

Large play in ethnic snacks industry...

About the company: Bikaji Food (BFL) is the third largest ethnic snacks company in India along with a presence in international markets. BFL is the second fastest growing company in the Indian organised snacks market. It is the largest manufacturer of Bikaneri bhujia with annual production of 29,380 tonnes and second largest manufacturer of handmade papad with annual production capacity of 9,000 tonnes in FY22. BFL is also third largest player in the organised sweets market with annual capacity of 24,000 tonnes for packaged rasgulla, 23,040 tonnes for Soan Papdi and 12,000 tonnes for Gulab Jamun.

- The company has developed a large pan-India distribution network of six depots, 38 super stockists, 416 direct and 1,956 indirect distributors located across 23 states and four union territories in India
- In its core markets of Rajasthan, Assam and Bihar, BFL has established deep penetration and enjoy market share of 45%, 58% and 29%, respectively, in the organised ethnic snacks market
- The company has seven own manufacturing facilities with four facilities in Bikaner (Rajasthan), one in Guwahati (Assam), one in Tumakuru, Karnataka and one in Muzaffarpur (Bihar).

Key triggers/Highlights:

- BFL has a growing domestic and global presence with a well-diversified product basket of more than 300+ products. Namkeen is the highest selling category followed by bhujia, sweets, papad and others contributing to 35.6%, 34.9%, 12.7%, 6.7% and 10.0%, respectively, to total sales in FY22
- The company is the market leader in family pack segment and holds highest share of 60.6% among its other SKUs of five and 10 packs during FY22. This reflects its brand resilience, driven by taste and the brand preference
- BFL is expanding across geographies and trying to emerge as a dominant pan-India player. Apart from its core market of Rajasthan, the company has a very strong presence in states like Bihar and Assam. It aspires to set up state of the art product manufacturing facilities across various strategic locations in the country to ensure easy product availability
- The company has developed a large pan-India distribution network. As of June 30, 2022, it had six depots, 38 super stockists, 416 direct and 1,956 indirect distributors that work with super stockists, across 23 states and four union territories in India

What should investors do?

- At the IPO price, the stock is available at 98x FY22 EPS. Though FY22 earnings were depressed due to high commodity prices, even on normalised earnings, the valuation multiple is premium to peers. We assign **UNRATED** rating to the IPO

Key risks & concerns

- Raw material volatility could continue to pressurise margins
- Sales concentrated in small number of states
- High competitive intensity
- High dependence on wholesale network

Key Financial Summary

(₹ crore)	FY20	FY21	FY22	CAGR 20-22
Net Sales	1074.6	1310.7	1611.0	22%
EBITDA	94.6	144.8	139.5	21%
EBITDA Margin (%)	8.8	11.0	8.7	
Net Profit	56.4	90.3	76.0	16%
EPS (₹)	2.3	3.7	3.0	
P/E (x)	132.8	82.9	98.5	
RoE (%)	10.7	14.9	9.3	
RoCE (%)	10.4	16.1	10.5	

Source: BHP, ICICI Direct Research

Particulars	
Issue Details	
Issue Opens	3rd November 2022
Issue Closes	7th November 2022
Issue Size*	₹ 881 crore
Issue Type	OFS
Price Band	₹ 285-300
No. of shares on offer (in crore)	2.9
QIB (%)	50
Non-Institutional (%)	15
Retail (%)	35
Minimum lot size (no of shares)	50

*based on upper price band of ₹ 300 per share

Shareholding Pattern (%)		
	Pre-Issue	Post-Issue
Promoter	78.0	76.0
Public	22.0	24.0

Objects of issue	
Objects of the Issue	₹ crore
Company would not receive any proceed as it is OFS	NA

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Company background

Bikaji Food (BFL) is the third largest ethnic snacks company in India along with a presence in international markets. It is the second fastest growing company in the Indian organised snacks market. BFL is the largest manufacturer of Bikaneri bhujia with annual production of 29,380 tonnes and second largest manufacturer of handmade papad with an annual production capacity of 9,000 tonnes in FY22. The company is also third largest player in the organised sweets market with annual capacity of 24,000 tonnes for packaged rasgulla, 23,040 tonnes for soan papdi and 12,000 tonnes for gulab jamun.

Its product range includes six principal categories: bhujia, namkeen, packaged sweets, papad, western snacks as well as other snacks (which include gift packs (assortment), frozen food, mathri range and cookies). The company sell more than 300 products under the Bikaji brand.

The company has developed a large pan-India distribution network of six depots, 38 super stockists, 416 direct and 1,956 indirect distributors across 23 states and four union territories in India. In its core markets of Rajasthan, Assam and Bihar, BFL has established deep penetration and enjoys market share of 45%, 58% and 29%, respectively, in the organised ethnic snacks market

Exhibit 1: Bikaji manufacturing units



Source: RHP, ICICI Direct Research

The company has seven own manufacturing facilities with four facilities in Bikaner (Rajasthan), one in Guwahati (Assam), one in Tumakuru, Karnataka and another in Muzaffarpur (Bihar). The Tumakuru facility is held through subsidiary Petunt Food Processors Ltd to cater to the southern markets in India. Further, the Muzaffarpur facility is held through the other subsidiary Vindhya Sales Ltd to cater to its core market of Bihar. In addition, BFL entered into a contract manufacturing agreement on a nonexclusive basis with a unit in Kolkata (West Bengal), that helps it to primarily cater to certain parts of eastern India. Moreover, the company has also entered into two contract manufacturing agreements on an exclusive basis with Hanuman Agrofood for a contract manufacturing facility located at Bikaner and with another third-party contract manufacturer for a contract manufacturing facility at Kanpur, Uttar Pradesh. It also has small facility in Mumbai to manage Mumbai restaurant sales. The company intend to operationalise two additional manufacturing facilities (Bikaner and Bihar) for frozen snacks and sweets products in future.

Exhibit 2: Own manufacturing facilities

Estimated Annual Installed Capacity (annualized)

Facility	Bhujia Namkeen	Namkeens	Machine Made Papad	Western Snacks	Packaged Sweets	Other Snacks
Kami, Bikaner	57600	50520	2400	4800	24000	NA
Bichhwal, Bikaner - I	NA	NA	NA	NA	36480	NA
Bichhwal, Bikaner - II	NA	24000	NA	6000	NA	NA
Bichhwal, Bikaner - III	NA	NA	NA	NA	NA	NA
Tumakuru (Tumkur),Karnataka	NA	6000	6000	6000	NA	NA
Guwahati, Assam(6)	NA	12000	NA	6000	NA	NA
Muzaffarpur, Bihar(7)	NA	3000	1800	1800	NA	NA
Bikaner(8)	NA	3600	NA	4500	NA	NA
Kanpur, UP	NA	6000	NA	4800	NA	NA
Total	57600	105120	2400	33900	60480	NA

Source: RHP, ICICI Direct Research

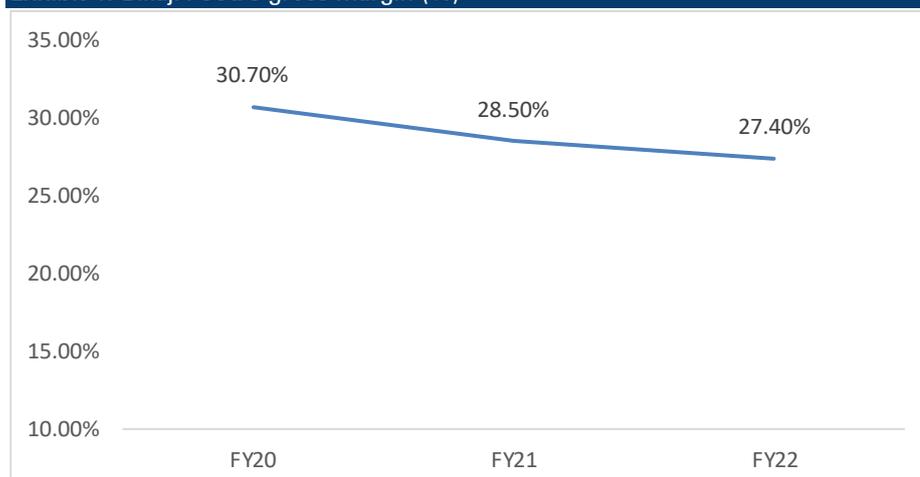
Exhibit 3: Region wise sales contribution

Region Wise	2020		2021		2022	
	Amount (₹ crore)	% of sales	Amount (₹ crore)	% of sales	Amount (₹ crore)	% of sales
East	331.0	30.9	412.0	31.5	490.7	30.6
North	596.9	55.7	714.7	54.7	905.8	56.5
South	10.6	1.0	20.2	1.6	27.0	1.7
West	87.7	8.2	93.5	7.2	115.0	7.2

Source: RHP, ICICI Direct Research

The company commands gross margins ~30%. However, extremely high inflation in edible oils and other agri commodities has adversely impacted gross margins in the last two years. With the softening of edible oil prices, gross margin is likely to go back to the normalise level of ~30% in the next few quarters.

Exhibit 4: Bikaji Food's gross margin (%)



Source: RHP, ICICI Direct Research

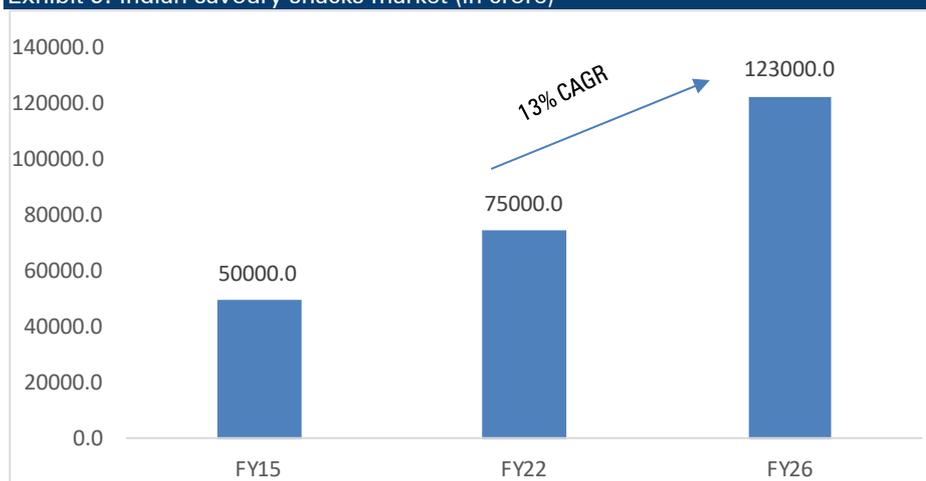
Industry overview

Savoury snacks and sweets market in India

The Indian savoury snacks market was valued at ₹ 75,000 crore in 2022 and is expected to reach ₹ 1.23 lakh crore by 2026, growing at CAGR of 13%. The Indian savoury snacks market can be broadly segmented into western snacks and traditional snacks. Traditional snacks market, which is valued at ₹ 36600 crore, contributes around 48% to the total savoury snacks market. Traditional snacks market comprises of namkeens, bhujia and ethnic snacks such as dry samosa, kachori, chakli, etc. The western snacks market was valued at ₹ 38500 crore in 2022 and consists of chips, extruders and a new variety of snacks called as “bridges”, which has local taste but a western look.

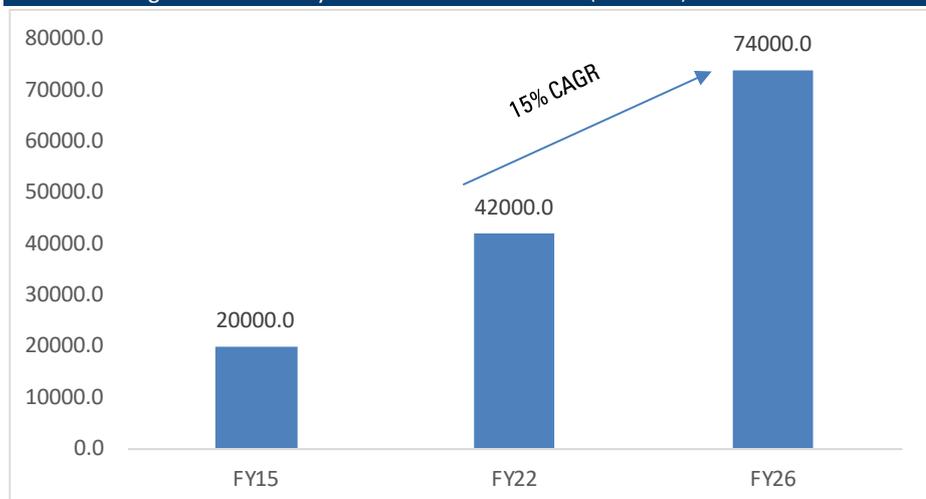
Snacking in between meals has always been traditional in Indian culture and Covid-19 forced lockdown has increased this habit of snacking multi-fold. It is driving the growth of this industry. Further, in 2022, footfall and activity levels across all touchpoints (retails, institutional, etc) have returned to pre-Covid levels. This trend seems to have continued in the Indian market. The Indian savoury snacks market is estimated to reach ₹ 1.23 lakh crore by 2026 with organised players capturing a major market share due to increased concerns on hygiene and safety.

Exhibit 5: Indian savoury snacks market (in crore)



Source: RHP, ICICI Direct Research

Exhibit 6: Organised savoury snacks market in India (in crore)

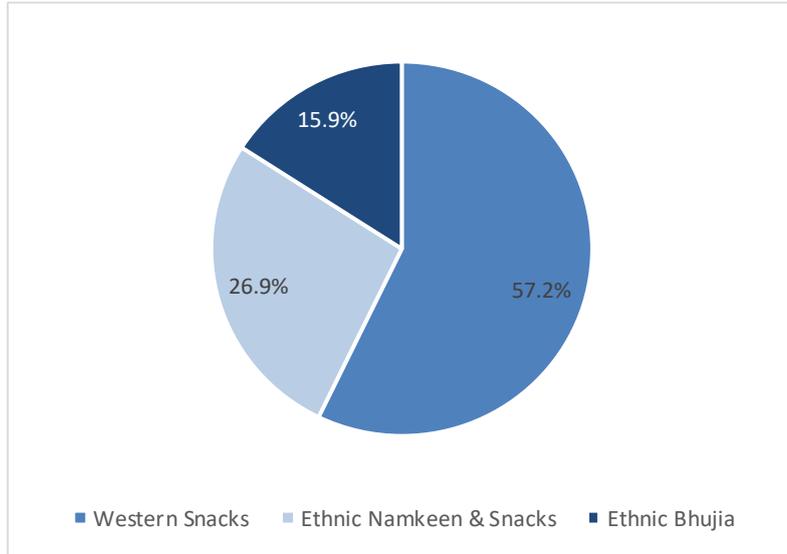


Source: RHP, ICICI Direct Research

The organised segment has been strengthening its position in the market over the last few years with new product launches and product innovations that have been largely targeted at the urban as well as rural consumer. The organised savoury snacks market was valued at ₹ 20,000 crore in 2015 and at ₹ 42,000 crore in 2022. It is further expected to grow at a CAGR of 15% to ₹ 74,000 crore by 2026. Advertisement and promotions play a major role in the growth of the organised sector. With deep pockets, the organised segment can afford celebrity endorsements

and engagements with mega events in India. This has also been instrumental to the success of the organised sector. Western snacks still dominate the organised market with 57.2% of market share in the Indian savoury snacks segment. Ethnic namkeen and snacks contribute to 26.9% of the organised savoury market followed by ethnic bhujia, which is at 15.9% in the overall savoury snacks market in 2022.

Exhibit 7: Organised savoury snacks market in India (%)

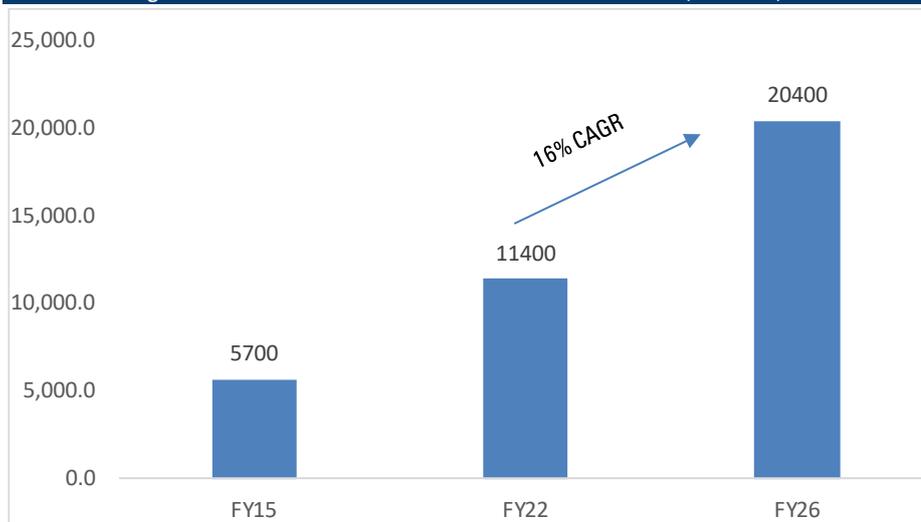


Source: RHP, ICICI Direct Research

Organised Ethnic snack market in India

Ethnic namkeen and snack items mainly include namkeen, chaklis (variety of masala or fried nuts). These snacks are very region specific within India. However, with urbanisation and working population migration to different regions the demand for regional snacks is increasing on a pan-India basis. This has led to domestic expansion of many regional players like Bikaji, Chitale, etc. Organised Indian ethnic namkeen market in India is valued at ₹ 11,400 crore, which is expected to grow at 16% CAGR to ₹ 20,400 crore by FY26.

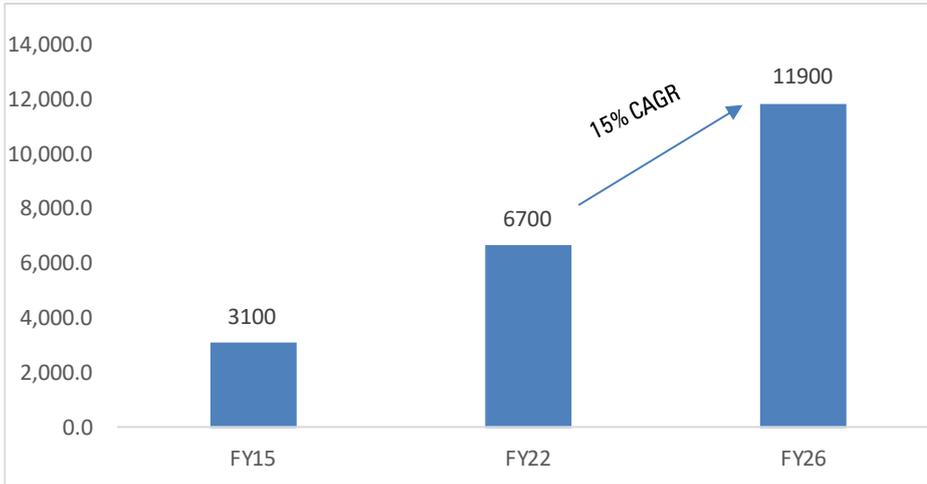
Exhibit 8: Organised Indian ethnic namkeen & snacks market (in crore)



Source: RHP, ICICI Direct Research

Ethnic bhujia is another specialty of the traditional Indian savoury market. Despite its origin and larger consumption in Rajasthan, it has reached various parts of India as well as overseas markets. The category has evolved with the introduction of many variants over the years. The current organised market size of ethnic bhujia is ₹ 6,700 crore and it is growing at 15% CAGR.

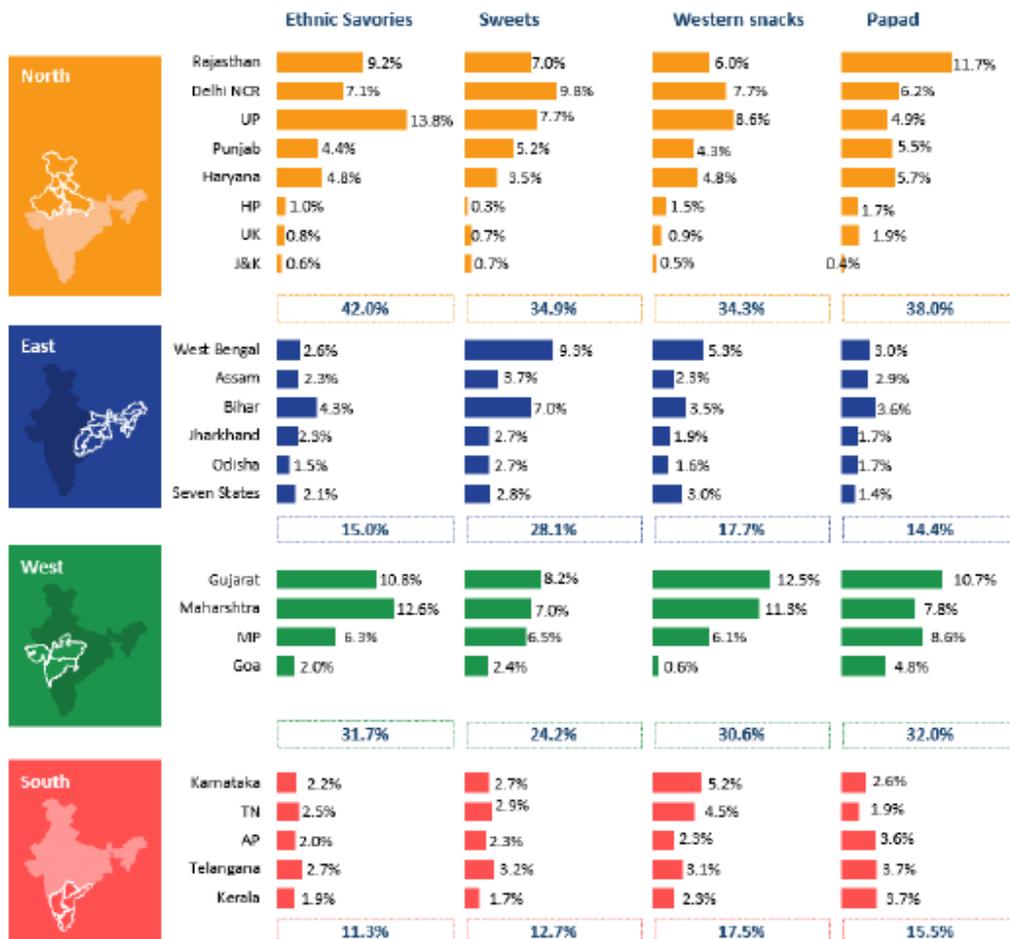
Exhibit 9: Organised Ethnic bhujia market (in crore)



Source: RHP, ICICI Direct Research

The Indian sweet market is valued at ₹ 59,300 crore with a major share coming from unorganised players. The market is predicted to reach ₹ 84,600 crore by 2026 owing to the sweet tooth of Indians. The Indian sweets market is largely unorganised with ₹ 53,500 crore market value and share of almost 90. However, traditional snack companies like Bikaji is trying to leverage its strong brand to capture the market share in such a large Sweet market dominated by unorganised sector through introduction packaged sweets (rasgulla, gulab-jamun etc)

Exhibit 10: Region wise break-up of snacks industry (%)



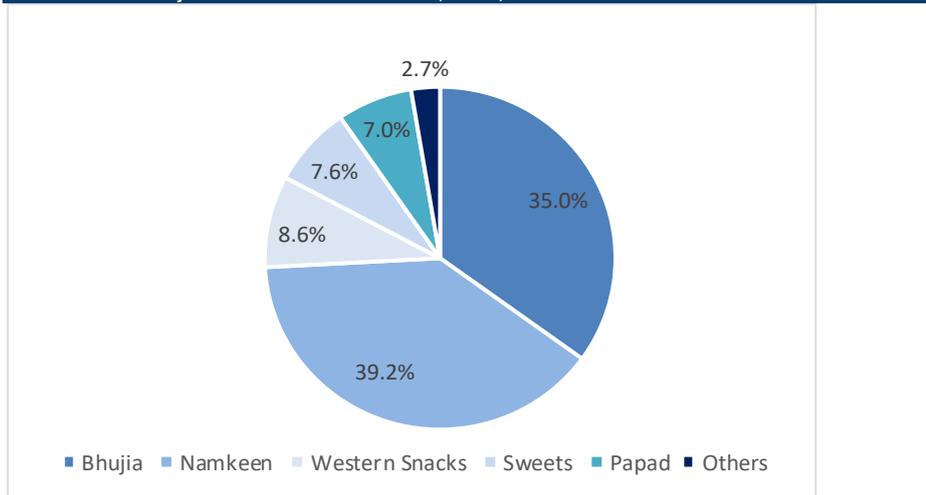
Source: RHP, ICICI Direct Research

Investment Rationale

Diversified product portfolio food

BFL has a growing domestic and global presence with a well-diversified product basket of more than 300+ products that ranges from wholesome bites to indulgent treats, such as namkeen, sweets, papad, western snacks, chips and cookies. Namkeen is the highest selling category followed by bhujia, sweets, papad and others contributing to 35.6%, 34.9%, 12.7%, 6.7% and 10.0%, respectively, to total sales in FY22. Bikaji was the largest manufacturer of Bikaneri bhujia with annual production of 29,380 tonnes. The facility of manufacturing Bikaneri bhujia is largely an automated one ensuring the consistency in quality and taste. The Bikaneri bhujia was given the geographical identification (GI) tag in 2010 since it is a popular cottage industry of Bikaner, providing employment to a large group of people in the region. Bikaji is the third largest player in the organised sweets market with annual capacity of 24,000 tonnes for packaged rasgulla 23,040 tonnes and 12,000 tonnes for soan papdi and gulab jamun, respectively. Majority of the papad produced by the company is handmade. The company is the second largest manufacturer of handmade papad with an annual production capacity of 9,000 tonnes in FY22.

Exhibit 11: Bikaji revenue contribution (FY22)

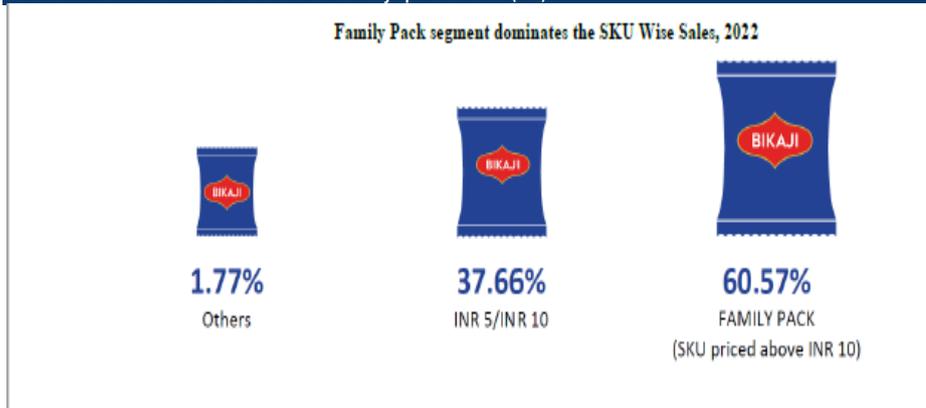


Source: RHP, ICICI Direct Research

Strong presence in family pack segment sales

The company is the market leader in the family pack segment and recorded highest share of 60.6% among its other SKUs of five and 10 packs during FY22. This reflects their brand resilience, driven by taste and the brand preference. The products in the family pack segment are considered as trustworthy with consumption at multiple occasions by families who believe in superior quality and consistency. Bikaji has offered its products in pouches of various sizes – from a small pack of 14-18 grams to a family party pack of 1 kg to serve wide range of consumers across all rural and urban markets. The snack products are available in different price points to cater to the entire spectrum of mass and niche markets. Similarly, for sweets, the company offers various packaging for respective occasions in various sizes.

Exhibit 12: Pack wise sales of Bikaji products (%)



Source: RHP, ICICI Direct Research

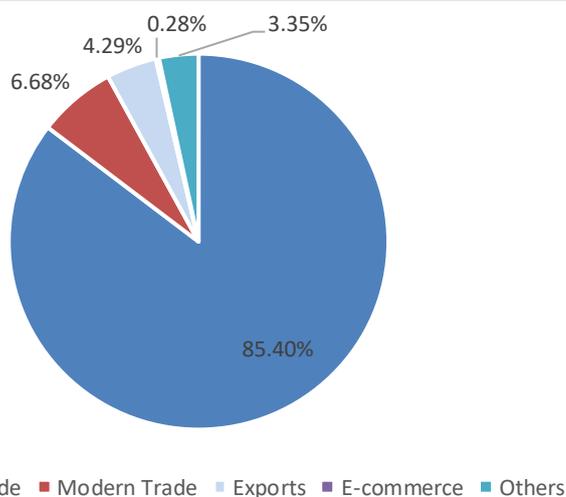
Focus on expanding pan-India manufacturing & distribution reach

BFL is expanding across geographies and trying to emerge as a dominant pan-India player. Apart from its core market of Rajasthan, the company has a very strong presence in states like Bihar and Assam. The company has, over the years, established market leadership in the ethnic snacks market in its core three states and gradually expanded its footprint across India, with operations across 23 states and four union territories serviced through 2,416 distributors. Its pan-India distribution network and well established brand has enabled it to effectively increase market penetration and expand their footprint across India. In its core markets of Rajasthan, Assam and Bihar, the company has established deep penetration and enjoys, market share of ~45%, 58% and 29%, respectively, in the total organised Indian ethnic snack category. The current annual production capacity for ethnic and western snacks, sweets and papad in Rajasthan is 2,150,000 tonnes and 12,000 tonnes for western snacks in Karnataka. A contract manufacturing unit has been set up in Kolkata for manufacturing chips, corn rings and other western snacks. New facilities have been started in states of Bihar (Muzaffarpur), UP (Kanpur) and Rajasthan (Bikaner) for western snacks and ethnic savouries. Apart from strong domestic presence, the company is a leading exporter of Indian ethnic snacks, sweets, frozen food besides savouries to 35 countries of North America, Asia Pacific, Middle East, EU, Africa and UK regions. Exports contributed ~4.0% of total sales predominantly in North America and Asia Pacific regions in FY22.

Extensive distribution network in India

Over the years, the company has developed a large pan-India distribution network. As of June 30, 2022, it had six depots, 38 super stockists, 416 direct and 1,956 indirect distributors that work with super stockists, across 23 states and four union territories in India. BFL has developed longstanding relationships with most of these super stockists and direct distributors. The company consistently engages with super stockists, direct distributors as well as end retailers to collect product feedback and insights on market trends to drive product development initiatives. BFL implements an integrated inventory and distribution management systems and sales force automation solutions to further improve the efficiency in its supply chain. The market knowledge, financial resources and time required to develop such a distribution network presents a significant entry barrier for competition. The company has a strong presence in railway stations across India, which gives immense visibility and major purchase space. It has started supplying products for sale in 30,000 canteen store department (CSD) stores from August onwards.

Exhibit 13: Channel wise sales of Bikaji products (%)



Source: RHP, ICICI Direct Research

Government incentives under PLI

The company avail benefits under certain export promotion schemes issued by the Government of India. GOI approved BFL's application for sales-based incentives for FY22 to FY27 under the 'Production Linked Incentive (PLI) Scheme for Category Segment Ready to Cook/Ready to Eat'. As part of the incentives, the company committed to spend ₹ 256.9 crore in FY21-23. BFL also received approval for incentive in relation to branding and marketing expenditure abroad for FY22-26. Under the PLI Scheme, government is incentivising manufacturing of four major food product segment i.e. Ready to Cook/ Ready to Eat including millet based foods, processed fruits and vegetables, marine products & Mozzarella cheese in India. The maximum incentive the company will receive under the scheme will be ₹ 261.4 crore.

Strategic expansion of capabilities across multiple locations

BFL aspires to set up state of the art product manufacturing facilities across various strategic locations in the country to ensure ease of product serviceability across different zones, retain freshness of the products achieved through reduction in lead times and efficiency of operations. This would ensure the company deepens its pan-India presence. The key initiatives planned in this direction include setting up state of the art manufacturing plants in states of Assam, Bihar, Rajasthan and Uttar Pradesh thereby establishing manufacturing presence across more locations in India, and penetrating their stronger and focused markets through contract manufacturing units (CMU) to ensure wider presence, diversified product manufacturing, freshness and quality of the products and utilisation of capital more efficiently for growth initiatives.

Further strengthening brand through marketing spends

The company is consistently allocating significant resources to establish and strengthen the Bikaji brand and increase brand recall in snacks brands through various marketing initiatives. It has consciously developed product portfolio under the Bikaji brand, allowing customers to associate with one brand. It engaged Amitabh Bachchan in India and abroad as brand ambassador. Its pan India marketing initiatives include advertisements in television, radio, print, social media, digital and outdoor promotional campaigns, and sponsorship of sports and cultural events in India. It spends ~3% of sales (FY20) for the advertisement & promotions.

Key risks and concerns

Raw material volatility may continue to pressurise margins

The major raw materials for the company consist of mainly agri products like pulses, flours, edible oils, spices, seasonings and dairy products while major packaging materials include laminates, tin cans and cardboard boxes. In the last one year, all these materials witnessed unprecedented inflation, which adversely impacted gross margins. Though edible oil prices have softened recently, all other major commodities still remain at elevated levels. Volatility in raw material prices could impact margin even in future.

Sales concentrated in small number of states

The core markets for the company's products are Rajasthan, Assam and Bihar. In FY22, it enjoyed a market share of ~45%, ~58% and ~29%, respectively, of total organised Indian ethnic snack category in Rajasthan, Assam and Bihar, respectively. The sales in core market is ~70% of BFL's total sales. The opportunity in other states can be captured by competitors given the company's manufacturing & distribution is relatively new in south & western markets.

High competitive intensity

The snack industry is highly competitive with the presence of multiple Indian as well as MNCs present in different sub-categories. The competition could further increase with new regional entrants in ethnic snacks category. The company has witnessed strong 20% sales CAGR in last two years. However, increasing competition could result in lower than historic growth for the company. Moreover, many bigger FMCG companies enjoys gross margins of 40%+ and their ability to spend on advertisement is higher compared to the company.

High dependence on wholesale network

The direct distributors associated with the company are only 416 across India whereas large part of the sales is coming from wholesalers given total wholesalers associated with the company are 1956. Wholesale channels are vulnerable to economic disruptions. In the last five years, the wholesale channel was adversely impacted by many disruptions like demonetisation, GST implementation, economic slowdown and Covid-19 outbreak. We believe BFL's dependency on this channel is very high. Any future disruption could impact growth for a particular period of time.

Financial Summary

Exhibit 14: Profit & loss statement				
	(₹ crore)			
(Year-end March)	FY20	FY21	FY22	Q1FY23
Revenue	1,074.6	1,310.7	1,611.0	419.2
Growth (%)	19.2	22.0		
Raw material expense	744.9	936.9	1,170.3	317.0
Employee expenses	64.6	69.9	90.1	23.8
Other expenses	170.4	159.2	211.1	47.6
Total Operating Exp	980.0	1,166.0	1,471.4	388.4
EBITDA	94.6	144.8	139.5	30.8
Growth (%)	1.4	53.0	-3.6	
Depreciation	34.2	33.1	38.3	11.1
Interest	5.1	3.0	6.7	2.6
Other Income	8.4	11.5	10.5	4.7
Exceptional Items	0.0	0.0	0.0	0.0
PBT	63.6	120.1	105.0	21.8
Total Tax	7.3	29.8	29.0	6.1
PAT	56.4	90.3	76.0	15.7
Growth (%)	10.7	60.3	-15.8	
EPS (₹)	2.3	3.7	3.0	0.6

Source: RHP, ICICI Direct Research

Exhibit 15: Balance Sheet				
	(₹ crore)			
(Year-end March)	FY20	FY21	FY22	Q1FY23
Liabilities				
Equity Capital	24.3	24.3	25.0	25.0
Reserve and Surplus & Others	504.9	581.4	795.8	811.3
Non-controlling Stake	0.0	1.8	-0.1	-0.6
Total Shareholders funds	529.2	607.5	820.7	835.7
Total Debt	52.3	86.2	141.2	156.4
Other non current liabilities	33.9	30.2	48.6	49.6
Trade Payable	14.3	42.5	42.8	51.9
Provisions	6.8	4.8	2.9	3.2
Other FL & Lease liability	40.1	34.4	41.8	42.8
Other current liability	0.0	11.7	4.1	6.7
Total Equity & Liability	676.6	817.1	1,102.1	1,146.3
Fixed Assets	398.5	446.9	532.1	545.9
Goodwill & Intangible Assets	11.2	11.8	28.2	35.4
Financial Assets	41.5	85.8	168.3	158.9
Deffered tax assets (including Income tax)	6.9	3.1	6.7	6.8
Other non current assets	16.0	33.7	24.4	31.5
Investments	0.0	0.0	0.0	0.0
Inventory	36.5	56.8	72.9	79.5
Debtors	41.7	47.3	73.3	70.4
Other Financial assets	21.2	20.0	79.1	87.8
Cash	88.3	87.4	90.2	98.7
Other current assets	14.9	24.3	27.1	31.4
Total Assets	676.6	817.1	1,102.1	1,146.3

Source: RHP, ICICI Direct Research

Exhibit 16: Cash flow statement				
	(₹ crore)			
(Year-end March)	FY20	FY21	FY22	Q1FY23
Profit before Tax	63.6	120.1	105.0	21.8
Add: Depreciation	34.2	33.1	38.3	11.1
(Inc)/dec in Current Assets	-15.5	-40.2	-56.8	-4.1
Inc/(dec) in CL and Provisions	-10.6	26.4	7.0	13.0
Others	0.6	-5.0	5.1	0.5
Tax (net of refund)	-11.7	-17.3	-41.1	-4.7
CF from operating activities	60.7	117.2	57.5	37.5
(Inc)/dec in Investments	-1.8	-12.0	-61.7	-3.0
(Inc)/dec in Fixed Assets	-40.5	-70.4	-107.8	-16.0
Others	-21.2	-31.7	-62.1	-10.1
CF from investing activities	-63.5	-114.1	-231.6	-29.1
Issue/(Buy back) of Equity	0.0	0.0	134.7	0.0
Inc/(dec) in loan funds	-20.0	1.9	47.9	1.1
Others	-11.4	-10.9	-13.9	-2.8
CF from financing activities	-31.5	-9.1	168.8	-1.7
Net Cash flow	-34.3	-5.9	-5.3	6.7
Opening Cash	17.2	-17.1	-22.9	-28.3
Exchange difference	0.0	0.1	0.0	0.0
Closing Cash	-17.1	-22.9	-28.3	-21.5

Source: RHP, ICICI Direct Research

Exhibit 17: Key Ratios				
(Year-end March)	FY20	FY21	FY22	Q1FY23
Per share data (₹)				
EPS	2.3	3.7	3.0	0.6
BV	21.8	25.0	32.9	33.5
Operating Ratios (%)				
EBITDA Margin (%)	8.8	11.0	8.7	7.3
PAT Margin (%)	5.2	6.9	4.7	3.7
Inventory Days	12	16	17	17
Debtor Days	14	13	17	15
Creditor Days	7	17	13	15
Return Ratios (%)				
RoE	10.7	14.9	9.3	
RoCE	10.4	16.1	10.5	
Valuation Ratios (x)				
P/E	132.8	82.9	98.5	
EV / EBITDA	81.6	53.3	55.3	
EV / Net Sales	7.2	5.9	4.8	
Market Cap / Sales	7.0	7.0	5.7	
Price to Book Value	14.1	12.3	9.1	
Solvency Ratios				
Debt / Equity	0.1	0.1	0.2	
Current Ratio	3.3	2.5	3.7	
Quick Ratio	2.7	1.9	2.9	

Source: RHP, ICICI Direct Research

RATING RATIONALE

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Subscribe: Apply for the IPO

Avoid: Do not apply for the IPO

Subscribe only for long term: Apply for the IPO only from a long term investment perspective (>two years)



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