

Britannia Industries

Estimate change	↔
TP change	↔
Rating change	↔

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	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USDb)	843.9 / 11.4
52-Week Range (INR)	3990 / 3306
1, 6, 12 Rel. Per (%)	-2/-6/-49
12M Avg Val (INR M)	2393

Financials & Valuations (INR b)

Y/E March	2021	2022E	2023E
Sales	131.4	139.4	158.5
Sales Gr. (%)	13.2	6.1	13.8
EBITDA	25.1	23.9	29.1
Margins (%)	19.1	17.1	18.3
Adj. PAT	18.5	17.2	21.3
Adj. EPS (INR)	76.8	71.4	88.3
EPS Gr. (%)	31.0	-7.1	23.7
BV/Sh.(INR)	147.3	198.3	216.0

Ratios

RoE (%)	46.5	41.3	42.6
RoCE (%)	29.2	26.0	28.5
Payout (%)	80.0	80.0	80.0

Valuations

P/E (x)	45.6	49.1	39.7
P/BV (x)	23.8	17.7	16.2
EV/EBITDA (x)	33.3	34.3	28.1
Div. Yield (%)	1.8	1.6	2.0

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	50.6	50.6	50.6
DII	11.2	11.2	12.7
FII	18.4	18.0	14.7
Others	19.9	20.3	22.1

FII Includes depository receipts

CMP: INR3,504

TP: INR4,370 (+25%)

Buy

Sales momentum healthy; ICD reduction a significant positive

- Britannia Industries (BRIT) reported flat sales and volume growth YoY in 1QFY22, despite an extremely high base of ~27% sales growth (and 21% volume growth), well ahead of expectations. Importantly, it achieved this despite no major pantry loading during the second COVID wave lockdowns.
- While margins were below expectations – leading to in-line EBITDA and PAT, despite a significant sales beat – the outlook is better going forward, with calibrated price increases.
- The key positive in the post-results call was the announcement of a sharp reduction in group inter-corporate deposits (ICDs) to INR4.7b at end-Jun'21 from INR7.9b in Mar'21 – these levels were last seen in FY18. Given that higher group ICD levels were a significant overhang on the stock, such a sharp reduction, if sustained, would lead to a re-rating.
- The stock trades at inexpensive multiples of 39.7x FY23E EPS, a significant discount to the domestic Staples peer average – despite BRIT's superior earnings track record, a stronger potential for topline and earnings growth, and significantly higher RoE levels (over 40%). Maintain **BUY**.

Flat sales healthy given extraordinary base; lower margins lead to in-line EBITDA and PAT

- BRIT's consolidated sales were flat YoY at INR34b** (est. INR31.1b) in 1QFY22. Consolidated EBITDA declined 22.8% YoY to INR5.5b (in-line). Consolidated PBT fell 28% YoY to INR5.3b (in-line). Consolidated adjusted PAT declined 28.7% YoY to INR3.9b (in-line).
- Growth in the base business volume came in at 1% in 1QFY22 (est. -10%).
- The consolidated gross margin contracted 300bp YoY to 38.7%.
- Higher staff costs (+10bp YoY) and other expenses (+160bp YoY) resulted in a 470bp YoY contraction in the EBITDA margin to 16.3% (est. 17.5%).

Highlights from management commentary

- It continued to gain market share in 1QFY22 as well.
- While wheat and sugar costs showed a flattish / marginally declining trend, sharp inflation in milk, palm oil, and packaging costs led to inflationary pressure of 6–7% on the overall material cost basket.
- While the management was cautious of price increases in a volatile demand environment, it is now starting to take calibrated increases.
- Margin improvement would continue consistently YoY. The sharp increase in FY21 was an exception.
- 50:50 Potazos was launched in the Northeast region to a good response and would soon be rolled out pan-India within the next 3–4 months.

Valuation and view

- Changes to the model have resulted in a ~6% reduction to our FY22 EPS estimates on account of near-term margin pressure. Our FY23E estimates remain unchanged.

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- As highlighted in our [upgrade note](#), the base would be far less challenging in subsequent quarters, and the longer term opportunity is extremely attractive.
- The stock trades at an inexpensive valuation of 39.7x FY23E given a) ~31% EPS growth in FY21, b) a strong track record of ~20%/27% EPS growth in the preceding 5/10 years ended FY20, c) one of the best-of-breed structural growth opportunities in the sector, and d) best-of-breed RoE of over 40%. This is at a substantial discount to its historical three-/five-year average of 46x/48x and average domestic Staples peer valuations. Maintain **BUY**, with TP of INR4,370/share, targeting 46x Sep'23E EPS (three year historical average).

Consol. Quarterly Performance (INR m)												
Y/E March	FY21				FY22				FY21	FY22E	FY22	Variance
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Base business volume growth (%)	21.0	9.0	3.0	8.0	1.0	4.0	9.0	8.0	10.0	3.9	-10.0	
Net Sales	34,207	34,191	31,656	31,308	34,035	35,559	35,138	34,631	1,31,361	1,39,363	31,128	9.3
YoY change (%)	26.7	12.1	6.1	9.2	-0.5	4.0	11.0	10.6	13.2	6.1	-9.0	
Gross Profit	14,248	14,540	13,642	12,671	13,170	14,401	14,758	14,975	55,100	57,304	12,763	
Margins (%)	41.7	42.5	43.1	40.5	38.7	40.5	42.0	43.2	41.9	41.1	41.0	
EBITDA	7,169	6,754	6,115	5,054	5,538	5,926	6,158	6,242	25,093	23,864	5,463	1.4
Margins (%)	21.0	19.8	19.3	16.1	16.3	16.7	17.5	18.0	19.1	17.1	17.5	
YoY growth (%)	81.7	37.2	21.8	11.3	-22.8	-12.3	0.7	23.5	36.1	-4.9	-23.8	
Depreciation	480	485	486	528	491	520	540	571	1,979	2,121	530	
Interest	256	298	318	237	342	400	450	728	1,109	1,920	350	
Other Income	937	735	826	632	605	800	850	899	3,129	3,153	700	
PBT	7,370	6,706	6,137	4,921	5,310	5,806	6,018	5,842	25,134	22,976	5,283	0.5
Tax	1,944	1,750	1,611	1,326	1,442	1,463	1,517	1,362	6,630	5,783	1,331	
Rate (%)	26.4	26.1	26.2	26.9	27.2	25.2	25.2	23.3	26.4	25.2	25.2	
Adjusted PAT	5,427	4,956	4,526	3,595	3,868	4,343	4,502	4,480	18,504	17,193	3,951	(2.1)
YoY change (%)	105.4	22.7	22.5	-3.5	-28.7	-12.4	-0.5	24.6	31.2	-7.1	-27.2	

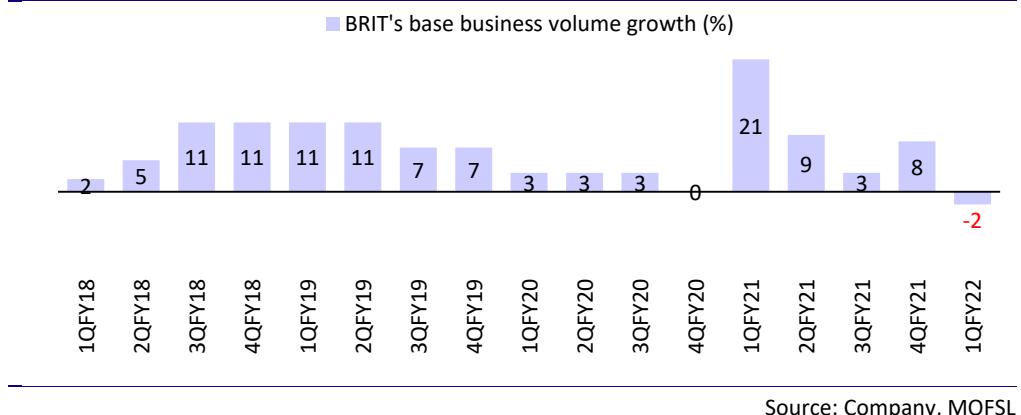
E: MOFSL Estimates

Key Performance Indicators										
Y/E March	FY21				FY22				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
2Y average growth %										
Volumes	12.0	6.0	3.0	4.0	9.5	6.5	6.0	8.0	6.1	7.0
Sales	16.4	9.2	5.5	5.8	13.1	8.1	8.6	9.9	9.1	9.7
EBITDA	41.5	22.8	16.5	7.7	29.5	12.5	11.3	17.4	21.2	15.6
PAT	53.9	28.0	22.7	11.5	38.3	5.2	11.0	10.6	26.6	12.1
% sales										
COGS	58.3	57.5	56.9	59.5	59.7	59.1	60.3	58.3	58.1	58.9
Staff cost	4.0	3.9	4.2	4.0	4.2	4.1	4.2	4.0	4.0	4.1
Others	16.7	18.8	19.6	20.4	20.6	19.9	19.6	16.7	18.8	19.9
Depreciation	1.4	1.4	1.5	1.7	1.4	1.5	1.5	1.6	1.5	1.5
YoY change %										
COGS	24.0	7.7	2.1	7.7	4.5	7.7	13.1	5.5	10.1	7.6
Staff cost	13.6	8.8	8.4	2.7	1.7	-3.3	6.3	32.3	8.4	8.8
Others	-0.9	5.8	4.4	13.3	9.3	11.4	16.0	11.2	5.6	12.0
Other income	38.9	7.9	26.7	-19.6	-35.5	8.8	3.0	42.2	12.0	0.8
EBIT	91.2	40.1	23.6	11.5	-24.6	-13.8	-0.2	25.3	39.4	-5.9

E: MOFSL Estimates

Key exhibits

Exhibit 1: Volumes from BRIT's base business down 2% in 1QFY22



Source: Company, MOFSL

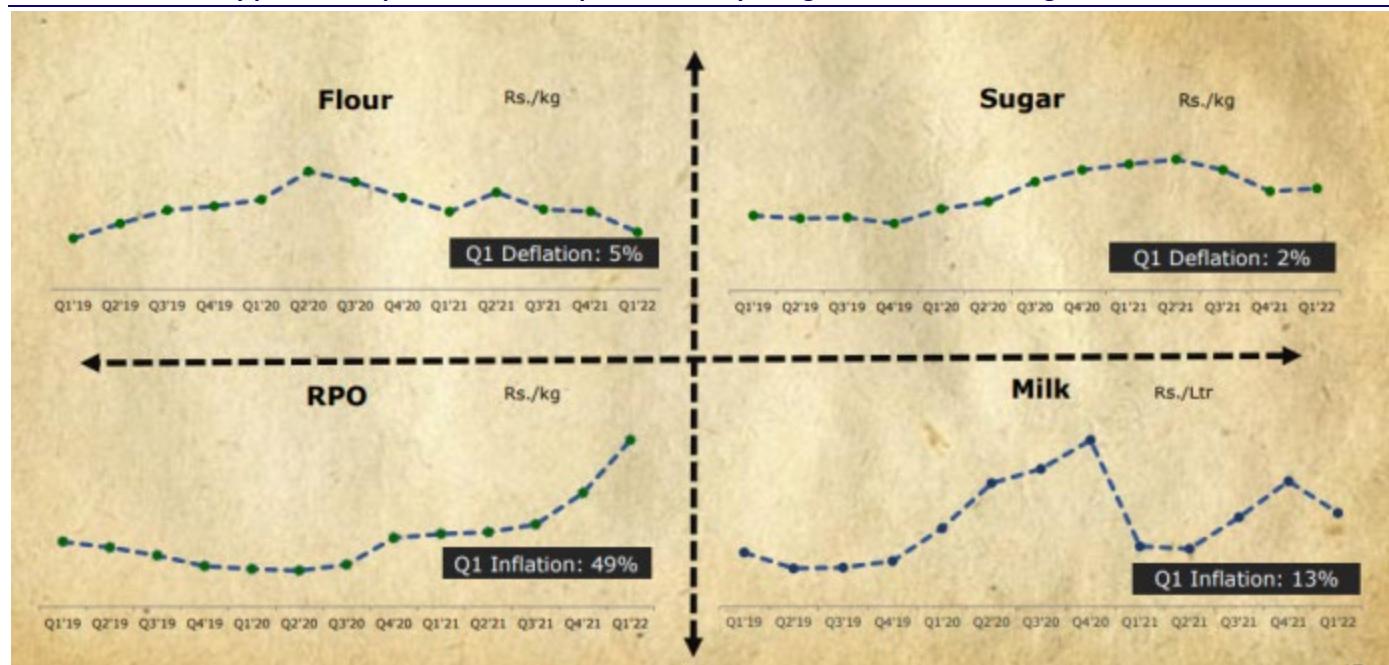
Standalone performance

- Standalone sales were flat YoY in 1QFY22, while EBITDA / adjusted PAT declined 22%/9.7% YoY. The EBITDA margin contracted 470bp YoY to 16.2%.

Imputed subsidiary performance

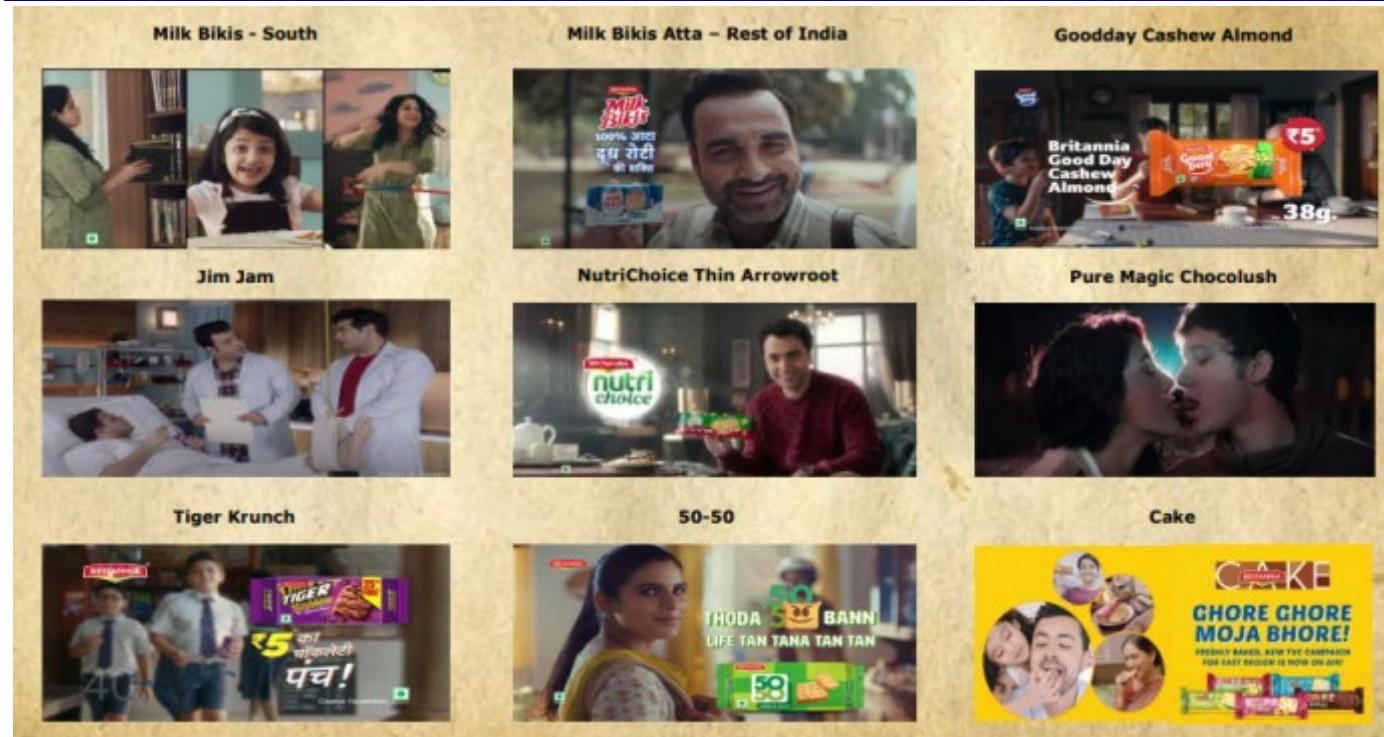
- Imputed subsidiary sales and EBITDA declined 16.7% and 33.4%, respectively, in 1QFY22. Imputed subsidiaries registered loss of INR763m in 1QFY22, against profit of INR298m in 1QFY21.

Exhibit 2: Inflationary pressure in palm oil and milk prices offset by benign wheat flour and sugar costs



Source: Company presentation

Exhibit 3: 1QFY22 sees normalized advertising spends, with series of campaigns/activations in Biscuits category



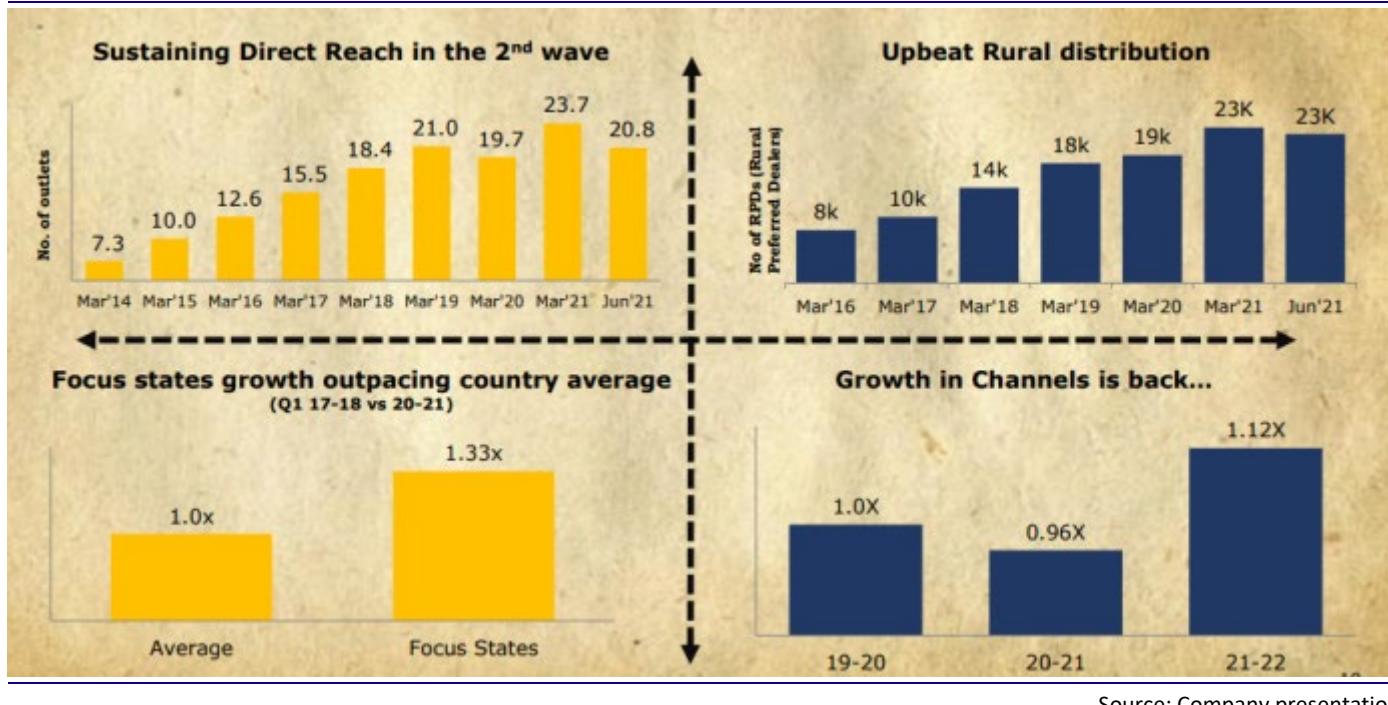
Source: Company presentation

Exhibit 4: GoodDay Chocochip re-launch faring well; 50:50 Potazos launched in Northeast to good response



Source: Company presentation

Exhibit 5: Pandemic weighs on direct reach – down by about 15%, but now back at normal levels



Source: Company presentation

Key takeaways from management interaction

Performance and outlook

- Volume growth stood at 1% for the quarter. Realization was down YoY due to unusually sharp mix improvement in 1QFY21, when existing capacity was being utilized for premium products.
- In-home consumption did well, but the performance of on-the-go products was affected in 1QFY22.
- It did not report higher consumption of large packs, unlike in 1QFY21.
- It continued to gain market share in 1QFY22 as well.
- The hinterland is faring well and outpacing overall growth (1.33x of overall growth since 1QFY18).
- Exports were impacted by container availability issues during the quarter.
- Migration towards trusted brands continued.
- The pandemic has weighed on direct reach, which reduced by about 15%, but has now returned to normal.
- The backend was not affected, but the frontend was impacted in terms of distributors / employees reaching outlets. However, this is now 90% back to normal.
- Performance was stable in Jul'21.

Costs and margins

- While wheat and sugar costs showed a flattish / marginally declining trend, sharp inflation in milk, palm oil, and packaging costs led to inflationary pressure of 6–7% on the overall material cost basket.
- While the management was cautious of price increases in a volatile demand environment, it is now starting to take calibrated increases.
- For the moment, it does not want to grow the value segment very sharply given the lack of profitability on the back of some inflation.

- Margin improvement would continue YoY. The sharp increase seen in FY21 was an exception.

New launches/relaunches

- The *GoodDay Chocochip* re-launch is faring well.
- *50:50 Potazos* was launched in the Northeast region to a good response and would soon be rolled out pan-India within the next 3–4 months.
- *Milk Bikis* – The rest of India is now faring well in terms of performance, in line with the Hindi belt. It has maintained a high advertising intensity in this category and is gaining share from Glucose category peers.
- The rolls plant would commence operations in a couple of months.
- Wafer sticks and *Milk Bikis Classic* would also be launched shortly.
- Many of the new launches are in the premium to medium range.
- The size of the adjacency business, including Dairy, is now INR25b.
- Croissants – It has worked to improve the product as disruption has impacted the scale-up. It may take six months for the launch with an improved product.

Other points

- ICDs are much lower than in the past at INR4.7b (INR 7.9b in Mar'21).
- The Ranjangaon factory is now generating revenues of INR12b. These could go up to INR16b on the existing investment.
- It is undertaking expansion at the Khurda plant. It has established new plants in Tamil Nadu and Uttar Pradesh.
- Planned capex stands at INR1.3 for the year. This could be higher in FY23.
- E-commerce now accounts for 2% of sales. This could potentially reach as high as 5%.
- It has applied for incentives under the PLI scheme in the 'Ready to Eat' category. Incentives may be 10% of total sales depending on the government outlay for the same.

Valuation and view

What happened in the last decade?

- The past decade that ended in FY20 was a phenomenal one for BRIT on account of (a) huge market share gains, (b) a strengthening distribution reach (particularly direct reach), and (c) better product development v/s peers.
- The distribution advantage is particularly important for Foods players such as BRIT as the velocity of food consumption is much higher v/s personal care products. With the stated goal of being a total Foods player, the company's utilization of this reach would play a crucial role in its expansion to other Foods sub-categories.
- Its financial performance over the last decade has been splendid, with BRIT reporting a ~12% sales CAGR, and EBITDA and PAT CAGRs of ~27% each. This is easily among the best of breed for the decade v/s other Consumer peers. Its financial performance over the past five years has also been healthy – it has reported a sales/EBITDA/PAT CAGR of ~8%/~16%/~20%.

Our view on the stock

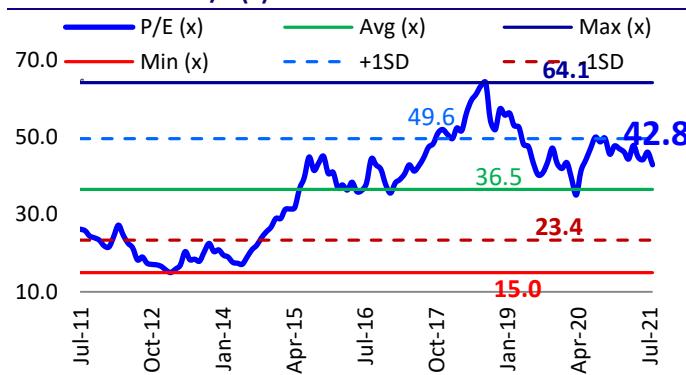
- Changes to the model have resulted in a ~6% reduction to our FY22 EPS estimates on account of near-term margin pressure. Our FY23E estimates remain unchanged.
- As highlighted in our [upgrade note](#), the base would be far less challenging in subsequent quarters, and the longer term opportunity is extremely attractive.
- The stock trades at an inexpensive valuation of 39.7x FY23E given a) ~31% EPS growth in FY21, b) a strong track record of ~20%/27% EPS growth in the preceding 5/10 years ended FY20, c) one of the best-of-breed structural growth opportunities in the sector, and d) best-of-breed RoE of over 40%. This is at a substantial discount to its historical three-/five-year average of 46x/48x and average domestic Staples peer valuations. Maintain **BUY**, with TP of INR4,370/share, targeting 46x Sep'23E EPS (three year historical average).

Exhibit 6: We reduce our FY22E/FY23E EPS forecasts by 5.9%/1.1%

Change in estimates (INR b)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Sales	139.4	158.5	139.4	158.5	0.0	0.0
EBITDA	23.9	29.1	25.4	29.1	-5.9	0.0
Adjusted PAT	17.2	21.3	18.3	21.5	-5.9	-1.1

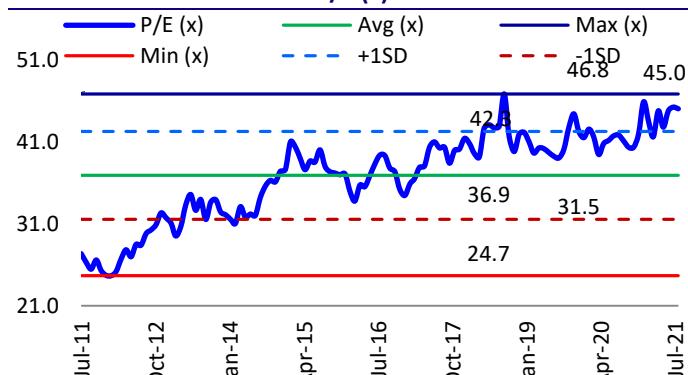
Source: Company, MOFSL

Exhibit 7: BRIT's P/E (x)



Source: Company, MOFSL

Exhibit 8: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement (INR b)						
Y/E March	2017	2018	2019	2020	2021	2022E
Net Revenues	90.5	99.1	110.5	116.0	131.4	139.4
Change (%)	7.8	9.5	11.5	4.9	13.2	6.1
Gross Profit	34.7	38.1	44.9	46.7	55.1	57.3
Margin (%)	38.3	38.4	40.6	40.3	41.9	41.1
Other Expenditure	18.0	18.9	22.6	23.5	30.0	27.6
EBITDA	12.8	15.0	17.3	18.4	25.1	23.9
Change (%)	5.2	17.5	15.4	6.3	36.1	-4.9
Margin (%)	14.1	15.1	15.7	15.9	19.1	17.1
Depreciation	1.2	1.4	1.6	1.8	2.0	2.1
Int. and Fin. Charges	0.1	0.1	0.1	0.8	1.1	1.9
Financial Other Income	1.5	1.7	2.1	2.8	3.1	3.2
PBT	13.0	15.2	17.7	18.6	25.1	23.0
Tax	4.0	5.1	6.0	4.5	6.6	5.8
Deferred Tax	0.2	0.0	0.1	0.0	0.1	0.0
Tax Rate (%)	32.2	33.9	34.6	24.2	26.4	25.2
PAT	8.8	10.0	11.6	14.1	18.5	17.2
Change (%)	7.3	13.6	15.2	21.9	31.2	-7.1
Margin (%)	9.8	10.1	10.5	12.2	14.1	12.3
Non-rec. (Exp.)/Income	0.0	0.0	0.0	-0.2	0.0	0.0
Reported PAT	8.8	10.0	11.6	13.9	18.5	17.2
2023E						

Balance Sheet (INR b)						
Y/E March	2017	2018	2019	2020	2021	2022E
Share Capital	0.2	0.2	0.2	0.2	0.2	0.2
Reserves	26.7	33.8	42.3	43.8	35.2	47.5
Networth	27.0	34.1	42.5	44.0	35.5	47.8
Minority Interest	0.0	0.1	0.3	0.4	0.4	0.0
Loans	1.2	2.0	1.6	15.4	20.9	20.9
Capital Employed	28.2	36.2	44.4	59.8	56.7	68.6
Gross Block	12.3	15.6	20.6	24.8	25.8	27.3
Less: Accum. Depn.	-2.0	-3.4	-5.0	-7.4	-9.3	-11.5
Net Fixed Assets	10.3	12.2	15.6	17.4	16.4	15.8
Goodwill on consolidation	1.3	1.3	1.3	1.4	1.4	1.4
Capital WIP	0.3	2.0	1.0	0.4	1.2	1.2
Investments	4.9	10.8	14.8	28.9	27.9	37.9
Current	3.6	8.9	9.2	14.1	13.9	21.1
Non-current	1.3	1.9	5.6	14.8	14.0	16.8
Deferred Liability	-0.2	-0.2	-0.1	-0.1	0.0	0.0
Currents Assets	24.1	25.4	29.6	30.1	33.1	37.7
Inventory	6.6	6.5	7.8	7.4	10.9	9.6
Account Receivables	1.8	3.0	3.9	3.2	2.6	4.3
2023E						

Cash and Bank Balance	1.2	1.9	1.1	1.2	2.1	7.5	3.6
Others	14.5	13.9	16.8	18.3	17.5	16.4	16.7
Curr. Liab. & Prov.	12.9	15.7	18.0	18.5	23.3	25.3	28.0
Account Payables	7.6	9.9	11.4	11.2	13.1	14.1	15.8
Other Liabilities	5.3	5.7	6.6	7.4	10.1	11.2	12.2
Net Current Assets	11.2	9.7	11.7	11.6	9.8	12.4	8.0
Net Assets	28.2	36.2	44.4	59.8	56.7	68.6	71.6

E: MOFSL Estimates

Financials and valuations

Ratios							
Y/E March	2017	2018	2019	2020	2021	2022E	2023E
Basic (INR)							
EPS	36.8	41.8	48.1	58.6	76.8	71.4	88.3
BV/Share	112.4	141.9	177.0	183.1	147.3	198.3	216.0
DPS	11.0	12.5	15.0	35.0	61.4	57.1	70.6
Payout (%)	29.9	29.9	31.2	59.7	80.0	80.0	80.0
Valuation (x)							
P/E	95.1	83.8	72.8	59.8	45.6	49.1	39.7
EV/Sales	9.2	8.4	7.5	7.1	6.4	5.9	5.2
EV/EBITDA	65.4	55.3	47.7	44.9	33.3	34.3	28.1
P/BV	31.2	24.7	19.8	19.1	23.8	17.7	16.2
Dividend Yield	0.3	0.4	0.4	1.0	1.8	1.6	2.0
Return Ratios (%)							
RoE	36.9	32.9	30.2	32.6	46.5	41.3	42.6
RoCE	31.1	27.9	25.5	24.1	29.2	26.0	28.5
RoIC	45.6	41.5	41.9	44.3	62.2	68.3	86.2
Working Capital Ratios							
Debtor (Days)	7	11	13	10	7	11	11
Asset Turnover (x)	3.2	2.7	2.5	1.9	2.3	2.0	2.2
Leverage Ratio							
Debt/Equity (x)	0.0	0.1	0.0	0.3	0.6	0.4	0.4

Cash Flow Statement (INR b)							
Y/E March	2017	2018	2019	2020	2021	2022E	
OP Profit	13.0	15.2	17.7	18.4	25.1	23.0	28.4
Dep	1.2	1.4	1.6	1.8	2.0	2.1	2.4
Financial Other Income	-0.5	-0.5	-0.5	-0.7	-0.5	-3.2	-3.6
Net Interest Paid	0.8	1.0	1.3	1.0	1.2	1.9	1.9
Direct Taxes Paid	4.0	5.0	6.0	5.0	6.3	5.8	7.2
Inc in WC	4.5	-2.3	0.0	-1.3	0.6	-2.7	-0.6
CF from Operations	4.4	12.5	11.6	14.8	18.5	17.0	18.8
(Inc)/Dec in FA	-3.5	-4.2	-4.0	-2.4	-2.4	-1.5	-5.0
Free Cash Flow	0.9	8.3	7.6	12.4	16.1	15.5	13.8
(Pur.)/Sale of Investments	3.6	-5.4	-3.3	-13.3	1.8	-9.9	-4.8
Other Non Rec Exp	-1.2	0.1	-1.5	0.4	5.4	15.5	7.3
CF from Investments	-1.1	-9.5	-8.8	-15.3	4.8	4.1	-2.4
Issue of Shares	0.1	0.2	0.3	7.4	1.0	0.0	0.0
Inc in Debt	0.0	0.0	-0.4	-2.3	5.7	0.0	-1.3
Dividend Paid	2.9	3.2	3.5	4.3	28.2	13.8	17.0
Other Item	0.1	-0.7	-0.1	0.2	0.9	1.9	1.9
CF from Fin. Activity	-3.0	-2.3	-3.5	0.6	-22.4	-15.7	-20.2
Inc/Dec of Cash	0.3	0.7	-0.8	0.1	0.9	5.4	-3.9
Add: Beginning Balance	0.9	1.2	1.9	1.1	1.2	2.1	7.5
Closing Balance	1.2	1.9	1.1	1.2	2.1	7.5	3.6

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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