

Fundamental Analysis of Mohan Meakin



About Company

- Mohan Meakin is India's oldest alcohol company and has its roots in the time when India was ruled by Britishers. Edward Dyer established the Brewery at Kasauli in 1855. He was India's brewing pioneer who brought – the modern beer. He realized for the first time that there were a few spots on earth where a really good drink was more welcome and Kasauli was one of them.
- During the same century, another enterprising man, named H.G. Meakin, coming from a well-known brewing family of Burton-on-Trent where he was trained, came forward with enviable enthusiasm and founded Meakin & Co. Ltd. He bought the old Shimla and Kasauli Breweries and built others at Dalhousie, Ranikhet, Chakrarta, Darjeeling and Kirkee.
- Both these firms E. Dyer & Co., and Meakin & Co. Ltd., continued doing business separately up till after the second decade of the 20th century. During the first World War (1914-18), when it was a big job to import beer, the two firms quenched the hugely increased thirst of India with superb beer at a rock-bottom price. Vast quantities of Malted Barley were sent to Egypt, to help keep soldiers' beer at a reasonable price.

- Following these successes, the two firms joined hands and started a new joint-stock venture under the style of Dyer Meakin & Co.Ltd. Brewing was suspended at the Kasauli Brewery and a latest brewing and bottling plant was installed at conveniently placed **Solan**. Extensive malting at Kasauli was, however, continued in operation. There are few places on earth where the water is ideally suited to brewing. Solan is one.
- In 1935 when Burma was dismembered from India the name of the Company with Indian assets and liabilities was changed to Dyer Meakin Breweries Ltd., from Dyer Meakin & Co. Ltd., and the assets and liabilities of Burma Brewery in Burma were separated. Thereafter the Company's name was changed from Dyer Meakin Breweries Ltd. to Mohan Meakin Breweries Ltd., w.e.f. 1.11.1966 and from 24.4.1980 the name was further changed to Mohan Meakin Ltd., and as such the Company is now known as Mohan Meakin Limited.
- Today's Mohan Meakin 80% sales comes from Old Monk, the favourite rum of Indians and the world's 3rd largest selling rum . Apart from this it also sells beer by the name Lion, Golden Eagle and Black Night Brands which accounts for 8% share in the beer segment.

Below is the Liquor Profile of Mohan Meakin

Liquor Cabinet

Whiskey	Beer	Rum	Gin	Brandy
Summer Hall	Golden Eagle	Old Monk Supreme	Big Ben London	Triple Crown
Colonel's Special	Gymkhana Premium	Old Monk Gold Reserve		Doctor's Reserve No.1
Golden Eagle	Asia 72	Old Monk XXX		D.M.
Top Brass	Black Knight	Old Monk White		MMB
Diplomat Deluxe	Solan No.1	Old Monk Deluxe XXX		
Black Knight	IQ			
Solan No.1	Lion			
Cellar 117	Meakins 10000			
MMB	Old Monk 10000			
Blue Bull				

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Today we are analyzing the 5 year financial data of Mohan Meakin and checking how it has performed over the years.

A) Balance Sheet Analysis

We know that the balance sheet has two parts. One is “ **Source of Funds**” and second is, “ **Application of Funds**”. Let us analyze it. Source of funds will explain from where the company has financed and application of funds will explain where that money has been used.

Fig. A- Application of Funds(Assets)

Narration	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Net Block	29.67	31.80	29.13	30.14	46.51
Capital Work in Progress	6.22	5.93	7.17	6.48	8.28
Investments	0.46	0.46	1.44	1.98	2.52
Other Assets	156.47	158.27	160.49	166.00	172.81
Total	192.82	196.46	198.23	204.60	230.12

Fig-B- Source of Funds (Liabilities)

Narration	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Equity Share Capital	4.25	4.25	4.25	4.25	4.25
Reserves	18.48	22.22	36.77	52.67	87.90
Borrowings	75.34	62.90	53.21	34.36	16.27
Other Liabilities	94.75	107.09	104.00	113.32	121.70
Total	192.82	196.46	198.23	204.60	230.12

In the last 5 years, the company’s total assets has increased from 192 cr to 230 cr. That means a total increase of 38 Cr in the last 5 years. Now, from where this money has come from. If you see Fig-B, mostly this money is funded from internal Accruals and not from debt, which is a positive sign.

More observation from Fig B.

- a) The company has not raised any funds from equity, and reserves have gone up from 18 Cr to 88 Cr. (**+70 Cr in the last 5 years**). This shows that the company is continuously making profits and increasing its reserves. Positive for the stakeholders of the company.
- b) Borrowing has gone down from 75 cr to 16 cr. That means the company has reduced debt by 60 cr. Positive for shareholders. (**-60 cr in the last 5 years**).
- c) Other liability has gone up from 94 cr to 121 cr. (**28 Cr in the last 5 years**).

By looking at Fig A and Fig B, we can conclude that the company has reduced the debt by 60 cr and not diluted its equity in the last 5 years. Debt/Equity of Mohan Meakin was 3.54 in FY15, which has come down to 0.17 in FY19.

Fig C- Important Parameter of Balance Sheets

Narration	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Working Capital	61.72	51.18	56.49	52.68	51.11
Debtors	69.77	64.46	54.04	58.03	51.85
Inventory	48.31	49.21	54.80	55.21	65.51
Debtor Days	62.41	53.30	42.44	40.45	28.68
Inventory Turnover	8.45	8.97	8.48	9.49	10.07

Working capital which is a measure of total funds required to run the day to day operation of the company. It is calculated by subtracting Current Asset from Current Liability. Generally, when sales increases the working capital also increases. If you see the P/L statement, the company's sales have gone up from 400 cr to 650 cr in the last 5 years and on the other hand, the working capital has gone down from 61 cr to 51 cr.- **Big Positive for the company**

Debtors day is a factor which tells in how many days the company gets its money back from debtors. Shorter the day, better for the company. If you see Fig C, the company's debtor days have almost halved from 62 days to 28 days in the last 5 years.- **Big Positive for the company.**

Fig D- Profitability Parameters of Mohan Meakin

Return on Equity	17%	14%	12%	27%	38%
Return on Capital Emp	#REF!	17%	17%	31%	54%

ROE and ROCE are two most important profitability parameters which we look to know how much a company is earning on its capital employed. Anything above 20% is considered good and above 30% great. If you see the Fig D, ROE and ROCE, both, have improved in the last 5 years. **Big Positive for the company.**

B) Profit and Loss Statement

Particulars(in cr)	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Sales	408	441	465	524	660
Expenses	403	431	450	507	609
Operating Profit	6	10	14	17	51
OPM %	1%	2%	3%	3%	8%
Other Income	16	9	4	15	7
Interest	11	11	9	7	3
Depreciation	4	3	3	3	4
Profit before tax	6	5	7	22	51
Tax %	36%	28%	29%	30%	32%
Net Profit	4	4	5	16	35

- Mohan Meakin's revenue has grown by 60% in the last 5 years with CAGR growth of 12.78%.
- Mohan Meakin's operating profit has gone up from 6 cr to 51 cr in the last 5 years. Showing a CAGR growth of 70%. The EBITDA Margins has also improved from 1.5% in the year 2015 to 7.72% in the year 2019. Excellent growth in margins.
- Net Profit has also improved from 4 cr to 35 cr in the last 5 years.

So overall, there are vast improvements in the operations of the company.

C) Cash Flow Statements

Reading cash flow statements are also very important to analyze the company. Mere improvements in the P&L is not sufficient unless the same improvements reflect in the cash flow of the business. Whenever the cash is coming into the system, it will be shown as (+) and (-) if cash is going out of the system.

Cash Flow from Operations

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Cash from Operating Activity -	21	28	25	29	49
Profit from operations	9	13	20	31	57
Receivables	18	5	10	-5	5
Inventory	7	-1	-7	-1	-11
Payables	-9	12	-3	4	2
Loans Advances	-2	2	0	0	0
Direct taxes	-3	-4	0	-2	-7
Other operating items	1	0	5	2	4
Exceptional CF items	0	0	0	0	0

Receivable is the most important parameter to look in the CFO. Receivables is the amount which is lying with the sales partner of the company. The receivables have gone down from 18 cr to 5 cr in the last 5 years. This means Moham Meakin is able to get their money on time which helps in improving working capital Cycle. So, overall the company has generated healthy cash from operations in the last 5 years.

Cash flow from Investing

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Cash from Investing Activity -	1	-5	-6	-3	-23
Fixed assets purchased	-1.98	-5.41	-6.72	-4.72	-24.16
Fixed assets sold	1.32	0	0.04	1.04	0.08
Investments purchased	-0.06	0	0	0	0
Investments sold	0	0	0	0	0.01
Interest received	1.15	0.73	0.85	0.66	0.44
Dividends received	0.01	0.03	0.01	0.01	0.01
Other investing items	0.06	-0.08	0.31	0.03	0.2

Cash flow from investing helps analysts to know how much Capex company is doing in a particular period. This parameter helps to understand whether Capex increase has a sizable impact on revenue of the company. Generally, an increase of capex should increase revenue.

In the last 5 years, the fixed asset purchased or Capex done by Mohan Meakin stands at 40 Cr. The negative sign means cash is going out of business. Mohan Meakin has not done any significant capex in the last 5 years.

Next important parameter to look upon is Free cash generated by Mohan Meakin. More the Free cash, better for the shareholders and for the company.

Free Cash from Operations = Cash Flow from Operation- Capex

Free Cash (5 years)= 114 Cr. This is a good sign for the business.

Cash flow from Financing

	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19
Cash from Financing Activity -	-23	-23	-18	-25	-20
Proceeds from borrowings	2.22	6.5	0.07	0.4	0.33
Repayment of borrowings	-14.54	-18.95	-5.4	-19.25	-18.43
Interest paid fin	-10.91	-10.17	-8.51	-6.02	-2.34
Dividends paid	0	-0.02	0	0	0
Other financing items	-0.02	0	-4.33	0	0

Cash Flow from Financing helps to read how a company is raising money for financing its business.

If you read the above cash flow statements, it clearly indicates that the company has not raised significant debt (Proceeds from borrowing).

The repayment of borrowing has been done at a brisk pace. **A positive sign.** In the last 5 years, Mohan Meakin has reduced the debt by ~75 Cr.

Dividend paid indicates how much a company is paying dividend to its shareholders. As the company's focus was on reducing the debt, the same has not been paid over the years. So nothing is paid in the last 5 years.

Valuation

Currently, in the unlisted market, Mohan Meakin is trading at Rs. 650 per share. In FY18-19, it clocked an EPS of 39. On that number, the asking P/E is just 16x, which is highly undervalued as compared to market leaders United Breweries and United Spirits, which are trading at P/E multiples of high 50x.

Conclusion:

The company has reduced borrowings. The D/E has come under 1. Debtor days have become halved. The ROE and ROCE both above 30%. Cash flows are generating. The company's revenue has also increased at brisk pace and currently, the valuation is quite fair at Rs.650 per share.

If anybody is interested in buying shares of Mohan Meakin may please drop us an email at sales@unlistedzone.com or Whatsapp to Mr. Dinesh Gupta at 08010009625.

Disclaimer: This article is only for education purposes, and not to be construed as an investment advice. Please consult your advisor before making an investment.

Data Source: Screener.in