

### View: Positive surprise in revenue; upgrade to Buy

- Britannia's Q1FY22 results exceed our estimate – as the company was able to replicate Q1FY21 revenue performance against our estimate of slowdown in sales.
- Britannia has been consistently gaining market share over the last several quarters. Majority of the gains are from Hindi belt.
- EBITDA margin contracted by 470bps to 16.3% primarily due to GM contraction and increase in operating costs. Delayed price hikes have hampered the GM during the quarter. Going ahead, we believe that Britannia would take calibrated price hikes, in line with the industry.
- New product launches and brand innovations continue to remain the company's focus. We believe its strategy to grow and improve profitability by increasing in-house manufacturing, setting up new factories, launching new value-added products, and controlling operational overheads are likely to yield results.
- Though Q1FY22 performance was better than our estimate, we have maintained our FY22/23E adjusted EPS estimates to Rs 77.9/88.6 respectively as margins are expected to remain under pressure for extended period. We value the stock at 45x FY23E EPS, to arrive at a TP of Rs 3,973. Attractive valuation; upgrade to Buy.

### Results ahead of estimates

Net revenue was flat at Rs 34bn. The company posted 12% revenue CAGR over two years, implying encouraging performance. GM contracted by 300bps to 38.7% primarily due to significant inflation in palm oil. In addition to GM contraction, 160bps increase in other expenses resulted in 470bps contraction in EBITDA margin to 16.3%. EBITDA decreased by 22.8% YoY to Rs 5.5bn. APAT decreased 28.6% YoY to Rs 3.9bn.

### Steep inflation in palm oil hampered margin

Britannia's GM contracted 300bps to 38.7%. Inflation is +6-7% vs last year, additional 1-2% including fuel prices. Palm oil witnessed steep inflation of 49% while milk prices increased 13% during the quarter. Prices of flour (-5%) and sugar (-2%) remained benign in Q1. The company has already implemented some price hike and is expected to take further in the ensuing quarters. As new launches are GM accretive, and with the cost efficiency program, we expect margins to remain 17%+ in the long run.

### Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	34,035	34,207	(0.5)	31,308	8.7
Total Expense	28,497	27,037	5.4	26,254	8.5
EBITDA	5,538	7,169	(22.8)	5,054	9.6
Depreciation	491	480	2.3	528	(7.1)
EBIT	5,047	6,690	(24.6)	4,526	11.5
Other Income	605	937	(35.5)	632	(4.3)
Interest	342	256	33.6	237	44.4
EBT	5,310	7,370	(28.0)	4,921	7.9
Tax	1,442	1,944	(25.8)	1,326	8.7
RPAT	3,896	5,457	(28.6)	3,643	6.9
APAT	3,896	5,458	(28.6)	3,643	6.9
			(bps)		(bps)
Gross Margin (%)	38.7	41.7	(296)	40.5	(178)
EBITDA Margin (%)	16.3	21.0	(469)	16.1	13
NPM (%)	11.4	16.0	(451)	11.6	(19)
Tax Rate (%)	27.2	26.4	78	26.9	21
EBIT Margin (%)	14.8	19.6	(473)	14.5	37

CMP	Rs 3,505
Target / Upside	Rs 3,973 / 13%
NIFTY	15,885

### Scrip Details

Equity / FV	Rs 241mn / Rs 1
Market Cap	Rs 841bn
	USD 11bn
52-week High/Low	Rs 4,005/ 3,317
Avg. Volume (no)	460,376
Bloom Code	BRIT IN

Price Performance	1M	3M	12M
Absolute (%)	(1)	2	(8)
Rel to NIFTY (%)	(2)	(7)	(49)

### Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	50.6	50.6	50.6
MF/Banks/FIs	10.7	11.2	11.2
FIIIs	17.7	18.0	18.0
Public / Others	21.1	20.3	20.3

### Valuation (x)

	FY21A	FY22E	FY23E
P/E	45.1	45.0	39.5
EV/EBITDA	34.3	33.5	29.9
ROE (%)	46.9	46.5	41.7
RoACE (%)	34.2	34.3	34.2

### Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	131,361	145,038	161,720
EBITDA	25,093	25,490	28,325
PAT	18,638	18,704	21,271
EPS (Rs.)	77.7	77.9	88.6

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**Exhibit 1: Q1FY22 Actual V/s Estimates Variance**

Rs mn	Actual	Estimates	Variance (%)	Comment
Revenue	34,035	31,596	7.7	Variation as we expected growth to slow down due to surge in Covid cases in rural and unfavourable base
EBITDA	5,538	5,139	7.8	Variation in line with revenue performance
EBITDA margin %	16.3	16.3	-	
APAT	3,896	3,709	5.0	

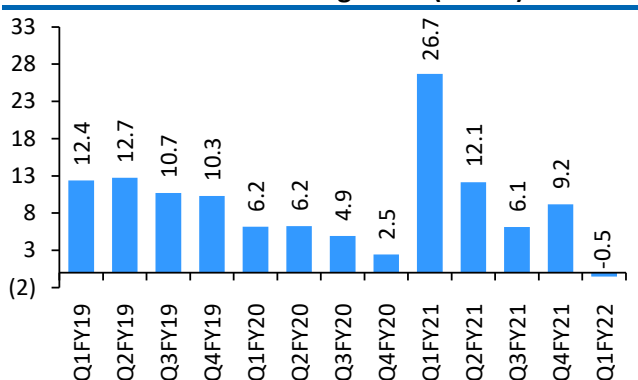
Source: Company, DART

**Conference call Highlights**

- Direct reach slightly tumbled to 2.08mn outlets as of June'21 vs 2.37mn outlets as of Mar'21 due to safety of employees during second Covid wave. However, Hindi belt growth outpaced country average (+33% growth) during last 3 years. Hindi belt constitutes 35-40% of entire market.
- The company had planned to launch a number of health and wellness products during the quarter, but trials could not take place due to lockdown. Croissants, wafersticks, milk bikis classics and other nutrchoice products are currently in the pipeline. Flat Wafers and Rolls plant in TN factory will commercialise soon.
- Capex expected at Rs 1.3bn. The company plans to set up a factory in UP, has got good incentive from UP government. Eight lines are fully operational in Ranjangaon. The company is further planning to add rusk line and few more biscuit lines. It is also in the process of putting up a dairy facility, which should be ready by 2023.
- In the adjacent category at Ranjangaon, currently, factory investments of Rs 6.5bn are generating Rs 1.0bn of revenue. As of now, some lines including cake lines are not being fully utilized. When these get fully utilized, it will generate turnover of Rs 15-16bn.
- On International front, Nepal continues to grow in double digit while gaining share. Export container availability issue impacted IB growth. The company has done a complete distribution system revamp in Middle East, which is going to have a long-term positive impact on business.
- The company plans to setup two factories, one each in Egypt and Uganda through contract manufacturing partners in these two countries. The factory in Uganda is capable of delivering turnover of about USD11 mn and the one in Egypt, even higher than that. These could become hubs for Britannia to create businesses in these regions.
- Currently RM inflation is 6-7% vs last year, plus 1-2% including fuel prices. Marketing activities during this quarter were much more aggressive than Q1FY21 and most of the big brands were back on air. Company expects improvement in margins from current levels with judicious price increases and cost efficiencies.
- Considering high RM environment, the company does not plan to invest heavily on value portfolio as it fetches just single digit margin.
- During Q1, Britannia relaunched Milk Bikis (100% Atta product) in Rest Of India, earlier predominantly in TN and Kerala. It has received positive response. The company has a 26% share in the milk category, which is Rs 12.6bn per annum category, but has got only 4% share of milk + glucose put together which offers significant room for growth. Milk Bikis is one of Britannia's most profitable brands and it will build on profitability going ahead. Milk Bikis have similar price points as Parle G, but lower grammages, with a gross margin 2.5x of glucose.

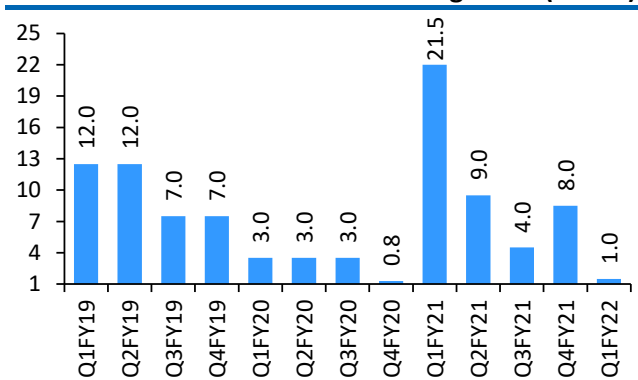
- E-commerce channel contribution increased to 2% from 0.4-0.5% Pre Covid. Britannia aims to scale it up to 5% and it is taking measures for the same. We expect this channel to be an important growth driver going ahead.
- Britannia has created a strong digital platform with 3 new functionalities- S4 HANA (Warehouse management), Arteria (Dealer Management) and Vendor Management. With continuous replenishment system in place, Britannia was able to reduce inventories of the distributors by almost 25%.
- As per the management, total ICD's currently are at Rs 4.7bn, down from Rs 7.9bn as on 31<sup>st</sup> March'21.

**Exhibit 2: Trend in revenue growth (YoY %)**



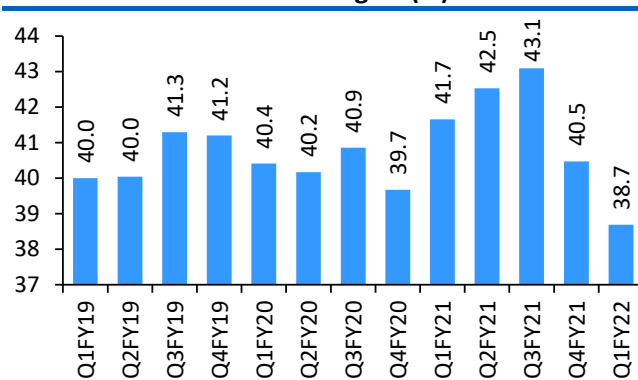
Source: Company, DART

**Exhibit 3: Trend in domestic volume growth (YoY %)**



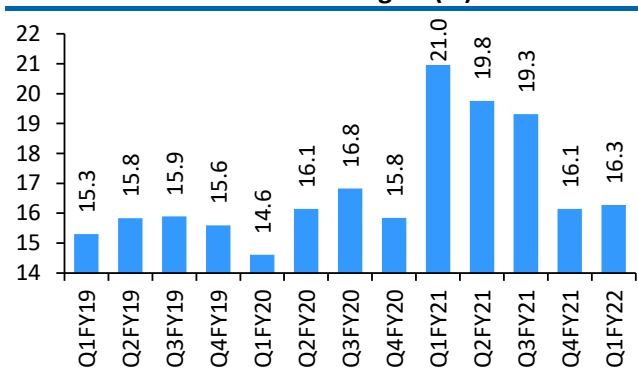
Source: Company, DART

**Exhibit 4: Trend in Gross margins (%)**



Source: Company, DART

**Exhibit 5: Trend in EBITDA margins (%)**



Source: Company, DART

### Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	<b>115,996</b>	<b>131,361</b>	<b>145,038</b>	<b>161,720</b>
<b>Total Expense</b>	<b>97,564</b>	<b>106,269</b>	<b>119,548</b>	<b>133,394</b>
COGS	69,275	76,261	84,753	94,628
Employees Cost	4,867	5,274	6,401	6,502
Other expenses	23,422	24,734	28,394	32,264
<b>EBIDTA</b>	<b>18,432</b>	<b>25,093</b>	<b>25,490</b>	<b>28,325</b>
Depreciation	1,848	1,979	2,087	2,268
<b>EBIT</b>	<b>16,584</b>	<b>23,114</b>	<b>23,402</b>	<b>26,058</b>
Interest	769	1,109	1,183	1,236
Other Income	2,794	3,129	3,184	4,065
Exc. / E.O. items	(170)	(6)	0	0
<b>EBT</b>	<b>18,439</b>	<b>25,128</b>	<b>25,403</b>	<b>28,887</b>
Tax	4,507	6,630	6,726	7,643
RPAT	14,026	18,632	18,704	21,271
Minority Interest	(95)	(134)	(27)	(27)
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>14,196</b>	<b>18,638</b>	<b>18,704</b>	<b>21,271</b>

### Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	241	241	241	241
Minority Interest	357	334	312	290
Reserves & Surplus	43,788	35,236	44,792	56,795
<b>Net Worth</b>	<b>44,028</b>	<b>35,477</b>	<b>45,033</b>	<b>57,036</b>
Total Debt	15,139	20,872	15,139	15,139
Net Deferred Tax Liability	(756)	(727)	(756)	(756)
<b>Total Capital Employed</b>	<b>58,768</b>	<b>55,956</b>	<b>59,728</b>	<b>71,709</b>

### Applications of Funds

Net Block	18,634	17,703	19,668	20,451
CWIP	396	1,165	396	396
Investments	28,916	27,783	26,916	28,916
<b>Current Assets, Loans &amp; Advances</b>	<b>29,399</b>	<b>32,502</b>	<b>34,050</b>	<b>44,773</b>
Inventories	7,410	10,914	7,889	8,748
Receivables	3,204	2,572	4,573	5,060
Cash and Bank Balances	1,228	2,113	1,226	8,869
Loans and Advances	13,199	13,979	16,003	17,738
Other Current Assets	4,359	2,924	4,359	4,359
<b>Less: Current Liabilities &amp; Provisions</b>	<b>18,577</b>	<b>23,197</b>	<b>21,302</b>	<b>22,827</b>
Payables	11,162	13,147	13,110	14,131
Other Current Liabilities	7,415	10,050	8,191	8,695
<i>sub total</i>				
Net Current Assets	10,822	9,305	12,748	21,946
<b>Total Assets</b>	<b>58,768</b>	<b>55,956</b>	<b>59,728</b>	<b>71,709</b>

E – Estimates

### Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	40.3	41.9	41.6	41.5
EBIDTA Margin	15.9	19.1	17.6	17.5
EBIT Margin	14.3	17.6	16.1	16.1
Tax rate	24.4	26.4	26.5	26.5
Net Profit Margin	12.1	14.2	12.9	13.2
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	59.7	58.1	58.4	58.5
Employee	4.2	4.0	4.4	4.0
Other	20.2	18.8	19.6	20.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.3	0.6	0.3	0.3
Interest Coverage	21.6	20.8	19.8	21.1
Inventory days	23	30	20	20
Debtors days	10	7	12	11
Average Cost of Debt	9.2	6.2	6.6	8.2
Payable days	35	37	33	32
Working Capital days	34	26	32	50
FA T/O	6.2	7.4	7.4	7.9
<b>(D) Measures of Investment</b>				
AEPS (Rs)	59.2	77.7	77.9	88.6
CEPS (Rs)	66.9	85.9	86.6	98.1
DPS (Rs)	18.0	117.7	38.1	38.6
Dividend Payout (%)	30.5	151.5	48.9	43.6
BVPS (Rs)	183.5	147.8	187.6	237.7
RoANW (%)	32.4	46.9	46.5	41.7
RoACE (%)	28.9	34.2	34.3	34.2
RoAIC (%)	32.9	41.5	41.7	42.9
<b>(E) Valuation Ratios</b>				
CMP (Rs)	3505	3505	3505	3505
P/E	59.2	45.1	45.0	39.5
Mcap (Rs Mn)	841,116	841,116	841,116	841,116
MCap/ Sales	7.3	6.4	5.8	5.2
EV	855,027	859,875	855,029	847,386
EV/Sales	7.4	6.5	5.9	5.2
EV/EBITDA	46.4	34.3	33.5	29.9
P/BV	19.1	23.7	18.7	14.7
Dividend Yield (%)	0.5	3.4	1.1	1.1
<b>(F) Growth Rate (%)</b>				
Revenue	4.9	13.2	10.4	11.5
EBITDA	6.3	36.1	1.6	11.1
EBIT	5.5	39.4	1.2	11.3
PBT	4.2	36.3	1.1	13.7
APAT	22.5	31.3	0.4	13.7
EPS	22.5	31.3	0.4	13.7

### Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	15,766	19,619	17,594	23,197
CFI	(15,707)	4,934	(2,417)	(5,050)
CFF	71	(23,668)	(16,064)	(10,504)
FCFF	13,325	17,201	14,310	20,147
Opening Cash	1,098	1,228	2,113	1,226
Closing Cash	1,228	2,113	1,226	8,869

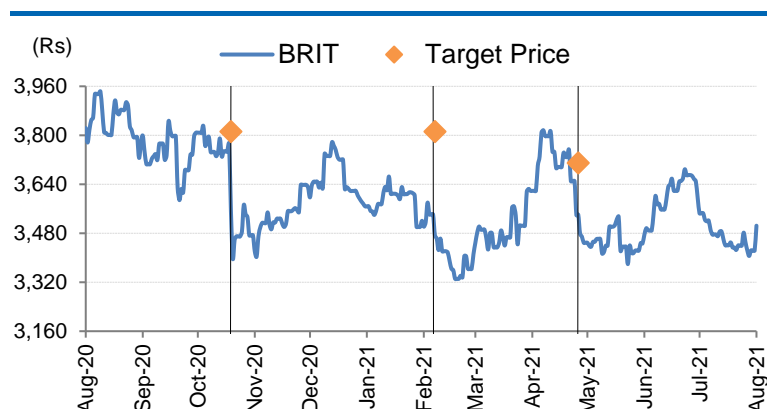
E – Estimates

## DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

## Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Oct-20	Accumulate	3,812	3,553
Feb-21	Accumulate	3,812	3,474
Apr-21	Reduce	3,710	3,541

\*Price as on recommendation date

## DART Team

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