

The Case

Incorporated in Nov 2013 MINPRO is a food processor that is striving to create a segment termed ‘minimally processed food’ (MPF), spanning vegetables, fruits and lentils. The company operates on the ‘*seed-to-shelf*’ model, i.e. it sources produce directly from farmers in identified villages in Haryana, Punjab and Himachal Pradesh (HP). The produce is processed, packed and sold through modern trade (MT) retail units. The firm distributes in 38 cities in India and exports to 10 countries. The firm has necessary certifications in place to export to respective countries it is currently exporting to, and is getting those necessary to export to Gulf countries. While MINPRO has been able to persuade all farmers to ensure their farmlands are Global Good Agriculture Practice (GAP) compliant only 20% of those are Global GAP certified.

Promoters J and D have been friends since childhood nurturing entrepreneurial instincts, which manifested in the duo quitting their jobs 2010 to research opportunities in food processing, fueled by potentially lucrative margins and tangible social impact. They identified the opportunity to introduce minimally processed food to plug the gap between dominant varieties of processed food, viz. ready to cook (RTC) and ready to eat (RTE). Through innovative processing (sterilizing and retorting) MPF had the potential to increase shelf life of foods to more than 12 months.

They started operations in rural Haryana owing to proximity to fertile farmlands conducive for gram plantation, the flagship produce, and to modern retail markets in tier I and II cities in states of NCR, Haryana, Punjab and Himachal Pradesh.

The firm is yet to turn profits; net of losses incurred in the previous years it’s networth was INR 712 lacs as on Mar 31st 2017. The firm attracted private equity investment of c.INR 3,500 lacs to date in form of compulsorily convertible instruments from one investor, and has the option of the investor investing INR 600 lacs more to support operations and support capital expenditure. On fully diluted basis the promoters own 66% of the firm as on date, and prefer venture debt to additional investment to avoid further dilution of their shareholding.

Exhibit I, II and III present financial statements and shareholding pattern of the firm as on Mar 2017.

The Board of Directors of the firm comprise of 3 promoter directors and 1 director appointed by the investor. The promoters feel they needn’t rush into appointing an independent director till they find someone who understands the industry well and can add significant value to the firm.

Management comprise of professionals who collectively possess significant experience in fields of agriculture supply chain, business development, finance & accounting, information technology and human resources. Promoter’s believe that retaining the core team is key to success of the firm, and is contemplating an ESOP plan to that end.

Global demand for RTE has been on the rise over the past years because busy lifestyle of consumers and rising income levels. India has witnessed similar trends, additionally fuelled by migration from tier II and III cities to metropolitans and tier I cities. Nuclear families, unmarried men and women residing in such cities are major consumers of RTE. Growth in number of retail chains housing RTE has added to product awareness, with supermarkets, convenience stores and hypermarkets emerging as the key points of sale offering a wide range RTE manufactured by leading companies. Indian RTE food market is projected to grow at a CAGR of 40% during 2014-19 in value terms. North and west region are the key revenue contributors in the RTE food market, with major demand emanating from NCR, Mumbai and Ahmedabad. However, low awareness in general and high price of RTE relative to produce has resulted in strong negative price elasticity of demand.

Exhibit IV presents product mix of MINPRO.

To source produce MINPRO researches the geography thoroughly to assess climatic conditions, soil fertility in context of identified farm produce, farmer interest to work with MINPRO, potential supply levels and distance of farms from the production unit (preferably not more than 200 km). Considering these MINPRO has identified 13 regions within 200 km of its setup in rural Haryana to source produce. Tapioca is sourced from Assam however, and it takes up to 12 hours to transport the produce from farm to the production unit.

MINPRO maintains a detailed database of the farmers (3000 currently) who are willing to or are working with the firm. Key parameters of selection include crops sown, distance from production unit, area of cultivated land, months of cultivation, type of irrigation etc. The firm has been able to retain c.90% of its farmers historically.

Once it has identified a region MINPRO identifies and enters into formal contracts with ‘consolidators’ (progressive farmers) to work with the farmers. To become a consolidator for MINPRO a farmer needs to be able to mobilize and motivate a community and lead by example. A consolidator manages up to 400 farmers and hence up to 1000-1200 acres of land. MINPRO doesn’t have any contract with farmers who are being managed by consolidators. Consolidator manages the nursery, deals with the farmers, provides saplings to the farmers, monitors the crop, transports the harvest from farm to production facility and pays farmers on due date. To ensure uniformity MINPRO provides saplings to farmers through consolidators free of cost, which it sources those from large multinational firms. Price of seeds fluctuate widely: it rose from INR 1000 / kg to INR 2800 per kg between 2014 and 2016.

For a farmer, a crop cycle (c.3 month) expenses per acre are as follows:

- INR 3000 for fertiliser
- INR 5000 for land preparation
- INR 6000 for labour, irrigation and other expenses

An acre yields around 8000 kg of gram. MINPRO pays INR 9 / kg of gram to a consolidator, who makes c.INR 1 / kg as profit next of c.INR 1 / kg of cost, paying c.INR 7 / kg to the farmer.

Price trend of gram for the past 2 years is presented in Exhibit V.

Once the produce has been filtered by consolidator processing gram involves:

- Peeling – performed by women in surrounding villages at no cost in return of keeping the by-product
- Pre-processing testing – done by MINPRO employees
- Cleaning – done on assembly line with minimal human intervention
- Retorting – produce is heated in plastic pouch at high temperatures; MINPRO claims that its deep understanding of and research on plastic is its differentiating factor
- Post-processing Testing – done by MINPRO employees
- Package – done by MINPRO employees, amounts to 30% of COGS

It takes 8 hours to sanitize the assembly line before MINPRO could switch to a different produce. The firm is contemplating procuring another assembly line to run processing 2 produce in parallel.

The firm has relied on its wholesale relationships with large retail chains, and has not actively marketed its produce to consumers yet through social or traditional media. It plans to allocate budget for the latter in FY 18.

Loss in transit attributes to majority of claims raised by large retail chains. While MINPRO has procured transit insurance for domestic as well as international distribution it could only claim insurance in case of complete loss during transit. Most losses being partial those claims are settled by MINPRO.

Exhibit I – Projected Balance Sheet (as on Mar 2017)

All amounts in INR Lacs, A = actual, P = projected

Year ending March 31 st	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Share Capital	4	4	4	3,604	3,604	10,604	10,604
Quasi Equity	-	1,900	2,000	2,000	2,000	2,000	2,000
Reserves	1,000	-454	-1,292	-1,274	-648	1,780	6,860
Total Equity + Reserves	1,004	1,450	712	4,330	4,956	14,384	19,464
Long Term Borrowings	-	198	950	1,332	726	1,448	1,020
Deferred Tax Liabilities	-	34	-	-	-	-	-
Total Non-Current Liabilities	-	232	950	1,332	726	1,448	1,020
Trade Payables	244	308	282	254	446	918	1,462
Other Current Liabilities	16	50	82	108	182	280	376
Short Term Provisions	26	70	104	168	302	438	722
Total Current Liabilities	286	428	468	530	930	1,636	2,560
Total Liabilities	286	660	1,418	1,862	1,656	3,084	3,580
TOTAL	1,290	2,110	2,130	6,192	6,612	17,468	23,044
Fixed Assets	718	1,142	1,086	2,412	2,358	3,588	3,480
Non-current investment	1	32	-	-	-	-	-
Long-term Loans and Advances	24	58	90	100	110	120	130
Total Non-Current Assets	743	1,232	1,176	2,512	2,468	3,708	3,610
Cash and Bank Balances	157	122	42	1,556	946	8,888	11,936
Current Investments	-	-	-	-	-	-	-
Inventories	100	354	404	916	1,336	1,836	2,924
Trade Receivables	208	354	410	1,006	1,502	2,398	3,520
Short-term Loans and Advances	78	42	62	128	228	404	668
Other Current Assets	4	6	36	74	132	234	386
Total Current Assets	547	878	954	3,680	4,144	13,760	19,434
TOTAL	1,290	2,110	2,130	6,192	6,612	17,468	23,044

Exhibit II – Shareholding pattern as on Mar 31st 2017

Shareholder	No of Shares	% shareholding
Mr. D	6987	65%
Mr. J	2380	22%
Investor	710	7%
Mr. D's wife	4880	6%
Total	14,957	100%

Exhibit III – Projected Income statement (as on Mar 2017)

All amounts in INR Lacs, A = actual, P = projected

Year ending March 31 st	FY15	FY16	FY17	FY18	FY19	FY20	FY21
Revenue							
Domestic (Existing Products)	850	1,522	2,086	4,698	7,968	14,870	24,450
Exports (Existing Products)	120	480	908	1,392	2,036	2,884	4,038
New Products (domestic)	-	-	-	-	902	1,596	3,478
Other Income	38	28	6	30	54	96	160
Total	1,008	2,030	3,000	6,120	10,960	19,446	32,126
Cost of Goods Sold	714	1,394	2,052	3,712	6,502	11,166	17,790
Gross Profit	294	636	948	2,408	4,458	8,280	14,336
Other Expenses	-	-	-	-	-	-	-
Salaries	244	712	608	834	1,086	1,516	2,044
General & Operational Expenses	612	1,170	892	200	220	260	284
Sales and Marketing	-	-	-	946	2,006	3,344	4,528
Total Expenses	856	1,882	1,500	1,980	3,312	5,120	6,856
EBITDA	-562	-1,246	-552	428	1,146	3,160	7,480
Depreciation	36	144	156	252	352	444	534
Interest	16	28	130	156	170	220	174
PBT	-614	-1,418	-838	20	624	2,496	6,772

Exhibit IV – Product mix of MINPRO as on Mar 2017

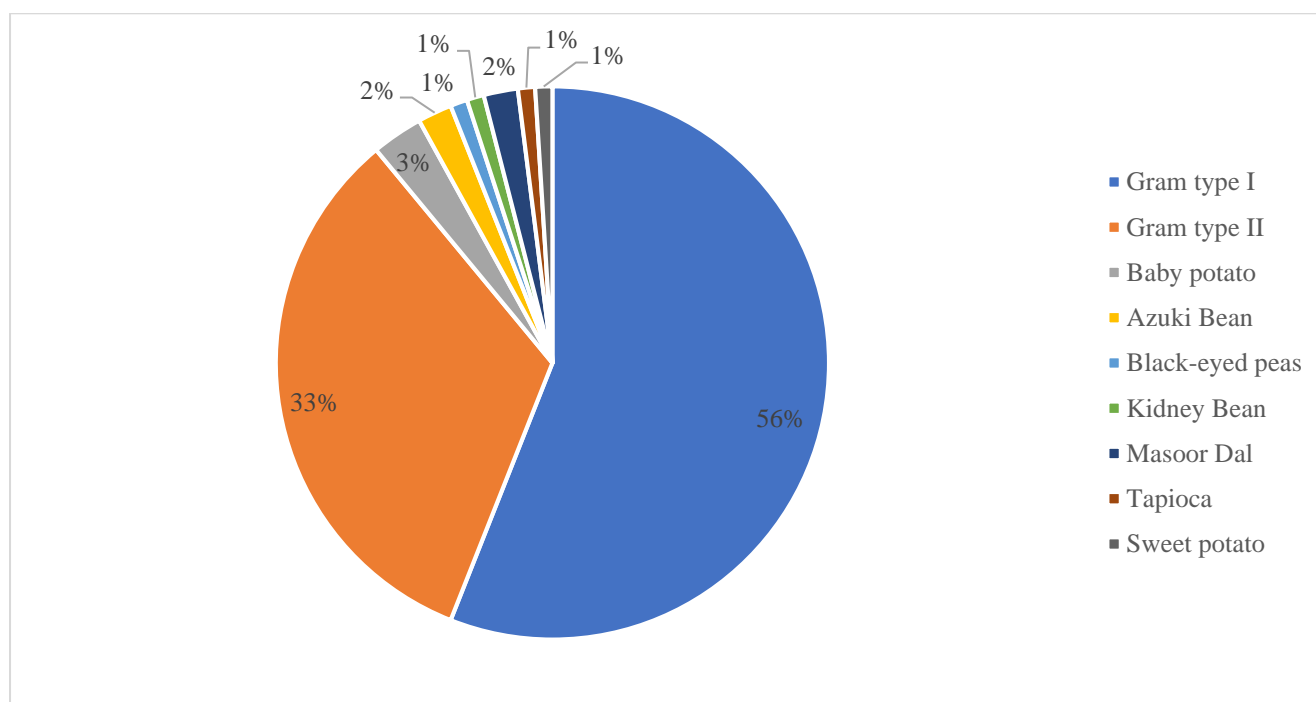
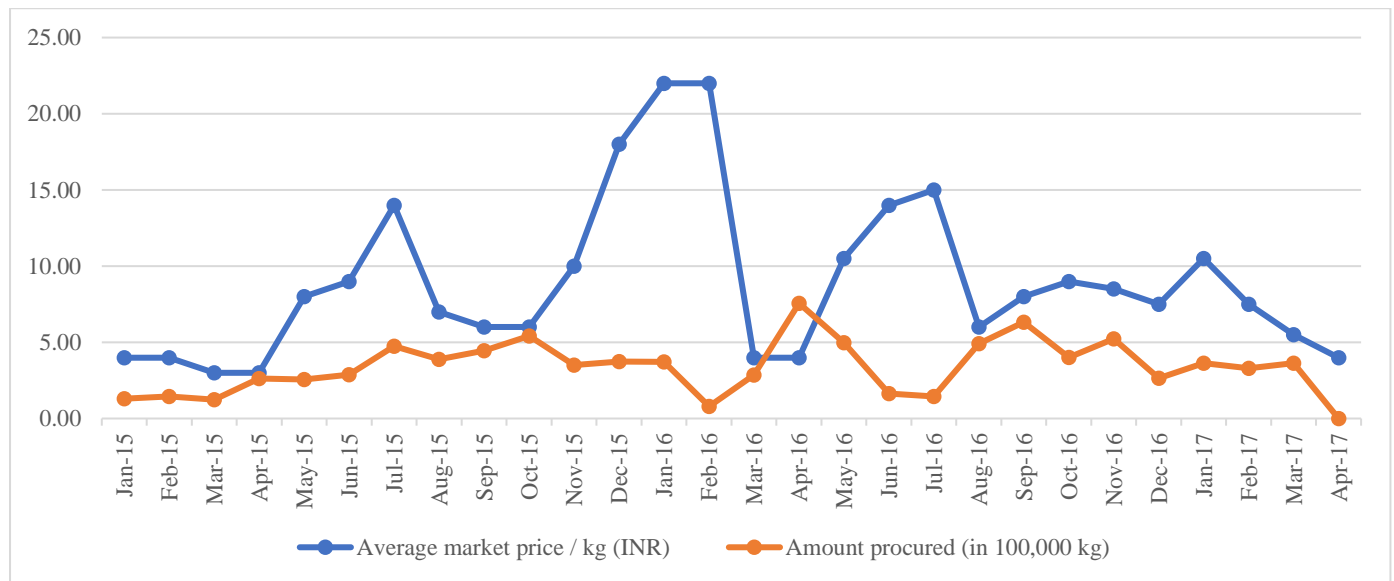


Exhibit V – Monthly price trend of gram and amount procured by MINPRO



Questions

We would like you to present on the following to the team for 20 mins, which would be followed by 20 mins of Q&A. Please **ONLY** use information provided in the case and exhibits.

1. Please present your analysis of the following:
 - Viability of the business of this firm
 - How likely is the firm to achieve its financial projections
2. Please present your analysis of the following:
 - Strengths, weaknesses, opportunities and threats (SWOT) analysis of the business of the company
 - Please list additional aspects of the firm that you would like to know about to refine your SWOT analysis
 - Key risks you perceive in the business model
3. Please present your analysis of the following:
 - Porter's Five Forces analysis of the business
(https://en.wikipedia.org/wiki/Porter%27s_five_forces_analysis)
4. MinPro has approached Vivriti Capital for a loan of INR 500 lacs. Please advise the credit team of Vivriti Capital on whether to lend or not lend to MinPro with rationale.

Guidelines

We are evaluating your:

- Ability to assess a business, analyse financial statements and draw insights
- Ability to think strategically, and your eye for detail
- Ability to comprehend data and draw inferences
- Presentation skills
- Ability to articulate your findings and stance clearly

We are **NOT** evaluating your ability to create a fancy presentation. Please add as much detail as you need to articulate your analysis and substantiate your argument but keep it functional