

Initiating Coverage

# Mrs. Bectors Food Specialities Ltd.

October 08, 2021





# Mrs. Bectors Food Specialities Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
FMCG	Rs. 410	Buy in Rs. 407-413 band & add more on dips to Rs. 358-362 band	Rs. 447	Rs. 492	2 quarters

HDFC Scrip Code	BECTORFOOD
BSE Code	543253
NSE Code	BECTORFOOD
Bloomberg	BECTORS IN
CMP Oct 07, 2021	410
Equity Capital (Rs Cr)	59
Face Value (Rs)	10
Equity Share O/S (Cr)	5.9
Market Cap (Rs Cr)	2412
Book Value (Rs)	73.4
Avg. 52 Wk Volumes	101601
52 Week High	629
52 Week Low	328

Share holding Pattern % (Jun, 2021)	
Promoters	51.09
Institutions	9.55
Non Institutions	39.36
Total	100.0



HDFCsec Retail research  
stock rating meter

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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## Our Take:

Mrs. Bectors Food Specialities (MBFSL) is one of the leading companies in the premium and mid-premium biscuits along with being the largest biscuits exporter from India. It manufactures and markets a range of its biscuits under flagship brand '*Mrs. Bector's Cremica*'. Its bakery brand, '*English Oven*', is the fastest growing premium bakery brand in India. While the benefits of revamped strategy in biscuit segment for its international market is likely to continue going forward, domestic market also presents steady growth potential for mid and premium segment of biscuit industry. The company also aims to cater to wide variety of retail customers in the bread and buns segment by introducing new niche product variants and focusing on expanding distribution network by increasing penetration in Tier 1 and Tier 2 cities. Being one of the largest and preferred suppliers to leading food chain companies, it is further expected to benefit from strong recovery expected in QSR business, going ahead, with gradual opening of economy post Covid-19 infused mobility restrictions. Thus, MBFSL is seen gaining from the large opportunity in the biscuits and high-margin bread and institutional buns businesses. With strong presence in north, we believe the company is well positioned to scale up its operations and expand its footprint in other parts of the country and, ride piggyback on fast-growing foods services and premium biscuits industry.

## Valuation & Recommendation:

We believe the company's business model is highly scalable, as even though, the company has a major focus on North India, its market share in the premium and mid-premium biscuits for the region remains low at ~5%. On the other hand, the company's bakery business, under the brand name 'English Oven', is one of the fastest-growing large-scale bakery brands in India. We like MBFSL's packaged foods story with a unique integrated business model. Being uniquely positioned in biscuits export market with ~12% share of the Indian biscuit export, it contributes to more than 50% by value of biscuit exports. With changing lifestyles and increasing preference for branded and packed foods, MBFSL is well placed to tap the growth in organized retail. Also, the company has a strong association with QSR chains. It is the largest supplier of buns to QSR chains, such as McDonald's, Burger King, KFC and others. Its association with McDonald's dates back to 1996. Repeated consumption, dominance in the focused markets and long-term relationship with institutional customers provide the company with high repeat customer usage and an opportunity to leverage its presence here to introduce products in retail market.

We expect MBFSL's twin engines of growth; biscuits and bakery, result in revenue growth of ~17% CAGR over FY21-23E bolstered by initiatives including a) expansion of distribution network, b) revamped marketing approach, c) new product launches d) realignment of exports strategy, e) strategic capacity expansion. Calibrated price hikes and increasing salience of premium products will help to counter inflationary headwinds and cushion gross margins. Premiumisation and positive operating leverage will drive company's operating margin



expansion. Improved profitability, working capital efficiencies and higher asset turns are likely to lead to superior FCF generation and improved return ratios. **We think the base case fair value of the stock is Rs 447 (25.5x FY23E EPS) and the bull case fair value of is Rs 492 (28x FY23E EPS). Investors can buy the stock in the Rs 407-413 band (23.5x FY23E EPS) and add more on dips to Rs 358-362 band (20.5x FY23E EPS). At LTP of Rs 410, it quotes at 23.5x FY23E EPS.**

### Financial Summary

Particulars (Rs cr)	Q1FY22	Q1FY21	YoY-%	Q4FY21	QoQ-%	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	226	203	11.6	224	1.1	784	762	881	1028	1208
EBITDA	29	34	(15.4)	29	(0.5)	96	93	141	156	197
APAT	13	16	(15.8)	13	4.5	33	30	72	77	103
Diluted EPS (in Rs)	2.27	2.76	(17.8)	2.17	4.6	5.8	5.3	12.3	13.1	17.6
P/E (x)						71.0	77.6	33.4	31.3	23.4
EV/EBITDA (x)						26.7	27.1	17.4	15.6	12.0
RoE (%)						11.8	9.9	19.2	16.7	19.3

(Source: Company, HDFC sec)

### Q1FY22 Result Review:

Q1FY22 revenues grew by 12% to Rs 226 Cr, largely driven by bakery business which grew at 37% YoY on fairly low base. Biscuit segment reported a growth of 2% over higher base of Q1FY21 (due to pantry filling and limited availability of other food products). Overall performance was impacted due to the 2<sup>nd</sup> Covid-19 wave and subsequent lockdowns announced in the 2nd phase. Capacity utilization was 87% in biscuits and 82% in bread and bakery. Many General Trade and Modern retail stores were closed in April and May, thereby adversely impacting distribution and revenues. Gross profit de-grew at a QoQ rate of 2% to Rs.99.6 cr, while gross margins declined by 139 bps to 44.0% due to increased prices of palm oil and packaging materials, which have not been completely passed on and will be during the next couple of quarters. Similarly, EBITDA came in at Rs. 29.1 Cr in Q1FY22, compared to the profit of Rs.29.2 Cr in Q4FY21 (down by 0.5%). EBITDA margin stood at 12.9% (-20 bps on a QoQ basis). New launch of Potato Crackers in North India has met with an overwhelming response.

Solar plants will be operational from Q3FY22, thereby reducing energy costs. Total capex being undertaken is Rs.70 Cr and as on date Rs. 55 Cr has been invested. Capacity expansion is in progress of one bread & one bakery line in Greater Noida and one biscuit line in Rajpura. Post operationalization of these new capacities, the company expects to achieve revenue of Rs.1,500 Cr in 3-4 years (Rs.881 Cr in FY21). The Greater Noida plant is expected to commercialize by Q3FY22 and the operationalization of Rajpura plant is expected by April 2022.



### Long Term Triggers

#### **Domestic biscuits segment: an opportunity to savour**

MBFSL is leading player in the premium and mid-premium biscuits segment in North India and sells its products under the flagship brand ‘Mrs. Bector’s Cremica’. It has a market share of ~5% in north India with strong presence in Punjab, Himachal Pradesh, Ladakh and Jammu & Kashmir. Its product portfolio for biscuits category consists of ~400 SKUs including a wide variety of cookies, creams, crackers, and digestives. It also manufactures ‘Oreo’ biscuits and ‘Chocobakes’ cookies on contract basis for Mondelez India (Cadbury), demonstrating the high quality of its offerings.

**On its path to become a strong pan-India player:** In the past few years, MBFSL has moved from a distribution model that was largely dependent on the wholesale network to a more direct distribution model, as it ramped up its direct reach from ~80,000 outlets in FY16 to 200,000+ outlets in FY21. It has also reduced its dependence on the CSD channel (~20% of sales in FY19), which has been under pressure in the past few years.

North-India where the company has a strong presence offers further room for tremendous growth through increase in the number of retail touch points (0.4mn retail points vs 1.7mn of Parle). Going forward, MBFSL would leverage its brand equity, direct distribution and premium products to gain market share in the existing markets of Punjab, Himachal Pradesh, J&K, Haryana and Delhi. It would also focus on reaching out to more outlets in markets such as Uttar Pradesh and Rajasthan, while seeding new markets in Madhya Pradesh and Bihar.

#### **MBFSL has opportunity to leverage its brand equity and further penetrate in North India**

National Brands	Retail Points in North India
Parle	~17,00,000
Britannia	~14,00,000
ITC	~9,90,000
Regional Brands	Retail Points in North India
Anmol	~7,90,000
Cremica	~4,00,000

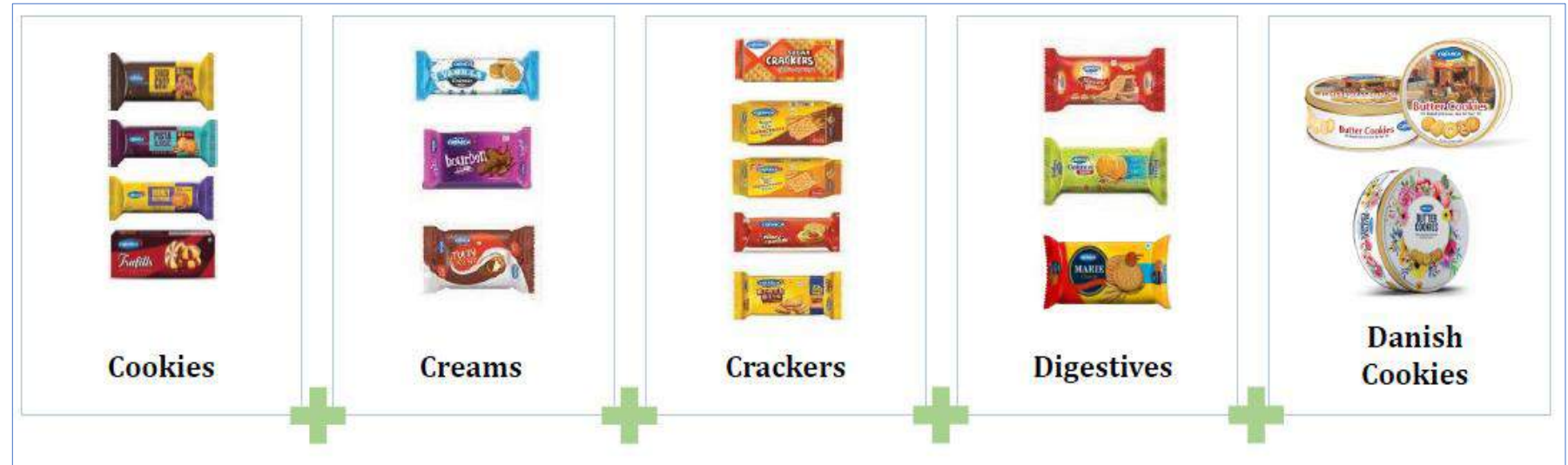
(Source: Company, HDFC sec)

In order to monitor its distribution network, the company has developed an in-house automation tool ‘Peri’ which enables it to access critical information of sales and products and strategic information about sales trends, on a real-time basis. We believe this can enable it to analyse gaps and opportunities in distribution network and help create supply chain efficiencies comparable to likes of Britannia and ITC.



**Increasing salience of premium biscuits is margin accretive:** MBFSL plans to expand into the premium category within existing product segments with focus on increasing sales realisations, volume and provide differential offerings to customers. The premium and mid-premium category biscuits market is expected to grow to Rs 504 Bn by FY25 growing at a CAGR of 9.5% from FY20 to FY25. To cater to the growing needs of millennial customers, it expanded its offerings to include niche products such as a more nutritious range of biscuits including digestive biscuits, honey oatmeal biscuits, premium rich cookies, premium flaky crackers, and soda crackers, which will help it realise higher margins. It has also installed dedicated lines at Rajpura (Punjab) facility in 2018 to cater to production of high margin premium products. Further, it also intends to expand product portfolio in the biscuits segment, by offering a variety of biscuits in India which they currently manufacture for the international market and without significant additional investments in existing manufacturing processes or product development processes.

### MBFSL's offerings in biscuits



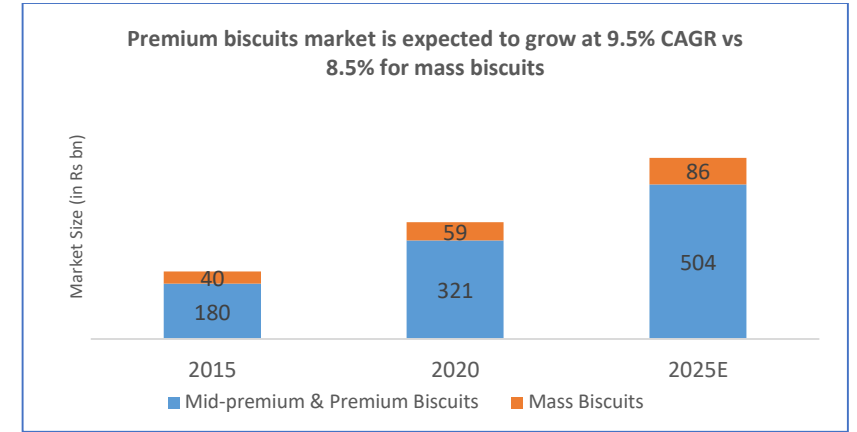
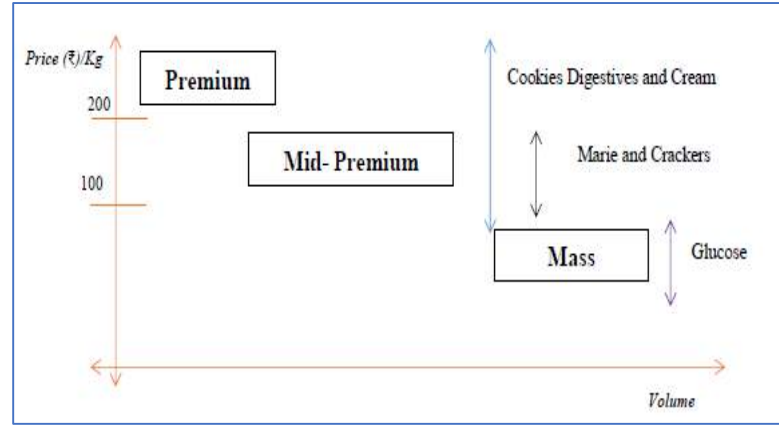
(Source: Company, HDFC sec)

### Dynamics of Indian Biscuit Industry

In FY20, the Indian biscuits market was estimated at Rs 400 Bn (vs. Rs250 Bn in FY15). It is expected to register a CAGR of 9%, to reach Rs 620bn by FY25. The biscuits market in India is dominated by branded players, which comprised 94% of the market in FY20. Total market size of mid-premium and premium biscuits is Rs 321Bn that has grown at CAGR of 12.2% over last five years. The category has shown growth rate much higher than the mass category.



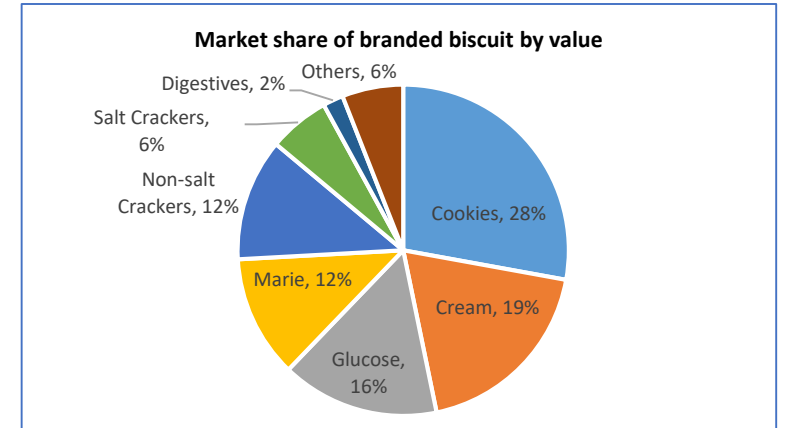
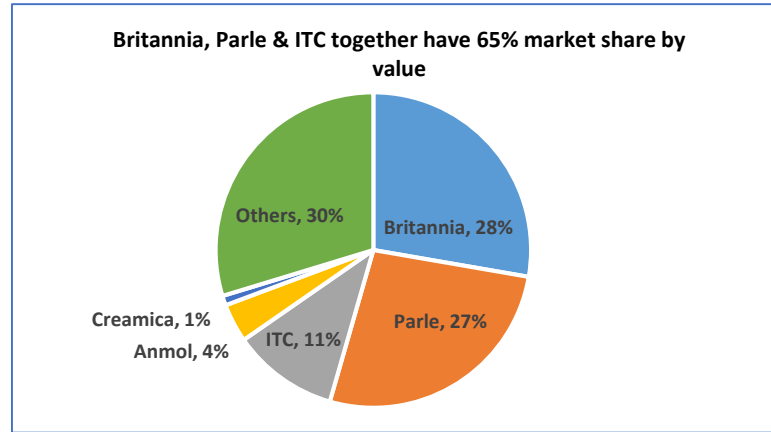
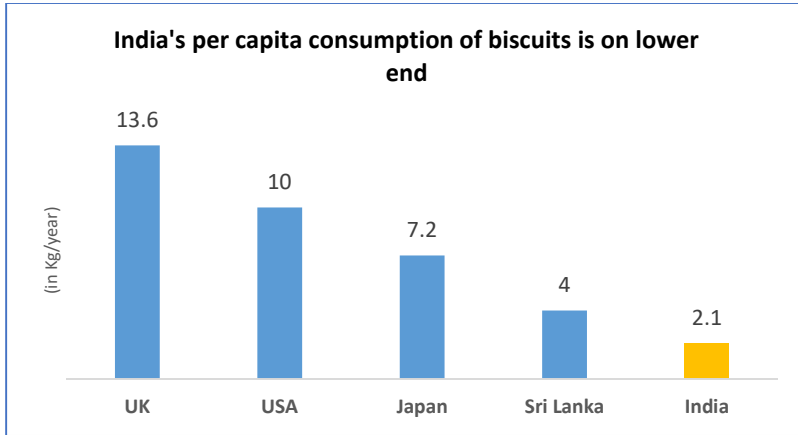
# Mrs. Bectors Food Specialities Ltd.



(Source: Company, HDFC sec)

Biscuits priced below Rs100/kg are classified as mass-end and comprise the glucose category. Biscuits priced at Rs100-200/kg are classified as mid-premium and comprise the Marie biscuit and crackers categories. Biscuits priced above Rs200/kg are classified as premium and comprise the cookies, digestives and cream categories. The market for mid-premium and premium biscuits is expected to grow to Rs504bn by FY25 at a CAGR of 9.5%, which is faster than the mass biscuit market growing at 8.5%. This growth of non-glucose segment is a reflection of the changing consumer behaviour that prefers mid and premium categories which includes the following categories: (i) Cookies; (ii) Cream; (iii) Crackers (salty and non-salty); (iv) Marie; (v) Digestive.

The biscuit market is dominated by lead players such as Britannia, Parle and ITC which together comprise ~65% of the market. Britannia is the market leader in value terms, whereas in terms of volume, Parle is the #1 player. Parle derives a large portion of its revenues from mass-end products, while Britannia's revenues are driven by premium and mid-premium products.



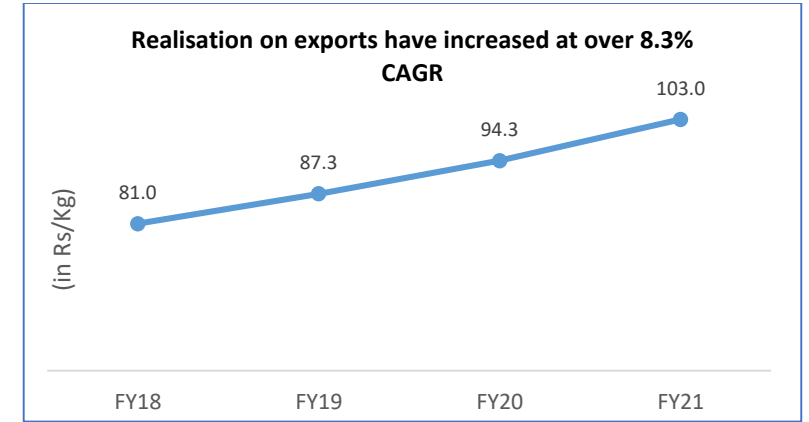
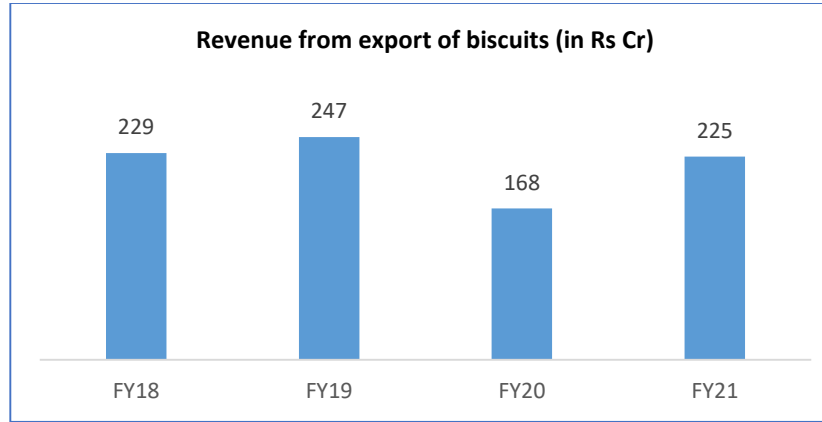
(Source: Company, HDFC sec)

### Long runway for growth in biscuit exports

MBFSL is one of the leading exporter of biscuits from India, with ~12% share in volume and ~50% share in value terms. It exports various types of cookies, creams, crackers and some glucose biscuits under its flagship brand 'Mrs. Bector's Cremica' to over 64 countries. Further, it manufactures a wide range of biscuits for international retail chains under their private labels.

Owning the entire manufacturing chain and ability to modify the product specification and packaging based on consumer requirements, market trends and, develop, produce and sell customised products for each export market has contributed to the growth of MBFSL's exports. These factors have also facilitated the company to penetrate into newer territories such as Asia, Australasia, Europe, MENA region and North America by collaborating with established retailers and distributors.

**Realignment of exports strategy:** Macro-economic and geopolitical issues in some countries where MBFSL had export operations previously resulted in a low CAGR of 1.7% in the biscuits export segment for MBFSL over FY16-20. Rectifying this, the company has realigned its exports strategy by reducing its exports to certain countries, primarily in Africa. It has moved its focus to developed and emerging markets such as Australasia, Europe, East and South Africa, the MENA region and North America by introducing a wide range of premium products focusing on generating higher margins. As a result of the change in strategy, weighted average realisation in biscuit exports increased from Rs. 81/kg in FY18 to Rs. 103/Kg in FY21. Recently, with the incorporation of a subsidiary 'Mrs. Bectors Food International (FZE)' in UAE, the company has setup a new office in Dubai to primarily strengthen its presence in its export markets. We believe exports markets provide a long runaway for growth with an opportunity for the company to expand its product portfolio and distribution network in existing markets and, entering in newer markets.



(Source: Company, HDFC sec)

### Fastest growing premium bakery brand in India

MBFSL market and sells premium bakery products in savoury and sweet categories such as breads, buns, pizza bases, and cakes to its retail customers under the brand 'English Oven'. According to Technopak, English Oven is currently one of the fastest growing large-scale bakery brands in India and is one of the largest selling brands in the premium bakery segment in Delhi NCR, Mumbai and Bengaluru. It is one of the few bakery companies in India that can handle fresh, chilled and frozen products and, this helps it distribute its portfolio of bakery products consisting of ~100 SKUs pan-India.





**Expansion of branded bread business through focused market expansion strategy:** Similar to the domestic biscuits business, MBFSL’s presence in branded breads business is largely in North India and particularly NCR. Over past few years, it has expanded into Mumbai and Bengaluru, however, it has very limited presence in these markets currently. Unlike breads, the bakery industry is highly unorganised with region specific brands with the demand for breads being largely concentrated in metros and tier 1 cities.

The branded bakery business has very high entry barriers in terms of the data available with incumbents on the demand patterns. Given a low shelf life of the product, it is essential for any bakery company to forecast the demand, failing which, sales return can reach 12-14% levels. Further, both Bengaluru (Modern Foods) and Mumbai (Britannia) have established market leaders. However, the company’s approach of focusing on premium bakery products as a key differentiator should likely drive sales with higher disposable incomes and changing meal preferences in urban India.

**Leveraging institutional business to introduce new products:** MBFSL benefits by working closely with institutional customers, as it is able to incorporate the stringent quality standards and industry best practices required by its institutional customers in overall manufacturing process, thereby further improving operational standards and its products. Importantly, it also helps to understand the emerging trends in Indian consumers and come up with new niche variants that lends the company, a big competitive advantage, for instance, it recently introduced ‘sub breads’ branded as ‘English Oven Sub’, which helps customers create varied ranges of ‘DIY sandwiches’ at home. The company also plans to introduce new category of products including ‘frozen buns’, ‘rusks’, ‘dessert jars’ and ‘brownies’ going ahead.

### MBFSL has comprehensive portfolio in Breads



Recently introduced SUB Footlong for its retail customers





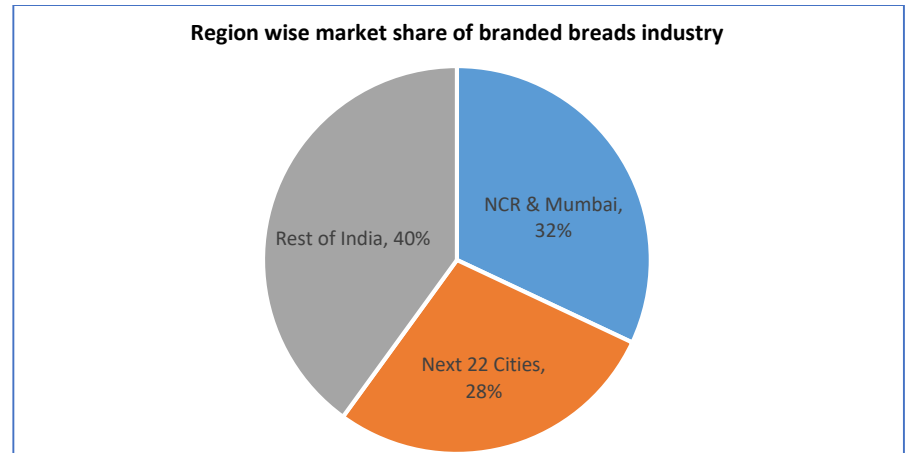
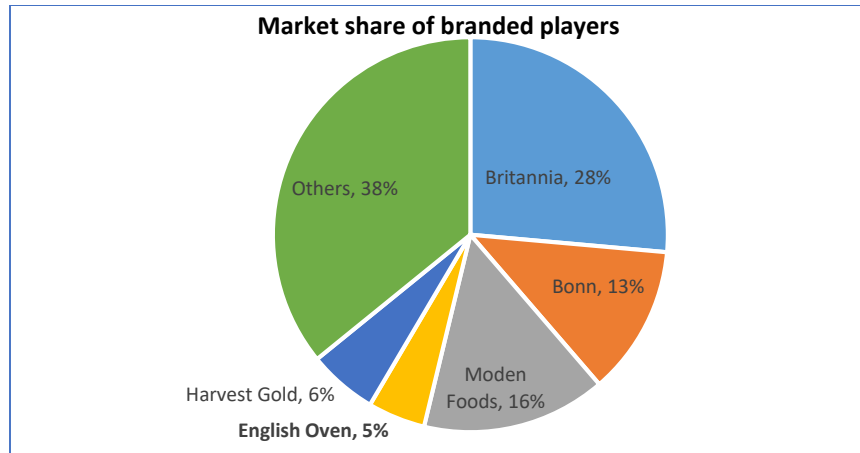
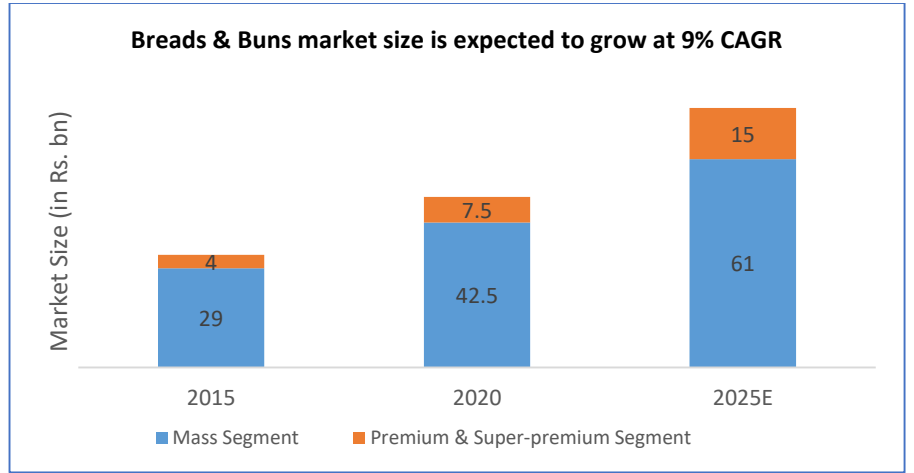
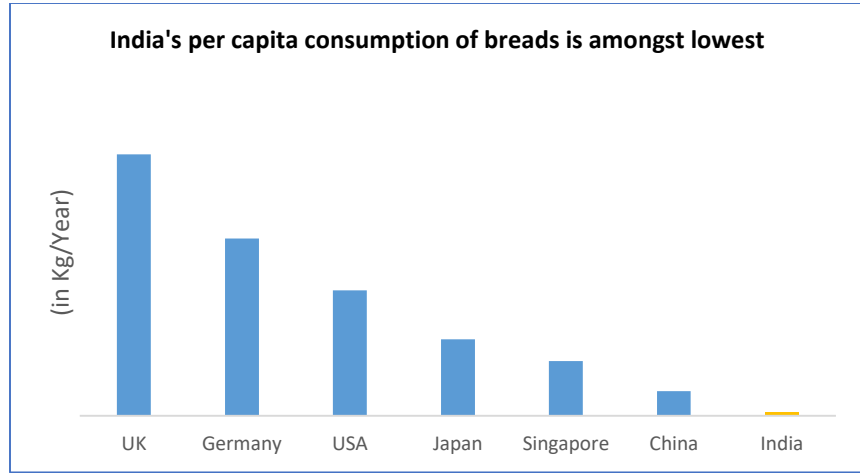
## **Huge tailwinds for Indian breads & bakery industry:**

The bread and buns retail market in India is valued at Rs 50 Bn in FY20 and it will continue to grow at the CAGR of 9% to reach Rs 76 Bn by FY25. The growth will be mainly assisted by increase in disposable incomes, change in lifestyle and preferences of the consumers. The demand for breads is concentrated mainly around metros, tier I and larger tier II cities due to higher disposable incomes and changing meal preferences.

Bread can be classified based on the ingredients and price. Mass bread segment primarily comprises of white/sandwich bread made up of refined wheat flour (maida). Premium bread segment which emerged over the last 15 years comprises of products related to health and wellness such as fortified white breads, whole wheat/brown or alternative grain variants of breads, milk and fruit breads and specialty products such as pizza bases, burger buns and hot dog buns. Super-Premium bread segment comprises of exotic and speciality breads such as pita bread, focaccia, ciabatta bread and sour dough breads. Though the super-premium category currently has a very small share in the total bread market, it is poised to grow steadily given the growing influence of international cuisines and the growing number of premium bakeries.

As discussed above, the bakery industry in India is largely unorganised. In the branded segment, Britannia, Modern and English Oven are the market leaders in the country with more than 45% of the total market share. These brands have a nationwide presence. English Oven started as a regional brand in the Northern states and it is now present in Mumbai, Pune and Bangalore as well. While these large brands have a nationwide presence, there are regional brands focussed on certain geographies or cities. Regional players in northern part of the country are Bonn, Harvest Gold and Kitty. Mother Dairy has also forayed into this segment recently. Additionally, there are private labels of organised retail chains and e-grocers such as Fresho from Bigbasket. Companies in the branded segment are increasing their focus on tier II and tier III cities, given the improving infrastructure of retail and distribution and customers' changing buying pattern.

COVID-19 has adversely impacted small-scale manufacturing units due to the high cost of business during the pandemic as well as high labour susceptibility. While many such players have shut down operations, organised players have consolidated their share in the market, as they are better equipped to manage the challenges of the supply chain and operations.



(Source: Company, HDFC sec)

### **MBFSL's Institutional Bakery business is a proxy play on India's thriving food service industry**

Under its institutional bakery business, MBFSL manufactures and sells a variety of bakery and frozen products such as buns, kulchas, pizzas, and cakes to QSRs, cloud kitchens, multiplexes as well as certain hotels, restaurants and cafés across India. MBFSL is either largest or sole supplier of bakery products to some of the India's biggest food chains which speaks volumes of company's product quality and its offerings.



### MBFSL enjoys strong relationship with leading QSRs, multiplex chains, and cloud kitchens

Chain/Company	Relationship	Supplying products since...
Connaught Plaza Restaurants Pvt. Ltd. (McDonald's)	sole supplier of burger buns and pan muffins (frozen)	1995
Hardcastle Restaurants Pvt. Ltd. (McDonald's)	preferred supplier of burger buns and pan muffins (fresh)	2007
Burger King India Ltd.	main supplier of burger buns	2014
Yum! Restaurants India Pvt. Ltd. (KFC, Pizza Hut)	main supplier of burger buns	
PVR Ltd.	preferred and leading supplier of products such as frozen burger buns, panini, garlic breads	2011
Rebel Foods (Faasos)	supplier of bakery products	2016

(Source: Company, HDFC sec)

### Huge opportunity in Indian Food Service Industry

The Indian food services market has gained momentum in the last decade due to changing consumption patterns that have seen an increase in a tendency to eat out that had not traditionally been a feature of Indians' lifestyles. The size of the food services market in India is estimated at Rs 4,236 Bn in FY20 and is projected to grow at a CAGR of 9% over the next 5 years to reach Rs 6,505.00 Bn by FY25. The organized sector has been growing faster than the industry and has seen its contribution increase to 38% in FY20 from 29% in FY15. It is expected to deliver 15.6% CAGR over FY20-25E. Consequently, its share is expected to increase further to 52% by FY25E. Further, the chain food services market estimated at Rs. 397 Bn which constitutes of QSRs (Quick Service Restaurants) and the CDRs (Casual Dining Restaurants) is likely to grow by 19% CAGR by FY25E.

### India's booming chain food service market will drive MBFSL's institutional bakery business

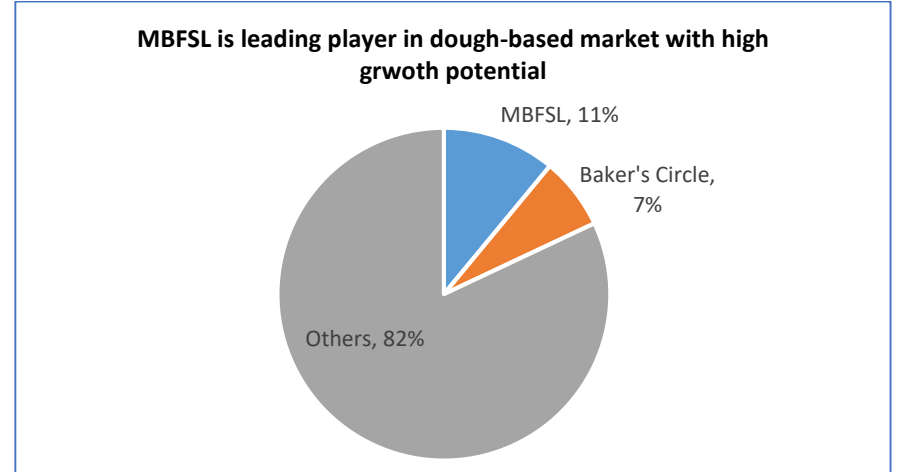
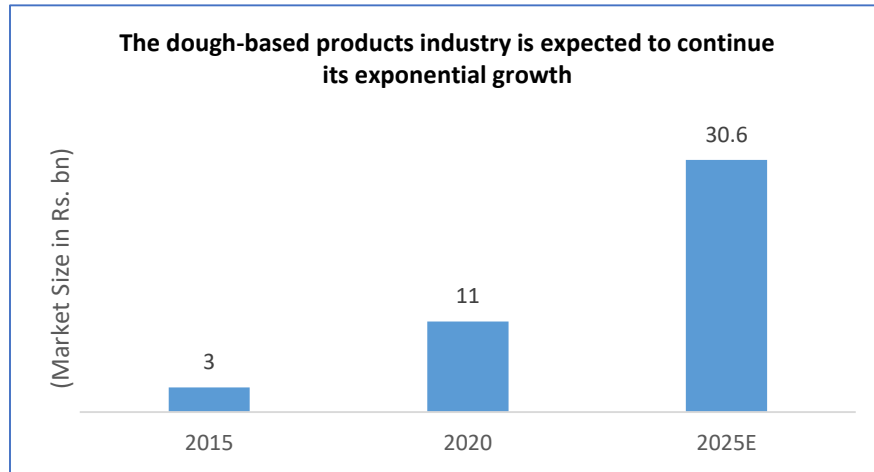
Format	CAGR (FY15-20)	CAGR (FY20-25E)	Market Share		
			FY15	FY20	FY25E
QSRs	19.2%	22.7%	45%	47%	54%
CDRs	19.1%	17.6%	32%	34%	31%
Cafe	8%	8%	10%	6%	4%

(Source: Company, HDFC sec)

**Processed Dough and Bread market:** The share of processed, dough-based products in the food component for the Indian food service chains segment in India was estimated at Rs11 Bn in FY20, and is projected to grow at 23% CAGR to reach Rs30.6bn in FY25. It includes the institutional business of fresh buns, frozen dough for pizzas, and other bakery products. Domino's, McDonald's, Subway, Burger King and Pizza Hut together contribute ~70% of the dough-based products within the food service chain segment.



MBFSL and Baker’s Circle are the key vendors supplying processed and semi-processed dough-based offerings to food service players and have a collective share of 18%. The remaining portion is catered by in-house commissaries and other smaller players. **MBFSL is the largest supplier of buns to reputed multinational QSR chains such as McDonald’s, KFC, Burger King, and Carls Jr.,** and has established itself in the frozen dough segment, where Baker’s Circle has the largest share and is currently exclusively working with players like Subway. The processed dough & breads space is highly consolidated, with a handful of players operating at the national level and supplying to key national & international brands in food services in India. The selection process of vendors by these brand names is extremely stringent, with companies looking for; a) Processing capabilities in terms of investment and scale; b) Strict compliance to international standards of Food, Safety and Hygiene; c) Supply reliabilities in terms of meeting demand; 4) Adherence to standard operating processes; and d) intellectual property protection.



(Source: Company, HDFC sec)

MBFSL has been investing in the technology to introduce to its new products. It has installed a dedicated line at its Greater Noida Facility to cater to production of high margin products including desserts, frozen products, super-premium bread such as ‘Focaccia Breads’, ‘Panini Breads’, ‘Ciabatta Breads, etc. Additionally, Bengaluru and Khopoli facilities have dedicated lines for institutional offerings which have been upgraded to offer premium products to drive margins. Commissioning of such new technologies will also provide the opportunity to capitalise growth opportunities in Indian food service industry.

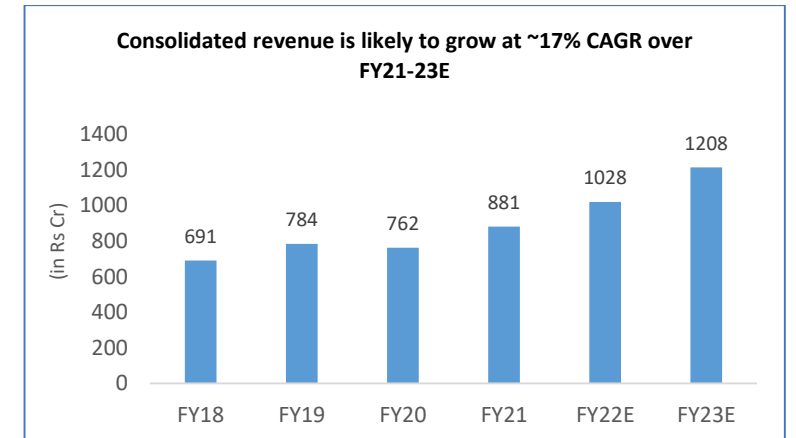
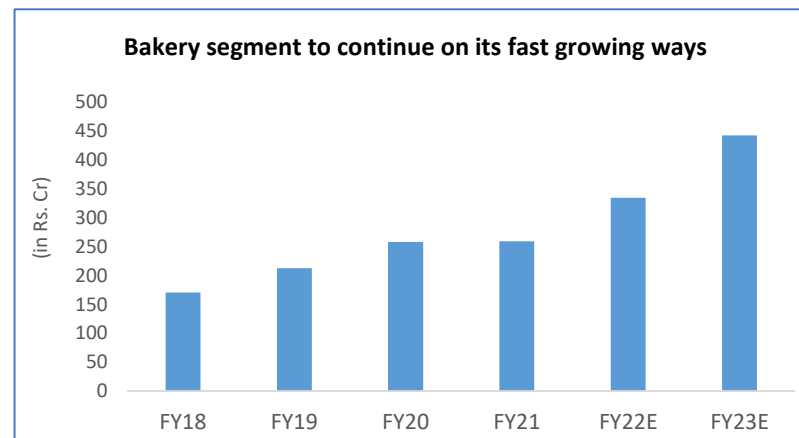
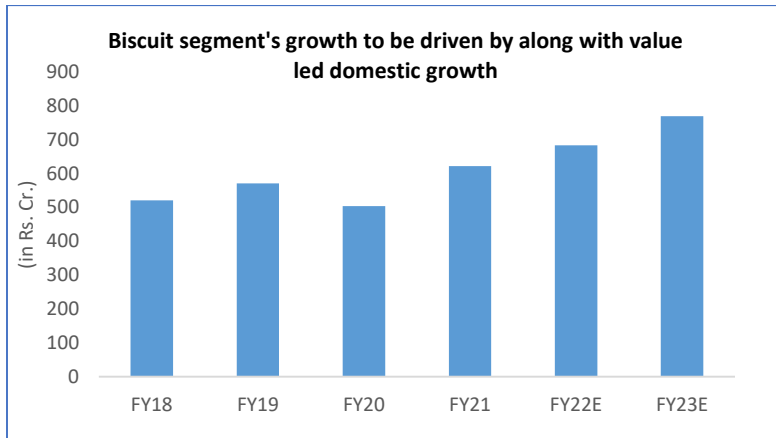
*An array of new products would also open up cross selling opportunities to existing institutional clients. The institutional relationships can also be leveraged to offer business opportunities with the affiliates of these customers, in India and globally.*



### Financial Triggers

#### Twin engines of growth for a faster ride!

Over FY16-20, MBFSL had reported a subdued revenue growth of ~7% as a result of being over reliant on wholesale channel which was massively impacted by demonetisation followed by GST, capacity related constraints and poor show on exports. However, it reported 15.6% YoY growth in FY21 as result of Covid related tailwinds. Going forward, with slew of initiatives undertaken by the management including a) expansion of distribution network, b) revamped marketing approach, c) new product launches d) realignment of exports strategy and e) hiring of industry veterans across roles coupled with robust prospects of India's food service industry which augurs well for institutional bakery business, we expect both the engines of MBFSL including biscuits and bakery to drive the sales growth.



(Source: Company, HDFC sec)

#### New product development/ premiumisation to lead margin expansion

MBFSL is focused on improving its margins through strategic expansion of its premium products portfolio as premium segment of both biscuits and bakery industries is expected to significantly outgrow the overall industry. To capitalise on emerging it intends to expand its product offerings to include niche products such as a more nutritious range of biscuits including digestive biscuits, honey oatmeal biscuits, premium rich cookies, premium flaky crackers, and soda crackers under biscuits category. It also plans to introduce its international offerings in domestic markets. Further, it seeks to increase margins from the sale of biscuits in export markets by targeting developed and emerging markets. For bakery segment, it has recently introduced new premium products such as sub breads, frozen doughs, pizzas, garlic breads, cheese garlic bun fills and frozen cookies. It has also installed dedicated lines in its factories for premium products. Owing to the company's conscious efforts, the weighted average realisation of its biscuits and branded breads & bakery products has grown at a CAGR of 4.5% and ~5.5% over FY18-21.



MBFSL's overall gross margins have largely remained stable over the past few years, at ~45-46%, while FY21 gross margin has witnessed an expansion of 105 bps YoY, driven by better product mix and lower competitive intensity. We forecast gross margin to witness a minor improvement in the medium term. Premium biscuits category has seen some calibrated price hikes while grammage reduction is being done in the economy segment to counter inflationary trend in raw materials. With wheat prices being favourable, there isn't any requirement of price hikes in the institutional segment currently. Gross margin expansion and positive operating leverage to cushion the EBITDA margin growth.

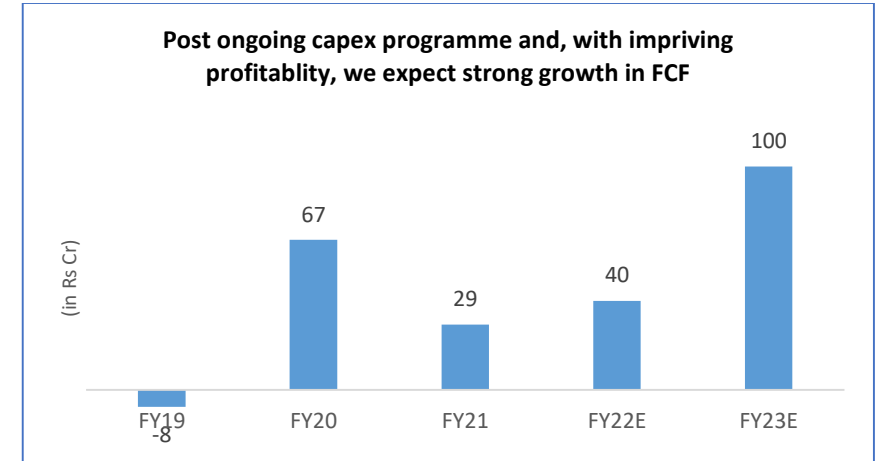
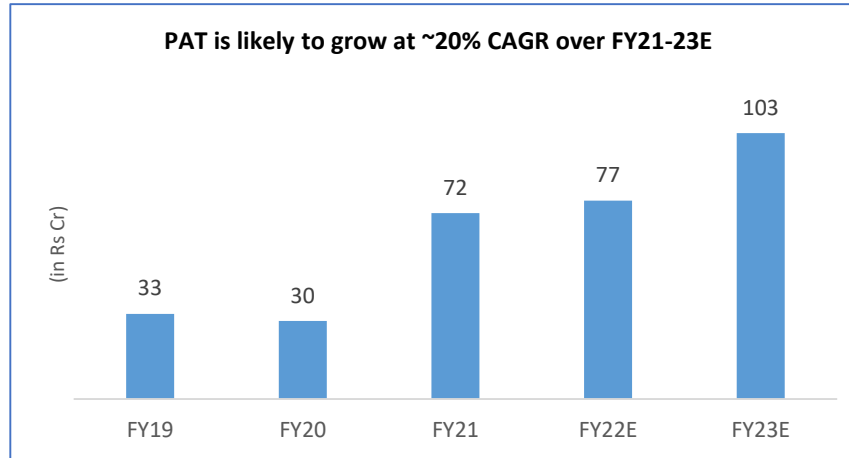
### **Increasing utilisation levels to enhance MBFSL's return ratios**

MBFSL operates with 100% in-house manufacturing for its products as in-house manufacturing provide better visibility and control on quality assurance and food safety standards and faster product development cycles. Britannia (~35% outsourcing) and Parle use a combination of in-house manufacturing and outsourced model to fulfil their demand. Given in-house manufacturing facilitates the players to leverage the export opportunity, no player has adopted the complete outsourcing model.

In order to fund its greenfield expansion in Rajpura and brownfield expansion at its Greater Noida and Bengaluru facilities, MBFSL has incurred a cumulative capex of ~Rs. 400 Cr over FY16-21. This coupled with mediocre topline growth has resulted into asset turnover dropping to 1.4x in FY21 from ~2.5X in FY16. With robust topline growth on the back of incremental capex for next couple of years should lead to asset turnover to 1.6X by FY23E. Post the ongoing capex, we expect the asset turns to significantly improve with rising utilisation levels which shall drive company's return ratios.

### **Improved Profitability to strengthen the balance sheet**

We expect the company's PAT to grow by ~20% CAGR over FY21-23E. MBFSL's aggressive capex over last few years as discussed above had resulted in lower FCF. Going forward, with improving operating margin and higher asset turns we expect superior FCF generation while its net-debt to equity which has always remained in check is likely to continue its downward trend.



(Source: Company, HDFC sec)

### Key risks

**Restriction on use of brand name:** Post the family rejig in 2013, Cremica group’s businesses were split amongst Bector brothers with ice creams, bakery, condiments and namkeens being taken up by promoter’s brother. MBFSL cannot enter these businesses under the brand name ‘Mrs. Bector’s Cremica’. In the bakery business, the company developed and sold products under the brand ‘English Oven’ for above reasons. Any future expansion in adjacent categories will require investment in brand development.

Additionally, it is exposed to control any negative publicity on its products due to any negative publicity on other ‘Cremica’ products (Mayonnaise, Salad dressings, sauces, ketchups, sandwich spreads etc) that do not form part of the company’s product portfolio.

**Operating in highly competitive industry:** The biscuits and bread/bakery industry is highly competitive, with a number of global, pan-India, regional and local companies. Failure to effectively address competitive challenges could adversely affect MBFSL’s business.

**Resurgence of Covid-19 could affect growth prospects:** Previously with the outbreak of Covid-19 pandemic, though the sales to retail customers were not impacted, the sales of the company’s products to QSRs, CSDs and Indian Railway canteens and stores were significantly impacted. Any further outbreaks and subsequent lockdowns can highly impact company’s sales. Also, down trading by consumers would impact MBFSL as it primarily operates in mid to premium categories.

**Rising commodity inflation may impact the margins in near term:** Steep rise in raw material prices may impact company’s margins as it may not be able to pass on the price hike to its customers in the short term.



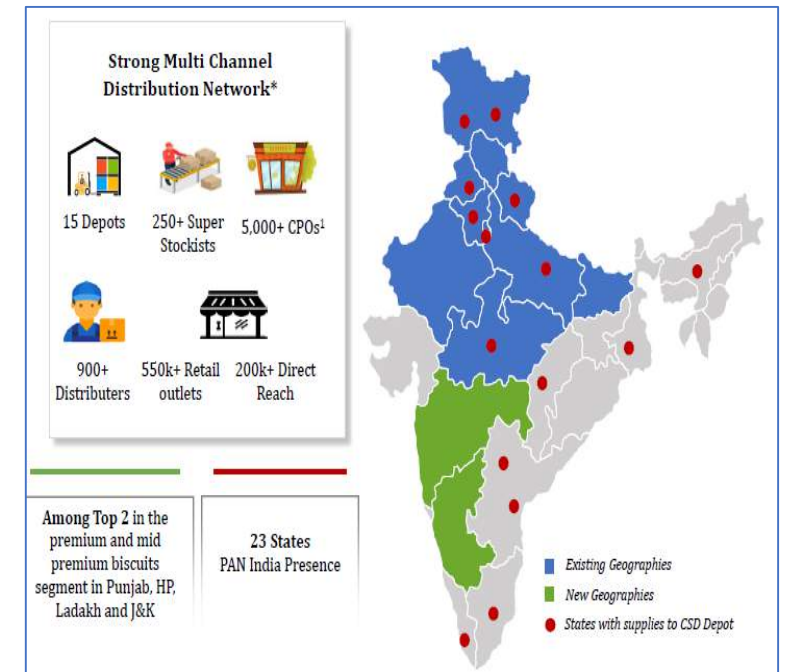
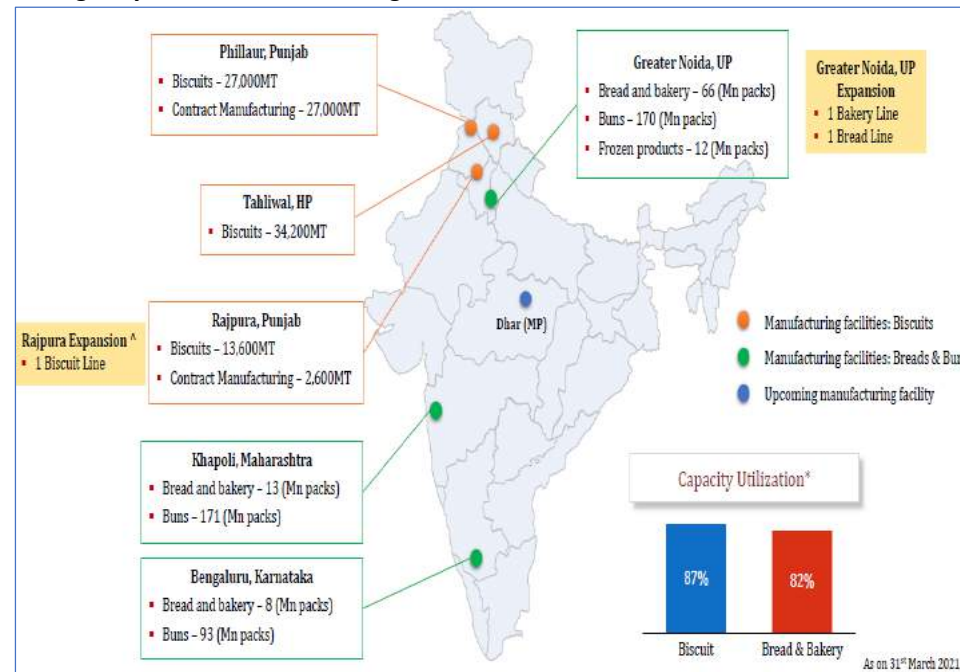


**Timely anticipation of changes in customer preferences:** The taste/preference of the consumers can change over time and anticipating/responding to this in time is necessary. If the company fails to respond proactively, it may lose market share.

### Company Background

Mrs. Bector Food Specialities Ltd (MBFSL) is one of the leading companies in the premium and mid-premium biscuits segment and the premium bakery segment in North India. It manufactures and market a range of its biscuits such as cookies, creams, crackers, digestives and glucose under flagship brand 'Mrs. Bector's Cremica'. It also manufacture and market bakery products in savoury and sweet categories which include breads, buns, pizza bases and cakes under brand 'English Oven'. All the products of MBFSL are manufactured in-house at its six manufacturing facilities. It 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. MBFSL is the largest supplier of buns in India to reputed QSR chains across India.

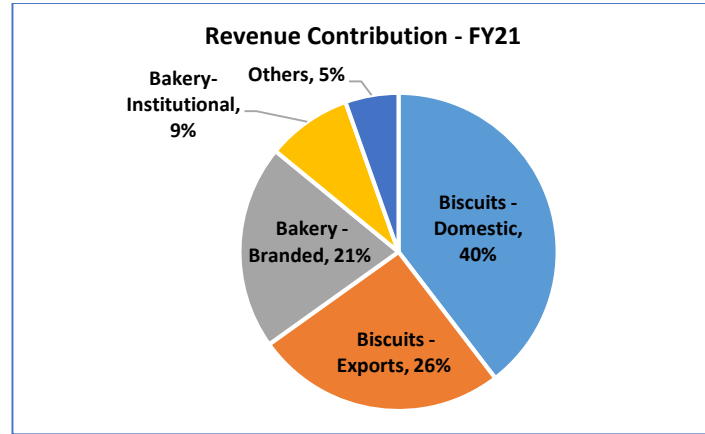
### Strategically located manufacturing facilities



(Source: Company, HDFC sec)



# Mrs. Bectors Food Specialities Ltd.



Segmental Revenues (in Rs. Cr)	FY18	FY19	FY20	FY21
Biscuits - Domestic	245	270	284	349
Biscuits - Export	229	247	168	225
Bakery - Branded	78	99	130	183
Bakery - Institutional	92	114	128	76
Others (incl. contract manufacturing)	46	54	52	48
<b>Total Revenue</b>	<b>691</b>	<b>784</b>	<b>762</b>	<b>881</b>

## Peer Comparison:

Company	Mcap (Rs. Cr)	Sales				EBITDA Margin				APAT			
		FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
MBFSL	2412	762	881	1018	1212	12.2	16.0	15.5	16.5	30	72	77	103
Britannia	94066	11599	13136	14122	15378	15.9	19.0	18.2	18.2	1406	1850	1929	2123

Company	ROCE (%)				P/E (x)			
	FY20	FY21	FY22E	FY23E	FY20	FY21	FY22E	FY23E
MBFSL	11.8	21.0	19.4	23.5	77.6	33.4	31.3	23.4
Britannia	42.5	59.2	64.7	68.2	66.8	50.8	48.8	44.3

(Source: Company, HDFC sec)



# Mrs. Bectors Food Specialities Ltd.

## Financials

### Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	784	762	881	1028	1208
Growth (%)	13.5%	-2.7%	15.6%	16.7%	17.5%
Operating Expenses	688	669	740	872	1011
<b>EBITDA</b>	96	93	141	156	197
Growth (%)	12.4%	-3.4%	52.0%	10.8%	26.0%
<b>EBITDA Margin (%)</b>	<b>12.3%</b>	<b>12.2%</b>	<b>16.0%</b>	<b>15.2%</b>	<b>16.3%</b>
Depreciation	35	42	45	52	57
Other Income	2	3	10	8	6
<b>EBIT</b>	63	54	107	112	146
Interest expenses	13	15	10	9	7
PBT	51	39	97	103	139
Tax	18	9	25	26	35
<b>APAT</b>	33	30	72	77	103
Growth (%)	-7.8%	-8.5%	138.6%	6.7%	33.9%
<b>EPS</b>	5.8	5.3	12.3	13.1	17.6

### Balance Sheet

As at March	FY19	FY20	FY21	FY22E	FY23E
<b>SOURCE OF FUNDS</b>					
Share Capital	57	57	59	59	59
Reserves	237	262	373	434	518
<b>Shareholders' Funds</b>	<b>295</b>	<b>319</b>	<b>431</b>	<b>493</b>	<b>577</b>
Borrowings	164	134	132	99	70
Net Deferred Taxes	12	8	9	9	9
Other Non-Current Liabilities	19	19	18	27	31
<b>Total Source of Funds</b>	<b>490</b>	<b>480</b>	<b>591</b>	<b>629</b>	<b>688</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	363	354	354	390	401
CWIP	16	7	55	28	14
Investments	4	4	4	4	4
Other non-current assets	12	25	13	43	48
<b>Total Non-Current Assets</b>	<b>394</b>	<b>390</b>	<b>427</b>	<b>464</b>	<b>467</b>
Inventories	35	43	57	59	70
Trade Receivables	100	75	72	93	106
Cash & Equivalents	12	30	85	68	112
Other Current Assets	35	27	38	46	56
<b>Total Current Assets</b>	<b>183</b>	<b>176</b>	<b>251</b>	<b>266</b>	<b>343</b>
Trade Payables	49	47	57	65	79
Other Current Liab & Provisions	38	38	30	36	43
<b>Total Current Liabilities</b>	<b>87</b>	<b>85</b>	<b>88</b>	<b>101</b>	<b>123</b>
Net Current Assets	97	90	164	165	221
<b>Total Application of Funds</b>	<b>490</b>	<b>480</b>	<b>591</b>	<b>629</b>	<b>688</b>

(Source: Company, HDFC sec)

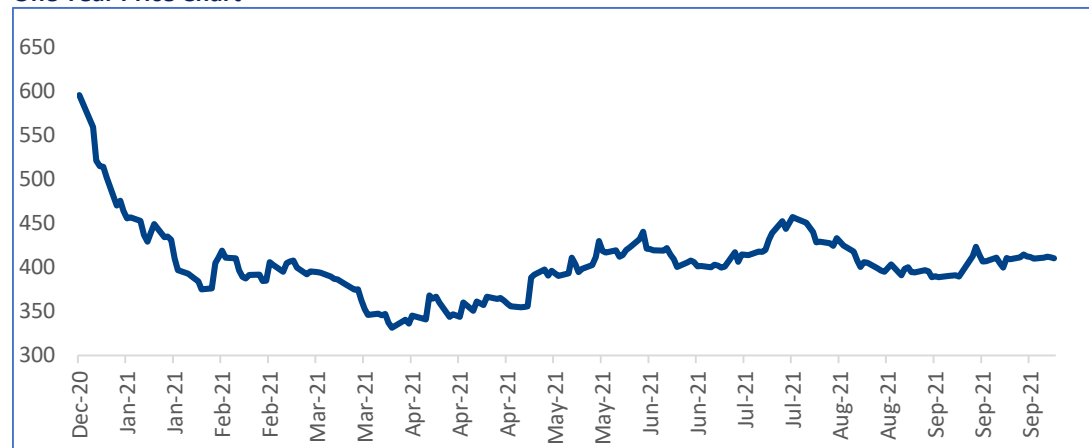


# Mrs. Bectors Food Specialities Ltd.

## Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E
Reported PBT	50.7	39.0	97.1	103.4	138.5
Interest Expenses	35.2	41.7	44.7	52.4	57.4
Depreciation	51.6	61.8	47.4	38.4	61.2
Working Capital Change	-33.9	21.0	-11.8	-15.7	-9.6
Tax Paid	-14.4	-12.4	-22.4	-26.4	-35.3
<b>OPERATING CASH FLOW ( a )</b>	<b>54.0</b>	<b>109.5</b>	<b>110.3</b>	<b>99.7</b>	<b>154.8</b>
Capex	-61.6	-42.5	-81.2	-60.0	-55.0
Free Cash Flow	-7.6	67.0	29.1	39.7	99.8
Investments and Others	-0.7	-3.0	-40.5	0.0	0.0
<b>INVESTING CASH FLOW ( b )</b>	<b>-61.3</b>	<b>-43.2</b>	<b>-124.7</b>	<b>-60.0</b>	<b>-55.0</b>
Debt Issuance / (Repaid)	27.1	-29.1	-0.7	-33.0	-29.0
Interest Expenses	6.4	-16.8	-14.8	8.0	3.0
Share Capital Issuance	0.0	0.0	41.8	0.0	0.0
Dividend	-6.3	-5.2	0.0	-15.3	-19.1
Others	-1.8	-1.8	-3.4	0.0	0.0
<b>FINANCING CASH FLOW ( c )</b>	<b>6.9</b>	<b>-51.1</b>	<b>28.5</b>	<b>-56.9</b>	<b>-55.1</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>-0.3</b>	<b>15.2</b>	<b>14.0</b>	<b>-17.2</b>	<b>44.7</b>

## One Year Price Chart



## Key Ratios

Particulars	FY19	FY20	FY21	FY22E	FY23E
EBITDA Margin (%)	12.3	12.2	16.0	15.2	16.3
EBIT Margin (%)	8.1	7.1	12.1	10.9	12.0
APAT Margin (%)	4.2	4.0	8.2	7.5	8.5
RoE (%)	11.8	9.9	19.2	16.7	19.3
RoCE (%)	14.6	11.8	21.0	19.4	23.5
<b>Solvency Ratio</b>					
Net Debt/EBITDA (x)	1.6	1.1	0.3	0.2	(0.2)
Net D/E	0.5	0.3	0.1	0.1	(0.1)
EPS (in Rs)	5.8	5.3	12.3	13.1	17.6
CEPS (in Rs)	11.9	12.6	19.9	22.0	27.3
BV (in Rs)	51.5	55.8	73.4	83.9	98.2
Dividend(in Rs)	0.8	0.8	2.4	2.6	3.3
Cash Conversion Cycle (days)	39.5	33.9	29.7	30.6	28.4
Debtor days	46.7	35.9	29.8	33.0	32.0
Inventory days	18.7	23.7	28.1	24.8	25.1
Creditors days	25.9	25.6	28.3	27.1	28.7
<b>VALUATION</b>					
P/E (x)	71.0	77.6	33.4	31.3	23.4
P/BV (x)	8.0	7.4	5.6	4.9	4.2
EV/EBITDA (x)	26.7	27.1	17.4	15.6	12.0
EV / Revenues (x)	3.3	3.3	2.8	2.4	2.0
Dividend Yield (%)	0.2%	0.2%	0.6%	0.6%	0.8%

(Source: Company, HDFC sec)



# Mrs. Bectors Food Specialities Ltd.



## HDFC Sec Retail Research Rating description

### Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

### Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

### Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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