

Britannia Industries

BUY

Milk Bikis tracks well; focus to be on premiumizing growth

Summary

Britannia (BRIT) 1QFY22 result was in-line with our estimates. Peak-out base quarter led to optically flat revenue growth during 1QFY22. Strength in domestic business continued to improve with market share gains in biscuit portfolio. Positively, revenue growth in Milk-Bikis portfolio is significantly higher compared to other BRIT brands. We are bullish on BRIT's ability to premiumize glucose customers to Milk-Bikis. In adjacency category; on-th-go products were impacted due to lockdown while in-home consumption related products performed well. In international market; Nepal continued to report strong double digit growth driven by market share gains (similar to India business). In export; container issue availability impacted top-line growth, albeit temporarily. Gross margin impacted due to high inflation (c. 8-9%YoY including fuel cost). BRIT expects to take calibrated price hikes to offset inflation. Accordingly, we have revised our EPS estimates downwards by 5-6% during FY22-23E. Our revised TP stands at Rs 4,351. We maintain BUY.

Key Highlights and Investment Rationale

■ Demand in domestic business remained resilient; gained market share

Consolidated revenue declined 0.5%YoY (while up 9%QoQ) supported by 0.5%YoY growth in domestic business driven by market share gain. Revenue from subsidiaries (consolidated less standalone) declined 17%YoY (-6% QoQ). Export business got impacted due to container availability issues. In international markets; revenue from Nepal grew +26%YoY driven by market share gain. In Middle East BRIT has revamped distribution by on-boarding a new distribution partner.

■ Inflationary raw material impacts operating margins

Gross margin contracted 296bp YoY (first time after 4 quarter of expansion) to 38.7% driven by material inflation in RPO (+49%YoY), milk (13%YoY), palm oil and crude oil prices. EBITDA contracted 469bp YoY to 16.3% due to negative operating leverage compared to the base quarter. On sequential basis; EBITDA grew 10%QoQ while EBITDA Margin expanded 13bp driven by cost efficiencies.

■ Maintain BUY

As per revised business outlook on inflation; we have trimmed our EPS estimate by 5-6% in FY22-23E. Accordingly, our revised TP stands at Rs 4,351 (vs previous TP Rs 4,395). We have BUY rating on the stock. We believe new launches and positive traction in milk-bikis to be positive surprises going forward.

TP	Rs4,351
CMP	Rs3,504
Potential upside / downside	+24%

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	76.9	87.0
Consensus	75.5	86.4
% difference	1.9	0.7

Shareholding Pattern (%)

Promoters	50.6
FII	18.4
DII	11.1
Public	19.9

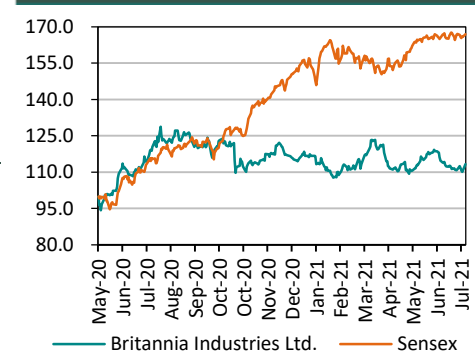
Price Performance (%)

	-1m	-3m	-12m
Absolute	(1.3)	1.6	(8.4)
Rel to Sensex	(2.2)	(7.0)	(49.2)

Key Stock Data

Bloomberg / Reuters	BRIT IN / BRIT.BO
Sector	FMCG
Shares o/s (mn)	241
Market cap. (Rs mn)	843,942
Market cap. (US\$ mn)	11,342
3-m daily average value (Rs mn)	1,145.5
52-week high / low	Rs4,004 / 3,318
Sensex / Nifty	52,951 / 15,885

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	110,548	115,995	131,361	144,055	158,637
EBITDA	17,335	18,431	25,092	25,014	28,146
EBITDA (%)	15.7	15.9	19.1	17.4	17.7
Adj. PAT	11,519	14,185	18,639	18,501	20,928
EPS (Rs)	48.0	59.1	77.5	76.9	87.0
EPS Growth (%)	14.7	23.2	31.1	(0.7)	13.1
PE (x)	73.5	59.6	45.5	45.8	40.5
Dividend Yield (%)	0.4	0.5	3.3	0.7	0.8
EV/EBITDA (x)	48.8	46.6	34.5	34.1	29.8
RoE (%)	30.1	32.8	46.9	44.2	37.7
RoCE (%)	38.8	31.6	39.3	36.1	34.0

Source: IDBI Capital Research;

Exhibit 1: Consolidated Quarterly Snapshot

(INR m)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues	34,035	34,207	-0.5	31,308	8.7	131,361	115,995	13.2
COGS	20,865	19,959	4.5	18,636	12.0	76,261	69,275	10.1
Gross profit	13,170	14,248	-7.6	12,671	3.9	55,100	46,720	17.9
<i>Gross Margin (%)</i>	<i>38.7</i>	<i>41.7</i>	<i>-296 bps</i>	<i>40.5</i>	<i>-178 bps</i>	<i>41.9</i>	<i>40.3</i>	<i>167 bps</i>
Employee expenses	1,393	1,370	1.7	1,242	12.2	5,274	4,867	8.4
<i>% of net sales</i>	<i>4.1</i>	<i>4.0</i>	<i>9 bps</i>	<i>4.0</i>	<i>13 bps</i>	<i>4.0</i>	<i>4.2</i>	<i>-18 bps</i>
Other Expenses	6,239	5,709	9.3	6,375	-2.1	24,734	23,422	5.6
<i>% of net sales</i>	<i>18.3</i>	<i>16.7</i>	<i>164 bps</i>	<i>20.4</i>	<i>-203 bps</i>	<i>18.8</i>	<i>20.2</i>	<i>-136 bps</i>
EBITDA	5,538	7,169	-22.8	5,054	9.6	25,092	18,431	36.1
<i>EBITDA Margin (%)</i>	<i>16.3</i>	<i>21.0</i>	<i>-469 bps</i>	<i>16.1</i>	<i>13 bps</i>	<i>19.1</i>	<i>15.9</i>	<i>321 bps</i>
Depreciation	491	480	2.3	528	-7.1	1,979	1,848	7.1
EBIT	5,047	6,690	-24.6	4,526	11.52	23,114	16,583	39.4
Other Income	605	937	-35.5	632	-4.3	3,129	2,794	12.0
Interest Expenses	342	256	33.6	237	44.4	1,109	769	44.2
PBT	5,310	7,370	-28.0	4,921	7.9	25,134	18,608	35.1
Taxes	1,442	1,944	-25.8	1,326	8.7	6,630	4,507	
Adjusted PAT	3,868	5,427	-28.7	3,595	7.6	18,504	14,101	31.2
Share in profit/loss of associate	2	1		6	-63.8	8	4	
Extra-ordinary items	0	1		0		6	-170	
Minority Interest	25	30	-15.9	42	-40	133	90	
Reported PAT	3,896	5,459	-28.6	3,643	6.9	18,651	14,026	33.0
EPS	16.2	22.7	-28.7	15.1	6.8	77.5	58.3	32.8

Source: Company; IDBI Capital Research

Exhibit 2: Standalone Quarterly Snapshot

(INR m)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Revenues	32,362	32,199	0.5	29,527	9.6	123,788	109,867	12.7
COGS	20,336	19,270	5.5	17,882	13.7	73,749	66,577	10.8
Gross profit	12,026	12,929	-7.0	11,645	3.3	50,040	43,290	15.6
<i>Gross Margin (%)</i>	<i>37.2</i>	<i>40.2</i>	<i>-299 bps</i>	<i>39.4</i>	<i>-228 bps</i>	<i>38.1</i>	<i>37.3</i>	<i>77 bps</i>
Employee expenses	1,086	1,044	4.0	930	16.8	4,029	3,689	9.2
<i>% of net sales</i>	<i>3.4</i>	<i>3.2</i>	<i>11 bps</i>	<i>3.1</i>	<i>21 bps</i>	<i>3.1</i>	<i>3.2</i>	<i>-11 bps</i>
Other Expenses	5,703	5,168	10.4	5,837	-2.3	22,498	21,894	2.8
<i>% of net sales</i>	<i>17.6</i>	<i>16.0</i>	<i>158 bps</i>	<i>19.8</i>	<i>-215 bps</i>	<i>17.1</i>	<i>18.9</i>	<i>-175 bps</i>
EBITDA	5,237	6,718	-22.0	4,878	7.4	23,514	17,707	32.8
<i>EBITDA Margin (%)</i>	<i>16.2</i>	<i>20.9</i>	<i>-468 bps</i>	<i>16.5</i>	<i>-34 bps</i>	<i>17.9</i>	<i>15.3</i>	<i>263 bps</i>
Depreciation	415	401	3.6	452	-8.1	1,668	1,517	9.9
EBIT	4,822	6,317	-23.7	4,427	8.93	21,846	16,190	34.9
Other Income	1,520	873	74.1	565	168.9	2,928	3,354	-12.7
Interest Expenses	315	219	43.8	205	53.6	978	652	50.1
PBT	6,027	6,971	-13.5	4,787	25.9	23,796	18,893	26.0
Taxes	1,368	1,813		1,252		6,194	4,240	
Adjusted PAT	4,659	5,159	-9.7	3,535	31.8	17,602	14,653	20.1
Extra-ordinary items	0	0		0		0	190	
Reported PAT	4,659	5,159	-9.7	3,535	31.8	17,602	14,843	18.6
EPS	19.4	21.5	-9.7	14.7	31.8	73.2	61.8	18.6

Source: Company; IDBI Capital Research

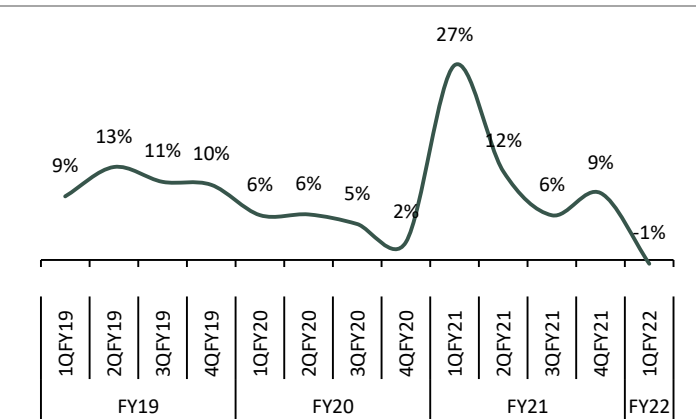
Exhibit 3: Actual vs. Estimates				(Rs mn)
Particulars	Actual	IDBI Estimate	% variation IDBI	
Revenue	34,035	31,653	7.5%	
EBITDA	5,538	5,225	6.0%	
Margin (%)	16.3%	16.5%		
PAT	3,868	3,897	-0.8%	

Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates						
	FY22E			FY23E		
	New	Old	(%) Chg	New	Old	(%) Chg
Revenue (Rs mn)	144,055	144,088	0.0	158,637	158,673	0.0
EBITDA (Rs mn)	25,014	26,373	-5.2	28,146	29,195	-3.6
EBITDA margin (%)	17.4	18.3		17.7%	18.4%	
Net profit (Rs mn)	18,501	19,684	-6.0	20,928	21,905	-4.5
EPS (Rs)	76.9	82.0	-6.2	87.0	91.3	-4.7

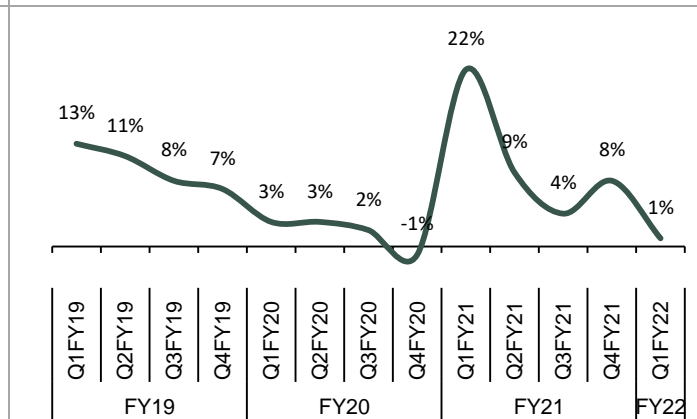
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)



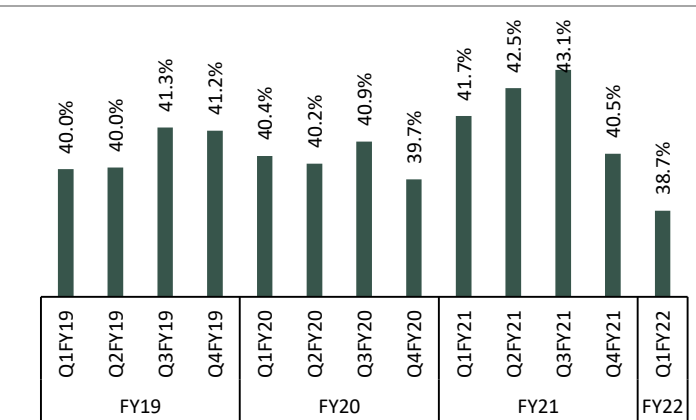
Source: Company, IDBI Capital research

Exhibit 6: Volume growth trend (% YoY)



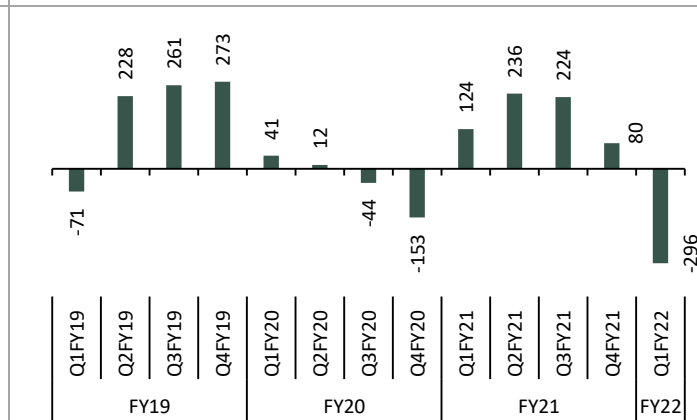
Source: Company, IDBI Capital research

Exhibit 7: Gross Margin (%)



Source: Company, IDBI Capital research

Exhibit 8: Gross Margin (YoY in bp)



Source: Company, IDBI Capital research

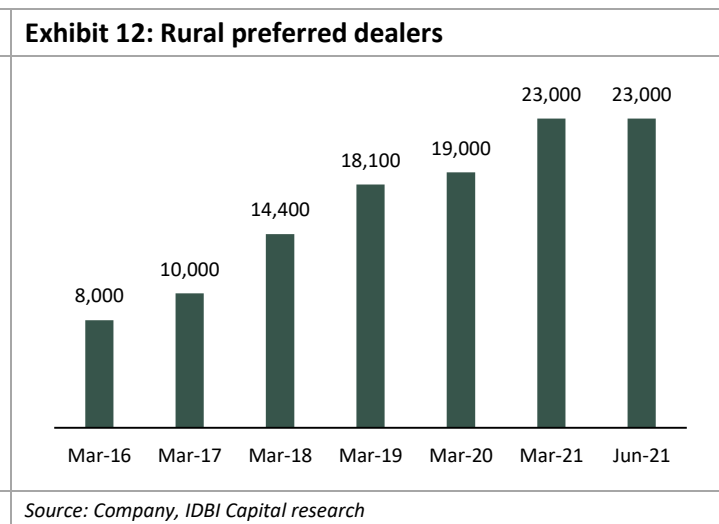
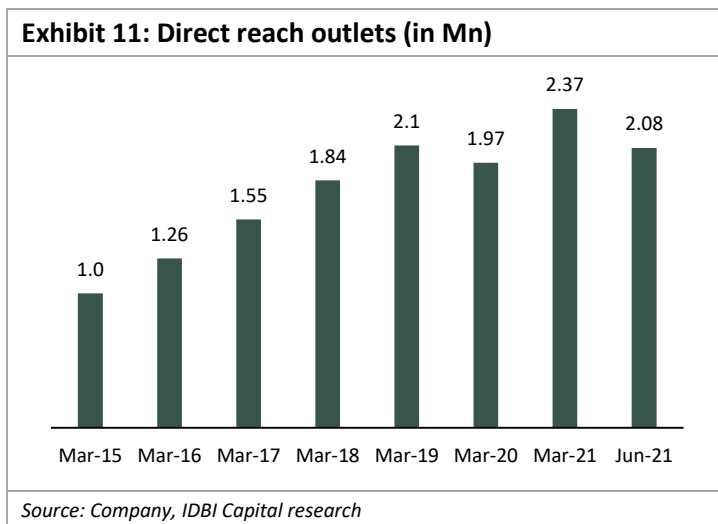
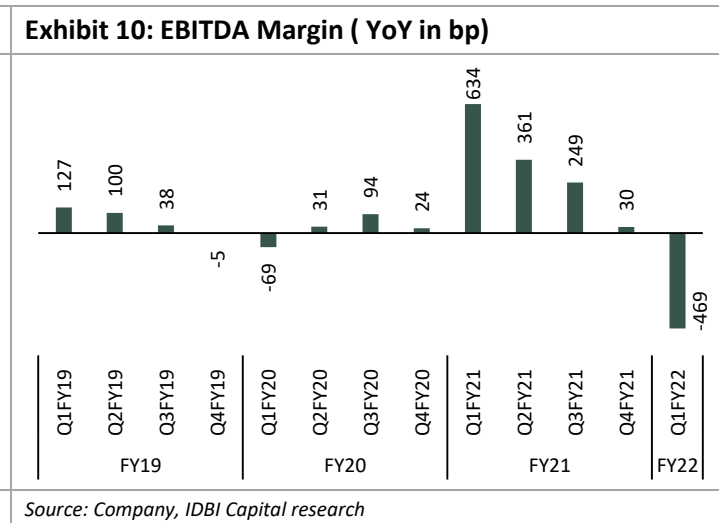
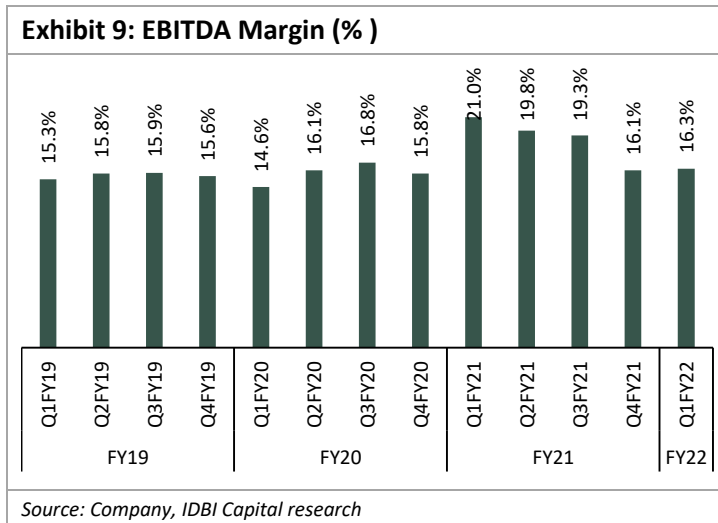


Exhibit 13: Innovation/Renovation

Goodday Chocochip
Reintroducing the **more chocolatier** Chocochip



360 Degree Campaign
Goodday Surprise



Surprise pack



Britannia 5050 Potazos!!
Two in one format of **Potato Chip** and **Biscuit**



Thin & Crispy
Spicy & Tasty



Contains Potato
Baked, not Fried

360 Degree Campaign
A&NE launch



Source: Company; IDBI Capital Research

Exhibit 14: Marketing activities

<p>Milk Bikis - South</p> 	<p>Milk Bikis Atta - Rest of India</p> 	<p>Goodday Cashew Almond</p> 
<p>Jim Jam</p> 	<p>NutriChoice Thin Arrowroot</p> 	<p>Pure Magic Chocolush</p> 
<p>Tiger Krunch</p> 	<p>50-50</p> 	<p>Cake</p> 

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	115,995	131,361	144,055	158,637
<i>Growth (%)</i>	4.9	13.2	9.7	10.1
Operating expenses	(97,564)	(106,269)	(118,365)	(130,194)
EBITDA	18,431	25,092	25,690	28,444
<i>Growth (%)</i>	6.3	36.1	2.4	10.7
Depreciation	(1,848)	(1,979)	(2,166)	(2,388)
EBIT	16,583	23,114	23,524	26,056
Interest paid	(769)	(1,109)	(1,053)	(1,000)
Other income	2,794	3,129	3,442	3,786
Pre-tax profit	18,608	25,134	25,913	28,842
Tax	(4,507)	(6,630)	(6,789)	(7,557)
<i>Effective tax rate (%)</i>	24.2	26.4	26.2	26.2
Minority Interest	(85.9)	141.1	(131.0)	(145.8)
Net profit	14,015	18,645	18,993	21,140
Exceptional items	(170)	6	-	-
Adjusted net profit	14,185	18,639	18,993	21,140
<i>Growth (%)</i>	23.1	31.4	1.9	11.3
<i>Shares o/s (mn nos)</i>	240	241	241	241

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-taxprofit	18,438	25,128	25,242	28,553
Depreciation	1,848	1,979	2,161	2,380
Taxpaid	(5,033)	(6,328)	(6,613)	(7,481)
Chg in working capital	1,511	1,156	(33)	(38)
Other operating activities	(1,919)	(3,423)	1,053	1,000
Cash flow from operations(a)	14,845	18,511	21,810	24,414
Capital expenditure	(2,442)	(2,421)	(2,501)	(2,815)
Chg in investments	(14,151)	7,033	(128)	(144)
Other investing activities	1,276	-	-	-
Cashflow from investing(b)	(15,316)	4,613	(2,629)	(2,959)
Equity raised/(repaid)	240	1,032	-	-
Debt raised/(repaid)	6,407	5,678	(1,000)	(1,000)
Dividend (incl.tax)	(4,325)	(28,238)	(5,735)	(6,488)
Chg in minorities	-	-	-	-
Other financing activities	(1,742)	(909)	(1,053)	(1,000)
Cash flow from financing(c)	579	(22,437)	(7,789)	(8,488)
Net chg in cash(a+b+c)	108	686	11,392	12,968

Balance Sheet (Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	19,033	19,118	19,458	19,893
Investments	18,989	13,852	13,852	13,852
Other non-curr assets	3,651	2,922	2,922	2,922
Current assets	36,750	44,197	56,892	71,357
Inventories	7,410	10,915	11,970	13,181
Sundry Debtors	3,204	2,573	2,821	3,107
Cash and Bank	1,229	2,113	13,506	26,473
Marketable Securities	-	-	-	-
Loans and advances	-	-	-	-
Total assets	78,422	80,088	93,124	108,024
Shareholders' funds	44,028	35,476	48,242	62,682
Share capital	241	241	241	241
Reserves & surplus	43,788	35,236	48,002	62,442
Total Debt	15,141	20,872	19,872	18,872
Secured loans	15,141	20,872	19,872	18,872
Unsecured loans	-	-	-	-
Other liabilities	724	635	634	634
Curr Liab & prov	18,173	22,749	24,019	25,479
Current liabilities	16,261	18,874	20,145	21,604
Provisions	1,913	3,875	3,875	3,875
Total liabilities	34,038	44,255	44,525	44,984
Total equity & liabilities	78,422	80,088	93,124	108,023
Book Value (Rs)	183	148	201	261

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	59.1	77.5	76.9	87.0
Adj. EPS growth (%)	23.2	31.1	(0.7)	13.1
EBITDA margin (%)	15.9	19.1	17.4	17.7
Pre-tax margin (%)	16.0	19.1	17.5	18.0
ROE (%)	32.8	46.9	44.2	37.7
ROCE (%)	31.6	39.3	36.1	34.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.6	1.7	1.7	1.6
Leverage factor (x)	1.6	2.0	2.1	1.8
Net margin (%)	12.2	14.2	12.8	13.2
Net Debt/Equity (x)	0.3	0.5	0.1	(0.1)
Working Capital & Liquidity ratio				
Inventory days	23	30	30	30
Receivable days	10	7	7	7
Payable days	42	45	44	44

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	59.6	45.5	45.8	40.5
Price / Book value (x)	19.2	23.9	17.6	13.5
PCE (x)	52.7	41.1	41.0	36.4
EV / Net sales (x)	7.4	6.6	5.9	5.3
EV / EBITDA (x)	46.6	34.5	34.1	29.8
Dividend Yield (%)	0.5	3.3	0.7	0.8



Notes

Dealing

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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