
Transaction Background

You are an Analyst at BBR Advisors, a boutique investment bank. Your firm has been approached by Mrs Sector Foods ("the Company") to evaluate a potential sale process to a financial or strategic buyer.

Management has provided you with historical financial statements and their commentary on the growth of the business over the near future.

Your manager has asked you to build a 3-statement model for the Company to better understand the business and enable further discussions with management. The latest financial data available is for FY 2023.

Company Overview

Founded in 2009, Mrs Sector Foods is a leading manufacturer of breakfast cereals, Pickles, and Sauces. The Company operates through two facilities in Noida and Bangalore and has built a strong reputation for its healthy breakfast options, geographic reach, and commitment to quality. It is 100% owned by the Sector family and managed by brothers, John, and Jani.

Given the unique offering of their products, the Company has experienced rapid growth through partnerships with over 5000 retailers across India.

Management believes that there is a significant growth opportunity in the market due to rising awareness and demand for healthy breakfast options.

In FY 2023, the Company had the following revenue mix (% of total revenue):

Cereals: 72%

Pickle: 19%

Sauces: 9%

There are several other breakfast-focused manufacturers in India that are in direct competition with Mrs Sector Foods for market share and valuable shelf space at leading retailer locations.

As a result, the Company expects retailer commissions to increase by 1-2% soon.

Mrs Sector Foods is very selective about the suppliers they source raw materials from, with the top supplier representing 65% of total raw material purchases in FY2023.

Mrs Sector Foods maintains its head office in Bangalore, which comprises of a 39200 square foot manufacturing plant. Its second facility in Noida, comprises of an 15680 square foot manufacturing plant.

Management has indicated that both are at ~85% capacity. The Company does not own any real estate and pays fair market value rent.

Management has indicated that the Company currently controls ~6% of the healthy breakfast market in India.

Historical Financials

The Company has provided 3 years of audited, historical financial statements.

Products and Revenue

- **Cereals:**

- As the largest driver of revenue, Mrs Sector Foods 's cereal offerings are considered the healthiest on the market.
- Cereals are priced at Rs 150/Box and in FY2023, the Company sold 279 crore boxes.
- The Company expects cereal sales to grow by 8% per year over the next three years and 7% per year thereafter.
- Additionally, the company expects to increase the price of its cereals by 3% per year over the next five years.

- **Pickles:**

- Pickles are priced at Rs 50 each and in FY2023, the Company sold 217 crore Sachet.
- The Company expects Pickle sales to grow by 7% over the next three years and 5% per year thereafter.
- Additionally, the Company expects to increase the price of its Pickle by 2% per year over the next five years.

- **Sauces:**

- Sauces are priced at Rs 30 each and in FY2023, the Company sold 177 crore sachets of Sauces.
- The Company expects Sauces sales to grow by 5% over the next two years and 3% per year thereafter.
- Additionally, the Company expects to increase the price of its Sauces by just 1% per year over the next five years, due to low product differentiation.

Cost of Goods Sold

- **Cereals:**

- Raw Material Cost = Rs 27.5/Box
- Labor Cost = Rs 10/ Box
- Packaging Cost = Rs 12.5/ Bottle
- Delivery Cost = Rs 8/ box.

- **Pickle:**

- Raw Material Cost = Rs 7.5 / Sachet.
- Labor Cost = Rs 2.5 / Sachet.
- Packaging Cost = Rs 20/ Sachet.
- Delivery Cost = Rs 5/ Sachet

- **Sauces:**

- Raw Material Cost = Rs 5 / Sachet.
- Labor Cost = Rs 2.5 / Sachet.
- Packaging Cost = Rs 2.5/ Sachet.
- Delivery Cost = Rs 10/ Sachet
- Allowance for Spoilage = 15% of Sauces revenue.

Selling, General and Administrative (SG&A) Expenses

- **Bangalore Factory Rent:** Rs. 980 crores annually, expected to remain flat.
- **Noida Facility Rent:** Rs. 294 crores annually, expected to remain flat.
- **New Facility:** Management has indicated that they will need a new facility to support revenue growth over the forecast period; they can rent another facility in Assam for a similar rate as the existing facility in Noida.
- **Salaries and Wages:** Expected to be 9% of revenue.
- **Retailer Commission:** 15% of revenue till FY2026, expected to increase by 1-2% in the near future. Management is confident that they can successfully negotiate a maximum commission of 16%.
- **Administrative costs:** Expected to be 1% of revenue.
- **Marketing Costs:** Expected to be 2.5% of revenue.
- **Executive Compensation:** Rs 1470 crores base pay annually (expected to increase by 2 % per year) + bonus at 3 % of revenue.
- **Tax Rate:** 25%.

Capex, Depreciation and Amortization

- Capital Expenditures expected to be 5% of revenue over the next five years; ramp up in capex relative to historical levels is to support the continued growth of the business.
- Intangible Capex Spend expected to be 3% of revenue over the next five years.
- Any new PP&E should be depreciated over a useful life of 10 years.
- New Intangible Assets should be amortized over a useful life of 15 years.

Interest and Debt

- The Company's existing debt is to be repaid by 647 crores each year. The interest rate on the loan is variable and structured as Bankrate + 4.0%. The Bank Rate in FY2023 was 6% and management expects to increase by 20bps per year.
- Assume that 500 crores of new senior term loans will be borrowed by the Company in FY2024 and 2025 (total of Rs 1000 crores).
- Also assume that any revolving debt will have a fixed interest rate of 3.5%.

Debt Tenue 10 Years

Dividends

- The Company maintains a Dividend Payout ratio of 30% whereas any remaining capital is reinvested into the business. This is expected to remain constant over the forecast period.

Deliverables

- Build an Operating Model and prepare a Scenario Analysis as below (use your best judgement to prepare the Best and Down cases):
 - ✓ Management Case
 - ✓ Best Case
 - ✓ Down Case
- Build an integrated 3-statement model (with five years of projections).
- Build supporting Working Capital, Capex / Intangible Spend, Depreciation & Amortization, Senior Debt and Revolver Schedules. Use average loan balances to calculate interest expense.
- Build a Sensitivity Switch and Circuit Breaker into the model.
- Prepare common size financial statements and ratio analyses.
- Prepare Financial Statement Commentary (Management Case only) and document key highlights and risks of the business.
- Create a question list to be discussed with Company management.