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CMP: Rs.902

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Bombay Burmah Trading Corporation Limited (BBTC)

The Bombay Burmah Trading Corporation, Limited (BBTC), a 150-year-old company, is part of the Wadia Group. On a standalone basis, it is engaged mainly in tea and coffee plantations. **BBTC is primarily a play on the rich investment (~50.5% stake) it holds in Britannia Ltd.** It also holds a 39.7% stake in Bombay Dyeing & Mfg. Co. **BBTC's Enterprise Value (EV) is at 83% discount to current market value of shares of Britannia and Bombay Dyeing held by BBTC.** However, it is worth noting that almost 99% of total market value of its investments comes only from Britannia and the balance tiny portion accrues from Bombay Dyeing.

BBTC: Reasons for Reiteration of BUY Recommendation

Stock price of BBTC is down by 35% from its 52-week high and it has fallen by 57% from its 4-year high of Rs.2,114/-. This substantial price correction gives some cushion on the stock at current price. Apart from the comfort from the stock price correction, **we reiterate firmly our BUY recommendation at this juncture for two specific developments:**

- ◆ **For the first time in the recent period, BBTC has reported revenue and profits from its real estate segment in Q4FY2022.** Its real estate segment reported sales of Rs.80.77 crore and a segment profit of Rs.62.18 crore in Q4FY2022. BBTC, being a more than 150 years old company, reportedly holds a substantial land bank in our view. **Booking significant profits and most importantly, classifying the real estate as a new segment in Q4FY2022 give us some hope that there could be a potential to unlock substantial value from its land holdings in future. We haven't captured the same in our valuations so far;**
- ◆ In the previous US recession during 2008-2009, (i.e., post-Lehman crisis) when the Indian equity markets fell over 50%, the FMCG sector was the single sector which managed to tide over the crisis successfully in the Indian stock markets in relative terms. This time also we believe that the FMCG sector would outperform the entire markets in India. BBTC is basically an indirect play (being a holding company) on the FMCG stock viz., Britannia. Hence, BBTC stock, in our view, could be a beneficiary of expected outperformance of the FMCG sector in the Indian markets in the short-to-medium terms;

Other factors which augur well for the BBTC stock are:

- ◆ **Apart from its rich land bank, BBTC holds 50.5% stake in Britannia which alone is worth about Rs.42,291 crore as at Friday's closing price. Even if we take 50% discount to this market value, net Value attributed to Britannia shares held is around Rs.21,145 crore which is 293% of BBTC's current Enterprise Value (market cap plus net debt);**
- ◆ **The burden coming from the losses made by Bombay Dyeing and Go Airlines are insignificant when compared to the intrinsic investment value in Britannia. Britannia made PBT (Profit before Tax) of Rs.2,078 crore for FY2022. PBT attributed to BBTC would be ~Rs.1,050 crore for the whole of FY2022. Thus, the burden from two associates is much less than profits contributed by Britannia;**
- ◆ **Apart from investment values, in our estimates, the accumulated cash and cash-equivalents held by BBTC's 100% subsidiaries / step-down subsidiaries are likely to be substantially more than share of accumulated losses from these two Associates;**

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| | |
|--------------------|-----------|
| CMP (Rs) | 902 |
| Upside (%) | 66% |
| High/Low | 1,385/841 |
| Market cap (Cr) | 6,291 |
| No. of shares (Cr) | 6.98 |

Shareholding (%)

As on March 31, 2022

| | |
|---------------------------|---------------|
| Promoter | 65.93 |
| Public | 34.07 |
| Institutions | 8.47 |
| Of which FPIs | 7.29 |
| Of which, MFs/Banks/FIs | 1.18 |
| HNI | 0.48 |
| IEPF/NRI/Corporate Bodies | 11.11 |
| Others (Retail Float) | 14.01 |
| Total | 100.00 |

Relative performance



Source: Company, Equinomics Research

G. Chokkalingam
Founder & Head of Research

Nisarg Shah
VP - Research

Gaurav Khanna
VP - Research

BBTC: Reasons for Reiteration of BUY Recommendation (Continued)

- ◆ **Bombay Dyeing holds rich assets and also made more than Rs.1,500 crore Net profit during the period FY2017 to FY2020. Only in FY2021 and FY2022, it made losses. As real estate prices are improving significantly and also the demand for real estate remains robust in Mumbai, Bombay Dyeing is likely to come back to profits soon, in our view;**
- ◆ **Once Go Airline goes public, the equity stake of BBTC Group in this airline company could come down;**

BBTC: Valuation of Equity Holdings and Discount

| | Paid up Capital | CMP | Mkt Cap | |
|------------------------------------------------------------------|-----------------|-------|-----------|---------------|
| | in Crore | Rs. | Rs. Crore | |
| Britannia Industries | 24.08 | 3,475 | 83,678 | |
| Bombay Dyeing | 20.7 | 95 | 1,974 | |
| Bombay Burmah Trading Corp. (BBTC) | 6.98 | 902 | 6,291 | |
| No of Britannia shares held by BBTC (crore) | | | | 12.17 |
| BBTC's Equity Stake in Britannia | | | | 50.54% |
| Market Value of Britannia shares held by BBTC Rs. Crore | | | | 42,291 |
| BBTC's Equity Stake in Bombay Dyeing | | | | 44.19% |
| Market Value of Bombay Dyeing shares held by BBTC Rs. Crore | | | | 872 |
| Net Debt of BBTC Rs. Crore | | | | 922 |
| EV of BBTC Rs. Crore | | | | 7,214 |
| Value of Investments held by BBTC Rs. Crore | | | | 43,163 |
| Valuation gap BBTC [(EV of BBTC /Value of Investments)-1] | | | | 83% |

Source: BSE; Equinomics Research;

BBTC: Valuation and Outlook

On a standalone basis itself, BBTC owns rich assets in the form of **2,822 hectares of tea estates and 927 hectares of coffee estates** in India and owns **manufacturing facilities in Chennai. Acacia Group, a Texas, US-based reputed private investment management firm, continues to hold around 4.3% stake in BBTC**, which gives us some comfort.

Stock price of BBTC is down by 31% from its 52-week high and it has fallen by 57% from its 4-year high of Rs.2,114/. This substantial price correction gives some cushion on the stock at current price. Providing a 60% discount to the value of its investments gives a possible long-term (2 to 3 years) potential price of Rs.2,400 for BBTC. However, assuming a conservatively 74% discount to the current market value of its two investments, we arrive at a target price of Rs.1,500/. We continue to maintain our target price of Rs.1,500/ for BBTC despite the recent meltdown in the small caps considering huge intrinsic values from the equity stakes in Britannia and value of huge plantations and land banks it holds.

While BBTC's market cap is around Rs.6,282 crore, its investment holding in Britannia is worth close to Rs.42,291 crore! Enterprise Value of BBTC (market cap plus debt) stands at Rs.7,204 crore, which is at a whopping 83% discount to total current total market value of investments in Britannia and Bombay Dyeing while the average discount for the holding companies in the market is around 65% now. Over 98% of this total investment value comes from Britannia alone. While BBTC holds Rs.42,291 crore worth of Britannia shares, it holds Rs.872 crore worth of Bombay Dyeing shares at current market prices. Hence, we continue to reiterate a BUY Recommendation on BBTC.

Key Risks

Any possible governance issue from the promoters in terms of the management keep increasing the borrowing through BBTC and lending to other group companies without any concern for the public shareholders of BBTC would be a key risk factor. However, we continue to have enormous faith in the management considering the fact that a large proportion of cumulative dividends received from Britannia is still reportedly kept intact with the step-down subsidiaries.

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BBTC Ltd: Risk Profile and Investment Horizon

| Stock Risk Profile | Low | Moderate | High | Very High |
|--------------------|--------|-----------|-----------|-----------------|
| | | ✓ | | |
| Investment Horizon | 1 Year | 1-2 years | 2-3 years | 3 years & above |
| | | ✓ | | |

Note: Investment Horizon indicates the time period in which the stock price may possibly achieve the target price;

Stock Disclosure: Whether Stock Held By:

| | G. Chokkalingam & Family | Mrs. Parimalam Chokkalingam (Director) | Equinomics Research & Advisory Private Ltd. | Gaurav Khanna Analyst | Nisarg Shah Analyst |
|----------|--------------------------|----------------------------------------|---------------------------------------------|-----------------------|---------------------|
| BBTC Ltd | YES | No | YES | No | No |

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| Ratings | Expected absolute returns over 12-18 months |
|---------------------|------------------------------------------------------------------------------------------------------------|
| BUY | More than 10% |
| HOLD | Between 10% and -10% |
| SELL | Less than -10% |
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