



Company Analysis – Mrs Bectors Food Specialities Limited (BECTORFOOD)

About

Bector foods is a Biscuits and bakery products company with presence in the northern and central parts of India. The slide below from the Quarterly presentation shows the two brands and various products

Mrs. Bector’s at glance

1 Biscuits
 Pursuant to Brand separation agreement, "Mrs. Bector's Cremica" Brand is exclusive to Mrs. Bectors Food Specialities Limited for Biscuits
 Digestives + Crackers + Cookies + Cream + Marie

2 Branded breads & bakery products
 Developed the brand "English Oven" for the Branded breads & bakery products business
 Manufacturing for leading QSRs, Cloud Kitchens and Multiplexes
 Buns + Frozen Products

3 Contract Manufacturing
 Contract Manufacturer for Biscuits like Oreo and Chocobakes for Mondelez

The company has a thriving B2B business where in it supplies semi processed and dough based products to various QSR chains

Our business segments

		Biscuits		Bakery Products	
		Domestic	Exports	Consumer Bakery	Institutional Bakery
Market Share ^a		4.5% of the premium and mid-premium biscuits market in North India, in FY20	~12% share of the total exports of biscuits from India in CY19	5% market share in the Branded Breads Segment in India	11% market share in semi processed and dough-based offerings, in FY20
Distribution#		Strong presence in North India • 900+ Distributors • 220+ Super Stockists • 550,000+ retail outlets • 5,000+ preferred outlets • Supplying to CSD through 34 locations	• Exports to 63 countries • Supply to reputed retail chains, distributors and buying houses	• 283+ distributors • 23,000+ retail outlets • Catering to Delhi NCR, Mumbai, Pune, Bengaluru • 105 SKUs	Sole and Preferred supplier having strong and long relationships with leading international QSRs, multiplex chains, and cloud kitchens for burger buns, muffins, garlic breads and other bakery products

Finally the company has an exports business too as can be seen in the slide above

Industry review and competitive analysis

The biscuits and bakery products industry has a large unorganized sector. The key organized players are Britannia, Parle, and ITC

Parle is not a listed company and ITC's FMCG segment has a wide range of products such as snacks, ready to eat foods, Milk products, spices and so on. Britannia industries is the closest comparable, though it has other divisions such as snacks and dairy products

Overall, we do not have strict comparable as Bector foods is a much smaller company focused on a few product segments and operating mainly in the Northern and Central parts of the country

The foods industry is highly competitive and driven mainly by brands and distribution. It has low cyclicality of demand, though demand tends to migrate out to the unorganized sector during periods of high inflation, such as now.

It takes a long time to establish a trusted brand and setup distribution in a particular region. Bector foods has been a north based company till date and is now expanding in the western and southern markets via Mumbai, Pune, and Bangalore

Financials

The company has grown its topline from 559 Crs to 989 Crs in the last 7 years at a CAGR of 8%. Growth has been on the lower side, possibly due to the impact of Covid in the intervening years

Operating margin has been in the range of 10-12% which is comparable to that of Britannia industries (14%) even though the businesses are not strictly comparable.

ROC has been 15%+ on average during this period. This is on the lower side as the company has a sizeable B2B business with QSR companies which has lower ROC. As the company expands its branded B2C business, ROC should improve going forward

Positives

The company IPOed in late 2020 and is using the IPO funds to finance expansion of its plants. Management has capex plans of around 250 Crs as show below which is almost 70% of the current fixed assets

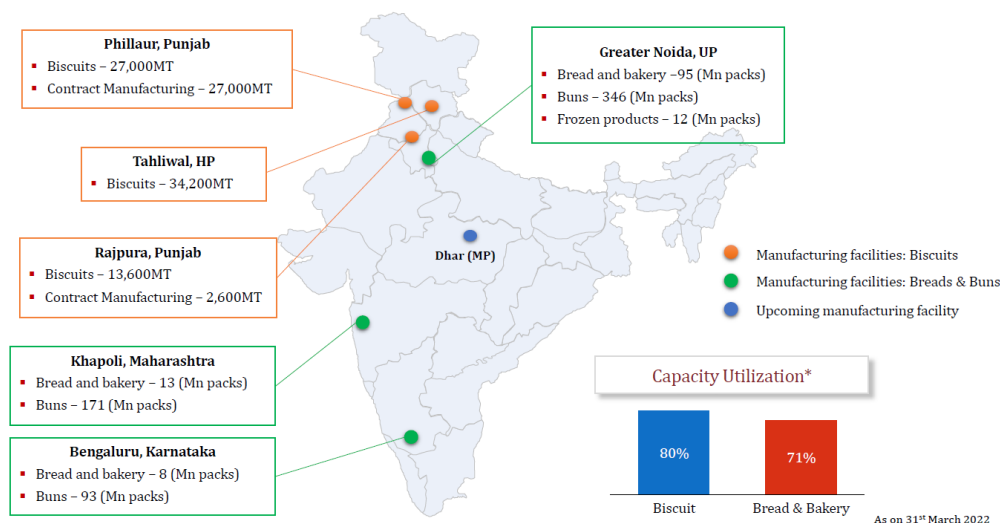
Expansion Projects – Completed & Ongoing



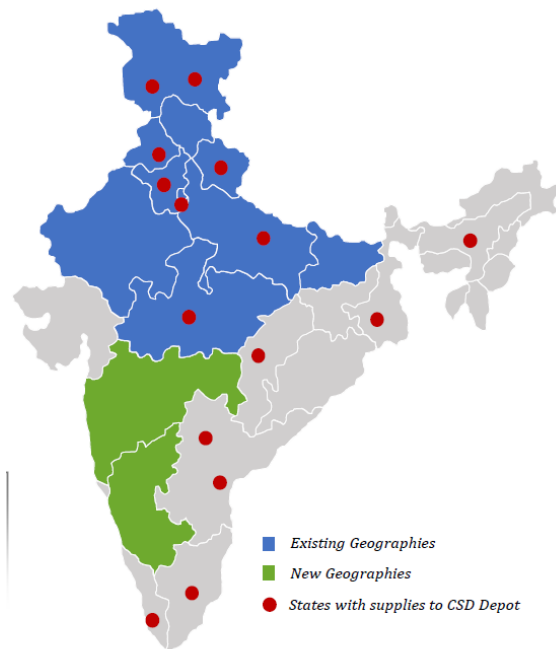
BISCUIT	
1 Biscuit Line at Rajpura (Punjab)	<ul style="list-style-type: none"> The Company has invested on another Biscuit line from the IPO Proceeds of Rs. 40.5 crores to finance the cost of Rajpura Expansion Project. The new production line of Biscuits has started its Commercial Production with an installed Capacity of 12000 Tons per annum w.e.f. July 15, 2022
Shifting of 2 Biscuit Lines from Tahliwal (HP) to Rajpura (Punjab)	<ul style="list-style-type: none"> 2 Biscuits Lines proposed to be shifted from Tahliwal to Rajpura due to high transport and labour cost. Total Estimated cost is Rs. 75 crores. Total projected savings is Rs. 12 crores per year on account of Labour, Power, Fuel, Indirect wages and transport cost. Estimated timeline of completion is Q1FY24
Biscuit Line at Dhar (MP)	<ul style="list-style-type: none"> The Company is planning to start construction work this year for manufacturing line of biscuits. It will take 12-15 months and shall commence production in FY23-24
BAKERY	
Expansion of Bakery Plant in Khopoli (Maharashtra)	<ul style="list-style-type: none"> Company has purchased land in Khopoli, Mumbai adjacent to our factory for expansion of our Bakery business. Total Project is -Rs. 73 crores including Land out of which Rs. 25 crores will be invested in FY23 and balance in FY24. Commercial Production proposed to be started in Oct 23.
Bread and bakery Plant in Noida and Punjab	<ul style="list-style-type: none"> The Company has invested Rs. 62 crores on additional line of Bread and a Bun line at Greater Noida factory. Both these lines have become operational since October 2021, The company planning to invest Rs. 20 crores in Punjab for manufacturing of bread and bakery items.

This capex is to support the expansion of the company's distribution beyond its core markets in the north.

Strategically located for efficient distribution



The company is expanding in the southern and western markets via a Hub and spoke model. It is targeting the Metro markets of Mumbai/Pune and Bangalore. A plant can usually service around 300 Km area around it and by putting up this new capacity, the company can target these markets



The above picture from the company slide shows the new geographies. The plan is to double the distribution network

promotions, sales plans, etc. on a real-time basis. Company continues to enhance its existing distribution and plans to double its network in North India in the next few years. Further, it will also focus on enhancing its presence in Western and Southern India over next three years.

To deepen and expand the distribution, the company has hired marketing and supply chain heads and is also implementing a new distribution management system.

The company is making deeper inroads into the QSR segment. It has onboarded a new client – subway. The QSR segment is expected to grow in high teens in the next few years and company expects to grow with its customers

The company has an operating margin of 10-11%, which has been under pressure due to input cost pressures. This should improve as the company passes on the cost increases and increases the proportion of the B2C segment

Risks

The Biscuits and bakery business is a very competitive industry with Industry giants like Britannia industries, ITC, Parle, and a host of unorganized players. It is not easy to establish a successful company in this space. Bector foods was founded in 1978 and has taken a long time and effort to reach the current level, which is commendable against established companies in this space

As a result, it is likely to take time and investment to grow in the new geographies.

The sector is also facing pressure on input costs, and this could pressure margins in the medium term till the company can pass on these cost increases

Finally, management has aggressive capex and growth plans which will test their execution capabilities. The company has onboarded senior leadership and we need to see how the promoter/CEO is able to take the company to the next level through his leadership team

The financial risk from the above capex plan is manageable as the company has around 100 Crs cash and generates 70-100 Crs of free cash flow from operations which should allow it to fund the growth plans.

Management

The company has been a promoter driven company till date. It was led by the Managing director – Mr Anoop Bector till April 2022. The promoters have started professionalizing senior management through the appointment of a new CEO – Mr. Manu Talwar who has 30 years of experience with recent experience being the CEO of Luxor. In addition to that, the company has hired senior leaders for supply chain and marketing

These appointments should help the company scale and execute its growth plan
Capital allocation has been reasonable in the past and the company has grown its topline through internal accruals and modest amounts of debt

Shareholder communication in the form of annual reports, quarterly updates and other communication is adequate too

Conclusion

Bector foods is a regional biscuits and bakery products company. It is now embarking on a growth strategy by expanding distribution into other parts of the country. This is being done by setting up new plants, expanding distribution and adding senior management strength to execute these plans.

The company has grown at 10-11% in the past. If the company can execute the plans and take advantage of the opportunity in the QSR space, it can grow the topline and profits at 15%+ rate for the foreseeable future

Disclosures –

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