

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
FII	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

VP - Research: Sachin Bobade

Tel: +91 22 40969731

E-mail: sachinb@dolatcapital.com

Associate: Nikhat Koor

Tel: +91 22 40969764

E-mail: nikhatk@dolatcapital.com

Exhibit 1: Q1FY22 Actual V/s Estimates Variance

Rs mn	Actual	Estimates	Variance (%)	Comment
Revenue				Variation as we expected growth to slow down due to surge in Covid cases in rural and unfavourable base
34,035	31,596		7.7	
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	

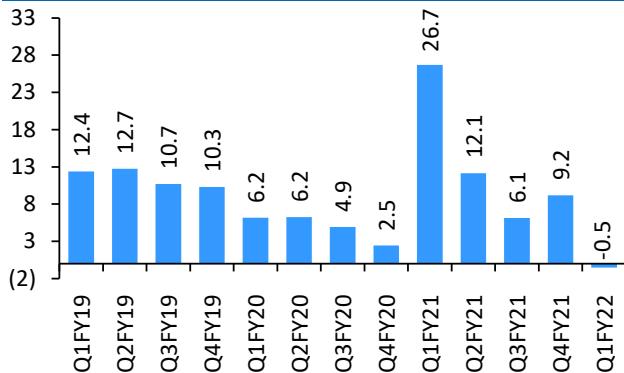
Source: Company, DART

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 nutrichoice 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.

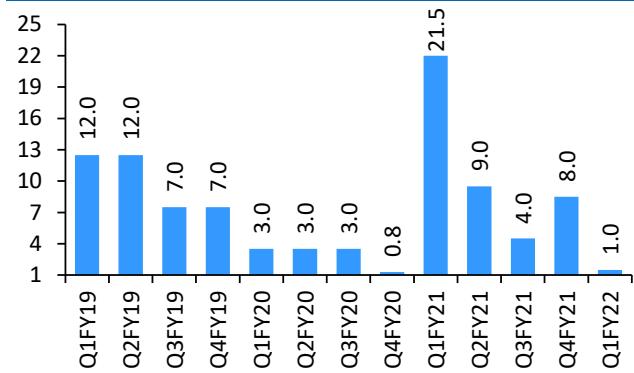
- E-commerce channel contribution increased to 2% from 0.4-0.5% Pre Covid. Britannia aims to scale it up to 5% and it is taking measures for the same. We expect this channel to be an important growth driver going ahead.
- Britannia has created a strong digital platform with 3 new functionalities- S4 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 31st March'21.

Exhibit 2: Trend in revenue growth (YoY %)



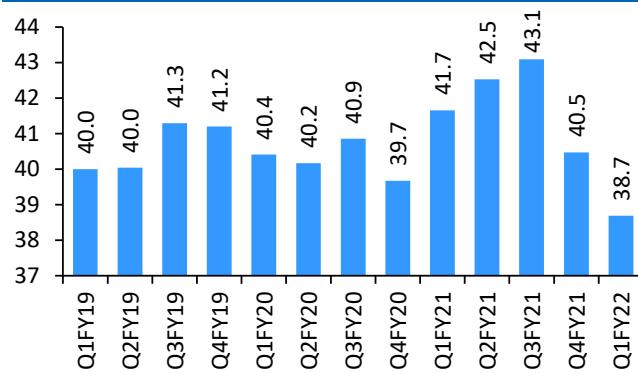
Source: Company, DART

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



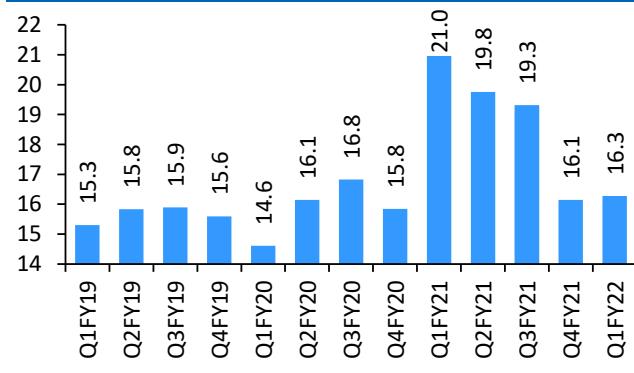
Source: Company, DART

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
Revenue	115,996	131,361	145,038	161,720
Total Expense	97,564	106,269	119,548	133,394
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
EBIDTA	18,432	25,093	25,490	28,325
Depreciation	1,848	1,979	2,087	2,268
EBIT	16,584	23,114	23,402	26,058
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
EBT	18,439	25,128	25,403	28,887
Tax	4,507	6,630	6,726	7,643
RPAT	14,026	18,632	18,704	21,271
Minority Interest	(95)	(134)	(27)	(27)
Profit/Loss share of associates	0	0	0	0
APAT	14,196	18,638	18,704	21,271

Balance Sheet

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

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
Current Assets, Loans & Advances	29,399	32,502	34,050	44,773
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
Less: Current Liabilities & Provisions	18,577	23,197	21,302	22,827
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
Total Assets	58,768	55,956	59,728	71,709

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
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) As Percentage of Net Sales (%)				
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
(C) Measure of Financial Status				
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
(D) Measures of Investment				
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
(E) Valuation Ratios				
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
(F) Growth Rate (%)				
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

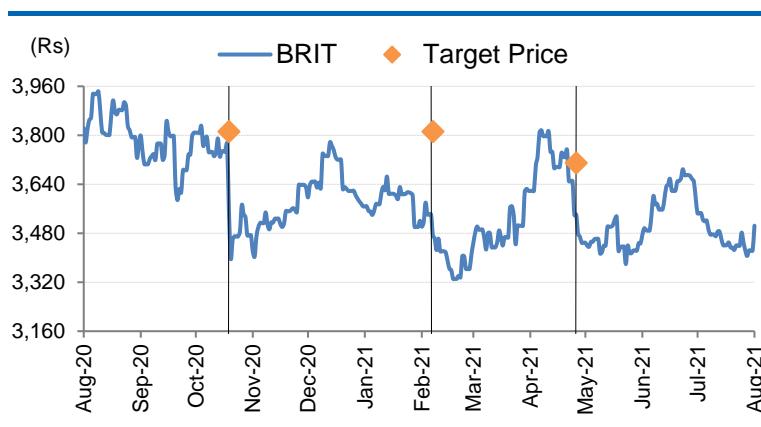
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
-------------	-------------------	-------------------------	-----------------

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
-------------------	------------------	-----------------------	-----------------

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Anjana Jhaveri	VP - FII Sales	anjanaj@dolatcapital.com	+9122 4096 9758
Lekha Nahar	AVP - Equity Sales	lekhana@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirish@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: "This Report is considered independent third-party research and was prepared by Dolat Capital Market Private Limited, with headquarters in India. The distribution of this Research is provided pursuant to the exemption under Rule 15a-6(a) (2) and is only intended for an audience of Major U.S. Institutional Investors (MUSIIs) as defined by Rule 15a-6(b)(4). This research is not a product of StoneX Financial Inc. Dolat Capital Market Private Limited has sole control over the contents of this research report. StoneX Financial Inc. does not exercise any control over the contents of, or the views expressed in, any research reports prepared by Dolat Capital Market Private Limited and under Rule 15a-6(a) (3), any U.S. recipient of this research report wishing to affect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through StoneX Financial Inc. Please contact Paul Karrlsson-Willis at +1 (407) 741-5310 or email Paul.Karrlsson-Willis@stonex.com and/or Igor Chernomorskiy at +1 (212)379-5463 or email Igor.Chernomorskiy@stonex.com. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through the Dolat Capital Market Private Limited."



Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000000685

Registered office: Unit no PO6-02A - PO6-02D, Tower A, WTC, Block 51, Zone-5, Road 5E, Gift City, Gandhinagar, Gujarat – 382355

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
