

**NOT
RATED**
**BIKAJI FOODS
INTERNATIONAL**

Consumer Discretionary

22 March 2023

Appetite for growth

- Largest manufacturer of Bikaneri Bhujiya (crispy snack) and third-largest maker of traditional Indian snacks
- Investments and strategies aligned towards improving market share in focus states
- Topline guided to grow 20% accompanied by 12-15% EBITDA margin in the near-to-medium term

Vikrant Kashyap

research@bobcaps.in

We visited three plants of Bikaji Foods (BIKAJI IN, Not Rated) in Bikaner, Rajasthan, to understand the manufacturing process and business operations. Key takeaways:

Largest manufacturer of bhujiya: Bikaji Foods is the third-largest manufacturer of traditional Indian snacks and the largest maker of Bikaneri *bhujiya* in the country. The company is also the second-largest maker of handmade *papad* after Lijjat. Bikaji offers over 300 pack options across key categories, comprising 14 varieties of bhujiya and 66 of *namkeen* or savoury snacks (together ~70% of revenue), 43 types of packaged sweets (~13% of revenue), 8 of papad (~7%), 32 types of western snacks (~6%), and 144 of other snacks.

Strategically located manufacturing plants: With a view to servicing targeted geographies and driving market share gains, the company has established its manufacturing base across the states of Rajasthan (Karni and Bichhwal), Karnataka (Tumkur), Assam (Guwahati), and Bihar (Muzaffarpur). It also has contract manufacturing units in West Bengal (Kolkata), Bihar (Patna) and Uttar Pradesh (Kanpur).

Technology to drive efficiency in core markets: Rajasthan, Assam and Bihar are core markets for Bikaji where the company is category leader and has significant market share. In these core markets, the focus remains on consolidating leadership by enhancing efficiency and productivity through sales automation and distribution management. In Rajasthan, the company aims to improve its direct reach to 75,000 retail outlets from the current 42,000.

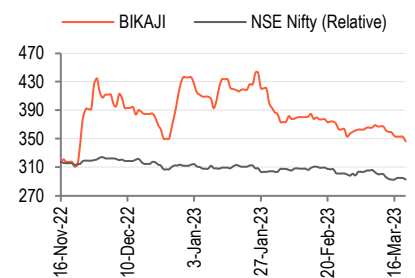
Expanding into other geographies: Bikaji is increasing its presence in other parts of North India, including Uttar Pradesh, Punjab, Haryana and Delhi, apart from Gujarat in the western region, and Karnataka and Telangana in South India. The company's focus in these markets remains on improving market share and presence by strengthening the distributor base, launching products catering to local tastes and using digital channels to increase reach and awareness.

Valuation: The stock is currently trading at 49.6x/36.0x FY24E/FY25E Bloomberg consensus EPS.

Ticker/Price	BIKAJI IN/Rs 347
Market cap	US\$ 1.0bn
Free float	14%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 447/Rs 303
Promoter/FPI/DII	76%/4%/20%

Source: NSE | Price as of 21 Mar 2023

Stock performance



Source: NSE



Key takeaways from plant visit

- Spread across 18 acres, Bikaji's Karni plant in Rajasthan is its largest manufacturing unit used to prepare traditional savoury snacks (Bikaneri bhujjiya, namkeen) and Indian sweets. A total of ~1,500 staff work at the Karni plant.
- The company has ~300 SKUs and uses ~400 types of ingredients in the manufacturing process. Bikaji sources most of the ingredients locally via arrangements with local millers and distributors. Moth beans, *channa dal* (split chickpea lentils), cottonseed oil, palm oil and spices are the major ingredients for making bhujjiya.
- The company procures milk locally from farmers for preparing Indian sweets. Bikaji processes 50-60tonnes of *rasgulla* (sweet snack made with curdled milk) per day in peak season and 15-20t per day in the lean period.
- Namkeen is another category which is gaining traction. Bikaji's top selling products remain 'All-in-one Kuch Kuch' and 'Sub Kuch Namkeen' while *moong dal* (green gram) and crusty nuts are gaining traction. Apart from Indian snacks, the company has started focusing on Western snacks which is currently ~5% of total sales.
- In sweets, *gulab jamun*, *rasgulla* and *soan papdi* are the largest selling products for Bikaji.
- Bikaji is the second largest manufacturer of *papad* (savoury Indian flatbread), which are handmade by women who work on a contractual basis and packed in the company premises.
- The company's capacity utilisation is ~47% overall and ~60% for Bikaneri bhujjiya.
- The Indian snacks market is expected to grow by ~15% in coming years while the company expects to grow ~20%.
- Due to seasonality, Bikaji typically derives over half of revenue (~57%) in the second and third quarters and the balance in Q1 and Q4.
- Bikaji expects gross margin to sustain at ~29% and EBITDA margin to improve to 12% in the near term and 15% over the medium term.
- The company has taken a 2% price cut besides raising grammage for the first time in two years due to a softening of raw material prices. However, it has not taken a price cut in sweets as milk prices remain high.
- Channel margins remain largely unchanged. The distributor margin stands at ~5% for large packs and 7% for small packs. The retail margin is 16% for small packs and 20% for large packs.
- In Rajasthan, the company aims to reach 75,000 retail outlets as against ~42,000 now. The focus is on deepening distribution reach and creating brand awareness to boost market share in focus states.

Production process



Soan Papdi



Gulab Jamun



Handmade Ladoo



Papad



Rasgulla



Rasgulla



Badam (Almond) Halwa



Badam Halwa

Source: Company, BOBCAPS Research

Distributor meet takeaways

We met Vishal Bhatia, a distributor in Marudhar Nagar, Bikaner (Rajasthan), who caters to 1,400-1,500 Bikaji retail outlets in and around the city.

- Bhatia earned revenue of Rs 90mn in FY22 while servicing 500-600 retail outlets. For FY23, he expects sales of Rs 150mn-160mn.
- Bikaji introduced a Dealer Management System (DMS) in Dec'20 to raise the efficiency of dealers and distributors. The DMS app enables salespersons to log orders on their mobile phones during visits to retail outlets, aiding better route and inventory planning.
- The new system has helped Bhatia to service retail outlets more frequently, on a weekly basis.

Bikaji outlets



Source: Company, BOBCAPS Research

NOT FOR DISTRIBUTION, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES OF AMERICA (“US”) OR IN OR INTO ANY OTHER JURISDICTION IF SUCH AN ACTION IS PROHIBITED BY APPLICABLE LAW.

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOB Capital Markets Limited (BOBCAPS).

General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. BOBCAPS research reports follow rules laid down by Securities and Exchange Board of India and individuals employed as research analysts are separate from other employees who are performing sales trading, dealing, corporate finance advisory or any other activity that may affect the independence of its research reports.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company or third party in the past 12 months in connection with research report/activities. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.

Other disclaimers

BOBCAPS and MAYBANK (as defined below) make no representation or warranty, express or implied, as to the accuracy or completeness of any information obtained from third parties and expressly disclaim the merchantability, suitability, quality and fitness of this report. The information in this report has not been independently verified, is provided on an "as is" basis, should not be relied on by you in connection with any contract or commitment, and should not be used as a substitute for enquiries, procedures and advice which ought to be undertaken by you. This report also does not constitute an offer or solicitation to buy or sell any securities referred to herein and you should not construe this report as investment advice. All opinions and estimates contained in this report constitute BOBCAPS's judgment as of the date of this report and are subject to change without notice, and there is no obligation on BOBCAPS or MAYBANK to update this report upon issuance. This report and the information contained herein may not be reproduced, redistributed, disseminated or copied by any means without the prior consent of BOBCAPS and MAYBANK.

To the full extent permitted by law neither BOBCAPS, MAYBANK nor any of their respective affiliates, nor any other person, accepts any liability howsoever arising, whether in contract, tort, negligence, strict liability or any other basis, including without limitation, direct or indirect, special, incidental, consequential or punitive damages arising from any use of this report or the information contained herein. By accepting this report, you agree and undertake to fully indemnify and hold harmless BOBCAPS and MAYBANK from and against claims, charges, actions, proceedings, losses, liabilities, damages, expenses and demands (collectively, the "Losses") which BOBCAPS and/or MAYBANK may incur or suffer in any jurisdiction including but not limited to those Losses incurred by BOBCAPS and/or MAYBANK as a result of any proceedings or actions brought against them by any regulators and/or authorities, and which in any case are directly or indirectly occasioned by or result from or are attributable to anything done or omitted in relation to or arising from or in connection with this report.

Distribution into the United Kingdom ("UK"):

This research report will only be distributed in the United Kingdom, in accordance with the applicable laws and regulations of the UK, by Maybank Securities (London) Ltd ("MSL") who is authorised and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom (MSL and its affiliates are collectively referred to as "MAYBANK"). BOBCAPS is not authorized to directly distribute this research report in the UK.

This report has not been prepared by BOBCAPS in accordance with the UK's legal and regulatory requirements.

This research report is for distribution only to, and is solely directed at, selected persons on the basis that those persons: (a) are eligible counterparties and professional clients of MAYBANK as selected by MAYBANK solely at its discretion; (b) have professional experience in matters relating to investments falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended from time to time (the "Order"), or (c) fall within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations, etc. as mentioned in the stated Article) of the Order; (all such persons together being referred to as "relevant persons").

This research report is directed only at relevant persons and must not be acted on or relied on by any persons who are not relevant persons. Any investment or investment activity to which this material relates is available only to relevant persons and will be engaged in only with relevant persons.

The relevant person as recipient of this research report is not permitted to reproduce, change, remove, pass on, distribute or disseminate the data or make it available to third parties without the written permission of BOBCAPS or MAYBANK. Any decision taken by the relevant person(s) pursuant to the research report shall be solely at their costs and consequences and BOBCAPS and MAYBANK shall not have any liability of whatsoever nature in this regard.

No distribution into the US:

This report will not be distributed in the US and no US person may rely on this communication.

Other jurisdictions:

This report has been prepared in accordance with SEBI (Research Analysts) Regulations and not in accordance with local regulatory requirements of any other jurisdiction. In any other jurisdictions, this report is only for distribution (subject to applicable legal or regulatory restrictions) to professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions by Maybank Securities Pte Ltd. (Singapore) and / or by any broker-dealer affiliate or such other affiliate as determined by Malayan Banking Berhad.

If the recipient of this report is not as specified above, then it should not act upon this report and return the same to the sender.

By accepting this report, you agree to be bound by the foregoing limitations.