Consumer Sector

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Sector Update

Mrs. Bector's Food Specialities Ltd. IPO Analyst Meet Takeaways

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We attended the virtual Brokers/Analyst Meet of Mrs. Bector's Food Specialities Ltd.'s (MBFSL) forthcoming initial public offering (IPO). The management was represented by Mr. Anoop Bector (MD), Mr. Ishaan Bector (WTD), Mr. Parveen Kumar Goel (CFO) and Mr. Deepak Kumar Jain (Head – Finance & Strategy), who spoke about the journey of MBFSL till date and shared details about the IPO.

Background: MBFSL is in the business of manufacturing and marketing a range of biscuits (including cookies, creams, crackers, digestives and glucose) and bakery products in savory and sweet categories (including breads, buns, pizza bases & cakes) to its retail & institutional clients. Operations are divided into: 1) **Biscuits – domestic** (37% of FY20 revenue), 2) **Biscuits – exports** (22% of FY20 revenue), 3) **Branded breads & bakery products** (17% of FY20 revenue), 4) **Institutional Bakery** (17% of FY20 revenue) and 5) **Others** - Contract Manufacturing (6% of FY20 revenue). The biscuits portfolio is sold under the company's flagship brand *'Mrs. Bector's Cremica'* whereas the bakery products are sold to retail customers under the brand name *'English Oven'*. The company manufactures and sells a variety of bakery & frozen products such as buns, kulchas, pizzas and cakes to its institutional clientele, including QSRs with a pan-India presence, cloud kitchens, multiplexes as well as certain hotels, restaurants and cafés. MBFSL is the sole supplier of burger buns and pan muffins (frozen) to Connaught Plaza Restaurants Pvt. Ltd. (associated since 1995) and it is a preferred supplier to leading players such as Hardcastle Restaurants, Yum! Restaurants, Rebel Foods and PVR. For its contract manufacturing business, MBFSL manufactures *'Oreo'* biscuits and *'Chocobakes'* cookies for Mondelez India Foods Pvt. Ltd. As on FY20, MBFSL supplied its products to retail consumers in 26 states in India, besides institutional customers pan-India and to 64 countries across six continents.

Segment specific commentary: The **Domestic Biscuit** business has grown at a CAGR of 7.5% over FY18-FY20 despite capacity constraints in FY18 and some part of FY19. The company has a strong presence in North India (4.5% of the premium and mid-premium biscuits market in North India in FY20), which it intends to leverage to expand presence in the other regions of India. It is present at 458k retail outlets across India, which are serviced through an in-house sales team of 250+ personnel. It is also one of the largest suppliers of biscuits to the CSDs, supplying in 33 locations across India. Within the **Biscuit (Exports)** business, the company has realigned its focus on developed markets and emerging markets such as Asia, Australia, Europe, MENA region and North America due to geo-political and socio-economic reasons in certain African markets. Post this realignment, the exports segment has grown by 39% YoY in 1HFY21. As per Technopak, MBFSL's market share in the Indian biscuit export market is ~12%. The **Branded Breads** business has grown at a CAGR of 29% over FY18-20 with realization improving from Rs18.50/pack in FY18 to Rs22.10/pack in 1HFY21. It is the largest selling brand in Delhi NCR, Mumbai and Bangaluru. Going forward, growth will be based on product distribution and product innovation. For the branded breads & bakery products, the company will focus on metro and Tier 1 cities, where consumption is higher and the premiumization can play out. Within the **Institutional** business, MBFSL has the capacity to produce ~1.2mn burger buns/day. It has also started producing value-added products, including garlic breads, calzones etc. Despite a 61% YoY decline in 1HFY21 (sales to QSRs were affected due to Covid-19 related lockdown), the management is very confident about its institutional business given the fact that the QSR market is likely to grow by 22.7% over FY20-FY25E.

Infrastructure and capex: The company started its capex journey in 2017 and has invested ~Rs2.6bn between FY18 and Sept'2020 – (i) In 2017, it expanded capacities at its Greater Noida facility (ii) in 2018, the company made a greenfield investment in its Rajpura facility, introduced a new bread line at its Greater Noida facility, established new production line for breads at the Bengaluru facility and acquired land at Dhar, Madhya Pradesh for further expansion (iii) In 2020, the company has proposed expansion of the Rajpura manufacturing facility (utilizing the proceeds of the IPO), which is likely to get commercialized by the end of 2022 and will add ~14,000 tons of additional capacity for biscuits. The capacity utilization for biscuits, which stood at 93% in FY18, decreased to 72% in FY20 post the aforementioned capacity expansion. Going forward, the company is likely to invest Rs1bn (from internal accruals) for a new facility in Dhar, Madhya Pradesh, which will start production in FY24 and will cater to the West, South and East markets of India.

Product innovations and recent launches: As mentioned above, MBFSL has already invested Rs2.6bn between FY18 and Sept'2020 to build capacities with superior capabilities and its plants are equipped with the best technology with capability to produce international quality products. As on 1HFY21, MBFSL's product portfolio consisted of 384 SKUs in the biscuits category and 118 SKUs in the bakery category. Recent launches in the biscuits segment include 'Trufills', 'Premium Sugar and Classic Crackers', 'Pista Almond Cookies', 'Choco Chip Cookies' and 'Honey Oatmeal Cookies'. Recent launches, for retail as well as institutional customers, include sub-breads, pizzas, garlic breads, cheese garlic bun fills and frozen cookies.

Objects of the offer: The offer comprises of a fresh issue aggregating up to Rs405.4mn and an offer for sale of up to Rs5bn by the selling shareholders. The proceeds of the fresh issue are proposed to be utilized for financing the project cost towards expansion of the Rajpura manufacturing facility by establishing a new production line for biscuits.

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY18	FY19	FY20	1HFY21
Net revenues	6,906	7,837	7,621	4,310
YoY growth (%)	-	*13.5*	*-2.7*	*18.2*
EBITDA	854.9	960.8	928.2	721.4
EBITDA margin (%)	12.4	12.3	12.2	16.7
PAT	359	332	304	389
EPS (Rs)	6.3	5.8	5.3	6.8
YoY growth (%)	-	*-18.6*	*-5.8*	*282.2*
RoCE (post-tax) (%)	-	*10.1*	*9.8*	*20.0*
RoE (%)	-	*11.8*	*9.9*	*23.5*

Source: MBFSL RHP, Nirmal Bang Institutional Equities Research

Note: Return ratios for 1HFY21 are annualized; Growth in 1HFY21 is over 1HFY20

Exhibit 2: Key issue details

Sector	FMCG
Price band (Rs)	286-288
Face Value (Rs)	10
Issue size (Rsbn)	Fresh issue of Rs 405.4mn and offer for sale aggregating up to Rs5bn by selling shareholders
Anchor Book	14th Dec' 20
Offer Opens on	15th Dec' 20
Issue Closes on	17th Dec' 20

Source: MBFSL RHP, Nirmal Bang Institutional Equities Research

About the company

- As on FY20, MBFSL supplied its products to retail consumers in 26 states in India, besides to institutional customers pan-India and to clients in 64 countries across six continents.
- As per Technopak's report, *'Mrs. Bector's Cremica'* is one of the leading biscuit brands (within top 2) in the premium & mid-premium segment in Punjab, Himachal Pradesh, Jammu & Kashmir and Ladakh. *'English Oven'* is one of the largest selling brands in the premium bakery segment in Delhi NCR, Mumbai and Bengaluru.
- The company is the largest supplier of buns in India to reputed QSR chains such as Burger King India Ltd., Connaught Plaza Restaurants Pvt. Ltd, Hardcastle Restaurants Pvt. Ltd. and Yum! Restaurants (India) Pvt. Ltd.
- During FY20, MBFSL had a market share of 4.5% in the mid premium & premium segments in North India.
- Within biscuits, the company is primarily in the mid premium & premium segments with barely 4% revenue coming from glucose and other mass segment products.
- The company has various certifications in place, which ensure stringent quality controls. The management also believes that great systems and certifications will help it to improve volume as consumers have become more health & hygiene conscious.

Commentary on operational metrics & financial performance

- Due to focus on high margin/premium products, overall gross margins have increased from 44% in FY18 to 47% in FY20. If not for lost sales in the domestic business, exports business and provision of Rs70mn made for exports receivables, the operating margin in FY20 would have been higher than the reported 12%.
- Dividend payout ratio has ranged ~15-18% in the last 3 years.
- Return ratios have fallen over FY18-FY20 due to capex investments.
- Management believes that 1HFY21 sales are sustainable, as despite 3 months of lost CSD sales and QSR business taking a hit, the company manged to post 18% overall topline growth.
- Collection period for export business ranges between 50 days and 60 days.
- There is no fixed timing of implementing price hikes; it will be dependent on inflation and will be taken either through grammage reduction or increase in absolute price.
- The company does not procure directly from the farmer and has both long-term and short-term contracts for commodities.

Product/segment specific other commentary

- MBFSL is looking to roll out new products soon (allied, frozen etc.) and as per the management, the company always has 5-7 products in the pipeline.
- Share of non-white breads, which is a faster growing category, is larger than white breads.
- The company has recently launched *'English Oven'* in Mumbai.

Distribution

- As on 1HFY21, the company distributed its biscuits across 23 states in India through a network of 196 super-stockists and 748 distributors, supplying to 458,000 retail outlets (400,000 in North India).
- It also supplies to CSDs in 33 locations across India and is an approved & listed supplier for Indian Railways, having presence across Railway Station Canteens & their stores in North India.
- For its bakery products sold under *'English Oven',* the company has 191 distributors, supplying to over 14,000 retail outlets 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.
- Sales through CPOs (Cremica Preferred Outlets) are 5-6x of a normal outlet. The company is adding CPOs on a continuous basis.
- Within modern trade, MBFSL is introducing larger and mid-sized packs of existing high selling products based on buying patterns and regional preferences.
- The e-commerce business is very small and the company started selling through this channel only after the onset of the Covid-19 pandemic.

Strategies

- As per the management, innovation, premiumization, supply chain efficiencies, institutional business, significantly high capacities, market leadership in many *English Oven* products (footlong, panini) and large market share in exports tend to provide competitive edge.
- 95-96% of retail domestic sales come from North India while the balance ~5% come from Maharashtra and Madhya Pradesh. The company is also looking to grow further in markets like Rajasthan, Uttar Pradesh etc.
- The company aims to become a major player by adding more outlets and selling more products in existing outlets.

Automation & Technology

- MBFSL has sourced equipment from Denmark, Germany, USA and Italy for manufacturing of its various products.
- PERI (the company's automated tool to track distribution channel on real time) enables it to track real time coverage and has helped it to increase efficiency of the sales team by providing access to critical information of sales & products and strategic information about sales trends.
- Dealer management system will be rolled out shortly.

Financials (Consolidated)

Exhibit 3: Income statement

Y/E March (Rsmn)	FY18	FY19	FY20	1HFY21
Net Sales	**6,906**	**7,837**	**7,621**	**4,310**
% YoY Growth	**-**	***13.5***	***-2.7***	***18.2***
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
EBITDA	**855**	**961**	**928**	**721**
% growth	**-**	***12.4***	***-3.4***	***85.1***
EBITDA margin (%)	**12.4**	**12.3**	**12.2**	**16.7**
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	0	1	0	1
PAT	**359**	**332**	**304**	**389**
PAT margin (%)	**5.2**	**4.2**	**4.0**	**8.9**
% Growth	**-**	***(18.6)***	***(5.8)***	***282.2***

Source: MBFSL RHP, Nirmal Bang Institutional Equities Research

Exhibit 4: Cash flow

Y/E March (Rsmn)	FY18	FY19	FY20	1HFY21
PAT	373	363	268	455
Depreciation	283	352	415	222
(Inc.)/dec. in working capital	-259	-339	210	-28
Others	68	165	201	31
Cash flow from operations	**465**	**540**	**1,095**	**680**
Capital expenditure (-)	-1,176	-613	-410	-361
Net cash after capex	**-711**	**-73**	**685**	**318**
Inc./(dec.) in investments and other assets	105	65	73	101
Cash from investing activities	**-1,072**	**-547**	**-337**	**-261**
Dividends paid (-)	-42	-63	-52	0
Inc./(dec.) in share	0	0	0	0
Inc./(dec.) in borrowings	689	271	-291	-88
Others	-69	-139	-168	-62
Cash from financial activities	**578**	**69**	**-511**	**-150**
Opening cash balance	136	59	55	207
Closing cash balance	107	120	302	477
Change in cash balance	-29	62	247	270

Source: MBFSL RHP, Nirmal Bang Institutional Equities Research

Exhibit 5: Balance sheet

Y/E March (Rsmn)	FY18	FY19	FY20	1HFY21
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
Total liabilities	**4,134**	**4,660**	**4,467**	**4,813**
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
Total assets	**4,134**	**4,660**	**4,467**	**4,813**

Source: MBFSL RHP, Nirmal Bang Institutional Equities Research

Exhibit 6: Key ratios

Y/E March	FY18	FY19	FY20	1HFY21
Per share (Rs)				
EPS	6.3	5.8	5.3	6.8
Book value	46.6	51.5	55.8	62.5
DPS	0.9	0.9	0.9	0.0
Return ratios (%)				
RoCE	-	10.1	9.8	20.0
RoE	-	11.8	9.9	23.5
RoIC	-	10.6	9.4	24.5
Profitability ratios (%)				
Gross margin	44.6	45.9	46.5	47.8
EBITDA margin	12.4	12.3	12.2	16.7
EBIT margin	8.3	7.8	6.7	11.6
PAT margin	5.2	4.2	4.0	8.9
Liquidity ratios (%)				
Current ratio	1.4	1.6	1.5	1.6
Quick ratio	1.1	1.3	1.1	1.2
Solvency ratio (%)				
Debt to Equity ratio	0.4	0.4	0.2	0.1
Turnover ratios				
Total asset turnover ratio (x)	1.7	1.7	1.7	0.0
Fixed asset turnover ratio (x)	2.6	2.2	2.2	1.3
Inventory days	-	16	19	20
Debtors days	-	40	42	34
Creditor days	-	20	23	22

Source: MBFSL RHP, Nirmal Bang Institutional Equities Research

Note: Return ratios for 1HFY21 are annualized

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