

Case Study: Acquisition of Bikaji Foods by HUL

Introduction to the FMCG Industry in India

Overview of the Sector

FMCG (Fast-Moving Consumer Goods) is the fourth-largest sector in India, driven by essential goods and consumer-driven growth. Contributes approximately 5% of India's total factory employment and is a major GDP contributor. Sales in FY22-23 grew by 7-9% in revenue and 7.5% in volume, with rural India playing a pivotal role in growth.

Market Size and Growth: The FMCG market is projected to grow at a **CAGR of 27.9% (2021-2027)**, reaching **US\$ 615.87 billion by 2027**. **Rural India** contributes over 35% of total FMCG sales, with faster growth rates than urban regions. The sector's growth is strongly guided by drivers like Rising disposable incomes and brand awareness, Youth-dominated demographics, E-commerce expansion contributing 17% of FMCG consumption among affluent buyers.

Key Players and Competitive Landscape

The sector is dominated by **Hindustan Unilever Limited (HUL)**, **ITC**, **Dabur**, **Reckitt Benckiser**, **Colgate-Palmolive**, **Tata Consumer Products**, and **Britannia** etc. It also includes Emerging mid-sized players like **Bikaji Foods**, **Zyduz Wellness**, **Hatsun Agro**, etc. disrupting the market with rapid scalability.

Recent capex and acquisitions:

- In Jul'24 ITC announced to invest Rs. 20,000 Crore for expanding capacities in FMCG segment
- In 2023 and 2024 many acquisitions happened in this space like acquisition of Yoga bar by ITC, Ustara by VLCC, Badshah Masala by Dabur, and many more.

About Bikaji Foods

Founded in 1987, **Bikaji Foods International** is a leading player in the Indian snacks industry. Known for its extensive range of products, including bhujia, namkeen, papad, and sweets, Bikaji has a strong foothold in the ethnic snacks segment. The company operates across **35+ countries**, generating significant revenue from exports.

Key Strengths

1. **Regional Heritage:** Bikaji is deeply associated with Rajasthan's traditional flavors, appealing to consumers seeking authenticity.
 2. **Strong Distribution Network:** Its reach spans India and international markets, leveraging traditional retail and modern channels.
 3. **Revenue:** Bikaji reported revenue of Rs. 2295 crore in FY 2024.
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Hindustan Unilever Limited (HUL): A Strategic Perspective

Hindustan Unilever Limited (HUL), India's largest FMCG company, has a diverse portfolio encompassing food, beverages, home care, and personal care. With a history of strategic acquisitions (e.g., Indulekha and GlaxoSmithKline's Horlicks), HUL leverages its marketing expertise, supply chain efficiency, and distribution network to unlock value from its acquisitions.

Why HUL Is Eyeing Snacks

- **Market Synergies:** Snacks complement HUL's existing portfolio in foods (Knorr, Kissan) and beverages (Bru, Lipton).
 - **Diversification:** Entry into high-growth categories like traditional snacks aligns with HUL's diversification strategy.
 - **Leveraging Distribution:** HUL's vast distribution network can expand Bikaji's reach, especially in underpenetrated urban and rural markets.
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Case (Hypothetical):

Hindustan Unilever Limited (HUL), a leading FMCG player in India, is exploring opportunities to expand further into the rapidly growing snacking category. Recognizing the sector's immense potential, HUL has identified Bikaji Foods, a prominent player in the Indian FMCG snacking market, as a potential acquisition target. The strategic rationale lies in leveraging Bikaji's established presence, regional expertise, and consumer base to drive growth. By acquiring a 51% majority stake, HUL aims to explore operational and market synergies, strengthening its foothold in the snacking segment while unlocking significant value through Bikaji's network and brand portfolio.

Potential Benefits and challenges of the Acquisition

For HUL: The acquisition of Bikaji offers HUL significant potential benefits by strengthening its product portfolio with a diverse range of ethnic and regional snacks, adding depth to its food offerings. Leveraging HUL's extensive distribution network, Bikaji's products can be scaled both nationally and internationally, driving market expansion. Additionally, access to Bikaji's growing consumer base is expected to boost HUL's revenue growth, enhancing its top-line performance in the food segment.

For Bikaji: Bikaji stands to gain significantly from HUL's financial resources, which can fund its expansion into new markets, accelerating growth opportunities. HUL's marketing expertise can enhance Bikaji's brand equity, elevating its market presence and consumer appeal. Additionally, integration into HUL's supply chain can drive operational efficiency, reducing costs and improving profit margins for Bikaji.

Challenges in Integration: Challenges include preserving Bikaji's cultural authenticity while integrating with HUL and aligning supply chains, manufacturing, and workforce seamlessly. Maintaining consumer trust in Bikaji's ethnic identity during expansion is critical. Effective brand management and operational synergy will be key to overcoming these hurdles.

Task for the Case:

You are an investment banker and HUL seeks your advice on whether they should go ahead with the acquisition or not. If yes, at what price they should acquire? and if not, explain your reasoning behind it. You are expected to analyze the company from different angles and also its future potential and make a presentation.

1. Prepare a detailed PPT on whether HUL should move ahead with the acquisition or not with explaining the reasoning behind your thesis
2. The PPT should not be longer than 5 slides excluding the cover and thank you slide
3. Also prepare a valuation model on Bikaji food on excel justifying the price HUL should pay to acquire the stake.