

# Britannia Industries

## BUY

Healthy volume growth; more price hikes on the cards

### Summary

Britannia (BRIT) 4QFY22 result was in-line with our estimates. Healthy volume growth (driven by market share gains and effective execution) and judicious price hike drove double digit revenue growth. Revenue growth from focused states is tracking well (20% better compared to rest of India). Dairy business has now crossed Rs 5bn mark while BRIT aims to reach Rs20bn in next 5 years. Input cost pressure continues to be severe. At current commodity spot prices, BRIT will have to take 10% more price hike in FY23E. BRIT guides for Rs 7bn capex in FY23E. As per revised business outlook, we have trimmed our margin estimates for FY23-24E by 5-7%. Also, we have cut our valuation multiple to 45x due to rise in cost of capital. Our revised target price stands at Rs 3,970. We maintain BUY rating on the stock.

### Key Highlights and Investment Rationale

- Pricing ahead of volume growth:** Consolidated revenue grew 13%YoY (on a base of 9%YoY) driven by 5% volume growth. Revenue from subsidiaries rose 20%YoY. Ecommerce revenue grew 2x YoY. Revenue from focused state grew 20% higher compared to rest of India.
- Input cost inflation impacts operating margins:** Gross margin contracted 243bp YoY (4th consecutive quarter decline) to 38% driven by 17%YoY inflation during 4QFY22 (14%YoY during FY22) in raw material cost. However, EBITDA grew 9%YoY to Rs 5.5bn. Adjusted PAT grew 5%YoY to Rs3.8 bn.
- Maintain BUY:** Due to higher than expected rise in input cost pressure; we have marginally adjusted our margin estimates for FY23-24E. BRIT is one of our high conviction ideas. We maintain our view on the company. Our revised TP stands at Rs 3,970 with BUY rating.

**TP** **Rs 3,970**

**CMP** **Rs 3,381**

Potential upside/downside 17%

Previous Rating BUY

### Price Performance (%)

	-1m	-3m	-12m
Absolute	4.7	(5.1)	(1.7)
Rel to Sensex	10.8	0.2	(15.9)

### V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	76.5	88.2
Consensus	77.2	90.6
% difference	(0.9)	(2.6)

### Key Stock Data

Bloomberg/Reuters	BRIT IN / BRIT.BO
Sector	FMCG
Shares o/s (mn)	241
Market cap. (Rs mn)	814,460
3-m daily average value (Rs mn)	97.5
52-week high / low	Rs4,152 / 3,050
Sensex / Nifty	55,669 / 16,678

### Shareholding Pattern (%)

Promoters	50.6
FII	17.2
DII	7.8
Public	24.4

### Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	1,15,995	1,31,361	1,41,363	1,54,872	1,70,530
Change (yoy, %)	5	13	8	10	10
EBITDA	18,431	25,092	22,015	26,229	30,006
Change (yoy, %)	6	36	(12)	19	14
EBITDA Margin(%)	15.9	19.1	15.6	16.9	17.6
Adj.PAT	14,185	18,639	15,079	18,398	21,219
EPS (Rs)	59.1	77.5	62.7	76.5	88.2
Change (yoy, %)	23.2	31.1	(19.1)	22.0	15.3
PE(x)	57.2	43.6	53.9	44.2	38.3
Dividend Yield (%)	0.5	3.5	3.1	0.7	0.8
EV/EBITDA (x)	44.8	33.2	38.0	31.4	27.0
RoE (%)	32.8	46.9	49.4	57.6	46.5
RoCE (%)	31.6	39.3	36.9	43.0	41.4

Source: IDBI Capital Research

### Conference call highlights

- In 4QFY22, grammage reduction was >65%. Company will take c. 10% price increase (above 10% price hike in 4QFY22) if commodity prices continue at current level.
- LUPs of Rs5-10 contribute c. 50-55% to total mix (Rs2 LUP has small share in mix).
- Inflation impact (17%YoY in 4QFY22, 14%YoY in FY22) was mitigated to some extent due to forward positions in commodities.
- BRIT re-launched croissants in South and will be launched PAN India in next 2 months (more time to establish than expected). Company expects dairy business to reach c. Rs2,000 crs turnover in coming 5 years (currently c. Rs500 crs). Potazo performed well in organized trade. Company recently launched Biscafe (cookie cracker). Milk Bikis witnessed healthy sales in rest of India. Tiger Krunch grew 30-35%YoY in 4 states. Management expects cake and rusk to reach +Rs2,000 crs revenue.
- BRIT has set up 4 verticals with distinct leadership (change in structure) : 1)Biscuits, 2) Cake, Rusk & Bread, 3) Dairy and 4) Croissants & Wafers.
- New product contribution stood at c. 4.5% in FY22 (to increase in FY23 due to growth in dairy business).
- Uttar Pradesh contributes c. 50% to Hindi Belt revenue. Chhattisgarh, Rajasthan and Madhya Pradesh witnessed low sales growth due to covid.
- BRIT has market share of c. 39% in urban and c. 27-28% in rural. In last 6-7 years, company entered rural markets with premium products, earlier dominated by glucose (currently 18% share). Market share gains for BRIT stood at c. 80 bps in last 2 years. BRIT gained share from no. 2 player and small regional players.
- Nepal business (+Rs100 crs) performed well due to own distribution and manufacturing facility. BRIT has 2 contract packers in Africa. UAE (largest business) was impacted due to issues with distribution partner which is resolved. Europe, America, Australia and South- East Asia export business grew in double digits.
- In Ranjangaon plant, Processed cheese line will start production by Dec'22-Jan'23.
- Capex of Rs650-700 crs (includes setting up of new plants and plant expansion) to be incurred in FY23.

**Exhibit 1: Consolidated Quarterly Snapshot**

(INR m)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Revenues</b>	<b>35,505</b>	<b>31,308</b>	<b>13.4</b>	<b>35,750</b>	<b>-0.7</b>	<b>1,41,363</b>	<b>1,31,361</b>	<b>7.6</b>
COGS	21,999	18,636	18.0	22,196	-0.9	87,603	76,261	14.9
Gross profit	13,506	12,671	6.6	13,554	-0.4	53,760	55,100	-2.4
<i>Gross Margin (%)</i>	<i>38.0</i>	<i>40.5</i>	<i>-243bps</i>	<i>37.9</i>	<i>13bps</i>	<i>38.0</i>	<i>41.9</i>	<i>-392bps</i>
Employee expenses	1,214	1,242	-2.2	1,279	-5.1	5,423	5,274	2.8
<i>% of net sales</i>	<i>3.4</i>	<i>4.0</i>	<i>-55bps</i>	<i>3.6</i>	<i>-16bps</i>	<i>3.8</i>	<i>4.0</i>	<i>-18bps</i>
Other Expenses	6,795	6,375	6.6	6,878	-1.2	26,322	24,734	6.4
<i>% of net sales</i>	<i>19.1</i>	<i>20.4</i>	<i>-123bps</i>	<i>19.2</i>	<i>-10bps</i>	<i>18.6</i>	<i>18.8</i>	<i>-21bps</i>
<b>EBITDA</b>	<b>5,497</b>	<b>5,054</b>	<b>8.8</b>	<b>5,397</b>	<b>1.8</b>	<b>22,015</b>	<b>25,092</b>	<b>-12.3</b>
<b><i>EBITDA Margin (%)</i></b>	<b><i>15.5</i></b>	<b><i>16.1</i></b>	<b><i>-66bps</i></b>	<b><i>15.1</i></b>	<b><i>38bps</i></b>	<b><i>15.6</i></b>	<b><i>19.1</i></b>	<b><i>-353bps</i></b>
Depreciation	509	528	-3.6	504	1.1	2,005	1,979	1.4
EBIT	4,988	4,526	10.2	4,893	1.92	20,010	23,114	-13.4
Other Income	538	632	-14.8	551	-2.4	2,228	3,129	-28.8
Interest Expenses	338	237	42.5	374	-9.7	1,443	1,109	30.1
<b>PBT</b>	<b>5,188</b>	<b>4,921</b>	<b>5.4</b>	<b>5,071</b>	<b>2.3</b>	<b>20,795</b>	<b>25,134</b>	<b>-17.3</b>
Taxes	1,410	1,326	6.3	1,362	3.5	5,624	6,630	-15.2
<b>Adjusted PAT</b>	<b>3,779</b>	<b>3,595</b>	<b>5.1</b>	<b>3,709</b>	<b>1.9</b>	<b>15,172</b>	<b>18,504</b>	<b>-18.0</b>
Share in profit/loss of associate	1	6		0		5	8	
Extra-ordinary items	0	0		10		10	6	
Minority Interest	19	42	-54.7	20	-4	88	133	-33.5
<b>Reported PAT</b>	<b>3,799</b>	<b>3,643</b>	<b>4.3</b>	<b>3,739</b>	<b>1.6</b>	<b>15,275</b>	<b>18,651</b>	<b>-18.1</b>
<b>EPS</b>	<b>15.8</b>	<b>15.1</b>	<b>4.1</b>	<b>15.4</b>	<b>2.1</b>	<b>63.3</b>	<b>77.5</b>	<b>-18.3</b>

Source: Company; IDBI Capital Research

**Exhibit 2: Standalone Quarterly Snapshot**

(INR m)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Revenues</b>	<b>33,365</b>	<b>29,527</b>	<b>13.0</b>	<b>33,737</b>	<b>-1.1</b>	<b>1,33,716</b>	<b>1,23,788</b>	<b>8.0</b>
COGS	21,115	17,882	18.1	21,425	-1.4	84,758	73,749	14.9
Gross profit	12,250	11,645	5.2	12,312	-0.5	48,959	50,040	-2.2
<i>Gross Margin (%)</i>	<i>36.7</i>	<i>39.4</i>	<i>-272bps</i>	<i>36.5</i>	<i>22bps</i>	<i>34.6</i>	<i>38.1</i>	<i>-346bps</i>
Employee expenses	883	930	-5.0	954	-7.5	4,136	4,029	2.7
<i>% of net sales</i>	<i>2.6</i>	<i>3.1</i>	<i>-50bps</i>	<i>2.8</i>	<i>-18bps</i>	<i>2.9</i>	<i>3.1</i>	<i>-14bps</i>
Other Expenses	6,146	5,837	5.3	6,233	-1.4	23,931	22,498	6.4
<i>% of net sales</i>	<i>18.4</i>	<i>19.8</i>	<i>-135bps</i>	<i>18.5</i>	<i>-5bps</i>	<i>16.9</i>	<i>17.1</i>	<i>-20bps</i>
<b>EBITDA</b>	<b>5,220</b>	<b>4,878</b>	<b>7.0</b>	<b>5,125</b>	<b>1.9</b>	<b>20,892</b>	<b>23,514</b>	<b>-11.2</b>
<b><i>EBITDA Margin (%)</i></b>	<b><i>15.6</i></b>	<b><i>16.5</i></b>	<b><i>-88bps</i></b>	<b><i>15.2</i></b>	<b><i>46bps</i></b>	<b><i>14.8</i></b>	<b><i>17.9</i></b>	<b><i>-312bps</i></b>
Depreciation	433	452	-4.0	427	1.6	1,700	1,668	1.9
EBIT	4,787	4,427	8.1	4,698	1.89	19,192	21,846	-12.2
Other Income	1,030	565	82.3	534	92.9	3,594	2,928	22.8
Interest Expenses	310	205	51.3	347	-10.5	1,335	978	36.4
<b>PBT</b>	<b>5,507</b>	<b>4,787</b>	<b>15.0</b>	<b>4,886</b>	<b>12.7</b>	<b>21,451</b>	<b>23,796</b>	<b>-9.9</b>
Taxes	1,373	1,252	9.6	1,320	4.0	5,419	6,194	-12.5
<b>Adjusted PAT</b>	<b>4,134</b>	<b>3,535</b>	<b>17.0</b>	<b>3,566</b>	<b>15.9</b>	<b>16,032</b>	<b>17,602</b>	<b>-8.9</b>
Extra-ordinary items	0	0		0		0	0	
Reported PAT	4,134	3,535	17.0	3,566	15.9	16,032	17,602	-8.9
<b>EPS</b>	<b>17.2</b>	<b>14.7</b>	<b>16.7</b>	<b>14.8</b>	<b>15.9</b>	<b>66.6</b>	<b>73.2</b>	<b>-9.1</b>

Source: Company; IDBI Capital Research

**Exhibit 3: Actual vs. Estimates**

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	35,505	34,766	2.1%
EBITDA	5,497	5,463	0.6%
Margin (%)	15.5%	15.7%	
PAT	3,779	3,838	-1.5%

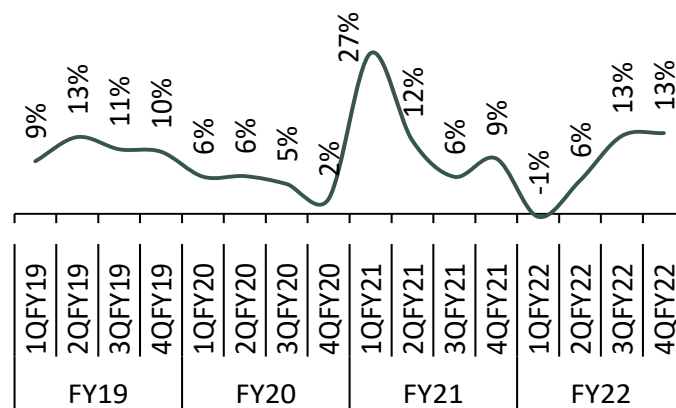
Source: Company; IDBI Capital Research

**Exhibit 4: Change in estimates**

	FY23E			FY24E		
	New	Old	(%) Chg	New	Old	(%) Chg
Revenue (Rs mn)	1,54,872	1,56,525	-1.1%	1,70,530	1,72,354	-1.1%
EBITDA (Rs mn)	26,229	27,929	-6.1%	30,006	31,259	-4.0%
EBITDA margin (%)	16.9%	17.8%		17.6%	18.1%	
Net profit (Rs mn)	18,398	19,857	-7.3%	21,219	22,347	-5.0%
EPS (Rs)	76.5	82.6	-7.3%	88.2	92.9	-5.0%

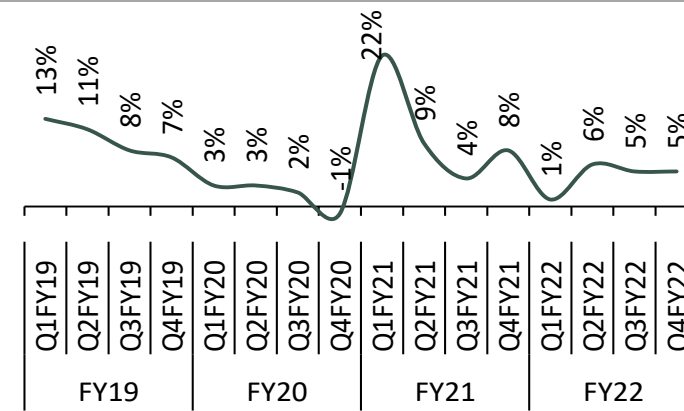
Source: Company; IDBI Capital Research

**Exhibit 5: Revenue growth trend (% YoY)**



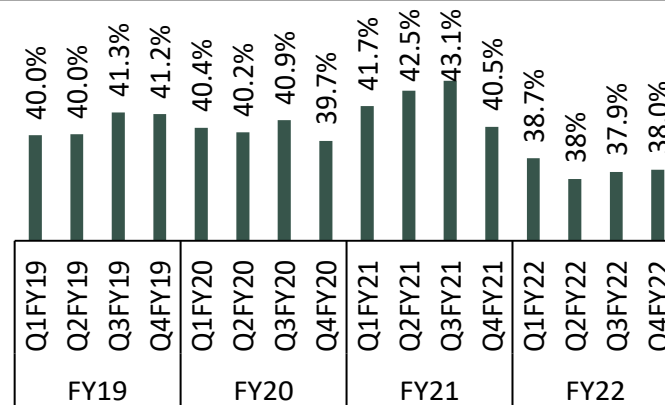
Source: Company, IDBI Capital research

**Exhibit 6: Volume growth trend (% YoY)**



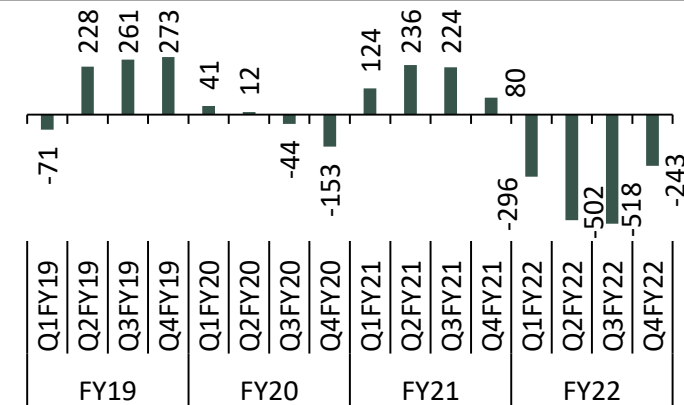
Source: Company, IDBI Capital research

**Exhibit 7: Gross Margin (%)**



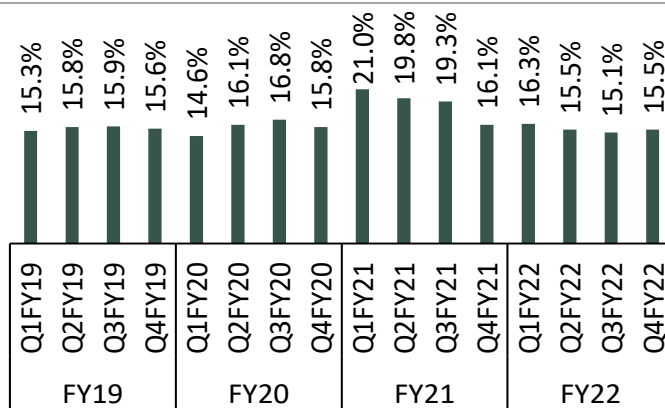
Source: Company, IDBI Capital research

**Exhibit 8: Gross Margin (YoY in bp)**



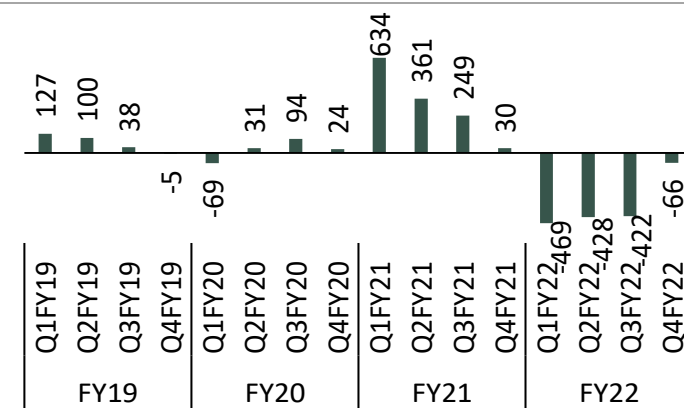
Source: Company, IDBI Capital research

**Exhibit 9: EBITDA Margin (%)**



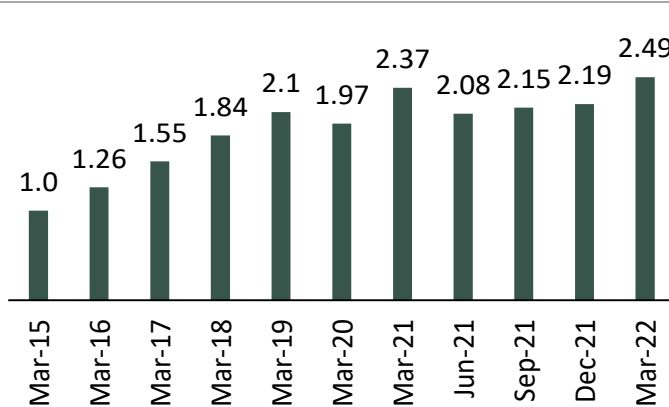
Source: Company, IDBI Capital research

**Exhibit 10: EBITDA Margin (YoY in bp)**



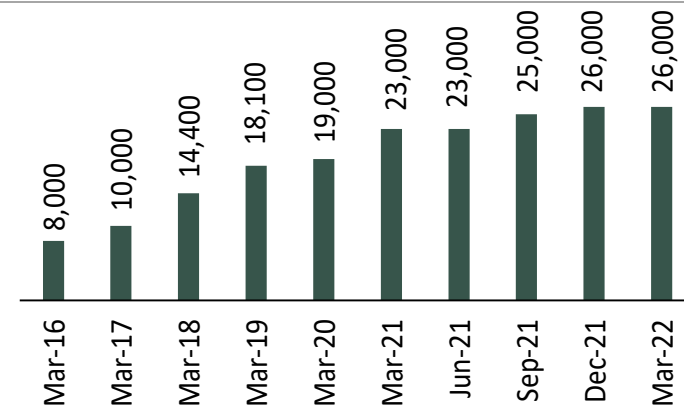
Source: Company, IDBI Capital research

**Exhibit 11: Direct reach outlets (in Mn)**



Source: Company, IDBI Capital research

**Exhibit 12: Rural preferred dealers**



Source: Company, IDBI Capital research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>1,10,548</b>	<b>1,15,995</b>	<b>1,31,361</b>	<b>1,41,363</b>	<b>1,54,872</b>	<b>1,70,530</b>
<i>Change (yoy, %)</i>	10.7	4.9	13.2	7.6	9.6	10.1
Operating expenses	(93,213)	(97,564)	(1,06,269)	(1,19,348)	(1,28,643)	(1,40,525)
<b>EBITDA</b>	<b>17,335</b>	<b>18,431</b>	<b>25,092</b>	<b>22,015</b>	<b>26,229</b>	<b>30,006</b>
<i>Change (yoy, %)</i>	15.4	6.3	36.1	-12.3	19.1	14.4
<i>Margin (%)</i>	15.7	15.9	19.1	15.6	16.9	17.6
Depreciation	(1,619)	(1,848)	(1,979)	(2,005)	(2,487)	(2,709)
<b>EBIT</b>	<b>15,717</b>	<b>16,583</b>	<b>23,114</b>	<b>20,010</b>	<b>23,742</b>	<b>27,297</b>
Interest paid	(91)	(769)	(1,109)	(1,443)	(1,053)	(1,000)
Other income	2,065	2,794	3,129	2,228	2,410	2,651
<b>Pre-tax profit</b>	<b>17,690</b>	<b>18,608</b>	<b>25,134</b>	<b>20,795</b>	<b>25,099</b>	<b>28,947</b>
Tax	(6,125)	(4,507)	(6,630)	(5,624)	(6,576)	(7,584)
<i>Effective tax rate (%)</i>	34.6	24.2	26.4	27.0	26.2	26.2
Minority Interest	(46.3)	(85.9)	141.1	(83.3)	(124.8)	(143.9)
<b>Net profit</b>	<b>11,519</b>	<b>14,015</b>	<b>18,645</b>	<b>15,088</b>	<b>18,398</b>	<b>21,219</b>
Exceptional items	-	(170)	6	10	-	-
<b>Adjusted net profit</b>	<b>11,519</b>	<b>14,185</b>	<b>18,639</b>	<b>15,079</b>	<b>18,398</b>	<b>21,219</b>
<i>Change (yoy, %)</i>	14.8	23.1	31.4	(19.1)	22.0	15.3
EPS	48.0	59.1	77.5	62.7	76.5	88.2
Dividend per sh	14.8	18.0	117.4	103.3	23.7	27.4
<i>Dividend Payout %</i>	30.8	30.5	151.5	164.8	31.0	31.0

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Shareholders' funds</b>	<b>42,533</b>	<b>44,028</b>	<b>35,476</b>	<b>25,581</b>	<b>38,276</b>	<b>52,917</b>
Share capital	240	241	241	241	241	241
Reserves & surplus	42,292	43,788	35,236	25,340	38,035	52,676
<b>Total Debt</b>	<b>1,380</b>	<b>15,141</b>	<b>20,872</b>	<b>24,655</b>	<b>19,872</b>	<b>18,872</b>
Other liabilities	426	724	635	678	678	678
<b>Curr Liab &amp; prov</b>	<b>17,753</b>	<b>18,173</b>	<b>22,749</b>	<b>23,972</b>	<b>26,601</b>	<b>28,168</b>
Current liabilities	15,788	16,261	18,874	19,121	21,750	23,317
Provisions	1,965	1,913	3,875	4,851	4,851	4,851
<b>Total liabilities</b>	<b>19,559</b>	<b>34,038</b>	<b>44,255</b>	<b>49,305</b>	<b>47,151</b>	<b>47,718</b>
<b>Total equity &amp; liabilities</b>	<b>62,418</b>	<b>78,422</b>	<b>80,088</b>	<b>75,155</b>	<b>85,784</b>	<b>1,00,992</b>
Net fixed assets	17,748	19,033	18,976	22,770	27,293	27,585
Investments	7,411	18,989	13,994	9,405	9,405	9,405
Other non-curr assets	1,995	3,651	2,922	3,276	3,276	3,276
<b>Current assets</b>	<b>35,263</b>	<b>36,750</b>	<b>44,197</b>	<b>39,704</b>	<b>45,603</b>	<b>60,519</b>
Inventories	7,814	7,410	10,915	13,675	12,868	14,169
Sundry Debtors	3,942	3,204	2,573	3,319	3,033	3,340
Cash and Bank	1,098	1,229	2,113	1,849	8,840	22,149
Loans and advances	-	-	-	-	-	-
<b>Total assets</b>	<b>62,418</b>	<b>78,422</b>	<b>80,088</b>	<b>75,155</b>	<b>85,784</b>	<b>1,00,992</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	17,689	18,438	25,128	20,785	25,099	28,947
Depreciation	1,619	1,848	1,979	2,005	2,487	2,709
Tax paid	(5,961)	(5,033)	(6,328)	(5,869)	(6,576)	(7,584)
Chg in working capital	(134)	1,511	1,156	(2,961)	3,722	(41)
Other operating activities	(1,655)	(1,919)	(3,423)	(642)	1,053	1,000
<b>Cash flow from operations (a)</b>	<b>11,558</b>	<b>14,845</b>	<b>18,511</b>	<b>13,319</b>	<b>25,785</b>	<b>25,032</b>
Capital expenditure	(4,012)	(2,442)	(2,421)	(5,502)	(7,009)	(3,001)
Chg in investments	(5,712)	(14,151)	7,033	14,611	(125)	(144)
Other investing activities	1,169	1,276	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(8,555)</b>	<b>(15,316)</b>	<b>4,613</b>	<b>9,109</b>	<b>(7,134)</b>	<b>(3,144)</b>
Equity raised/(repaid)	298	240	1,032	-	-	-
Debt raised/(repaid)	-	6,407	5,678	3,261	(4,784)	(1,000)
Dividend (incl. tax)	(3,544)	(4,325)	(28,238)	(24,849)	(5,703)	(6,578)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(281)	(1,742)	(909)	(871)	(1,053)	(1,000)
<b>Cash flow from financing (c)</b>	<b>(3,527)</b>	<b>579</b>	<b>(22,437)</b>	<b>(22,458)</b>	<b>(11,540)</b>	<b>(8,578)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(524)</b>	<b>108</b>	<b>686</b>	<b>(30)</b>	<b>7,111</b>	<b>13,309</b>

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	177	183	148	106	159	220
Adj EPS (Rs)	48.0	59.1	77.5	62.7	76.5	88.2
Adj EPS growth (%)	14.7	23.2	31.1	(19.1)	22.0	15.3
EBITDA margin (%)	15.7	15.9	19.1	15.6	16.9	17.6
Pre-tax margin (%)	16.0	16.0	19.1	14.7	16.2	17.0
Net Debt/Equity (x)	0.0	0.3	0.5	0.9	0.3	(0.1)
ROCE (%)	38.8	31.6	39.3	36.9	43.0	41.4
ROE (%)	30.1	32.8	46.9	49.4	57.6	46.5

### DuPont Analysis

Asset turnover (x)	1.9	1.6	1.7	1.8	1.9	1.8
Leverage factor (x)	1.5	1.6	2.0	2.5	2.5	2.0
Net margin (%)	10.4	12.2	14.2	10.7	11.9	12.4

### Working Capital & Liquidity ratio

Inventory days	26	23	30	35	30	30
Receivable days	13	10	7	9	7	7
Payable days	45	42	45	39	44	44

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	70.5	57.2	43.6	53.9	44.2	38.3
Price/Book value (x)	19.1	18.4	22.9	31.8	21.2	15.4
EV/Net sales (x)	7.3	7.1	6.3	5.9	5.3	4.7
EV/EBITDA (x)	46.9	44.8	33.2	38.0	31.4	27.0
Dividend Yield (%)	0.4	0.5	3.5	3.1	0.7	0.8

Source: Company; IDBI Capital Research



# Notes

Dealing (91-22) 6836 1111 dealing@idbicapital.com

**Key to Ratings Stocks:**

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

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