

Declaration of Bonus Debenture: A Case of Britannia Industries Limited

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Board of directors of Britannia Industries Limited (BIL) at their meeting in May 2009, approved a scheme of bonus debentures to be issued to their shareholders. They proposed to issue one fully paid debenture of Rs. 170 for every Rs. 10 equity share held.

The scheme was approved by the shareholders at the general meeting held in August 2009.

The Committee of the Board of Directors (the Board), at its meeting held on 22 March 2010, pursuant to the scheme of arrangement (the Scheme) sanctioned by the Honorable Calcutta High Court on 11 February 2010 allotted 8.25% secured fully paid-up redeemable non-convertible bonus debentures (the bonus debentures) from the general reserve, in the ratio of one debenture of the face value of Rs.170 for every equity share held by the shareholders of the Company as on 9 March 2010. The aggregate amount of the debentures was Rs. 4061 Million Approx. The debentures were allotted on 22 March 2010. Since the issue of bonus debentures is treated as 'deemed dividend' under the provisions of the Income Tax Act, 1961, Accordingly the Company remitted Rs.690,222 as dividend distribution tax and utilized general reserve for the payment of the same. The debentures issued by the company are secured and are redeemable at par on the third anniversary of the issue. These Bonus Debentures have since been listed on BSE, NSE and CSE. These Debentures were rated AAA/Stable by CRISIL.

The Company's equity shares and bonus debentures are listed on Bombay Stock Exchange, Calcutta Stock Exchange and National Stock Exchange of India Ltd.

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Effect of Issue of Bonus Debentures on the Share Prices of BIL

The closing share price of BIL was Rs. 1620.35 in BSE on March 9th, 2010. This fell down to 1599.5 on the next day and took almost a month to reach Rs. 1617 on April 6th 2010 (Refer Exhibit II). The debentures were listed on April 1st at Rs. 170 and went up to Rs. 177 on the same day (Refer Exhibit III).

About Britannia Industries Ltd

Started in 1892 with an initial investment of Rs. 295, Britannia Industries Ltd was initially known as Britannia Biscuit Company. The company was mainly into the manufacturing of biscuits. The company grew tremendously with time and in 1978 it went public. As on March 31st 2010, the promoters hold 50.96% of the share capital and the rest 49.04 % is held by the Indian, Foreign Institutional Investors and Indian public. (Source: BIL Annual Report 2009- 2010, Page 24)

Today Britannia has a wide Product range of cookies, Dairy Products and Breads. Some of the very popular brands of Britannia are Tiger, Good Day, Milk Bikies, Little Hearts, 50-50 etc. Mr. Nusli N. Wadia is the Promoter and Non Executive Chairman and the company is headed by Ms. Vinita Bali as Managing Director,

Britannia brands are embedded in the lives of people, adding joy and vitality to everyday moments. By delivering on Britannia's promise of "zindagi mein life" through enjoyable food that is good for health, the Company contributes to the joy and well-being of its consumers. Brands that deliver over 50% of volume are now fortified with micro-nutrients that meet the WHO standards and trans fats have been removed from most products. In the year 2010, Britannia's brand was ranked 2nd by the consumers as 'most trusted food brand' and 9th as 'most trusted across all brands' as per independent surveys conducted by A.C. Neilson and Economic Times.

As a Corporate, Britannia worked for the benefit of all stakeholders - shareholders, consumers, dealers, suppliers, bankers and employees. It has established an excellent track record in terms

of its financial performance and dividends distributed to its shareholders. This has been adequately demonstrated with the Company's top line growing from Rs 10,301 Mn in 1999 to Rs 34014 Mn in 2010, a growth of 230 % over the last 11 years. The net profit after tax grew even more significantly at from Rs 396 Mn in 1998-99 to Rs 1,910 Mn in 2007-08 but the net profit dipped in 2009 to Rs.1804 Mn and further to INR 1165 Mn in 2010. As at 31st March 2010, the issued and paid up capital of Britannia amounts to 23, 890,163 equity shares having a nominal value of Rs 10 each. The shareholder base is 26,890 in number. (Source: BIL Annual Report 2009- 2010, Page 24)

Bonus Shares, Bonus Debentures and Dividend: A Comparative Analysis

Bonus Shares

Bonus issue of shares is referred to as capitalization of reserves and profits. When the company accumulates substantial amount of past profits, it is desirable to bring the amount of issued share capital closer to the actual capital employed of the company. This would help in reflecting the true amount of capital invested by the shareholders in the company.

There is no specific section in the Companies Act 1956 dealing with bonus shares. There are inferences about bonus shares in various sections of Companies Act 1956 1956. Following points can be made about bonus shares on the basis of different inferences about bonus shares in various sections of the Companies Act 1956.

The Capitalization of profits by bonus issue can be done in two ways as given below:

- Making partly paid shares fully paid- The effect of bonus issue in this case is that the paid up value of equity shares is increased without any change in the number of shares issued. Companies Act does not permit the use of Securities Premium and Capital Redemption Reserve
- Issue of Bonus Shares

- ✓ The Capitalization of reserves and profit by a company generally takes the form of issue of bonus shares to existing equity shareholders in proportion to their holding of equity shares
 - ✓ As a Shareholder is not required to pay for these shares, the number of shares held by shareholder increases without any change in the Cost of the shares
 - ✓ As from the company's point of view, it increases number of shares and share capital with corresponding decrease in its reserves and surplus balance.
- By whatever form bonus shares are issued, the process results in reducing the amount of 'Reserves and Surplus' and Increasing the amount of 'Share Capital'.

Bonus Debentures

One of the ways to make investors happy is to distribute deemed dividends in the form of bonus debentures.

Bonus debentures are issued to the shareholders by capitalizing the reserves and thus nothing is charged from the shareholders. These debentures are free of cost. The companies capitalize the reserves to issue debentures that are redeemed after a specified period. Interest on these debentures is paid during this period. Bonus debenture has a face value, an interest rate and maturity period. Company redeems bonus debenture when the maturity period becomes due. The reserves that the company distributes belong to the shareholders. By getting bonus debentures, the shareholders get interest in all the years till the debentures are mature. Company also benefits by getting the advantage of tax as the interest on debenture is tax deductible. Bonus debentures do not dilute the share value like bonus shares and the company can take the advantage of leverage. Company defers cash outflow till the time it pays interest or redeems the debentures.

- For tax purposes, the allotment of bonus debentures would be treated as dividend. Since bonus debentures are issued out of the post-tax profit accumulated by the company, the company does not get any deduction in the income statement for the value of the debentures that have been issued. Company pays a dividend distribution tax on the amount of bonus debentures issued. In subsequent years, when the debentures are either sold or redeemed, the sale price or the redemption amount received by the debenture holder will not be taxable to the extent of the capital value of the debentures already taxed as dividend in the year of the issue of the bonus debentures. Only the additional appreciation will be taxed as capital gains

Dividend

Dividend is the distribution of divisible profits by a company to its shareholders by way of return on their investment in the shares, after complying with the provisions of Companies Act 1956. Section 205 of Companies Act 1956 deals with the various aspects of Declaration and payment of dividend. The company is also required to pay a dividend distribution tax on the amount of dividend declared by the company

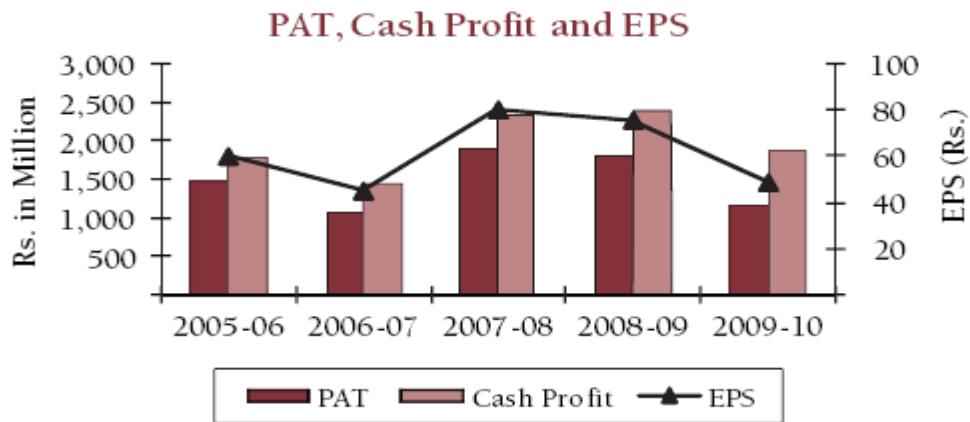
Shareholder's Dilemma

Some of the existing Shareholders of the company were wondering whether the company has taken the right decision by issuing the bonus debentures. They could not come to a satisfactory answer as to why the company declared bonus debentures for the first time in its history instead of issuing bonus shares as it had announced in the past.

Case Review Questions

1. What could be the rationale of issuing bonus debentures by Britannia Industries Limited instead of issuing bonus shares or paying cash dividends?
2. What was the impact on profitability position and capital structure of the company after the company issued bonus debentures in 2010?
3. What would have been the impact on profitability position and capital structure of the company if the company had issued bonus shares instead of bonus debentures?

Exhibit I – PAT, Cash and EPS



Source: http://www.britannia.co.in/investerzone_bonus_financial.htm (Extracted on April 28, 2011)

Exhibit II - Closing Share Prices of Britannia Industries Ltd

	BSE			
	Closing Price (INR)			
Year	.			
10-Feb-10		1610.45	17-Mar-10	1594.65
11-Feb-10		1630.7	18-Mar-10	1586.45
15-Feb-10		1639	19-Mar-10	1585.85
16-Feb-10		1630.15	22-Mar-10	1579.3
17-Feb-10		1630	23-Mar-10	1579.95
18-Feb-10		1631.45	25-Mar-10	1594.15
19-Feb-10		1630.65	26-Mar-10	1580.85
22-Feb-10		1631.3	29-Mar-10	1566.5
23-Feb-10		1629.5	30-Mar-10	1576
24-Feb-10		1641.65	31-Mar-10	1599.5
25-Feb-10		1626.25	1-Apr-10	1607.65
26-Feb-10		1671.3	5-Apr-10	1605.55
2-Mar-10		1688.75	6-Apr-10	1617.1
3-Mar-10		1735.35	7-Apr-10	1667.1
4-Mar-10		1740.75	8-Apr-10	1649.45
5-Mar-10		1765.85	9-Apr-10	1653.8
8-Mar-10		1638.6	12-Apr-10	1642
9-Mar-10		1620.35	13-Apr-10	1653.9
10-Mar-10		1599.5	15-Apr-10	1651.45
11-Mar-10		1571.8	16-Apr-10	1648.15
12-Mar-10		1580.7	19-Apr-10	1636.35
15-Mar-10		1588.2	20-Apr-10	1643.3
16-Mar-10		1608.55	21-Apr-10	1650.45
			22-Apr-10	1656.8
			23-Apr-10	1672.1

Source: www.bseindia.com (Extracted on April 28, 2011)

Exhibit III - Britannia Industries Ltd. NCD Price in NSE

Date	Prev Close	Open Price	High Price	Low Price	Last Price	Close Price	Average Price	Total Traded Quantity
1-Apr-10	170	170.1	177	167.05	172	171.23	173.7	113
6-Apr-10	171.23	167.05	167.05	167	167	167	167.03	170
7-Apr-10	167	175	175	171.9	171.9	171.9	174.38	5
8-Apr-10	171.9	167.5	170	167.5	168.75	168.63	168.98	2187
9-Apr-10	168.63	169	170	169	169	169	169.23	44
12-Apr-10	169	168.9	168.9	167	168.25	168.25	167.98	404
13-Apr-10	168.25	170	170	170	170	170	170	27
15-Apr-10	170	170	170	168	168.35	168.35	169.34	251
16-Apr-10	168.35	170	170	168.2	169	169	169.02	244
19-Apr-10	169	169	169	168	168	168	168.1	4238
20-Apr-10	168	168	168.5	168	168	168.02	168.02	3452
21-Apr-10	168.02	167.42	174.49	167.42	172	172.01	169.75	8701
22-Apr-10	172.01	172	174.24	172	172	172.04	174.24	12177713
23-Apr-10	172.04	172.05	172.05	172	172	172	172	3330
26-Apr-10	172	174.65	177	172	176.75	176.14	174.86	2742
27-Apr-10	176.14	177	177	172.6	174	175.24	176.63	734
28-Apr-10	175.24	172.55	177	172.5	174.9	174.82	175.05	2984
29-Apr-10	174.82	172.6	173	172.6	172.8	172.8	172.73	5146
30-Apr-10	172.8	172.25	174	172.25	172.85	173.99	172.99	371

Source: www.nseindia.com (Extracted on April 28, 2011)

Exhibit IV - Dividend Distribution Record of BIL

Year	Dividend Percentage
1996	40.00
1997	40.00
1998	50.00
1999	55.00
2000	45.00
2001	55.00
2002	75.00
2003	100.00
2004	110.00
2005	140.00
2006	150.00
2007	150.00
2008	180.00
2009	400.00
2010	250.00

Source: http://www.britannia.co.in/investerzone_bonus_dividend.htm (Extracted on April 29,2011)

Exhibit V – Balance Sheet of Britannia Industries Limited as on March 31st 2010

Britannia Annual Report 2009-10			
BALANCE SHEET			
			Rs.'000
As at	Schedule	31-Mar-10	31-Mar-09
SOURCES OF FUNDS			
Shareholders' fund			
Share capital	A	238,902	238,902
Reserves and surplus	B	3,723,620	8,006,510
		3,962,522	8,245,412
Loan funds			
	C		
Secured		4,081,019	21,972
Unsecured		215,149	229,651
		4,296,168	251,623
Deferred tax liability, net	T(4)	-	99,421
		8,258,690	8,596,456
APPLICATION OF FUNDS			
Fixed assets			
	D		
Gross block		5,478,331	5,115,047
Less: Accumulated depreciation and amortization		2,663,323	2,336,654
Net block		2,815,008	2,778,393
Capital work-in-progress and advances		116,393	60,203
		2,931,401	2,838,596
Investments	E	4,906,389	4,230,969
Deferred tax asset, net	T(4)	65,805	-
Current assets, loans and advances			
Inventories	F	2,683,435	2,536,331
Sundry debtors	G	394,868	496,143
Cash and bank balances	H	233,607	407,978
Other current assets	I	144,649	137,085
Loans and advances	J	1,753,611	1,815,878
		5,210,170	5,393,415
Less: Current liabilities and provisions			
Liabilities	K	3,204,872	2,658,062
Provisions	L	1,650,203	1,474,836
		4,855,075	4,132,898
Net current assets		355,095	1,260,517
Miscellaneous expenditure			
(to the extent not written off or adjusted)	M	-	266,374
		8,258,690	8,596,456
Significant accounting policies and notes to accounts	T		

Exhibit VI – Profit and Loss Account of Britannia Industries Limited for the Year ending March 31st 2010

Britannia Annual Report 2009-10			
PROFIT AND LOSS ACCOUNT			
			Rs.'000
For the year ended	Schedule	31-Mar-10	31-Mar-09
INCOME			
Gross Sales		34,245,793	31,428,919
Less: Excise duty		231,765	306,778
Net sales		34,014,028	31,122,141
Other income	N	561,157	398,948
		34,575,185	31,521,089
EXPENDITURE			
Cost of materials	O	21,689,064	19,103,947
Staff cost	P	995,201	960,172
Expenses	Q	9,696,961	8,430,867
Depreciation and amortization	D	375,434	334,560
Financial expenses	R	82,059	160,071
		32,838,719	28,989,617
Profit before taxation and exceptional items		1,736,466	2,531,472
Exceptional items (Profit)/Loss	S	528,695	206,295
Profit before taxation		1,207,771	2,325,177
Income tax expense			
- Current income tax		220,490	343,799
- Minimum alternative tax credit		(13,827)	-
- Fringe benefit tax		-	52,973
- Wealth tax		1,224	1,224
- Deferred income tax, net		(165,226)	123,180
Profit after taxation		1,165,110	1,804,001
Profit brought forward		1,095,989	600,000
Profit available for appropriation		2,261,099	2,404,001
Appropriations			
Transfer to general reserve		117,000	190,000
Interim dividend		597,254	-
Proposed dividend		-	955,607
Tax on Interim/Proposed dividend		99,196	162,405
Profit carried forward		1,447,649	1,095,989
		2,261,099	2,404,001
Basic earnings per share of nominal value of Rs.10 each			
[Refer Note 23 of Schedule T] (Rs.)		48.77	75.51

Exhibit VII- Schedule A, B, C of Balance Sheet of Britannia Industries Limited as on March 31st, 2010

Britannia Annual Report 2009-10
SCHEDULES TO THE BALANCE SHEET

As At	Shares of Rs.10 each (Nos)	March 31, 2010 (Rs. In '000)	March 31,2009 (Rs. In '000)
Schedule A- Share Capital			
Authorized			
Equity Shares	50,000,000	50,000,000	50,000,000
Issued, Subscribed and paid up:			
Equity shares for cash fully paid	1,917,455	19,175	19,175
For consideration other than cash pursuant to a contract fully paid	35,779	358	358
As bonus shares by capitalization of reserves and share premium fully paid	25,897,216	258,972	258,972
Equity shares bought back	(3,960,287)	(39,603)	(39,603)
Year	No. of shares		
2001-02	1,000,000		
2002-03	946,174		
2003-04	792,226		
2004-05	1,221,887		
	23,890,163	238,902	238,902

	General Reserve	Capital Redemption Reserve	Capital Reserve	Profit and Loss	March 31,2010	March 31,2009
Schedule –B Reserve and Surplus						
Balance at the beginning of the year	6,866,598	39,603	4,320	1,095,989	8,006,510	7,319,201
Transfer from profit & loss account	117,000	--	---	468,660	585,660	875,989
Receipt of grant aid	----	----	----	----	----	1,320
	6,983,598	39,603	4,320	1,564,649	8,592,170	8,196,510
Deduction:						
Issue of bonus debentures	4,061,328	----	----	----	4,061,328	----
Dividend distribution tax on bonus debentures	690,222	----	----	----	690,222	----
Transfer to general reserve	----	----	----	117,000	117,000	190,000
Balance at the end of the year	2,232,048	39,603	4,320	1,447,649	3,723,620	8,006,510

SCHEDULES TO THE BALANCE SHEET CONTINUED...

As at	March 31,2010 (Rs. In '000)	March 31,2009. (Rs. In '000)
Schedule C – Loan funds		
Secured		
Long term		
From others		
Finance lease obligations (secured by hypothecation of assets taken on lease)	19,691	21,972
23,890,163(Previous year: Nil)8.25% Redeemable Non Convertible Bonus debentures of face value of Rs.170/- each, fully paid up Secured by way of first mortgage created on identified immovable property and first charge on company's movable assets restricted to inventories and plant & machinery. The book value (net) of plant & machinery and inventories as on March 31,2010 amounts to Rs.2,071,271 and Rs. 2,683,435 respectively. Redeemable in full at the end of 36 months from March 22,2010 being the date of allotment	4,061,328	-----
	4,081,019	21,972
Unsecured:		
Long Term		
From Bank	215,149	229,651
	4,296,,168	251,623

Source : Annual Report of Britannia Industries Ltd For the year 2009- 10

References

Annual Report of Britannia Industries Ltd for the year 2009-10

Annual Report of Britannia Industries Ltd for the year 2008-09

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