

## MRS. BECTORS FOOD SPECIALITIES LTD

### IPO Note

(**SUBSCRIBE**)

**Analyst:**

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# IPO details

Key Data	
Issue Opens	15-Dec-20
Issue Closes	17-Dec-20
Equity Shares Offered (in mn.)	18.77
QIB	Up to 50%
NIB	Min 15%
Retail	Min 35%
Face Value (Rs)	10
Price Band (Rs)	286-288
Max. Issue Size (Rs mn)	5,405
Lot Size (Eq. Shares)	50 and multiple thereof

Valuation	@ 286 per share	@ 288 per share
Market Cap ( mn)	16,801	16,919
Net Debt (Rs mn)	652	652
Enterprise Value (Rs mn)	17,453	17,571
EV/ Sales	2.3	2.3
EV/ EBITDA	18.8	18.9
P/E	54.0	54.3

\* Calculated on EPS of FY17

Sitsce: Red Herring Prospectus, Dealmoney Research

	Pre Issue		Post Issue^	
	# mn Shares	% Holding	# mn Shares	% Holding
Promoters	30.0	52.4%	12.7	21.6%
Public	27.3	47.6%	27.3	46.5%
Others	0.0	0.0%	0.0	0.0%
Offer for sale		0.0%	17.4	29.6%
Fresh Issue		0.0%	1.4	2.4%
Total	57.3	100.0%	58.7	100.0%

## Object of the issue

- To finance the cost of Rajpura Expansion Project.
- To meet the general corporate purposes

## Recommendation

BSF is one of the leading player in the premium & mid-premium biscuit and premium bakery segment in North India with market share of 4.5%. On an upper price band of Rs 288, with EPS at Rs 5.3 for FY 20, the stock is available at a P/E of 54.3x, is justified compared to its similar sized peers. Therefore, we recommend to **SUBSCRIBE** over the issue.

## One of the leading companies in the premium and mid-premium biscuits segment and the premium bakery segment in North India

- Mrs. Bectors Food Specialities Ltd. (BFS) is one of the leading companies in the premium and mid-premium biscuits segment and the premium bakery segment in North India, according to the Technopak Report. BFS manufacture and market a range of biscuits such as cookies, creams, crackers, digestives and glucose under its flagship brand 'Mrs. Bector's Cremica'. It also manufacture and market bakery products in savitsy and sweet categories which include breads, buns, pizza bases and cakes under brand 'English Oven'. It supplies products to retail consumers in 26 states within India, as well as to reputed institutional customers with pan-India presence and to 64 countries across six continents during the Financial Year ended March 31, 2020.
- According to Technopak Report, 'Mrs. Bector's Cremica' is one of the leading biscuit brands in the premium and mid-premium segment in Punjab, Himachal Pradesh, Jammu and Kashmir and Ladakh and 'English Oven' is the one of the largest selling brand in the premium bakery segment in Delhi NCR, Mumbai and Bengaluru.
- All BFS products are manufactured in-house at its six manufacturing facilities located in Phillaur and Rajpura (Punjab), Tahliwal (Himachal Pradesh), Greater Noida (Uttar Pradesh), Khopoli (Maharashtra) and Bengaluru (Karnataka), which enables it to have an effective control over the manufacturing process and to ensure consistent quality of its products. All its manufacturing facilities are strategically located in proximity to its target markets, which minimises freight and logistics related time and expenses.
- The company supply its products to retail consumers in 26 states within India, as well as to reputed institutional customers with pan-India presence and to 64 countries across 6 continents during the Financial Year ended March 31, 2020. For Biscuits distribution, the company has a widespread network of 196 super-stockists and 748 distributors supplying to wide range of customers through 458,000 retail outlets and 4,422 preferred outlets

Sitsce: Red Herring Prospectus, Dealmoney research

## Its diversified product portfolio includes 2 main categories

### Biscuits

The company manufactures and sell biscuits, primarily in the premium and mid-premium segments including a wide variety of cookies, creams, crackers, and digestives. In the recent past, they have launched new products such as 'Trufills', 'Premium Sugar and Classic Crackers', 'Pista Almond Cookies', 'Choco Chip Cookies', 'Honey Oatmeal Cookies' and for the period between April 1, 2020 to September 30, 2020, its product portfolio for the biscuits category consists of 384 Stock Keeping Units ("SKUs"). They also manufacture 'Oreo' biscuits and 'Chocobakes' cookies on contract basis for Mondelez India Foods Pvt. Ltd.

### Bakery Products

They manufacture and sell various types of premium bakery products in savitsy and sweets categories for its retail customers such as breads, buns, pizza bases, and cakes under the 'English Oven' brand, which caters to the premium segment in Delhi NCR, Mumbai, and Bengaluru. The 'English Oven' is one of the fastest growing largescale premium bakery brand in India. The company also manufacture and sell a variety of bakery and frozen products such as buns, kulchas, pizzas and cakes to its QSR customers with pan India presence, cloud kitchens such as Rebel Foods Pvt. Ltd. since 2015, multiplexes such as PVR Ltd, as well as certain hotels, restaurants and cafés. They are the sole supplier of burger buns and pan muffins (frozen) to Connaught Plaza Restaurants Pvt. Ltd. and associated since the year 1995 and preferred supplier of burger buns and pan muffins (fresh) to Hardcastle Restaurants Pvt. Ltd. since 2007.

The performance of the product segments is as follow

Product Segment	Particulars	6 Months ended Sep' 30,		Financial Year ended March 31,		
		2020	2019	2020	2019	2018
Biscuits	Gross Margin	45.8%	45.0%	44.4%	43.6%	42.1%
	EBITDA	15.7%	6.9%	8.8%	10.4%	10.3%
Bakery Products	Gross Margin	53.5%	49.9%	50.1%	50.8%	50.8%
	EBITDA	19.6%	17.1%	17.7%	15.4%	16.7%

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# Strengths

- ❑ **One of the leading brands in biscuits and bakery businesses in North India with an ability to establish brands:** BFS are among the top two Indian biscuit manufacturers in the premium and mid-premium biscuits segment in Punjab, Himachal Pradesh, Ladakh and Jammu and Kashmir (Sitsce: Technopak Report). In the Financial Year 2020, it had a market share of 4.5% of the premium and mid-premium biscuits market in North India respectively, according to Technopak Report.
- ❑ **A leading exporter of biscuits:** One of the leading exporter of biscuits from India, with approximately 12% share of the Indian biscuit export market in calendar year 2019 and it contribute more than 50% by value of biscuit exports from India to countries like South Africa and Uganda and more than 25% by value of biscuit exports from India to Canada. During the Financial Year ended March 31, 2020, it exported biscuits to 64 countries, to various retailers, distributors and buying houses such as Monteagle International (UK) Limited, Lulu Hypermarket Trading Co, E-Mart Inc., Atlas Global (HK) Limited, Omni Trade Services Limited, Universal Trade Limited, and World Wide Imports (2008) Ltd. It also export various types of cookies such as danish cookies, choco chip cookies and centre filled cookies, creams, crackers and some glucose biscuits under its flagship brand 'Mrs. Bector's Cremica'.
- ❑ **Established presence in retail and institutional bakery business:** 'English Oven' is one of the fastest growing largescale premium bakery brand in India according to Technopak Report. It market and sell its premium bakery products in savitsy and sweet categories such as breads, buns, pizza bases, and cakes to its retail customers under its brand 'English Oven' which is one of the largest selling brands in the premium bakery segment in Delhi NCR, Mumbai and Bengaluru.

## Strengths

- ❑ **Modern and automated production processes with a focus on quality control:** BFS production facilities are strategically located in proximity to its target markets, which minimises freight and logistics related time and expenses. Mrs. Bectors Food is a quality-focused company and committed to maintaining stringent quality standards at all steps of the manufacturing cycle, from procurement of the raw material to dispatch of the finished product. They use premium quality raw materials and ingredients in its products. For instance, they have integrated modern technologies in its manufacturing process such as the 'Farinograph', which allows them to ensure using consistent quality of wheat during the manufacturing process.
- ❑ **Wide spread and established sales and distribution network:** Its extensive sales and distribution network allows it to reach a wide range of consumers and ensures effective penetration of its products and marketing campaigns. Its sales and distribution network is strategically spread across different states in North India, and has an especially strong outreach in certain urban and semi urban markets, where it expect growth to be more significant.

## Future road ahead

- **Focusing on growth in premium biscuits and bakery segment to improve margin:** Its strategy is to also expand into premium products with higher margins. Currently, it offer various premium and mid-premium category of biscuits including cookies, creams, crackers and digestives. The premium and mid-premium category biscuits market is expected to grow to ₹ 504 billion by FY2025 growing at a CAGR of 9.5% from FY2020 to FY2025. It also offer premium category of bakery products, including whole wheat, multigrain and sandwich breads. According to the Technopak Report, the market for breads and buns retail market in India is estimated to grow to ₹ 76 billion by FY2025 from ₹ 50 billion at FY2020, estimated to grow at a CAGR of 9% from FY2020 to FY2025.
- **Focus on product development in biscuits and bakery segments:** The company has an experienced in-house research and development team that works on its new product development processes through innovations, trials, regulatory approvals and driving market acceptance and cost alignments along with its marketing and supply chain management teams. The company also seek to increase the capacities of its manufacturing facilities by installing new, automated and product specific equipment such as installation of a cookies manufacturing line sitsced from Denmark. They are looking to expand its premium biscuits production in its Rajpura (Punjab) Manufacturing Facility by procuring automated equipment from Italy. Further, they have also commissioned a sheeting line capable of producing 'Focaccia Breads', 'Panini Breads', 'Ciabatta Breads', at its Greater Noida Manufacturing Facility.
- **Expand its product reach in India and globally:** The company plans to increase its penetration in select export markets, such as South, Central and North America, the MENA region and Australasia. They are also in the process of setting-up a new office in Dubai and participate in trade fairs in these export markets extensively to strengthen its presence in these markets.



## Future road ahead

- ❑ **Expansion of the distribution network through diversification:** The company has a strong distribution network in North India and focuses to establish a pan India presence for its biscuits and bakery segments by diversifying its distribution network in other regions of India. The company has increased its distribution through the modern trade channels such as Walmart India Pvt. Ltd. They seek to increase their distribution through modern trade channels in other regions in India. They are also collaborating with various e-commerce platforms for sale of their biscuits and bakery products, multiplex chains such as PVR Ltd and cloud kitchens such as Rebel Foods Pvt. Ltd. to sell its bakery products on a pan India level. They further seek to increase the export of its products by investing in adequate infrastructure for export of its frozen products to select countries.
- ❑ **Focus on increasing the brand awareness:** BFS seeks to continuously allocate significant resources to strengthen 'Mrs. Bector's Cremica' and 'English Oven' as one of India's leading biscuit and bakery brands, respectively. Their marketing plan comprises advertising in print media, digital, television, radio and outdoor promotional campaigns, and sponsorship of prominent sporting and cultural events in India.

## BUSINESS IMPACT – COVID 19

- ❑ During the nation-wide lockdown, company's Tahliwal Manufacturing Facility, Phillaur Manufacturing Facility, Rajpura Manufacturing Facility and Khopoli Manufacturing Facility were shut down for a period of around 3-6 days and given that they are engaged in manufacturing of biscuits, and bakery products which are fast moving consumer products, and are all categorised as 'essential goods', its operations resumed subsequently after making adequate arrangements to meet the government's requirement on sanitisation, and social distancing.
- ❑ The company typically maintain an inventory of raw materials for a period of 15-20 days due to which they have not faced any disruption in its manufacturing process during this period. Further, they did not lay-off any of its employees and there have been no reductions in salaries and wages of the employees due to COVID-19 pandemic.
- ❑ While there was an accelerated increase in sale of its biscuits and bakery products to its retail customers during this time, the sales of its products to their QSR customers, CSDs and Indian Railway canteens and stores were significantly impacted due to COVID-19 pandemic. While the sales of its products to its QSR customers and CSDs have improved, they continue to be adversely impacted as the operations of Indian Railway canteens are severely impacted.
- ❑ There is significant increase in the consumption of packaged foods, which indicates an accelerated shift to packaged foods because of increasing quality and safety concerns amongst the customers due to the COVID - 19 pandemic and increase in demand for leading Indian packaged food brands in the export markets due to lower cost of skilled labits and processing packaged foods as compared other jurisdictions.

## Financials of key biscuit brands

	Revenue (₹ In Cr)			Gross Margins (%)	3 Year Average (Financial Year 17-19)			
	FY2019	FY2017	CAGR		EBITDA Margins (%)	ROE (%)	ROCE (%)	In-house Mfg.
Britannia	10673	8829	10.0%	39.3%	16.4%	29.9%	44.9%	65.0%
Parle	11950	10545	6.5%	35.9%	6.7%	11.7%	16.9%	NA
Anmol	10,98	1241	-6.0%	33.8%	11.7%	13.6%	16.1%	97.0%
Mrs. Bectors Food Specialities Ltd	786	626	12.0%	44.3%	12.1%	13.0%	17.3%	100.0%

## COMPARISON WITH LISTED INDUSTRY PEERS

		FV	Total Revenue for Fiscal 2020 ( ₹ Cr)	Closing Price on Nov'27, 2020 (₹)	EPS (Basic)	NAV^	P/E~	RoNW (%)
<b>Mrs. Bectors Food Specialities Ltd*</b>	Consolidated	10	764.98	[ . ]	5.31	55.76	[ . ]	9.5%
<b>Peer Group</b>								
<b>Nestle India Limited ^</b>	Consolidated	10	12615.78	17657.6	204.28	200.41	86.44	101.9%
<b>Britannia Industries Limited *</b>	Consolidated	1	11878.95	3634.1	58.35	183.09	62.28	31.7%
<b>Prataap Snacks Limited *</b>	Consolidated	5	1403	650.5	20.01	259.24	32.51	7.7%
<b>DFM Foods Limited *</b>	Consolidated	2	514.72	74.47	4.87	29.03	74.47	16.8%

Sitsce: Red Herring Prospectus, Dealmoney research

# Summary Financials

## Income Statement

Rs mn	FY18	FY19	FY20	H1FY21
Net Sales	6,906	7,837	7,621	4,310
% YoY Growth	-	14	(3)	18
COGS	3,828	4,240	4,075	2,248
Staff costs	913	1,097	1,179	621
Other expenses	1,311	1,538	1,440	720
Total expenses	6,051	6,876	6,693	3,589
<b>EBITDA</b>	<b>855</b>	<b>961</b>	<b>928</b>	<b>721</b>
% growth	-	12	(3)	85
EBITDA margin (%)	12	12	12	17
Other income	18	24	29	76
Interest costs	61	127	150	55
Depreciation	283	352	415	222
Profit before tax	528	506	391	521
Tax	169	175	88	133
PAT before MCI/NI	359	331	304	388
Share of profit from Subs /NCI	-	1	-	1
<b>PAT</b>	<b>359</b>	<b>332</b>	<b>304</b>	<b>389</b>
PAT margin (%)	5	4	4	9
% Growth	-	(19)	(6)	282

## Balance Sheet

Rs mn	FY18	FY19	FY20	H1FY21
Share capital	573	573	573	573
Reserves	2,093	2,375	2,620	3,005
Net worth	2,666	2,948	3,193	3,578
Lease liabilities	56	42	27	19
Other Long Term Liabilities	137	149	131	117
Borrowings	1,210	1,399	1,037	1,012
DTL (net)	65	122	79	88
<b>Total liabilities</b>	<b>4,134</b>	<b>4,660</b>	<b>4,467</b>	<b>4,813</b>
Net block	2,611	3,626	3,537	3,422
Capital work-in-progress	921	156	67	289
Investments	39	38	38	39
Other LTA	139	120	252	290
Inventories	353	353	434	544
Debtors	694	1,003	750	729
Cash	107	120	302	477
Other current assets	246	355	276	297
Total current assets	1,401	1,831	1,763	2,047
Creditors	390	488	470	616
Other current liabilities & provisions	587	623	720	658
Total current liabilities	977	1,111	1,190	1,274
Net current assets	424	720	573	773
<b>Total assets</b>	<b>4,134</b>	<b>4,660</b>	<b>4,467</b>	<b>4,813</b>

Sitsce: Red Herring Prospectus, Dealmoney research

## Key Risks

- ❑ The continuing effect of the COVID-19 pandemic on its business and operations is highly uncertain and cannot be predicted.
- ❑ Its inability to anticipate, respond to and meet the tastes, preferences or consistent quality requirements of its consumers or its inability to accurately predict and successfully adapt to changes in market demand or consumer preference could reduce demand for its products, affect its brand loyalty and impact its sales.
- ❑ It could be adversely affected due to restriction on use of its brand name and any negative publicity of its products.
- ❑ In the past, one of its Group Companies, CAFL, has been in violation of listing requirements of an erstwhile recognised stock exchange, OTC Exchange of India (“OTCEI”) and CAFL, its Promoter and one of its Non-Executive Directors, have been subject to disciplinary actions by OTCEI in the past.
- ❑ One of its Group Companies, CAFL, has incurred losses in the Financial Year 2018 and may incur losses in the future.
- ❑ It currently avail benefits under certain export promotion schemes. Any failure in meeting the obligations under such schemes, may result in adversely affecting its business operations and its financial condition.

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