

## Mrs. Bector's Foods Ltd.

SSIS IPO GRADE 4/5 (Fundamentally Sound)  
13<sup>th</sup> December, 2020

### Rating Overview

Incorporated in 1995, Mrs. Bectors Food Specialities Ltd is one of the leading companies in the premium bakery segment and premium and mid-premium biscuit segment in North India. The company's product portfolio mainly consists of two categories of products; Biscuits (cookies, creams, crackers, digestive, etc.) and Bakery products (bread, buns, pizza bases, cakes, etc.).

The company is one of the leading players in biscuits and bakery product segments. It supplied its products under two brands "CREMICA" and "ENGLISH OVEN". It has a strong distribution network in India and globally in the general trade and the modern trade segment. As per the management, with more capacity expansions underway, the company is confident of maintaining growth in top and bottom lines going forward. However, 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.

The Indian biscuits and bakery retail market is valued at ₹ 450.00 billion and is expected to grow at a CAGR of 9% over the next five years. Biscuits and other snacking bakery products such as rusks, wafers and tea cakes contribute almost ₹ 400.00 billion or 89% to the total market. The balance 11% is contributed by breads including loaves, buns, pizza bases which together account for ₹ 50.00 billion. Global market biscuit market is estimated to be worth ₹ 7,839.00 billion in 2020 projected to grow at a CAGR of 6% over next five years. It is driven by rising urbanisation, increasing disposable incomes and demand for convenience foods. Consumers prefer to consume biscuits with tea or coffee. The Indian biscuit market size is estimated to be ₹ 400.00 billion in 2020 representing ~5% of the global market. Indian market is expected to grow at a CAGR of 9% till 2025 and reach ₹ 620.00 billion. This growth will increase India's share in the global market to 6% by 2025. Indian biscuit market is dominated by lead brands like Britannia, Parle and ITC which has 65% of market share.

Our overall rating of Mrs. Bector's is fundamentally sound and the ask price is fair ask price so we recommend this company as a great medium-long term opportunity in the FMCG sector.

Note: The analyst has no plans of subscribing to the offer and does not hold any shares in the company prior to, or at the time of writing this review.

## Business Overview

Mrs Bectors Food Specialities Ltd. (BFSL) 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. The company manufactures and markets a range of our biscuits such as cookies, creams, crackers; digestives and glucose under our flagship brand 'Mrs. Bector's Cremica'. It also manufactures and market bakery products in savoury and sweet categories which include breads, buns, pizza bases and cakes under our brand 'English Oven'. BFSL supplies 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 six continents during the Financial Year ended March 31, 2020. The company has six manufacturing units - 2 in Punjab and 1 each in Himachal Pradesh, Uttar Pradesh, Maharashtra and Karnataka.

Recently, it has introduced new products such as sub breads, pizzas, garlic breads, cheese garlic bun fills, and frozen cookies for retail as well as institutional customers and during period April 1, 2020, to September 30, 2020, its diversified product portfolio for bakery segment consists of 118 SKUs. BFSL has a strong distribution network in India and globally in the general trade and the modern trade segment.

BFSL is one of the leading exporters of biscuits from India, according to Technopak Report, and it exported biscuits under own brand as well as under third party private labels to 64 countries during the Financial Year ended March 31, 2020, to reputed retail chains, distributors and buying houses. It also has a strong distribution network for bakery products sold under its brand 'English Oven' supplied to customers, for the period between April 1, 2020, to September 30, 2020, through 191 distributors and over 14,000 retail outlets (Source: Technopak Report) situated in Delhi NCR, Mumbai, Pune and Bengaluru under modern trade and general trade channels, direct sales to supermarkets, departmental stores or indirect sales through wholesalers and distributors. According to Technopak Report, it is one of the few bakery companies in India that can handle fresh, chilled and frozen products and this model enables it to distribute bakery products across India.

## Fundamental Overview

On the financial performance front, on a consolidated basis, BFSL has posted turnover/net profits of Rs. 695.76 cr. / Rs. 35.89 cr. (FY 18), Rs. 786.03 cr. / Rs. 33.15 cr. (FY19), Rs. 764.98 cr. / Rs. 30.40 cr. (FY20). For the first half of the current fiscal, it has posted a net profit of Rs. 38.88 cr. on a turnover of Rs. 438.56 cr. (against a net profit of Rs. 10.17 cr. on a turnover of Rs.366.21 cr. in the corresponding previous first half). Thus the performance of the first half of FY 21 (the IPO year) is a bit surprising. (Page 59 of offer document). For the last three and half years, the company has maintained average gross margins of around 44% for Biscuits segment and around 51% for bakery segment. Exports contributed around 22% in turnover for FY20.

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According to management, its capacity expansion mode for FY19 and 20 caused static performance and for H1 FY21 it has yielded benefits of utilization of expanded capacities. With more capacity expansions underway, the

company is confident of maintaining growth in top and bottom lines going forward.

For the last three fiscals, on a consolidated basis, BFSL has posted an average EPS of Rs. 5.62 and an average RoNW of 10.75. The issue is priced at a P/BV of 4.61 (at the upper cap) based on its NAV of Rs. 62.47 as on September 30, 2020. If we annualize super performance of FY21 H1 and attribute it to fully diluted equity post issue, then asking price is at a P/E of around 21.8 (Against industry peers average of 63.92). However, the sustainability of such performance is a major concern. Based on FY20 earnings asking price is at a P/E of around 55.70 on fully diluted equity.

**BFSL has paid 7.5% dividend per year for the last three fiscals and it hopes to continue with its reasonable dividend outflow policy going forward. (Page 215 of offer document)**

As per offer documents, BFSL has shown Nestle India, Britannia Ind., Prataap Snacks and DFM Foods as its listed peers which are trading at a P/Es of 85.46, 52.36, 113.09 and 98.79 ( as on December 11, 2020). However, they are not strictly comparable on an apple to apple basis.

Summary of financial Information				
Particulars	For the year/period ended (Rs in million)			
	30-Sep-20	31-Mar-20	31-Mar-19	31-Mar-18
<b>Total Assets</b>	6,087.26	5,657.15	5,770.44	5,110.59
<b>Total Revenue</b>	4,385.55	7,649.76	7,860.29	6,957.55
<b>Profit After Tax</b>	388.83	304.03	331.50	358.93

## Issue Details

To part finance expansion of Rajpura manufacturing unit (Rs. 40.54 cr.) and provide a partial exit to existing shareholders, BFSL is coming out with a maiden combo offer of fresh equity share issue worth Rs. 40.54 cr. and an offer for sale of Rs. 500 cr. making the overall issue size of Rs. 540.54 cr. The issue is opening for subscription on December 15, 2020, and will close on December 17, 2020. The company has fixed a price band of Rs. 286 - Rs. 288 per share. Thus on a higher price band, the company will be issuing approx. 1407650 fresh equity shares and it may offer approx. 17361100 equity shares under offer for sale thus making the overall issue for approx. 18768750 equity shares.

The company has reserved shares worth Rs. 0.5 cr. for eligible employees and may offer a discount of Rs. 15 per share to them. Minimum application is to be made for 50 shares and in multiples thereon, thereafter. Of the residual portion, BFSL has reserved 50% for QIBs, 15% for HNIs and 35% for retail investors. The issue constitutes 31.95% of the post issue paid-up equity capital of the company. Post allotment, shares will be listed on BSE and NSE.

Having issued initial equity at par, BFSL has issued further equity at Rs. 2647 and at Rs. 174.62 In January 2007 and in March 2019 as well as December 2020. It has also issued bonus shares in the ratio of 29 for 1 in March 2011 and 1 for 1 in July 2017. The average cost of acquisition of shares by the promoters is Rs. 6.46 per share and by the selling shareholders are Rs. 174.89 and Rs. 175.46 per share.

Post issue, BFSL's current paid-up equity capital of Rs. 57.34 cr. will stand enhanced to Rs. 58.75 cr. and based on the upper cap of the price band; it is looking for a market cap of approx. Rs. 1692 cr.

Book Running Lead Managers (BRLMs) to this offer are SBI Capital Markets Ltd., ICICI Securities Ltd. an IIFL Securities Ltd. while Link Intime India Pvt. Ltd. is the registrar to the issue.

<b>Application Dates</b>	<b>Dec 15, 2020 – Dec 17, 2020</b>
<b>Issue Type</b>	Book Built Issue FPO
<b>Face Value</b>	₹10 per equity share
<b>IPO Price</b>	₹286 to ₹288 per equity share
<b>Market Lot</b>	50 Shares
<b>Listing At</b>	BSE, NSE
<b>Issue Size</b>	[.] Eq Shares of ₹10 (Up to ₹540.54 Cr)

### Issue Timeline

<b>Basis of Allotment Date</b>	Dec 22, 2020
<b>Initiation of Refunds</b>	Dec 23, 2020
<b>Credit of Shares to Demat Account</b>	Dec 23, 2020
<b>IPO Listing Date</b>	Dec 24, 2020

## Investment Strategy

After posting static performance for FY 18, FY19 and FY20, super performance for H1-FY21 surprises and raises concern. Sustainability of such performance amidst stiff competition from giants and the local players in the segment with organized and unorganized players remains a major worry. Based on FY20 earnings, the issue is priced around 56 P/E while on the basis of FY21 H1 annualized data, P/E is around 22. Thus if we exclude H1 FY 21 super performance, the issue appears fully priced. Since BFSL is in the top few players in the FMCG segment, investors may consider an investment with a medium to long term perspective.