Merger and Acquisition Analysis of Hindustan Unilever Limited and Britannia Industries

Introduction

Should **Hindustan Unilever Limited** *acquire* **Britannia Industries Limited** ?

- The Potential Acquisition of Britannia Industries Limited by Hindustan Unilever Limited (HUL) has been subject of speculation and rumours in recent years.
- Reports have said that HUL is proceeding in a way to further strengthen its position in the the Indian food, beverages and biscuit market, due to which acquisition of Britannia Industries Ltd. is under consideration.
- But, no official announcement has been made regarding the acquisition, and it was still a topic of speculation in the media until these slides convince you to make a final decision.

History of Britannia

Rich History

- Britannia is one of the India's largest and most well-known packaged food companies, with a **100** year legacy and annual revenues in excess of Rs. **9000** Cr. It is among the most trusted food brands, and manufactures India's favourite brands like Good Day, Tiger, NutriChoice, Milk Bikis and Marie Gold.
- It was founded in 1892, headquartered in Kolkata, it is one of the India's oldest existing companies. In 1921, Britannia became the first company which imported and used gas oven from the East of The Suez Canal.
- It's trust among people made it possible to supply biscuits to the British Army during the World War II. It has come a long way.

BRITANNIA

WolfOfDalalStreet

BRITANNIA

2020
Leading player in Biscuit Industry with **biggest market share**.
Market Cap: ₹91000 Cr
Revenue: ₹11400 Cr

2009
Wadia buys stake from Danone, **becoming the key shareholder** with 50.96% ownership.

1981
Rajan Pillai secured majority control of the company and became to known as **'Biscuit King'**.

1986
Good Day was launched.

1993
With the help of European company, **Danone**, **Wadia** became chairman, after a **hostile takeover**.

1993
Wadia and Danone owned 50.96% with 25.48% each.

1979
Company's name was changed to **Britannia Industries Ltd.**

1978
Came out with its **IPO**.

1955
Britannia launched **Bourbon** Biscuits.

1924
Factory was set up in Mumbai and **Peek Freans (UK)** acquired majority stake.

1892
Established in Kolkata with an initial investment of **₹295**. Biscuits were made in a small room.

1910
An English Biz. man was taken on as a partner and **Britannia Biscuit Co. Ltd.** (BBCo) was formed.

Source : https://www.thebizdom.in/brand-story-of-britannia/

Current Operations

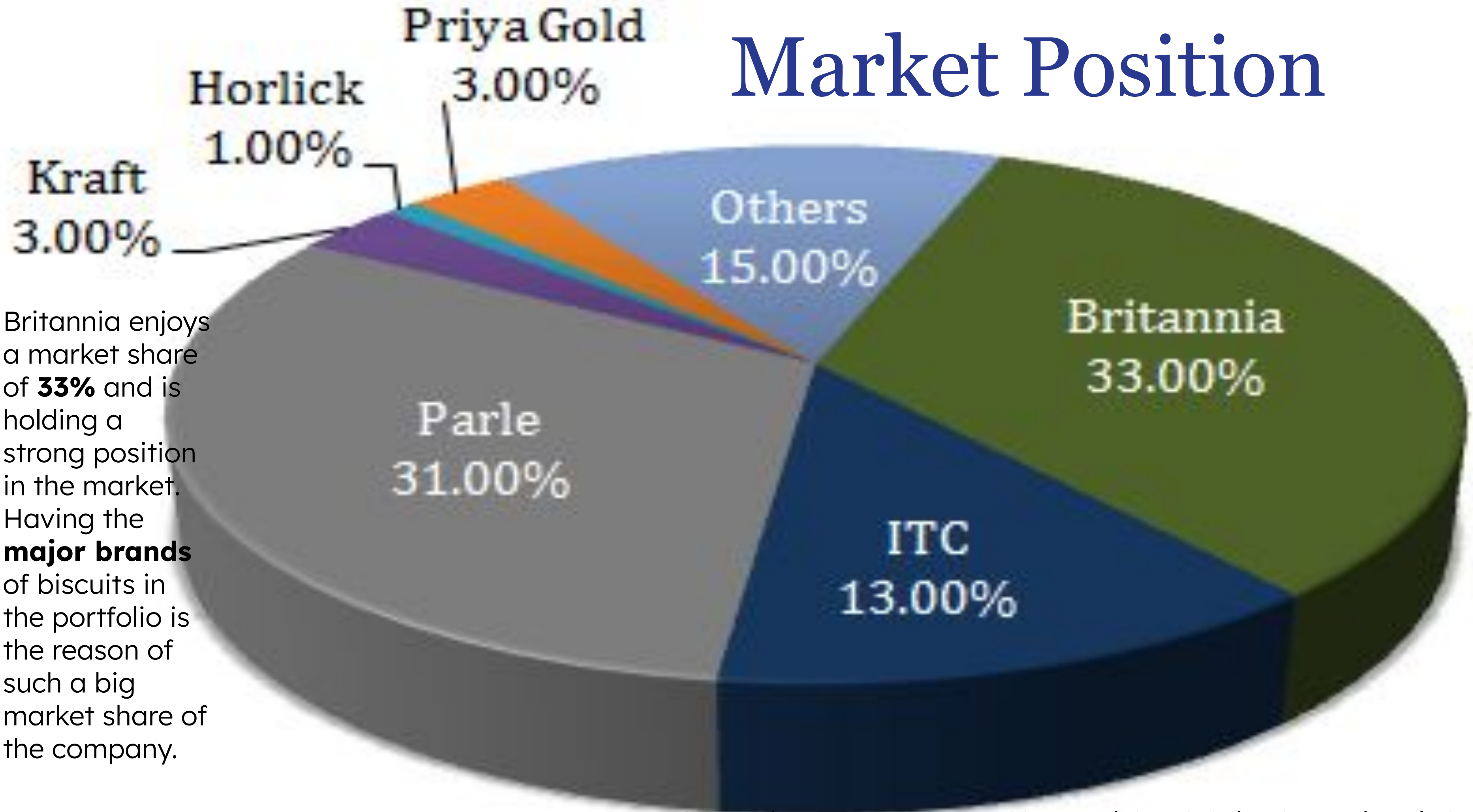
- It has been operating in more than **60** countries and has been surviving them nonchalantly. Local manufacturing has also been started in UAE. Main headquarters are in Kolkata and it's products are distributed over **5** million stores in the country.
- Its product portfolio is having cakes, muffins, cheese, milk, butter, ghee, yoghurt, biscuits, bread and buns.
- Britannia's major revenue (95% of sales) depends on biscuit products and the rest depends on dairy and other products.
- It has also signed a deal of joint venture with a Greek Company to produce and sell ready-to-eat croissants in India and also working to expand its demand abroad.

Source : https://startuptalky.com/britannia-business-model/

Strategies

- *Innovation and product diversification*: Britannia **invests** heavily in research and development to come up with new and **innovative** products that cater to changing consumer preferences.
- *Expansion into new markets*: The company has been **expanding** its presence in both domestic and international markets to increase its customer base and revenue.
- *Focus on health and wellness*: Britannia is increasingly focusing on offering **healthier food** options to consumers, such as low-fat dairy products, whole grain biscuits, and sugar-free snacks.
- *Strengthening distribution networks*: The company is working to **improve** its distribution networks, both in urban and rural areas, to **reach more** customers and increase its market share.
- *Brand building and marketing*: Britannia places a strong emphasis on building and promoting its brand, which helps to increase consumer **awareness** and loyalty.

Market Position



Britannia enjoys a market share of **33%** and is holding a strong position in the market. Having the **major brands** of biscuits in the portfolio is the reason of such a big market share of the company.

Source : https://www.sanasecurities.com/britannia-industries-stock-analysis/

History of HUL

Rich History

Hindustan Unilever Limited

- Hindustan Unilever Limited (HUL) was formed in *2007* through the merger of Hindustan Lever Limited and Unilever.
- HUL has a long history in India, with roots dating back to *1933* and a focus on **expanding** its product portfolio to meet the changing needs of consumers.
- The company is known for its **commitment** to *sustainability*, *corporate social responsibility*, and providing *high-quality consumer goods*, and continues to **grow** and **innovate** to meet the needs of its customers.
- HUL has a very **strong** brand image and is well known for **promoting** *hygiene* and *sanitation* in rural India.

William Lever

1888
Lever Brothers introduces Sunlight soap in India

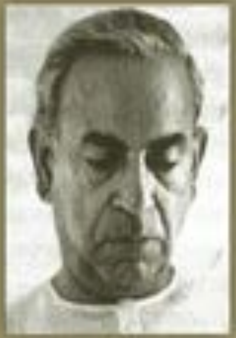
1930
Unilever is formed on January 1 through the merger of Lever Brothers and Margarine Unie

1933
Lever Brothers India Limited is incorporated in October

1934
The first Lever Brothers soap factory is set up in Sewri

1959
Surf launched

1961
Prakash Tandon takes over as the first Indian Chairman; 191 of 205 managers are Indian



Source: https://www.businesstoday.in/magazine/special/story/oldest-mnc-in-india-hul-hindustan-unilever-41140-2013-05-07

1982

Unlike other MNCs, Unilever allowed to retain 51% stake

1996

HUL and Indian cosmetics major Lakme Ltd form 50:50 JV, Lakme Lever Ltd

2007

Company name changes to Hindustan Unilever Ltd after receiving shareholder approval

Source: https://www.businesstoday.in/magazine/special/story/oldest-mnc-in-india-hul-hindustan-unilever-41

Current Operations

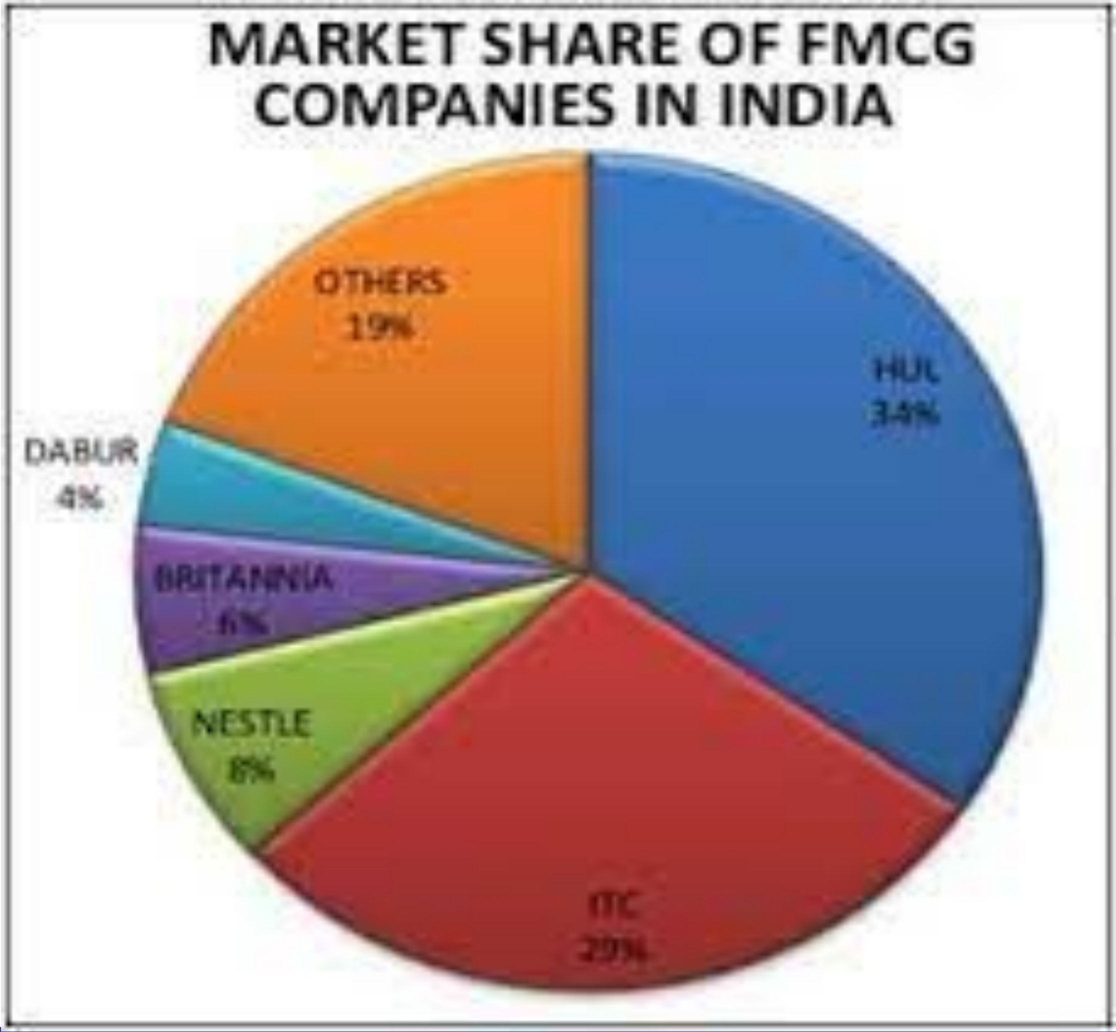
- *FMCG products*: HUL is engaged in the manufacturing and marketing of a diverse range of fast-moving consumer goods (FMCG) products, including *personal care, home care, foods, and beverages.*
- *Research and Development*: HUL invests heavily in research and development to **innovate** & **improve** its products and stay ahead of the competition.
- *Marketing and Distribution*: HUL has a vast distribution network that covers the length and breadth of the country, making its products easily **accessible** to consumers. The company also engages in intensive marketing and promotion activities to increase brand awareness and drive sales.
- *Corporate Social Responsibility*: HUL is committed to making a **positive impact** on society and the environment. The company has several initiatives in place to promote *sustainability*, *reduce its carbon footprint*, and *support* communities in need.

Strategies

- *Brand Building*: HUL has a strong brand portfolio including well-known names such as *Dove, Lipton, Surf Excel, and Knorr*, among others. The company focuses on **building** and **strengthening** its brands through effective advertising and marketing campaigns.
- *Market Penetration*: HUL has a strong distribution network that covers the length and breadth of the country, which enables it to reach its target customers effectively. The company continues to **expand** its reach by penetrating deeper into the rural markets and reaching the bottom of the pyramid.
- *Cost Efficiency*: HUL is known for its **cost-effective** operations and continuous efforts to streamline processes and **reduce costs**.
- *Collaboration and Partnerships*: HUL has a strong culture of **collaboration** and **partnerships**, both internally and with external stakeholders.
- *Innovation and New Product Development*: HUL has a strong focus on **innovation** and continuously launches *new* products to meet changing customer needs.

- HUL has a **strong** market position in India and is known for its **trusted** and **high-quality** *personal care, food, and home care brands.* Some of its popular brands include Dove, Lipton, Surf Excel, Pepsodent, and Knorr, to name a few.
- The company has a broad distribution network that covers over **6.3 million** retail outlets in India, making its products easily **accessible** to consumers.
- HUL has been consistently ranked among the top companies in India in terms of market capitalization, brand value, and overall business performance.
- With its focus on *innovation*, *sustainability*, and *consumer-centric approach*, HUL is well-positioned to continue its growth and dominance in the Indian market.

Source: https://www.ijsr.net/archive/v7i9/ART20191022.pdf



Financial
Due Diligence

DCF Analysis HUL

- Over the past year, HUL' s share price has not changed much, falling a little bit and then rising to **Rs. 2575**
- According to our calculations HUL is clearly **undervalued** (*35-50%*) relative to Comparable Public Companies and on an intrinsic cash flow basis.

	All amounts in Cr. Rs.
WACC	7.59%
Terminal Growth Rate	0.5%
Perpetuity Value	205,534.67
NPV	₹ 884,094.92
Less: Debt	0
Add: Cash & CE + Short term Investments	7495
Equity Value	₹ 891,589.92
No. of Shares (In Cr.)	234.00
Intrinsic Value per share	3,810.21

Current Weighted Average Cost of Capital	
No. of shares(in crores)	234.00
Price per share (In Rs)	2,582.80
Equity Market Capitalisation(in Rs Crores)	619,728.00
Cost of Equity	7.59%
Debt	-
Cost of Debt	0.00%
WACC=Ke*E/(E+D)+Kd*D/(E+D)	**7.59%**

All amounts in Cr. Rs.

	2017-18	2018-19	2019-20	2020-21	2021-22	FY23E	FY24E	FY25E	FY26E	FY27E
EBITDA	5,918.00	7,945.00	10,212.00	12,550.00	12,422.00	17,555.17	18,315.75	19,014.88	19,832.10	20,228.30
Other Income	569.00	664.00	733.00	513.00	393.00	546.33	484.11	474.48	501.64	486.74
EBITDA excluding other income	5,349.00	7,281.00	9,479.00	12,037.00	12,029.00	17,008.84	17,831.64	18,540.40	19,330.45	19,741.55
DA	478.00	524.00	938.00	1,012.00	1,025.00	668.48	699.39	727.34	759.49	775.90
EBIT	4,871.00	6,757.00	8,541.00	11,025.00	11,004.00	16,340.36	17,132.25	17,813.06	18,570.96	18,965.65
Tax	37.65%	33.50%	25.38%	21.98%	25.63%	25.17%	25.17%	25.17%	25.17%	25.17%
NOPLAT	3,037.21	4,493.44	6,373.06	8,601.76	8,183.72	12,227.49	12,820.06	13,329.52	13,896.65	14,192.00
DA	478.00	524.00	938.00	1,012.00	1,025.00	668.48	699.39	727.34	759.49	775.90
GCF	3,515.21	5,017.44	7,311.06	9,613.76	9,208.72	12,895.97	13,519.45	14,056.85	14,656.14	14,967.90
Changes in Working Capital										
Net Capex		298.99	345.87	345.99	1,223.82	389.99	432.86	246.88	674.98	467.99
FCFF		**4,718.45**	**6,965.19**	**9,267.77**	**7,984.90**	**12,505.98**	**13,086.59**	**13,809.97**	**13,981.16**	**14,499.91**
Perpetuity Value										205,534.67
Total		210,253.12	212,499.86	214,802.43	213,519.57	218,040.65	218,621.26	219,344.64	219,515.83	220,034.58

DCF Analysis Britannia

- Over the past year, Britannia's share price has been increasing gradually, having a current price of **Rs. 4606.2**
- According to our calculations Britannia is **Overvalued** (*25%*) relative to Comparable Public Companies and on an intrinsic cash flow basis.

	All amounts in Cr. Rs.
WACC	10.46%
Terminal Growth Rate	4.0%
Perpetuity Value	106,528.73
NPV	₹ 83,465.59
Less: Debt	2465.54
Add: Cash & CE + Short term Investments	1947.27
Equity Value	₹ 82,947.32
No. of Shares (In Cr.)	24.08
Intrinsic Value per share	3,444.66

Current Weighted Average Cost of Capital	
No. of shares(in crores)	24.08
Price per share (In Rs)	4,656.10
Equity Market Capitalisation(in Rs Crores)	112,118.89
Cost of Equity	10.58%
Debt(in crores)	3,021.60
Cost of Debt	6.15%
WACC=Ke*E/(E+D)+Kd*D/(E+D)	**10.46%**

All amounts in Cr. Rs.

	2017-18	2018-19	2019-20	2020-21	2021-22	FY23E	FY24E	FY25E	FY26E	FY27E
EBITDA	1,130.06	1,296.54	1,618.31	2,007.56	1,721.04	5,974.62	6,710.50	7,544.48	8,475.81	9,527.85
Other Income	155.93	190.52	335.43	292.70	359.43	329.19	327.11	338.57	331.62	332.43
EBITDA excluding other income	974.13	1,106.02	1,282.88	1,714.86	1,361.61	5,645.43	6,383.40	7,205.90	8,144.19	9,195.42
DA	142.07	161.88	184.81	197.85	200.54	222.64	250.50	281.72	317.14	357.47
EBIT	832.06	944.14	1,098.07	1,517.01	1,161.07	5,422.79	6,132.90	6,924.19	7,827.05	8,837.95
Tax	55.39%	57.91%	33.43%	37.23%	38.00%	25.17%	25.17%	25.17%	25.17%	25.17%
NOPLAT	371.17	397.43	730.95	952.18	719.92	4,057.87	4,589.25	5,181.37	5,856.98	6,613.44
DA	142.07	161.88	184.81	197.85	200.54	222.64	250.50	281.72	317.14	357.47
GCF	513.24	559.31	915.76	1,150.03	920.46	4,280.51	4,839.75	5,463.08	6,174.12	6,970.91
Changes in Working Capital										
Net Capex		298.99	345.87	345.99	550.20	650.00	350.00	350.00	350.00	350.00
FCFF		**260.32**	**569.89**	**804.04**	**370.26**	**3,630.51**	**4,489.75**	**5,113.08**	**5,824.12**	**6,620.91**
Perpetuity Value										106,528.73
Total		260.32	569.89	804.04	370.26	3,630.51	4,489.75	5,113.08	5,824.12	113,149.64

Particulars	Premium				
Cases	15%	20%	25%	30%	35%
Share price acquirer	2,578.20	2,578.20	2,578.20	2,578.20	2,578.20
Acquisition price of target	5,297.13	5,527.44	5,757.75	5,988.06	6,218.37
Acquisition value (INR in millions)	1,275,863	1,331,336	1,386,808	1,442,280	1,497,753
Cash used (INR in millions)	255,173	266,267	277,362	288,456	299,551
Debt used (INR in millions)	637,932	665,668	693,404	721,140	748,876
Shares used	382,759	399,401	416,042	432,684	449,326
No. Shares issued by acquirer	148	155	161	168	174
Pre merger Income of acquirer	82,770	82,770	82,770	82,770	82,770
Shares outstanding of acquirer	2,350,000,000	2,350,000,000	2,350,000,000	2,350,000,000	2,350,000,000
EPS of acquirer standalone	**35.22**	**35.22**	**35.22**	**35.22**	**35.22**
Post merger EPS calculation					
Sales (INR in millions)	664,416	664,416	664,416	664,416	664,416
Less: COGS	403,881	403,881	403,881	403,881	403,881
Gross profit	**260,535**	**260,535**	**260,535**	**260,535**	**260,535**
Less:Operating expenses					
Selling general & admin	121,902	121,902	121,902	121,902	121,902
EBITDA	**138,633**	**138,633**	**138,633**	**138,633**	**138,633**
Less:D&A	12,913	12,913	12,913	12,913	12,913
EBIT	**125,720**	**125,720**	**125,720**	**125,720**	**125,720**
Less:Interest on debt	-	-	-	-	-
Less: Interest foregone	12,759	13,313	13,868	14,423	14,978
PBT	**112,961**	**112,407**	**111,852**	**111,297**	**110,742**
Less: Income tax	28,240	28,102	27,963	27,824	27,686
Net income	**84,721**	**84,305**	**83,889**	**83,473**	**83,057**
Outstanding Diluted shares of combined company	**2,350,000,148**	**2,350,000,155**	**2,350,000,161**	**2,350,000,168**	**2,350,000,174**
EPS of combined company	**36.051**	**35.874**	**35.697**	**35.520**	**35.343**
EPS of acquirer standalone	**35.221**	**35.22128**	**35.221**	**35.221**	**35.221**
Accretive/Dilutive	Accretive	Accretive	Accretive	Accretive	Accretive
Accretion/Dilution	**0.8302**	**0.6532**	**0.4761**	**0.2991**	**0.1221**
Accretion/Dilution (%)	2.4%	1.9%	1.4%	0.8%	0.3%

- This acquisition appears quite feasible for HUL because the main point of acquisition of **increasing EPS** is satisfied even if we take a premium of 30-35%
- The deal is definitely profitable because data shows that deal is **Accretive** which means after acquisition profit margins of HUL is **increasing** which is a great sign.

Financing of this Acquisition

Financing of this Acquisition

1. *Cash reserves*: HUL could use its own cash reserves to fund the acquisition of Britannia.
2. *Debt financing*: HUL could take on debt by issuing bonds or taking out loans to finance the acquisition.
3. *Equity financing*: HUL could issue new shares of stock to raise funds for the acquisition. This could dilute the ownership of existing shareholders, however.
4. *Asset sales*: HUL could sell off non-core assets to raise cash to finance the acquisition.
5. *Earnouts*: HUL could structure the deal so that a portion of the purchase price is contingent on Britannia meeting certain performance targets in the future.

Financing of Acquisition

- The valuation of Britannia Industries is Rs **1,11,000** Crores.
- As per Britannia's DCF in 2023, it earns a profit of around 4000 Crores, so we can finance a lot from Debts from Banks.
- The business acquisition loans have a general interest rates around 7.5%
- A loan can be taken of around Rs 20,000 Crores, which can be repaid in the coming 10 years.
- HUL have non-current assets of worth Rs 55,000 Crores, out of which 50% can be liquidated.
- As Twitter did, debt can be taken from Qatari Investors or some other Venture Capitalists can fund
- Other financing can be done by selling the liquidating the shares of HUL and Britannia.

Method of financing	% of total (to be financed)	Total Estimate (INR in Crores)
Bank Loans	20%	22,000
Non-Current assets	25%	28,000
Private VCs	20%	22,000
Shares of HUL & Britannia	35%	38,500

Non-Financial Due Diligence

Product Diversification

New Products can be evolved to make a good competitive product in a different markets

Horlicks is an HUL brand and Britannia is involved dairy products, so we can make a new chocolate shake type tetra pack(like cavin)

The Indian milkshake market size reached INR **4.3** Billion in 2021. Looking forward, IMARC Group expects the market to reach INR **13.9** Billion by 2027, exhibiting a growth rate (CAGR) of **20.82%** during 2022-2027.

https://www.researchandmarkets.com/reports/5647675/india-milkshake-market-industry-trends-share#:~:text=The%20Indian%20Milkshake%20Market%20was,INR%204.3%20Billion%20in%202021.

Increase in Consumer Base

- There are many regular consumers of snacks in India, HUL can use these snacks products to increase there sale of other HUL products
- For eg. Tiger is a worldwide biscuit series launched by Britannia, which has a lot of market and we can publicise other new HUL products through them.

Overhead Cost Reduction

- The outsourcing of raw materials can be reduced, as a lot of raw material can be internally sourced from any other HUL subsidiary which would in turn reduce the the Production Cost and increase the profits
- For eg. Instead of outsourcing a wheat, HUL wheat flour can be used.

Maximising outputs from Britannia’s assets

- HUL could leverage Britannia's existing distribution network to expand the reach of its products and gain access to new markets.
- HUL could benefit from Britannia's expertise in the biscuit and bakery industry and use this to improve its own product offerings and innovation capabilities.
- The acquisition could also result in cost savings through economies of scale and increased efficiencies in the supply chain.

Benefits of acquisition to Britannia

- The acquisition could lead to increased competition in these product categories, as HUL is a major player in the food and beverages industry
- Additionally, the acquisition could potentially lead to changes in pricing, distribution, and marketing strategies in the industry
- For eg. instead of outsourcing raw materials, if they are made available in house. This would directly affect the cost of products. And HUL has a strong hold in the FMCG sector, the supply chain and distribution could be channelised to very next level

Conclusion

Pros of this acquisition

- Increased market share and dominance in the Indian packaged foods industry.
  Already HUL is a well established brand in the food industry with renowned products like Horlicks, Knorr, Lipton Tea, etc and this acquisition would give them a greater market share of the packaged food industry
- Potential for cost savings through operational synergies and economies of scale.
- Such a strategy would allow HUL to maximize shareholder value, expand its geographic reach and distribution channels, and acquire more resources for future research & development and M&A activity

Cons of this acquisition

- High acquisition cost and potential integration challenges
  The acquisition cost is very high as compared to general acquisitions, so this could be an issue
- Risk of cultural clash and loss of talent during the integration process.
  Work Culture of both the companies could vary a lot, which could stop future developments as employees may not adjust to the new work cultures
- Regulatory hurdles and antitrust concerns

Our Recommendation

- We personally recommend that this deal is very profitable for HUL and will help it to achieve its goals in expansion and more EPS. Basic **outline** of the deal will be :
- ***Due Diligence***: The first step is to conduct thorough due diligence on the target company to validate the financials, operations, contracts, intellectual property, and any other relevant information.
- ***Negotiating the terms***: Once due diligence is completed, the next step is to negotiate the terms of the acquisition. This includes the purchase price, payment terms, contingencies, and any other relevant terms.
- ***Signing the agreement***: If both parties reach an agreement, the next step is to sign a letter of intent or term sheet that outlines the key terms of the deal.
- ***Closing***: The final step is to close the deal, which involves transferring ownership and funds, as well as fulfilling any other closing conditions.