Industry Overview

In 2024, the global food market is expected to achieve a revenue of US\$10.07 trillion, with an anticipated annual growth rate of 6.53% between 2024 and 2028. The volume of the food market is forecasted to reach 3,118 billion kilograms by 2028, with a growth rate of 3.9% anticipated in 2025. On average, each person is expected to contribute 352.30 kilograms to the food market in 2024.

MFL specializes in exporting "ethnic food" products to selected countries within the European Union, the UK, Australia, and Singapore. The ethnic foods market is poised for substantial growth, with an estimated value of USD 45.46 billion in 2024, projected to reach USD 67.81 billion by 2029, reflecting a robust compound annual growth rate (CAGR) of 8.33% during the forecast period (2024-2029).

Currently, MFL services prominent clients in France, the United Kingdom, Australia, and Singapore through a distribution channel focused on online marketing. The company places particular emphasis on establishing a significant presence in Europe, where the majority of its clients operate.

Strategically targeting the South Asian diaspora community, MFL focuses on Sri Lankans and Indians by leveraging partnerships with clients who distribute MFL's products across Europe and Australia.

Valuation

Valuation Breakdown

DCF Valuation

Equity Value (LKR)	613,638,159
No. of Shares Post IPO	125,000,000
Value per Share (LKR)	4.91

Offer price is at a premium of 1.8% to the estimated DCF value

PE Based Valuation

MFL Consolidated Earnings (FY 24/25)	59,798,768
CSE listed selected peer's PER (with a 30% discount)	11.98
Equity Value	716,389,201
No. of Shares Post IPO	125,000,000
Equity Value per Share	5.73

Offer price is at a discount of 14.6% to the estimated PE value

Company	TTM EPS	NAVPS	Price per Share	PE	PBV
Maharaja Foods Limited	0.31	0.94	5.00	16.13	5.32
Peers					
Cargills (Ceylon) PLC	22.85	125.86	376.25	16.47	2.99
Convenience Foods Lanka PLC	88.80	969.49	873.25	9.83	0.90
Harischandra Mills PLC	118.10	907.22	4,400.00	37.26	4.85

Financial Summary

LKR Mn	FY 2020	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025E	FY 2026E	FY 2027E	FY 2028E	FY 2029E
Revenue	55.48	93.15	158.39	397.15	497.00	693.01	874.85	1,012.28	1,122.84	1,243.97
Gross Profit	10.81	20.81	20.32	51.00	77.30	130.66	167.69	199.73	226.30	261.70
Operating Profit	1.75	4.44	14.24	32.23	51.22	95.88	127.94	156.01	178.24	209.50
Profit Before Tax	(9.56)	(3.57)	3.05	20.28	36.61	85.76	124.34	155.31	178.05	209.30
Net Profit	(9.56)	(3.57)	3.05	19.26	31.07	59.80	88.04	111.95	128.12	152.18
Non Current Assets	75.34	69.47	83.79	100.02	111.75	174.56	170.38	175.70	170.03	160.85
Current Assets	14.05	21.84	72.48	98.66	194.42	265.67	351.21	470.98	623.64	805.39
Total Assets	89.40	91.30	156.27	198.68	306.18	440.23	521.59	646.68	793.66	966.23
Equity attributable to Owners of the Company	(12.30)	(15.87)	29.40	61.65	93.54	278.34	366.38	478.32	606.45	758.63
Non Current Liabilities	3.30	59.14	46.84	22.21	16.20	14.80	4.73	3.30	3.96	4.62
Current Liabilities	98.40	48.03	80.03	114.00	196.43	147.09	150.48	165.06	183.25	202.98
Total Liabilities	101.70	107.17	126.87	136.21	212.64	161.89	155.21	168.36	187.21	207.60
Ratios										
Gross Profit Margin	19%	22%	13%	13%	16%	19%	19%	20%	20%	21%
Net Profit Margin	-17%	-4%	2%	5%	6%	9%	10%	11%	11%	12%
ROE	NA	NA	10%	31%	33%	21%	24%	23%	21%	20%
Debt to Equity Ratio	(8.28)	(6.39)	3.56	1.20	1.49	0.16	0.02	-	-	-

Source: Company Prospectus

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