



MRSS INDIA LTD.

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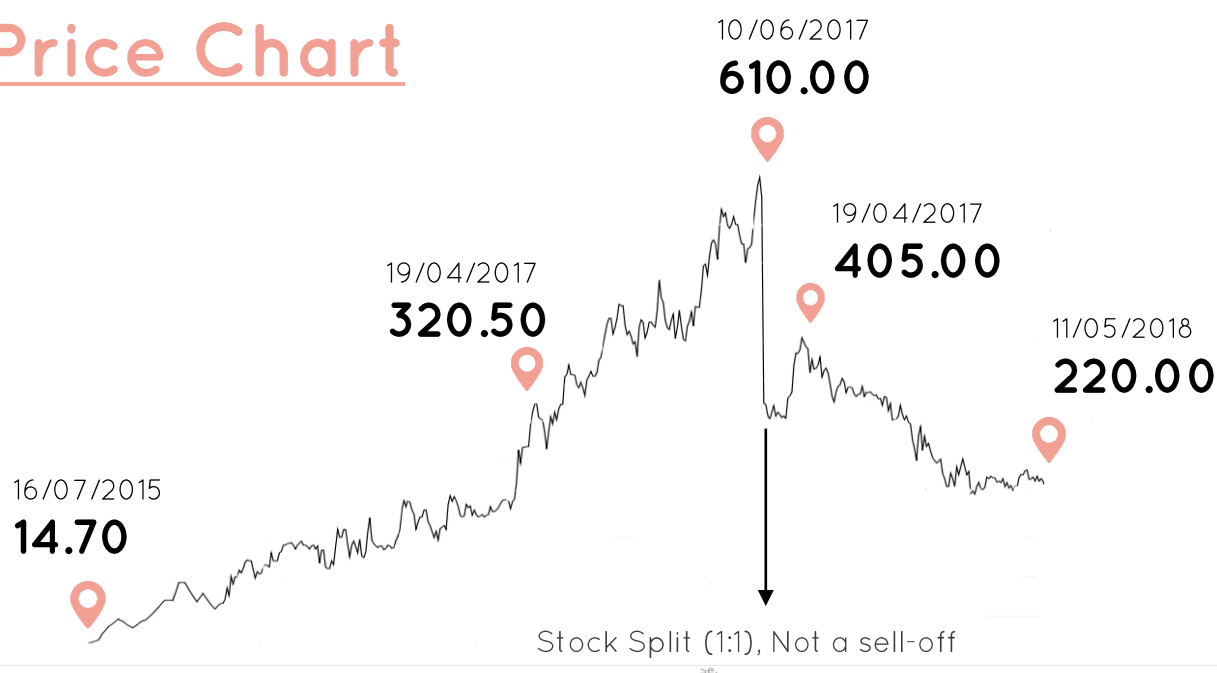
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MRSS INDIA LTD.

A COMPREHENSIVE STORY

On October 13th 2017, a little known company called MRSS India had a small, yet significant update on its website. The update read “Our stock is up 5500% since IPO and has reached a record price of Rs. 610.” If an unassuming visitor to the website stumbled upon this, he would probably laugh it off as a possible glitch in the system. But as it would happen, this was no glitch, the company was just being dead serious.

Price Chart



The story of MRSS India is interesting for more than just one reason

1. MRSS India happens to be the only listed Market research Company in India.
2. It has a market cap of about Rs. 212 Crores as of May 16th
3. The stock price had indeed grown by 5500% within just 3 years of its IPO
4. It did all this with a meagre annual turnover of Rs. 22 Crores (as of March 2017) without bad debts on its books

Market Cap
212 Cr.

Revenue FY 2016-17
22 Cr.

Bad Debt
0

This story deserves more attention and here is an attempt to break down the stock and the company and provide a comprehensive review for investors

HUMBLE BEGINNINGS

MRSS INDIA IS BORN

The story of MRSS India really begins in 1992 with another company called Majestic MRSS. Mr. Raj Sharma, the enigmatic chairman of MRSS India had cofounded Majestic MRSS, during the 90's. This parent company was involved in Market Research activities for most of its existence and had operations spanning 18 countries. But when the company wanted to scale up its operations locally and globally, Mr. Sharma created another subsidiary and thus MRSS India was born in 2012



MRSS India like most research companies, provides market insights to potential clients and helps them in understanding their customers' better. They also gauge competitor strategies and offer inputs on ad campaigns and other matters that are customer-oriented. However, according to Raj Sharma, what sets his company apart is its use of Tech. Tech based tools generally help improve operating margins by reducing cost in conducting surveys/ analyzing customers and it has most definitely helped MRSS in showcasing strong margins. However MRSS in its website claims to use tech as a potential differentiator. We looked into this claim and found that most respectable companies within the research domain used tech based solutions either similar or more advanced than the tools at the disposal of MRSS. So this use of technology is most definitely not specific to MRSS India and the exaggerated claims must be taken with a pinch of salt.



What is Market Research ?

Market research is any organized effort to gather information about target markets or customers. Companies like MRSS India helps its clients in this process. This process usually includes surveys, group discussions, field trials, personal interviews and other tech/non-tech based observation methods

STORY OF THE IPO

MRSS INDIA IS LISTED ON BSE

After inception, MRSS India with the backing of its parent company started catering to its first clients and only after a couple years in the business decided it was time to take the company public. MRSS India filed for an IPO in 2015. According to the founder, the company decided to file an IPO based on the recommendations of the Bombay Stock Exchange. So with the IPO, it raised Rs. 1.4 crores in total and started making judicious investments in tech and its working capital.

Inferences from the IPO

01 What happened to the Parent Company after the IPO?

Although Majestic MRSS is listed as a promoter of MRSS India and has a majority stake of 41 % stake, it has largely gone silent since 2015. Updates on its website has dried up and they haven't made any significant investments in MRSS India since the IPO. So if you are looking for the parent company to be playing a leading role in the new business, maybe you ought to think again. In fact as of March 2017, Majestic MRSS owes MRSS India a sum of Rs. 24 Lakhs.

02 How did they spend the IPO Money (Rs. 1.4 Cr.) ?



The rest was spent on Issue Expenses arising out of the IPO

03 How do we know they made these investments judiciously?

We know this because their ROCE (Return on capital employed) went from 17% to 40%, the next year, following the IPO



Details of the IPO?

Issue Size	Issue Price	Opening Price	Oversubscribed
11.2 Lakh	12.75	14	x2

WHO IS RUNNING THE SHOW?

PROMOTERS AND KEY PERSONNEL



Mr. Raj Sharma

Raj Sharma, the founder-chairman of MRSS India has an experience of over 2 decades in the Market Research Industry. He is also the director at Majestic MRSS and owns about 18% stake in the company



Mr. Sarang Panchal

Sarang Panchal is the Managing Director at MRSS India. He was formerly the Managing Director at Nielsen (World's Largest Market Research Company), Asia Pacific for the customized division. As of 2018, he has been allotted 45,000 preferential shares in total.



Mr. Sandeep Bhatia

Sandeep is currently responsible for business development and marketing activities for Majestic. He serves as Director Business Development. He has 3 years of experience with a Fortune 500 company in the US.



Mr. Rajesh Kumar

Rajesh, with a Market Research career spanning 36 years has spent most of it, working in reputed organizations like L&T, Voltas & Tata Motors. But his greatest achievement was in carving out the Market Research Department at Tata Motors



How good is the Management?

In our opinion, they have put together an amazing team as evidenced by the recent performance of the company in generating new business, improving their top/bottom line and continuing on the trajectory of growth

So with the IPO, its growing reputation and a strong team backing the company, you would think that MRSS was finally settling in. It was settling in just fine until one day on August 2016, they decided to file an FPO. The company needed more cash

AN FPO RIGHT AFTER AN IPO?

IS THIS GOING TO AFFECT THE STOCK?

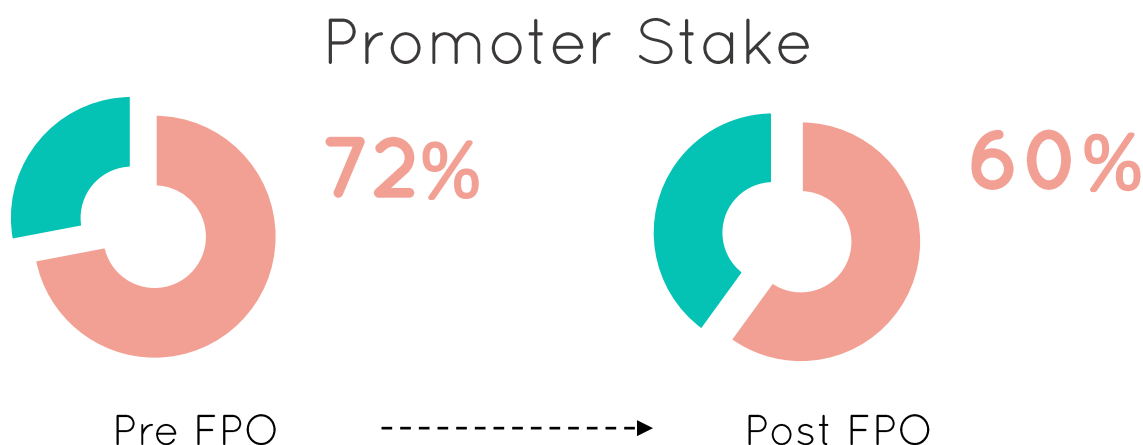
An FPO is a stock issue of additional shares made by a company that is already publicly listed and has gone through the IPO process. Within just 1 year of its IPO, MRSS India had issued an FPO to raise more cash. This raised a few eyebrows back in 2016

Questions came pouring in from all corners

- 01** Why are they issuing an FPO so soon ?
- 02** Couldn't the company grow organically for a while?
- 03** Will this be a recurring pattern to raise cash?
- 04** Are we going to see another FPO soon?

All these questions are very relevant, but we shall NOT speculate on such matters as we have no information available in the public domain to corroborate our claims. However, we will try and answer some of these questions, at least partially.

The follow on public offering was executed by diluting promoter stake. Promoter stake which stood at 72 % came down to about 60 % and they raised a total sum of Rs. 10 Crores in the process. The shares were oversubscribed once again (1.58 times) and the FPO, by all accounts was a resounding success



Did the FPO affect the stock?

No. Not in the slightest. In fact the stock rallied further after the FPO

The FPO was issued to raise money for working capital requirements and a new corporate office. But the Balance Sheet as of March 2017 points out something very interesting. MRSS hasn't utilized any of the funds except for the 90 lakhs that accrued as Issue Expenses. So what's happened to the rest of the money and why are they raising money if they are not using it? As you will see, there is evidence to suggest that some of this money has in fact been put to some good use.

A STRATEGIC ACQUISITION

MRSS ACQUIRES SINGAPOREAN COMPANY MARKET PROBE ASIA PACIFIC PTE. LTD

On August 2017, there was breaking news coming out of MRSS. The headlines read "MRSS India has acquired 100 per cent stake in a Singapore-based market research company Market Probe Asia Pacific Ltd (MPA) for Rs. 3.1 Crore in an all cash deal WITHOUT DILUTING PROMOTER STAKE"

Why was the acquisition made?

- 01 To Scale up their operations in high growth markets like Indonesia, Thailand and Vietnam
- 02 To provide a gateway for MRSS to bid on government contracts in Singapore worth Rs 47.44 crore every financial year
- 03 MPA Singapore was a subsidiary of the larger Market Probe group which features among the top 10 Market Research Companies in the US

Financials of the company

22 Cr.	Total Revenue	2.61 Cr.	Cash Balance
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So technically, considering they paid 3.1 Cr for a company that had cash balance of Rs. 2.61 Cr, one could look at this and say MRSS only paid about 50 lakhs for a company with revenues of almost 22 Cr, a bargain price to be honest. But there is a catch obviously. While we do not know the full details about the financials of the company. Mr. Raj Sharma, the chairman of the group had this to say about the acquisition. "We plan to deploy judicious use of technology, management expertise, cost re-engineering and reorient the customer focus, thereby aiming to increase the operating margins and bring them in line with those of the Indian parent entity." **So it is safe to say that the operating margin of this company isn't particularly pleasing to the eye**



Any other catch?

Apart from the margins, there is another consideration. Because the acquisition happened at a throwaway prize one could assume that this company might have high levels of debt. We are not saying that this is the case; but if somebody else made such a claim, we wouldn't laugh it off.

All things considered, this acquisition could prove to be a huge boon for the top line growth of MRSS in the near future and get it closer to its vision. So what is this big vision? What's the grand plan?

A GRAND VISION

HOW WILL MRSS INDIA GROW IN THE FUTURE ?

MRSS was created with a vision to become the largest most profitable market research company in Asia by 2020. To take this claim seriously we need to match up these claims against existing competitors.

The biggest competitor in India is a subsidiary of the UK based company called Kantar. This subsidiary, Kantar IMRB, provides comprehensive research support for 40 of the top 50 brands in India, as well as in Pakistan, Bangladesh and Sri Lanka. Kantar has a total turnover of \$ 3 billion and its Indian subsidiary provides a significant chunk of this revenue.

If MRSS India wants to become the top dog in Asia, we assume it would start with India, as the domestic market still accounts for about 70% of its revenue. So unless they can match up to Kantar IMRB and the likes, this vision won't materialize anytime soon.

Does MRSS India feature among the top Market Research companies ?

01 It does feature among the top market research companies in India

02 However MRSS India doesn't feature anywhere in the top market research companies in Asia or the world over

In Asia, the title of the biggest, most profitable research company goes to Intage Holdings. A company that's roughly 100 times larger than MRSS India in terms of total turnover and is easily Asia's largest MR company. So as you can see, for MRSS to grow and compete among the best is no easy task

Is the Market Size for Research growing?

- 01 Yes and MRSS India does have plans to make more acquisitions to tap into these growing markets
- 02 But the growing market poses another risk. Serious acquisitions means the company’s cash reserves can dry up quickly and adversely affect performance. The acquisitions themselves might not offer expected returns. So investors need to keep in mind that trying to gain a foothold in a growing market is risky business

How is MRSS India making money today and how does it plan to do it in the future?

Services	Revenue Model	Share of Revenue	Projected Share of Revenue (After 5 Years)
Ad Hoc Projects	One time Fees	75%	50%
Syndicated Projects	Subscription	5%	15%
Multi Year Contracts	Annual Fees	20%	30%

Segment	FY 15	FY 16	FY 17
Domestic Sales (Cr.)	2.50	5.64	14.09
Export Sales (Cr.)	3.02	5.51	8.83



Explaining Services?

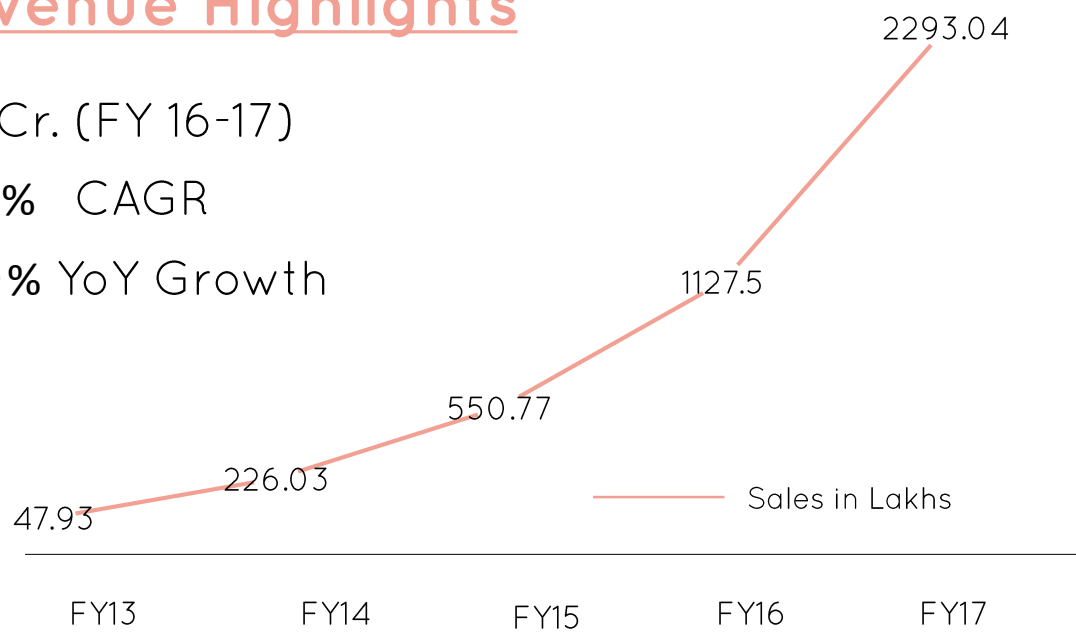
- Ad Hoc Projects are unique projects MRSS bags by pitching to a particular client.
- Syndicated Projects are projects that are funded by the Market Research firm for its own use or subscribers of its services.
- Multi Year Contracts are contracts that run over a year and helps assure the Marketing Research firm recurring revenue

STORY OF THE BALANCE SHEET

MRSS IS FIRMLY ON THE PATH OF GROWTH

Revenue Highlights

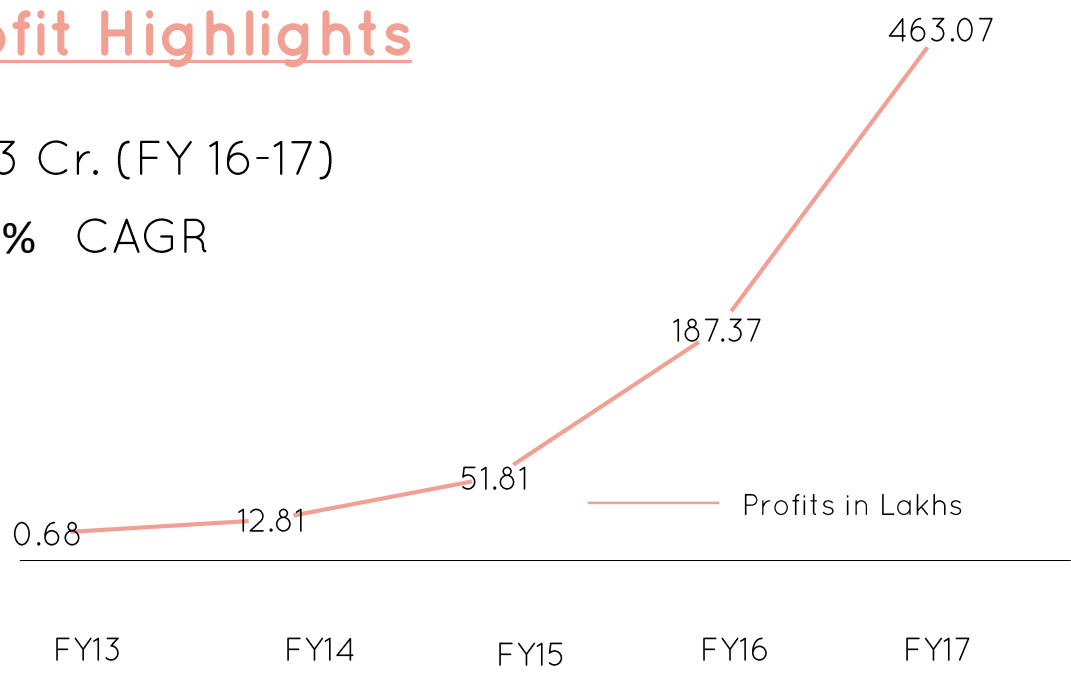
22 Cr. (FY 16-17)
163% CAGR
100% YoY Growth



The top line of MRSS has grown with unparalleled momentum i.e. 100% YoY growth in the past 3 years and the top line performance in the first half of 2018 seems to suggest that the trend is going to continue. (Rs. 22 Cr. in H1 FY2018)

Profit Highlights

4.63 Cr. (FY 16-17)
410% CAGR

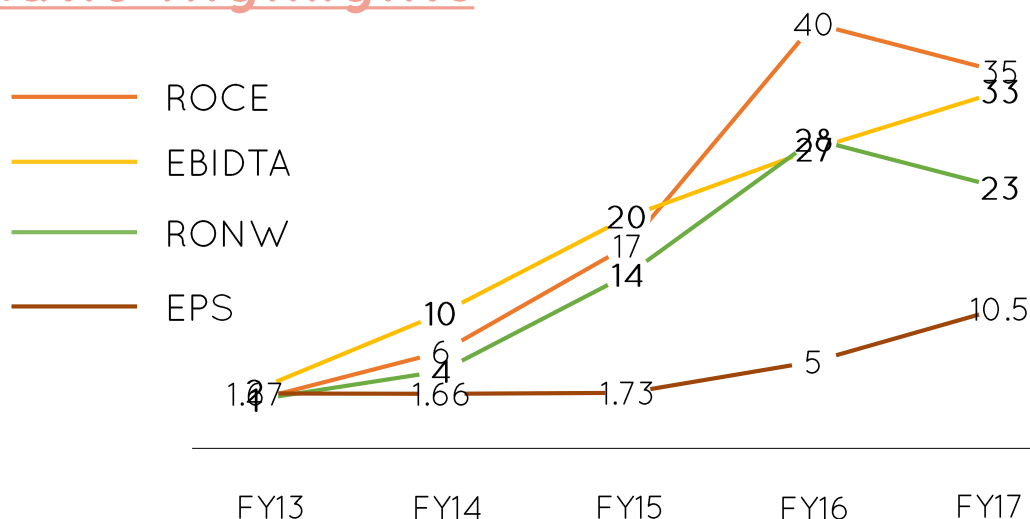


MRSS India has been able to manage its expenses quite efficiently and the firm has been able to deliver on projects by reigning in expenses and providing optimal employee benefits alongside it as well. Excellent job overall.

STORY OF THE BALANCE SHEET

MRSS IS FIRMLY ON THE PATH OF GROWTH

Ratio Highlights



The ratios look rosy. Especially ROCE. The management has done an excellent job with the money that they have raised. The net cash flow generation through operating activity has also improved considerably from 77 lakhs to 4 crores in 1 year. Maybe the company will no longer rely on FPO's to meet their working capital/acquisition needs going ahead

So is everything great in the Balance Sheet?

Not Quite. There is the small matter in the Debtor's Column. The short term provision/short term borrowing has taken a jump from 1.42 crores to 2.48 crores. The other current liabilities of the company have also increased from 1.17 crore to 1.69 crore in the same period and has been on a consistent uptrend. The growth story could quickly derail if debt levels aren't kept in control

Also , the P/E stood at 21 as of FY17

There are people that would look at this number and tell you that the company is overvalued. But might we also point to our readers that value investors have missed out on potential investment opportunities i.e. Page Industries, Eicher Motors and the likes because of the overvaluation theory. Yet these companies have rallied on despite reservations on its valuation. The point is that looking at the p/e in isolation is a bad idea. Instead, a holistic assessment of the company will provide more insights on this matter.

Anything Else?

The stock price has been on a steady decline for sometime. It is currently hovering at about Rs. 220. Nobody seems to know who is selling or why. But, just because the price has slid in the past few months, it does not necessarily mean that the stock is fundamentally bad. Remember, the market always decides the price, but, it too has to follow the growth path, if there is one.

STORY OF THE BALANCE SHEET

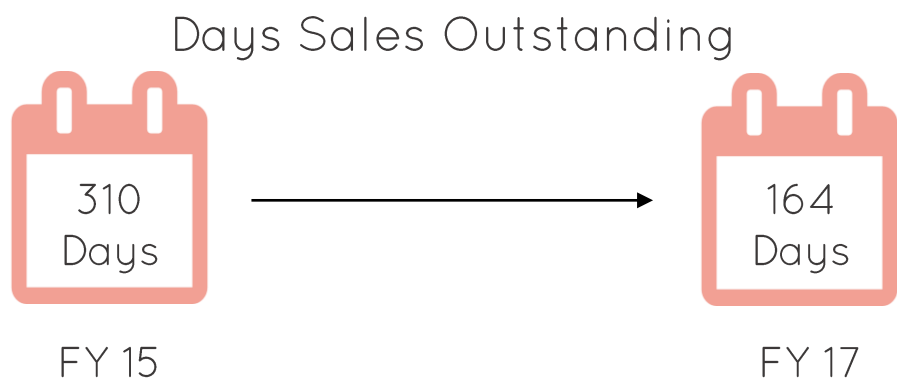
THE PROBLEM WITH THE RECIEVABLES

Usually, we'd put this bit in the balance Sheet and not dedicate an entire section towards it. However this number sticks out like a sore thumb and we had to talk about trade receivables separately. Trade receivables arise when MRSS provides its services on credit and receive the money much later. This is usually bad for business because it dries up your working capital and as of March 2017, the companies trade receivables stood at Rs. 10 Crores and for a company that dabbles with FPO's and whose revenues only amounted to 22 Crores in FY-2016-17, this could look like a problem.



However, this problem of receivables seem like an industry wide phenomenon. Nielsen, the largest, most well renowned market research company in the world has total receivables of over \$1 Billion against a turnover of \$6 Billion. Granted, even with this comparison, MRSS' numbers still look shaky, but you must account for the fact that a company founded only in 2012 will not have the same bargaining power as a Nielsen. More often than not, to woo clients, companies in their early stages of growth will have to offer much more favorable terms and credit periods before they can scale up and command better terms for business.

So then, the focus must shift towards their recent performance in bringing down credit periods. On this front, MRSS India seems to be moving in the right direction. Days Sales Outstanding is a number that is used to calculate a company's average collection period and MRSS has reigned in this number hard. From an average collection period of 310 days in FY 2014-15 to a miraculous 164 days in FY 2016-17, MRSS India has done a formidable job in getting better deals from its clients. But this is another column that investors ought to pay close attention to



Currently you can purchase MRSS in lots of 600 shares from the BSE SME Board. It's still not listed on the main board of the Bombay Stock Exchange, but the proposal to do so has already been approved by the management and you could expect to see MRSS India to be on it soon.

FINAL REVIEW OF THE STOCK

SHOULD YOU BUY THIS STOCK?

- 01** The company has been in operation since 2012, declared an IPO in 2015 and grew by 5500% in just 3 years
- 02** The growth has been propelled by judicious investments of working capital and acquisitions as seen by the high Return on Capital Employed
- 03** The Management is a solid mix of young blood and experience and perhaps the biggest asset to the company
- 04** The money raised through the FPO was used to acquire the Singapore Based Company MPA Limited; whose revenues amount to 22 Cr.
- 05** Balance Sheet looks good and the company clearly seems to be on the growth path.

WHAT SHOULD INVESTORS LOOK OUT FOR?

- 01** Investors must pay close attention to the Promoter Stake. Any further dilution could be a potential red flag
- 02** Investors must also look out for the financials of the new acquisition; Singapore MPA and its debt levels
- 03** MRSS has outlined its vision on how and where it plans to earn revenues in the future. Investors could measure MRSS' performance based on these expectations set by the company itself
- 04** Investors must pay close attention to the company's increasing debt levels and the total trade receivables



Buy or Sell?

We are in the business of helping investors make better decisions, which is why we have consciously decided to stay away from making buy/sell calls on stocks. We also understand that this information is in no way complete or comprehensive. But, we hope that this will be a good place for you to start your research on MRSS, if you wish to make an investment in it.

THANK YOU FOR READING



Reference

Consolidated Balance Sheet

Consolidated Profit & Loss account	in Rs. Crores		
	Mar '17	Mar '16	Mar '15
Income			
Sales Turnover	22.93	11.17	5.53
Excise Duty	0	0	0
Net Sales	22.93	11.17	5.53
Other Income	0.05	0.15	0
Stock Adjustments	0	0	0
Total Income	22.98	11.32	5.53
Expenditure			
Raw Materials	0	0	0
Power & Fuel Cost	0	0	0
Employee Cost	2.9	2.53	2.53
Other Manufacturing Expenses	10.84	4.54	1.03
Selling and Admin Expenses	0	0	0
Miscellaneous Expenses	1.73	1.13	0.83
Preoperative Exp Capitalised	0	0	0
Total Expenses	15.47	8.2	4.39
	Mar '17	Mar '16	Mar '15
Operating Profit	7.46	2.97	1.14
PBDIT	7.51	3.12	1.14
Interest	0.27	0.14	0.09
PBDT	7.24	2.98	1.05
Depreciation	0.24	0.19	0.28
Other Written Off	0	0	0
Profit Before Tax	7	2.79	0.77
Extra-ordinary items	0	0	0
PBT (Post Extra-ord Items)	7	2.79	0.77
Tax	2.36	0.91	0.24
Reported Net Profit	4.63	1.88	0.52
Minority Interest	0	0	0
Share Of P/L Of Associates	0	0	0
Net P/L After Minority Interest & Share Of Associates	4.63	1.88	0.52
Total Value Addition	15.48	8.19	4.39
Preference Dividend	0	0	0
Equity Dividend	0	0	0
Corporate Dividend Tax	0	0	0
Per share data (annualised)			
Shares in issue (lakhs)	49.98	41.22	30.02
Earning Per Share (Rs)	9.27	4.56	1.72
Equity Dividend (%)	0	0	0
Book Value (Rs)	40.4	16.18	12.22



Analyst certification

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