

# 100 Bagger Stock Idea



Date : 23<sup>rd</sup> Aug 2019

# Stock idea for huge wealth creation

- **Total Weightage % in portfolio = 6%**
- **Best buying range = Buy around 6% between 190-200 range.**
- **Price target = Rs 4000 by 2024 (20 times in next 5 years!)**

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Manorama Group founder Mr. Jankilal Gangaram Agarwal (Saraf) with Mr. Michele Ferrero of the Ferrero Group

*"Gold lies in the streets of India" published in Dutch Newspaper, 1974*



The Manorama Group traces its origins to the mid-1940s, when its founder Jankilal Gangaram Agarwal (Saraf), used to extract fats/butter from seeds at home.

# Snapshot

**Market Cap:** INR 216 Cr.

**Bloomberg Code:** MANORAMA:IN

**Industry:** Food Processing

**Promoter's Ownership:** 61.3%

**Shares outstanding:** 1,11,27,910

**Reuters Code:** MNOR.BO

**BSE :** 541974

Particulars	FY18	FY17	FY16
Sales (INR Cr.)	219.35	145.48	131.04
Operating Margins (%) (Exc. OI)	8.38	2.52	3.39
PAT Margins (%)	4.49	0.94	0.82
Cash flow from operations (INR Cr.)	-11.28	10.66	1.31
RoE (%)	51.36	10.05	9.56
RoCE (%)	62.30	17.57	21.89
LT Debt (INR Cr.)	0.09	-	0.09
Cash and cash equivalents (INR Cr.)	19.12	15.74	10.18

# Synopsis (1/2)

**Business:** Manorama Industries Limited (MIL) is a pioneer and one of the largest Indian manufacturer of Sal/Mango based specialty fats, which is used to manufacture Cocoa Butter Equivalents (CBE), which in turn is used as an important ingredient in chocolate and cosmetic industry.

The investment thesis in MIL consists of the following parts:

- In 2017, Food Safety and Standards Authority of India (FSSAI) approved the use of up to 5% CBEs in chocolates along the lines of the European regulations w.e.f January 1<sup>st</sup> 2018, which opened up an entirely new market for tailor made CBEs in India. The company has been over the past 4 decades manufacturing and supplying speciality fats and other ingredients of CBEs to global chocolate and cosmetics MNCs. The company went public in September 2018 and is currently undertaking a massive capacity expansion which will make it the largest integrated CBE manufacturer in the country. I believe that the company can leverage its legacy relationships and ongoing capex. to be a dominant player in this niche and new market.
- Owing to increasing manufacturing costs and irregular supply of cocoa butter, global chocolate and cosmetics manufactures have shifted their focus to cheaper and natural substitutes.
- Till FY18, the company had two business segments: manufacturing of speciality fats and trading of agro-based products. Since the trading segment has not yielded any significant results, the management has decided to discontinue the operations and focus on manufacturing. As of FY19, the company has started to manufacture CBEs in small quantities.

# Synopsis (2/2)

**Management:** Incorporated in 2005, Manorama Group was started by late Jankilal Gangaram Agarwal. The management has been in business with global chocolate and cosmetics MNCs over the past 4 decades. In FY18 management decided to exit the legacy business of trading agro-based products and focus on the core business of CBEs manufacturing.

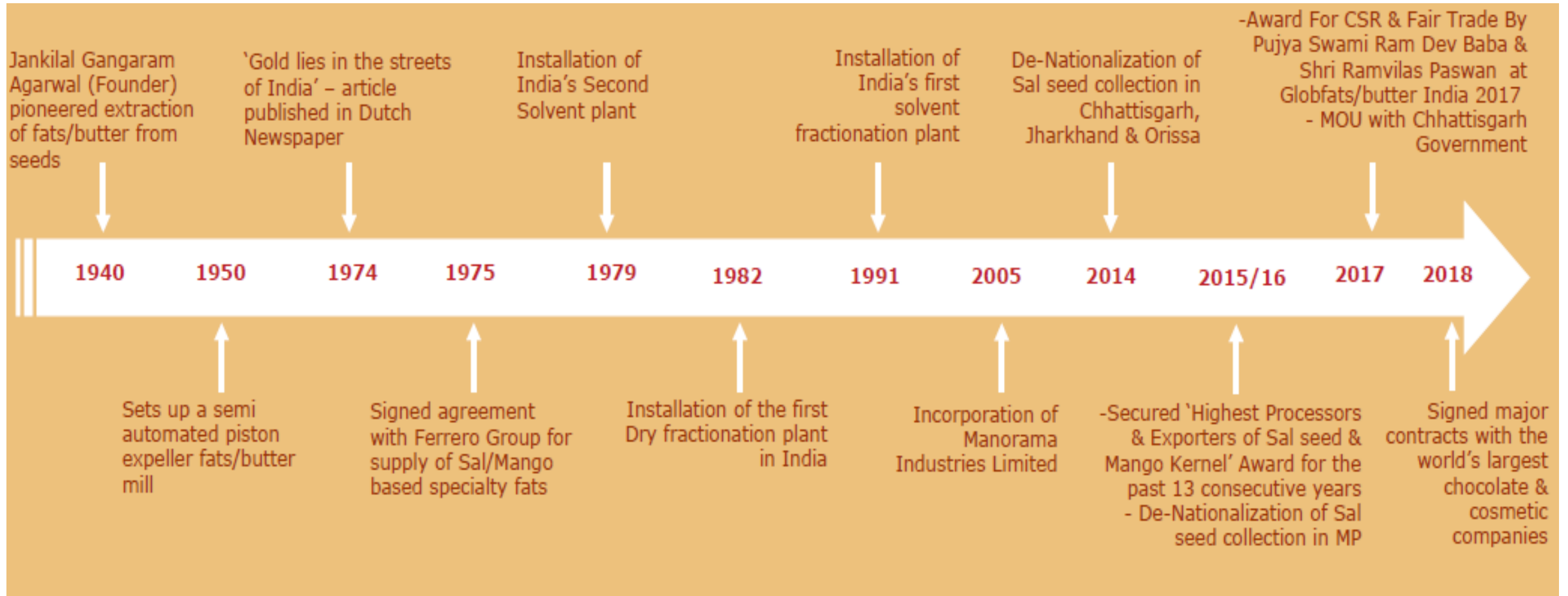
Under the current leadership the company has been recognised as a “Star Exporter House” by the Government of India. The company has so far received awards for “Unique Highest Processors” and “Unique Highest Excellence In Exports of Vegetable Butters From India,” for 16 consecutive years, which is unique.

**Valuation:** At INR 193 (as on 23<sup>rd</sup> Aug 2019) a share, the market capitalization works out to be INR 200 Cr. It is trading at a P/E of 20.75. The new regulatory changes by FSSAI has opened up a new and niche market in the country. Being one of the top 10 producers of CBEs in the world, current valuations do not capture the quality of the core business where earnings growth can be rapid.

**Risks and concerns:** Working capital intensive nature of business, Negative regulations, discretionary spending and commoditization risk.

# Key Milestones

## Pioneer and Early Mover



Over 4 decades of business and relationships with global MNCs

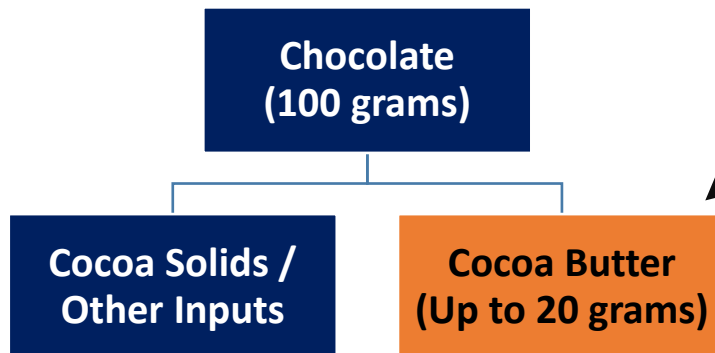
# Cocoa Butter Equivalents (CBE)

Cocoa Butter (CB) is an important constituent of chocolate formulation. It enjoys a very high status in the chocolate & cosmetics industry due to its property of remaining hard, mouldable and brittle at room temperature and completely melting at mouth temperature.

However, CB has its own disadvantages:

- Low milk-fat tolerance
- Lack of stability at elevated temperatures
- Tendency to bloom

The increasing cost and fluctuations in supply of cocoa butter has led many companies to look for alternatives. Alternatives fall into three categories – cocoa butter substitutes (CBSs), cocoa butter replacers (CBRs) and cocoa butter equivalents (CBEs).



- Cocoa butter by volume is 20% but by value is 80%
- If 5% of Cocoa Butter is replaced by a cheaper equivalent, the raw material costs will reduce by ~6-8% -This will be a massive cost saving for the chocolate giants.
- CBE costs 50% lower than Cocoa Butter



# CBE is better of all the alternatives

	CBE	CBS	CBR
<b>Origin</b>	Illipe butter Palm oil Sal fat Shea butter Kokkum butter Mango kernel fat	Palm oil Soyabean oil Rapeseed oil Cottonseed oil	Palm kernel oil Coconut oil
<b>Tag Composition</b>	Similar to CB	Different from CB	Different from CB
<b>Compatibility to CB</b>	Compatible	Compatible in small ratios	Incompatible
<b>Application</b>	5% replacement on total product	Compound	Compound
<b>Mixing properties</b>	Mixable with it in every amount without altering the properties of cocoa butter	Can be mixed only in small ratios	

**Usage of CBEs will improve texture and shelf life of chocolate without compromising quality.**

# Sources of CBEs

Types of seeds	Description	Geographical Availability
Sal Seeds	<ul style="list-style-type: none"> <li>▪ Cheaper than Shea</li> <li>▪ Available in abundance</li> </ul>	Central India
Shea nuts	<ul style="list-style-type: none"> <li>▪ Provides a high yield of fats / butter</li> <li>▪ Facing a major supply constraint</li> </ul>	East and west Africa
Mango kernel	<ul style="list-style-type: none"> <li>▪ Costlier than Sal</li> </ul>	Central India
Kokum	<ul style="list-style-type: none"> <li>▪ Costlier than Shea and Sal</li> <li>▪ Limited availability</li> </ul>	Konkan (South India)
Mowrah	<ul style="list-style-type: none"> <li>▪ Contains 50% of valuable fats/butter/butter used for CBE</li> <li>▪ Palm fats/butter replacer</li> </ul>	Central India
Phulwara	<ul style="list-style-type: none"> <li>▪ Contains 60% of valuable fats/butter/butter used for CBE</li> <li>▪ Palm fats/butter replacer</li> </ul>	North India and Nepal

# Products

Raw Material	Products	Description
Sal Seeds	Sal Stearine	Harder than cocoa butter and is a Cocoa Butter Equivalent when blended with palm mid fraction.
	Sal Olein	Is effective as an emollient and finds use in skin care products. Additionally, it has zero transfat and is being used as an healthy substitute in ice-cream, bakery items and also in hydrogenated Vanaspati.
	Sal Butter	The butter is extracted in a solvent extraction plant with hexane. The seed possess a butter content of 13-14%. High in stearic, oleic acids and fatty acids, which finds utility in lotions, creams and butter blends.
Mango Kernel	Mango Stearine	Obtained by solvent fractionation or dry fractionation of mango butter. The mango stearine is mainly exported globally.
	Mango Olein	Finds application in the cosmetic market all over the world including domestic market. Used in formulation of cosmetics which aid in moisturizing, healing dry and cracked skin and facilitate skin cell renewal.
	Mango Butter	It's fatty acid content helps maintain soft and supple skin.
Kokum/Dhupa Seeds	Dhupa Fat	Refined fat is suitable for edible purposes and used as a component in CBE formulation.
Shea Nuts	Shea Butter	Is widely used in cosmetics as a moisturizer or lotion. Shea butter is edible and is used in food preparation. Shea butter is mixed with other butters as an equivalent for cocoa butter.

# Products & End Usage



Sal seeds based Fats & butter



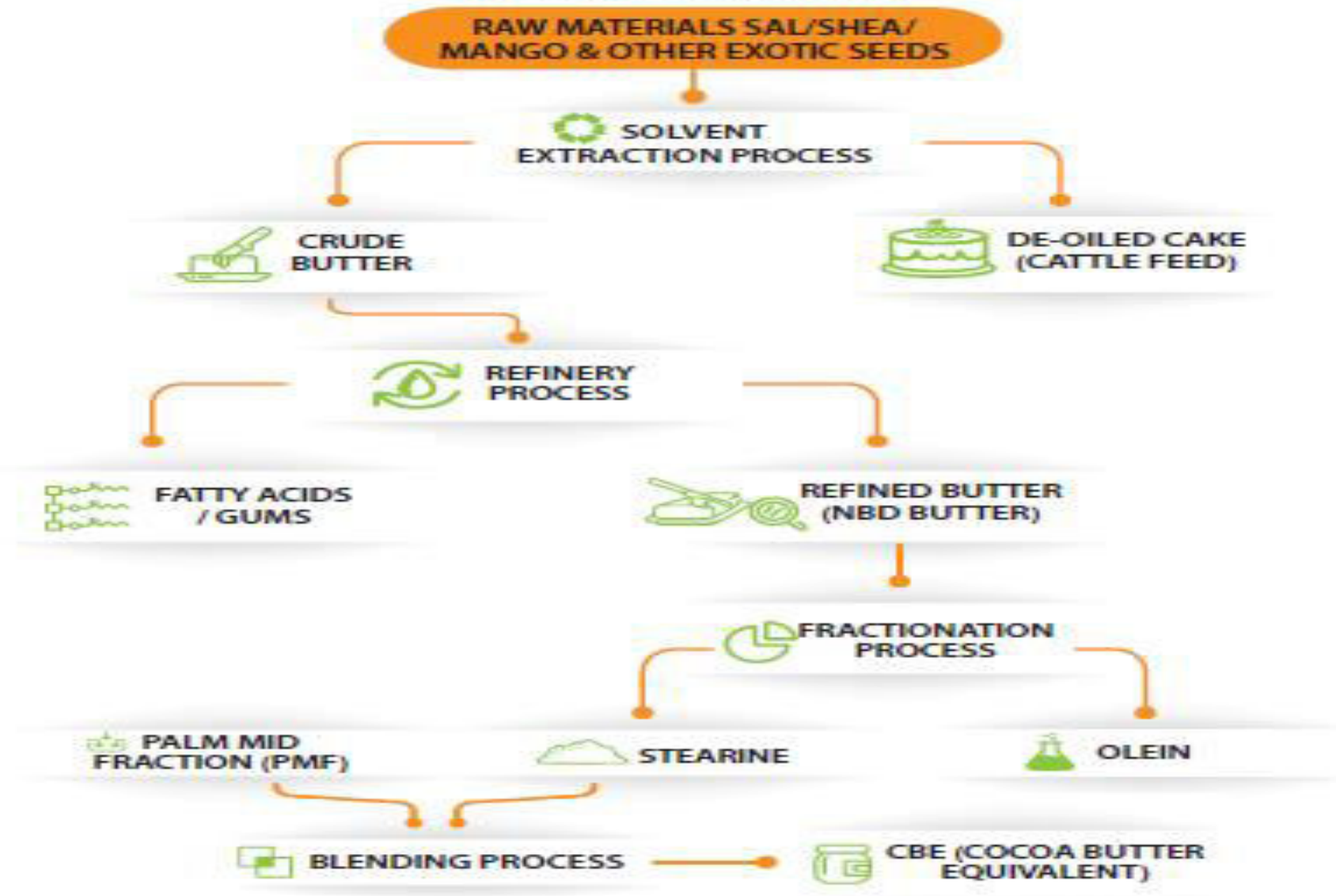
Mango kernel based Fats & butter



Kokum seeds based Fats & butter



# Manufacturing Process



# Manufacturing Capacity

**Current manufacturing capacity –  
4,500 MT p.a of butters and fats**



**After capacity expansion –  
15,000 MT p.a.**

Facility	Capacity P.A.	Status
Refinery	15000 MT	Production commenced
Fractionation	15000 MT	Expected to commence by Nov-19
Interstification	15000 MT	Production commenced
Blending Station	30000 MT	Expected to commence by Nov-19
Seed Milling	60000 MT	Expected to commence by Dec-19
Solvent Extraction Plant	90000 MT	Proposed in second phase by F.Y. 2020-21

# New Integrated Facility

- The company is currently expanding its production capacity by setting up a fully integrated plant at Birkori, near Raipur (Chattisgarh).
- Total capital outlay is INR 80 Cr.
- All processes including Crushing, Extraction, Refining, Fractionation & Interstification will take place in one facility.
- Currently, the company follows a process of dry fractionation which is manual in nature resulting in being labor intensive and time consuming. The company is planning to change to a solvent (wet) fractionation process which would result in 90% efficiency as compared to 60% by dry fractionation.

Particulars	Amount (INR Cr.)
Initial Public Offering	56
Internal Accruals	24
<b>Total</b>	<b>80</b>

**Dry fractionation** – Solids and liquids are separated using a press or a filter. This is a simple and low cost process.

**Solvent (wet) fractionation** – A solvent is used to dissolve one of the components and remove it before recovering it for use. This method ensures no residual fraction is left in the compounds.

# Sal Sourcing Advantage

Indian sub-continent has the largest Sal forest in the world

## Sal Potential

Estimated Sal seed production per annum  
10 lakh MT

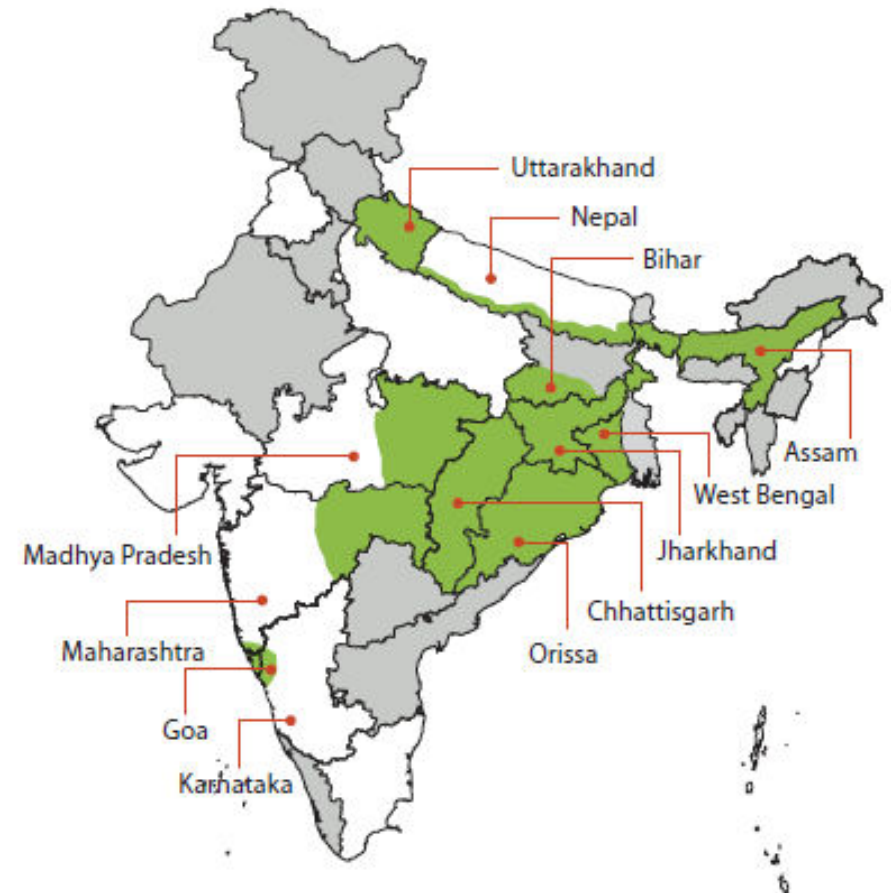
Estimated Current Utilization  
1.5 lakh MT

Estimated Available Potential  
8.5 lakh MT

- ~10% of the Sal seeds potential is currently being utilized
- Majority of Sal seeds i.e. nearly 8.5 lakh MT-which are not sold are just not picked from the forest and are wasted currently.
- Sal seeds are available in abundance

Source: Investor Presentation

Manorama Industries is based in the heart of the Sal forests





# Direct Supply Chain Network

Sourcing advantage due to strong relationships with tribal people across four Indian states over the last four decades

Supply chain includes communities of more than 7.8 million tribal people.

~18000 collection centres



An interesting read - [https://ngobox.org/nb/full-news/From-forest-to-premium-brands,-a-tribal-story-unfolds-Manorama-Industries\\_22390](https://ngobox.org/nb/full-news/From-forest-to-premium-brands,-a-tribal-story-unfolds-Manorama-Industries_22390)

# Clientele

- Well established relationships with chocolate MNCs built over four decades on account of supply of quality Sal based specialty fats.
- These products are tailor made to meet their stringent requirements creating a unique entry barrier for new entrants.

FERRERO

ADEKA

Mondelēz  
International



MITSUI & CO.

FUJI OIL



WALTER RAU

OLVEA  
Vegetable Oils



UNIGRA

L'ORÉAL®

ACTIVON



JEDWARDS  
INTERNATIONAL, INC.



The company has a supply agreement for the supply of mango butter

NATURA  
SANTÉ.fr

HALLSTAR

STÉARINERIE DUBOIS

KERFOOT  
Avril GROUP

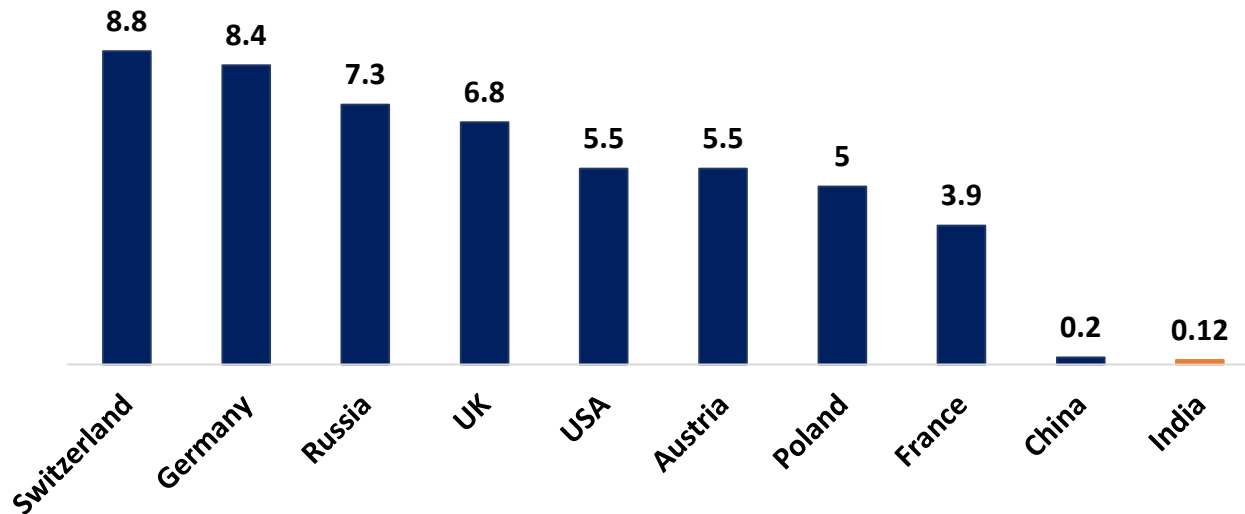
# Opening up of Indian CBE market (1/2)

- In 2017, FSSAI approved the use of up to 5% CBEs in chocolates along the lines of the European legislation w.e.f from January 1<sup>st</sup> 2018. MIL is the highest beneficiary of this deregulation & is one of the leading player uniquely positioned to source the required quantities of Sal seeds & other Indian exotic fats through its well entrenched network to cater.
- Indian consumption of CBEs is projected to go up to ~20,000 tons by 2022.
- Such CBE to be used in chocolate manufacturing in India has to be produced out of Indian tree borne seeds such as Sal, Mango, Kokum, Mahua, Phulwara and Dhupa.
- Shea nuts accounts for major source of speciality fats overall world for producing CBE, but are not allowed in India and barred with heavy import duty.
- Any new player coming into the market has to go through at least three - four year waiting period for obtaining all customer and regulatory approvals to supply the material.
- The Indian chocolate market is projected to grow by 30% by 2020 and is set to become one of the four countries to have the highest chocolate market growth. Growing awareness among Indian consumers about the links between diet and health and emotional reasons have led India to be the fastest growing chocolate market in the world.

# Opening up of Indian CBE market (2/2)

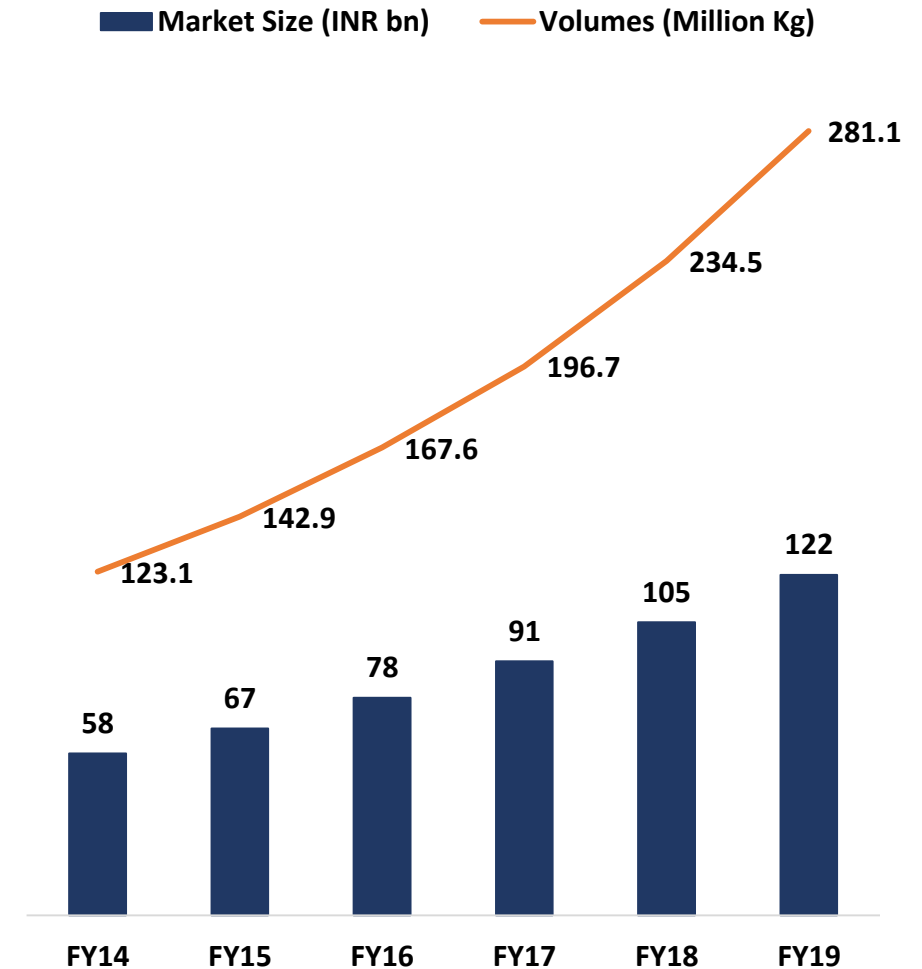
- Indian cosmetic industry is projected to grow by a CAGR of 25% and is expected to constitute 5% of the total global cosmetics market and become one of the top 5 global markets by revenue.
- Rise of e-commerce and mini-sized beauty products are contributing to double-digit growth for both international and home-grown brands.

Per capita consumption of chocolate in 2015 (kg)



Source: Prospectus

Indian Chocolate Market



# Global shift to natural ingredients (1/3)

- According to Research and Markets, "The Europe confectionery market is expected to reach USD 83 billion by 2023, witnessing a stable CAGR of 3 %, during the forecast period. Western Europe dominates the chocolate sale followed by central and Eastern Europe. Increased demand for higher quality cocoa products and premium chocolate accelerated confectionery sale in Europe.
- The EU is one of the most important CBE markets, with an annual consumption of 60,000 tons. Demand has increased in recent years along with trends in chocolate production. Under directive 2000/36/EC vegetable fats other than cocoa butter are permitted up to 5% by weight in chocolate, milk chocolate, family mil chocolate, white chocolate, chocolate and chocolate equivalent.
- The U.S. chocolate market is expected exceed \$20 billion by 2025, according to research by United Kingdom-based firm IndexBox. The North American (US, Canada, Mexico) chocolate market is anticipated to increase 4.7 percent by 2025, with growing demand for confectionery, particularly around seasons, and other products categories leveraging chocolate, according to Grand View Research, Inc. Rising demand for organic and high-cocoa content products are also expected to boost chocolate sales.
- Demand in North America region is estimated around 8,000 tons as CBE's are not currently permitted for chocolate use in USA. Demand is limited to filling fats and super coatings. A change in legislation would potentially increase CBE demand. The potential CBE market size in the USA is 40,000 tons.

# Global shift to natural ingredients (2/3)

- According to Euromonitor International, a lot of the growth will come from regions such as Asia, Brazil and the Middle East. In Japan, the perceived health benefits of cocoa among Japanese consumers continues to drive the domestic chocolate market. The growing dark chocolate consumption by elderly Japanese consumers reflects the country's aging population.
- Chocolate consumption is on the rise in the Middle East. According to 6Wresearch research, the market is projected to grow at a CAGR of 4.8% in revenue terms during 2017-2023. Global sales of Halal-certified chocolate confectionery will reach \$1.7 billion by 2020, growing at a 5 percent annual rate that exceeds the 4 percent gains expected for all chocolates, according to Euromonitor International.
- East Asia accounts for an estimated consumption of 28,000 tons in 2013. Both chocolate consumption and production growth are dominated by Japan. The main reason for relatively larger size in Japan is that the Japanese standards for chocolate define the level of cocoa solids (35% or over, including at least 15% cocoa butter) but they do not define level of other ingredients, such as sugar and vegetable fat, this means that if the total fat content of chocolate is 30%, up to 12% may contain CBEs. In case of milk chocolate at 30% fat, this allows for 9% CBEs.
- The South American CBE market is estimated to be 38,000 tons. Demand grew rapidly in the early 2000s as regulations changed and chocolate consumption grew strongly with rising GDP.

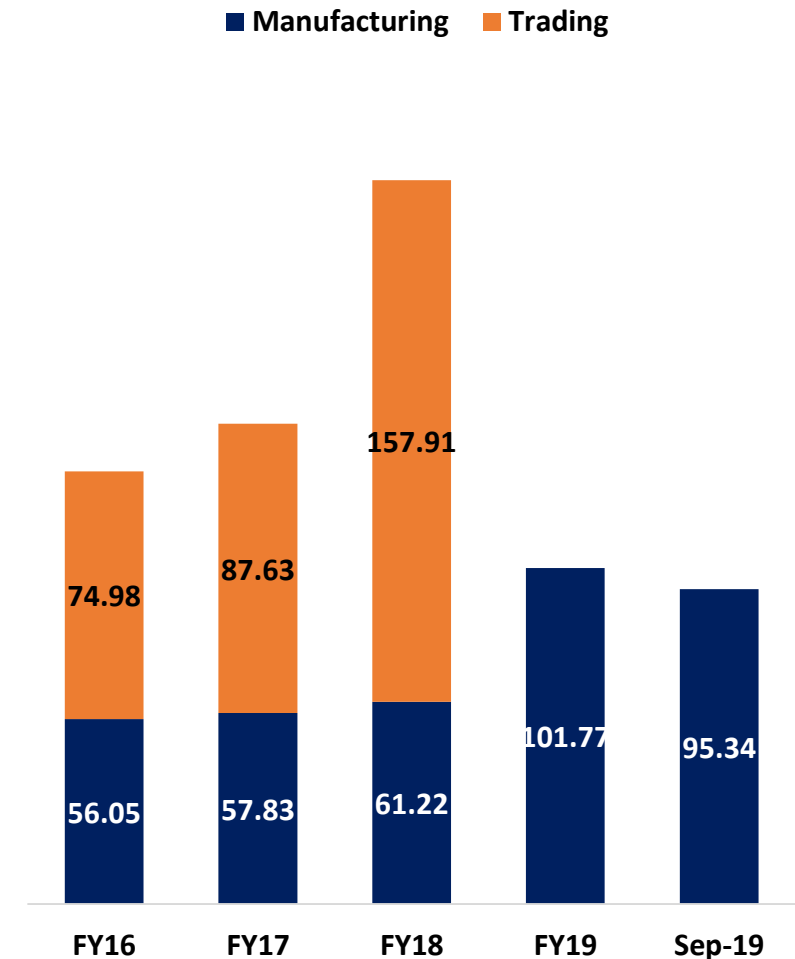
# Global shift to natural ingredients (3/3)

- The global cosmetic industry has been on a steady rise over the past couple of years with a growing preference towards the use of products containing all-natural ingredients. The rising number of beauty conscious consumers, with the increase in per capita income and changing lifestyle are some of the critical factors driving the demand for such cosmetic products.
- Over the years with rising awareness about the benefits associated with the use of products with natural ingredients, producers are identifying and sourcing ingredients such as mango butters for the processing of final products. Mango Butter is extracted from mangoes which is being cultivated in large scale in India, China, Brazil and Mexico. Mango butter is typically produced from the seed kernel of the mango tree.
- North America and Europe have been considered as the most dominant markets for global natural and organics market since there is large number of customer base in these regions. In the global natural and organic cosmetic market, both North America and Europe accounts to more than 80% value share which can be expected to present a significant revenue potential for the mango butter market.
- However, products made from all-natural ingredients tend to have a shorter shelf life. Specialty fats made from Sal and Shea improve shelf life and functionality of the products thus finding increasing demand in the natural cosmetic market.

# Shift In Focus

- Up until FY 2018, the company had two business segments: manufacturing speciality fats and trading agro-based products. Trading segment contributed to 72.3% and 60.2% of total revenue from operations in FY18 and FY17 respectively.
- Since the trading segment has not yielded any significant results, the management has decided to discontinue the operations and focus on manufacturing.
- The company has largely been focussed on manufacturing of Stearine, an intermediate product, which need to be mixed with Palm Mid-Fraction to obtain CBE. However, recently the company started manufacturing complete CBEs.
- The company has also decided to diversify their raw material requirement to Shea seeds to the tune of 20-25% which shall be imported.
- As of July 2019, the company had an order book of INR 389 Cr. which are to be executed over a period of the next 12 months.

## Revenue Mix (INR Cr.)





# Is the industry structurally attractive (1/2)

**Barriers to Entry: High.** The company operates in an industry where products have to be tailor made as per the customer's requirements. Being in the industry for over four decades and having built relationships with global MNCs, the company could leverage this relationships in the future. Any new player coming into the market has to go through at least three - four year waiting period for obtaining all customer and regulatory approvals to supply the material.

**Power of Suppliers: Low.** The company's procurement system has been established over a period of many years. They have been servicing tribal communities on time and over the years have built goodwill in the community. However, the company does not have any formal agreement with the tribal community for raw material supply.

**Power of Buyers: Low to Medium.** The consumers of CBEs are global chocolate and cosmetics MNCs and have some bargaining power. These MNCs have stringent quality requirements and if breached would lead to loss of business.

**Threat of Substitution: Low.** Substitution is a major positive force helping drive industry growth as consumers are trying to replace cocoa butter with cheaper and natural ingredients. CBEs are the most compatible of all the cocoa butter alternatives currently in the market. They can be mixed with chocolates without altering the properties of cocoa butter.

**Regulation: Positive.** Regulation is positive for the industry as globally various countries have been changing their regulations to enable the usage of CBEs in chocolates and cosmetics. The opening up of Indian CBE market is a clear example on how regulatory changes can create an entirely new market for the company.

# Is the industry structurally attractive (2/2)

**Competitive Intensity: Medium.** Globally, CBE is made from Shea nuts which are available mainly in Western Africa. Sal seeds which are found in abundance in India are also used for the manufacturing of CBE. MIL is the only Indian capable of manufacturing CBE from Sal seeds given its procurement advantage. Further, the Indian regulations also permit manufacture of CBE only from Indian exotic fats which provides an entry barrier for other global and domestic players.

- AAK Kamani Private Limited is one of the leading manufacturers of specialty oils and fat products in India. They majorly use Shea nuts as raw material to manufacture CBE.
- 3F Industries has been in the exotic fats business since 1975. 3F sources its Shea nuts from farm gate in Western African countries of Benin, Ghana, Burkina Faso, Ivory Coast, Mali and Nigeria.
- Wilmar International Ltd is Asia's largest agribusiness group. Its business activities include oil palm cultivation, oilseed crushing, edible oils refining, sugar milling and refining, manufacturing of consumer products, specialty fats, oleo chemicals, biodiesel and fertilizers as well as flour and rice milling.

Other prominent global players are Bunge, Lodders, Cargill, Musim Mas, Olam International, Mewah Group (only produces CBSs and CBRs) and Felda Iffco. Most of these companies have palm plantations and manufacture CBEs using palm oil.

# Competitive Advantage Assessment

**Sustainable Competitive Advantage: Medium (Global) to High (Domestic) Sustainable Competitive Advantage.**

- The company's domestic competitive advantage stems from two main factors: Indian regulation to use only domestic exotic fats to manufacture CBEs and the exclusive supply chain network with the tribal communities. Any new player getting into the market would find it difficult to source its raw materials. With global chocolate and cosmetic MNCs shifting their base to India, the company's domestic share of revenue is expected to increase.
- Since quality and experience are important attributes in this industry, MIL stands out as a key player for global MNCs to partner with, given its over 4 decades of experience and legacy relationships.
- I believe the current ongoing and upcoming capacity expansion will enable the company to carve out a significant market share even in the face of increasing competition on a global front.
- At a current capacity of 4,500 MT p.a., the company is doing a turnover of close to INR 100 Cr. Given the growing demand for CBEs in the country and worldwide, a full utilization of the new facility will enable the company to clock a turnover close to INR 500 Cr.

# Balance Sheet

- MIL has an equity of INR 11.12 Cr.
- Net worth as on March 31<sup>st</sup>, 2019 stood at INR 103.92 Cr.
- The company's working capital requirement is generally high in May – July during which major raw materials are procured.
- Inventory days are high at 97 and have been increasing over the past 3 years in order to cater to the new found domestic demand.
- Trade receivables have jumped from INR 1.6 Cr. to INR 13.9 Cr., which I believe is due to the newly found domestic demand for CBE.
- The long-term debt is negligible at INR 0.51 Cr.
- As on March 31<sup>st</sup>, 2019, short-term debt sits at INR 23.5 Cr. and cash and cash equivalents sits at INR 49.53 Cr.

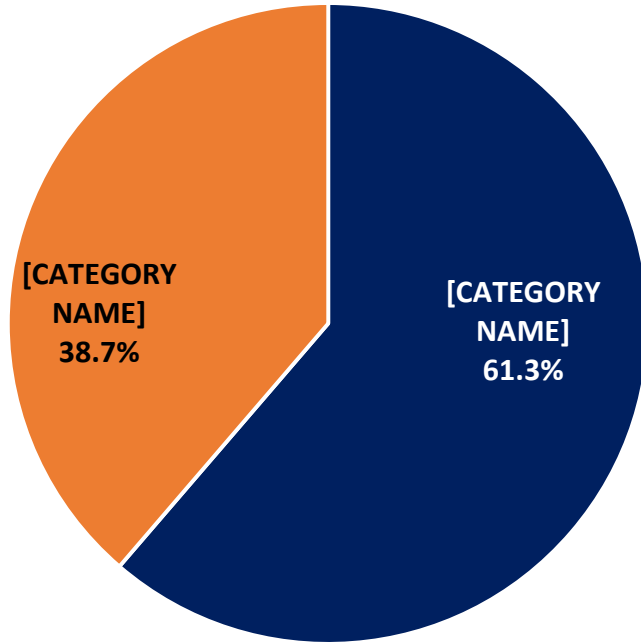
# Valuation

- **At INR 193(as on 23<sup>rd</sup> Aug 2019) a share, MIL is available at market capitalization of INR 216 Cr.**
- The company became public in September 2018.
- There is a negligible long-term debt of INR .51 Cr.
- The ongoing capital expansion is funded through internal accruals and proceedings from the IPO, no further equity dilution or external borrowings required.
- With the end-user industries of CBEs in India currently growing at double digit figures I expect earnings growth to be rapid in the coming years.
- Opening up of the Indian CBE market has provided an ocean of opportunities to the company.
- There are few institutional holdings.

# Leadership

Name & Designation	Experience & Responsibility
<b>Mr. Ashish Saraf (President)</b>	<ul style="list-style-type: none"> <li>▪ Over 3 decades experience in Sales &amp; Marketing of confectionery &amp; cosmetics products in the export markets –led delegations for export promotion</li> <li>▪ Excellent relationship with leading multinationals like Ferrero, Adeka, Body Shop, Lorealetc</li> <li>▪ Established an invaluable sourcing network across key states for seed procurement</li> </ul>
<b>Mr. Deep Saraf (Vice President)</b>	<ul style="list-style-type: none"> <li>▪ Deep knowledge of the business and industry gained over the last 2.5 decades</li> <li>▪ Ensures efficient operations for resource management, distribution of goods and customer service</li> <li>▪ Implements modern techniques and continuous improvement as per international standards</li> </ul>
<b>Mrs. Vinita Saraf (Director)</b>	<ul style="list-style-type: none"> <li>▪ &gt; 20 years of experience who oversees the critical function of seed procurement</li> <li>▪ Involved in development, design, operation and improvement of systems that create and deliver superior services</li> <li>▪ Has international exposure in specialty fats &amp; butter</li> </ul>
<b>Mr. Kedarnath Agrawal (Director)</b>	<ul style="list-style-type: none"> <li>▪ &gt; 5 decades of experience with leading food processing companies</li> <li>▪ Provides guidance in Processing, Quality Control and Marketing</li> </ul>
<b>Mr. Gautam Kumar Pal (Director)</b>	<ul style="list-style-type: none"> <li>▪ Been with the group for close to 2 decades and involved in production &amp; operation control of products</li> <li>▪ Focused on quality improvement &amp; developing tailor made products for clients</li> </ul>

# Shareholding



- Promoters now hold 61.3% stake in MIL, down from 85.9% on account of the IPO in September, 2018.
- The promoters have not pledged any of their holdings.

Source: BSE filings (As on 30<sup>th</sup> Sep-19)

## Holdings within the Promoter Group (%)

Agastya Saraf	26.79
Vinita Ashish Saraf	24.97
Shrey Ashish Saraf	9.54

## Public Holdings more than 1%

Jagdish N Master	2.70
Manoj Tulsian	1.05
Ritu Saraf	8.15
Sanjay Katkar	1.06
Vaidyanath Balasubramanian	2.39
Mahesh Shivanand Desai	2.30
Edelweiss Broking Ltd	2.20
Cipher Plexus Capital Advisors Private Limited	1.56

# Risks and concerns

- **Working capital intensive nature of business:** The business operations of MIL are working capital intensive, as it has to maintain a relatively large inventory of finished goods, due to seasonal availability of its major raw material i.e. Sal seeds; in the months of May & June only. The company has also resorted to short-term borrowings to meet the working capital requirements.
- **Negative regulations:** The degree of CBE acceptance varies country to country. Any negative regulations in terms of usage can hamper the earnings of the company.
- **Discretionary spending:** The company's products cater entirely to the discretionary spending sectors like chocolate and cosmetics, across the entire spectrum of products from economical, value to premium segments. Thus, changing consumer preferences, consumption patterns, economic recession with drop in income levels etc. can result in a decline in the demand for lifestyle specific choices and curtailment in purchase of products like chocolates and high-end cosmetics.
- **Commoditization risk:** Only niche, value added products would enable retaining margins. Therefore, the company has to continuously innovate and enhance the quality of our offerings.