

Britannia Industries

BUY

Inflation impacts bottom-line; NPDs tracking well

Summary

Britannia (BRIT) 3QFY22 result was in-line with our estimates. Price hike stayed ahead of volume growth to offset continuous rise in input cost pressure. In rural; BRIT gained 2x more market share compared to urban (as against general slowdown faced by FMCG Industry in rural India). Distribution expansion is tracking well (faster in rural). Positively, Milk Bikis is growing at +40%YoY rate in ex-South India with an annual revenue run rate of Rs 4bn (excluding Tamil Nadu and Kerala). Input cost pressure continues to rise even on QoQ basis. However, BRIT to take 10% more price hike (c. 23% in FY22E) to address margin concerns. Accordingly, we have moderately adjusted our EPS estimates. We maintain BUY rating with revised TP of Rs 4,646 at 50x FY24E EPS.

Key Highlights and Investment Rationale

- Price hike stays ahead of volume growth:** Consolidated revenue grew 13%YoY (on a base of 6%YoY) driven by 8% price hike and 5% volume growth. Revenue from subsidiaries rose 8%YoY. Milk Bikis portfolio in non-South region recorded healthy +40%YoY value growth. Revenue from focused state grew 30% higher on YTD than rest of India. Rural distribution grew.
- Inflationary raw material impacts operating margins:** Gross margin contracted 518bp YoY to 38% driven by 20%YoY (4%QoQ) inflation in raw material cost basket. EBITDA declined 12%YoY to Rs 5.4bn. ICD stands at Rs 5.8bn as on Dec'21 (vs Rs 5bn in Sept'21).
- Maintain BUY:** Due to higher than expected rise in input cost pressure; we have marginally adjusted our EBITDA margin estimates for 4QFY22 downwards. Also, we have raised our assumption for price hike as per management guidance. BRIT is one of our high conviction ideas. We maintain our view on the company. Our revised TP stands at Rs 4,646 with BUY rating.

TP **Rs 4,646**

CMP **Rs 3,535**

Potential upside/downside **31%**

Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	(1.2)	(3.7)	0.9
Rel to Sensex	(1.6)	(1.5)	(24.4)

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	67.7	82.6	92.9
Consensus	68.5	81.7	93.4
% difference	(1.1)	1.0	(0.6)

Key Stock Data

Bloomberg/Reuters	BRIT IN / BRIT.BO
Sector	FMCG
Shares o/s (mn)	241
Market cap. (Rs mn)	851,445
3-m daily average value (Rs mn)	97.5
52-week high / low	Rs4,152 / 3,318
Sensex / Nifty	58,014 / 17,340

Shareholding Pattern (%)

Promoters	50.6
FII	17.6
DII	11.4
Public	20.4

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	1,15,995	1,31,361	1,42,817	1,56,525	1,72,354
Change (yoy, %)	5	13	9	10	10
EBITDA	18,431	25,092	23,351	27,929	31,259
Change (yoy, %)	6	36	(7)	20	12
EBITDA Margin(%)	15.9	19.1	16.4	17.8	18.1
Adj.PAT	14,185	18,639	16,282	19,857	22,347
EPS (Rs)	59.1	77.5	67.7	82.6	92.9
Change (yoy, %)	23.2	31.1	(12.6)	22.0	12.5
PE(x)	59.8	45.6	52.2	42.8	38.0
Dividend Yield (%)	0.5	3.3	0.6	0.7	0.8
EV/EBITDA (x)	46.8	34.6	36.7	30.2	26.5
RoE (%)	32.8	46.9	39.5	37.0	32.7
RoCE (%)	31.6	39.3	33.8	34.0	32.3

Source: IDBI Capital Research

Conference call highlights

- Volume growth in Q3FY22 stood at 5%YoY. Domestic business volume growth was >5%YoY. Milk Bikis witnessed revenue growth of ~40%YoY (excluding South India business) with similar volume growth.
- Price increase of 8% in Q3FY22 will mitigate input cost inflation impact of 14% in Q2FY22. Commodity forms 60% of inflation. 65% of price increase was through grammage reduction which impacted volumes by 4-5%.
- Market share gains for rural was 2x of urban.
- Milk Bikis annual revenue run rate is Rs400 crs (excluding Tamil Nadu & Kerala).
- Tiger Krunch has an annual revenue run rate of Rs300 crs.
- Potazos annual revenue rate is Rs70 crs (growing month-on-month). Potazos to help BRIT to foray in salty snack category (accretive margin). Potazos has been launched PAN India and manufactured on same lines of crackers in 2 factories and through 1 contract manufacturer.
- Company plans to launch croissant PAN India by FY23 (currently in Chennai & Kolkata through modern trade). Initially croissant will be launched in major towns and cities followed by rural markets.
- BRIT to commercialize parts of Pune dairy facility in Q2FY23. Capex for facility was Rs650 crs.
- Cakes business has not performed well compared to bread and rusk.
- Direct reach has reduced to 21.9 lakh in Dec.'21 (vs 23.7 lakh in Mar.'21) due to covid. Company has potential to reach 30 lakh outlets.
- Change in channel mix majorly impacted sales vs change in product mix during covid.
- EBITDA margin to remain flat in Q4FY22 due to input cost inflation.
- Group Inter Corporate Deposits stood at Rs580 crs as on 31st Dec. 2021 (vs Rs505 crs in Q2FY22).

Exhibit 1: Consolidated Quarterly Snapshot

(INR m)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
Revenues	35,750	31,656	12.9	36,074	-0.9	1,05,858	1,00,054	5.8
COGS	22,196	18,014	23.2	22,543	-1.5	65,604	57,625	13.8
Gross profit	13,554	13,642	-0.6	13,531	0.2	40,254	42,429	-5.1
<i>Gross Margin (%)</i>	<i>37.9</i>	<i>43.1</i>	<i>-518bps</i>	<i>37.5</i>	<i>41bps</i>	<i>38.0</i>	<i>42.4</i>	<i>-438bps</i>
Employee expenses	1,279	1,318	-2.9	1,536	-16.7	4,208	4,032	4.4
<i>% of net sales</i>	<i>3.6</i>	<i>4.2</i>	<i>-58bps</i>	<i>4.3</i>	<i>-68bps</i>	<i>4.0</i>	<i>4.0</i>	<i>-5bps</i>
Other Expenses	6,878	6,209	10.8	6,411	7.3	19,527	18,359	6.4
<i>% of net sales</i>	<i>19.2</i>	<i>19.6</i>	<i>-38bps</i>	<i>17.8</i>	<i>147bps</i>	<i>18.4</i>	<i>18.3</i>	<i>10bps</i>
EBITDA	5,397	6,115	-11.7	5,583	-3.3	16,518	20,038	-17.6
<i>EBITDA Margin (%)</i>	<i>15.1</i>	<i>19.3</i>	<i>-422bps</i>	<i>15.5</i>	<i>-38bps</i>	<i>15.6</i>	<i>20.0</i>	<i>-442bps</i>
Depreciation	504	486	3.7	502	0.4	1,496	1,450	3.2
EBIT	4,893	5,629	-13.1	5,082	-3.71	15,022	18,588	-19.2
Other Income	551	826	-33.2	534	3.2	1,690	2,497	-32.3
Interest Expenses	374	318	17.6	390	-4.0	1,105	872	26.8
PBT	5,071	6,137	-17.4	5,226	-3.0	15,607	20,213	-22.8
Taxes	1,362	1,611	-15.4	1,410	-3.4	4,214	5,304	-20.6
Adjusted PAT	3,709	4,526	-18.1	3,816	-2.8	11,393	14,909	-23.6
Share in profit/loss of associate	0	0		2		4	2	
Extra-ordinary items	10	0		0		10	6	
Minority Interest	20	31	-35.7	24	-16	69	91	-23.6
Reported PAT	3,719	4,557	-18.4	3,842	-3.2	11,476	15,008	-23.5
EPS	15.4	18.9	-18.5	15.9	-3.1	47.5	62.3	-23.7

Source: Company; IDBI Capital Research

Exhibit 2: Standalone Quarterly Snapshot

(INR m)	Q3FY22	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	YTD FY22	YTD FY21	YoY (%)
Revenues	33,737	29,787	13.3	34,253	-1.5	1,00,352	94,262	6.5
COGS	21,425	17,410	23.1	21,882	-2.1	63,643	55,867	13.9
Gross profit	12,312	12,377	-0.5	12,371	-0.5	36,709	38,395	-4.4
<i>Gross Margin (%)</i>	36.5	41.6	-506bps	36.1	38bps	34.7	38.4	-370bps
Employee expenses	954	1,011	-5.6	1,212	-21.3	3,252	3,099	4.9
<i>% of net sales</i>	2.8	3.4	-57bps	3.5	-71bps	3.1	3.1	-2bps
Other Expenses	6,233	5,659	10.1	5,849	6.6	17,785	16,661	6.8
<i>% of net sales</i>	18.5	19.0	-52bps	17.1	140bps	16.8	16.7	15bps
EBITDA	5,125	5,707	-10.2	5,309	-3.5	15,671	18,635	-15.9
<i>EBITDA Margin (%)</i>	15.2	19.2	-397bps	15.5	-31bps	14.8	18.6	-382bps
Depreciation	427	409	4.3	425	0.3	1,267	1,216	4.2
EBIT	4,698	5,298	-11.3	4,884	-3.81	14,405	17,419	-17.3
Other Income	534	778	-31.3	510	4.8	2,564	2,363	8.5
Interest Expenses	347	287	20.9	363	-4.4	1,024	773	32.5
PBT	4,886	5,789	-15.6	5,032	-2.9	15,944	19,009	-16.1
Taxes	1,320	1,505		1,359		4,047	4,942	
Adjusted PAT	3,566	4,284	-16.8	3,673	-2.9	11,898	14,067	-15.4
Extra-ordinary items	0	0		0		0	0	
Reported PAT	3,566	4,284	-16.8	3,673	-2.9	11,898	14,067	-15.4
EPS	14.8	17.8	-17.0	15.2	-2.9	49.4	58.5	-15.5

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	35,750	35,013	2.1%
EBITDA	5,397	5,436	-0.7%
Margin (%)	15.1%	15.5%	
PAT	3,709	3,812	-2.7%

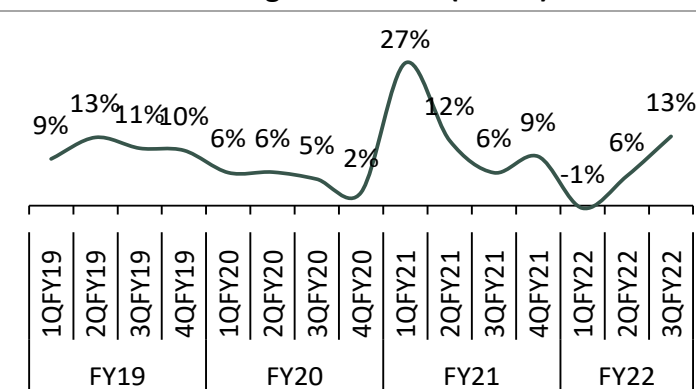
Source: Company; IDBI Capital Research

Exhibit 4: Change in estimates

	FY22E			FY23E			FY24E		
	New	Old	(%) Chg	New	Old	(%) Chg	New	Old	(%) Chg
Revenue (Rs mn)	1,42,817	1,38,482	3.1%	1,56,525	1,52,488	2.6%	1,72,354	1,67,913	2.6%
EBITDA (Rs mn)	23,351	23,174	0.8%	27,929	27,532	1.4%	31,259	30,335	3.0%
EBITDA margin (%)	16.4%	16.7%		17.8%	18.1%		18.1%	18.1%	
Net profit (Rs mn)	16,506	16,153	2.2%	19,857	19,569	1.5%	22,347	21,678	3.1%
EPS (Rs)	68.6	67.2	2.2%	82.6	81.4	1.5%	92.9	90.1	3.1%

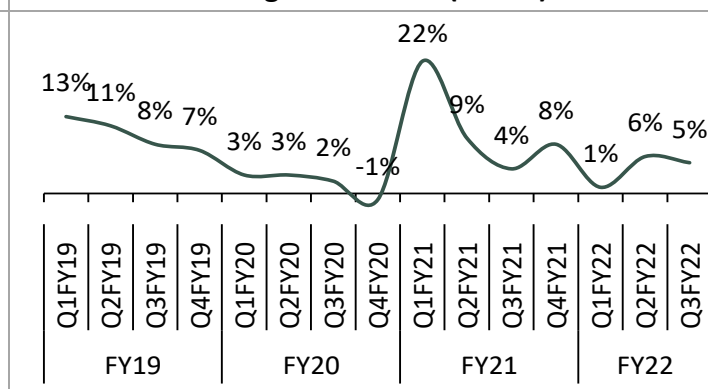
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)



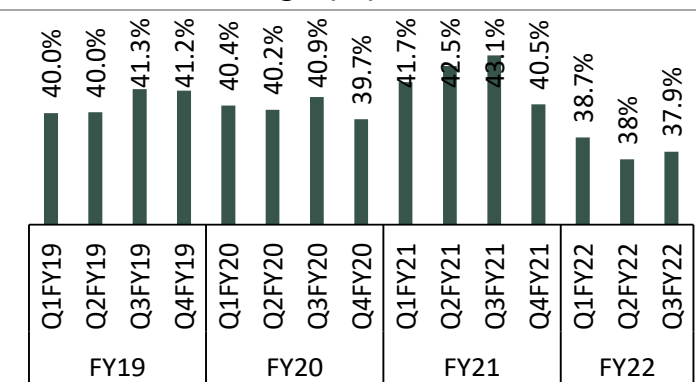
Source: Company, IDBI Capital research

Exhibit 6: Volume growth trend (% YoY)



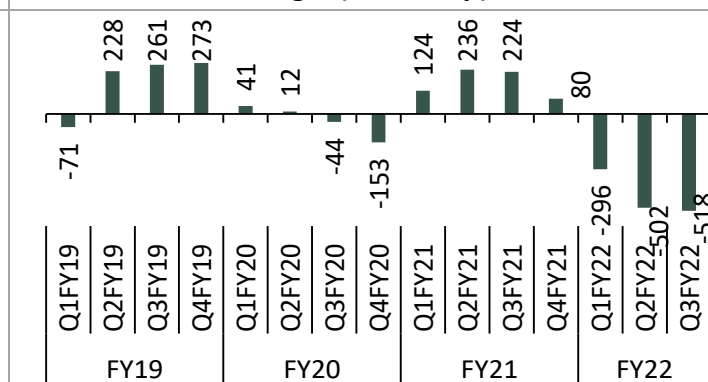
Source: Company, IDBI Capital research

Exhibit 7: Gross Margin (%)



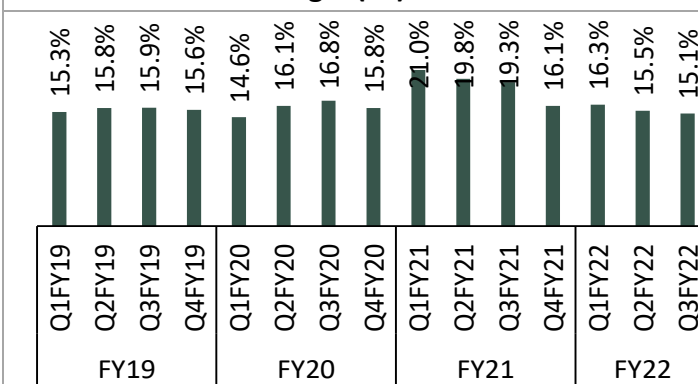
Source: Company, IDBI Capital research

Exhibit 8: Gross Margin (YoY in bp)



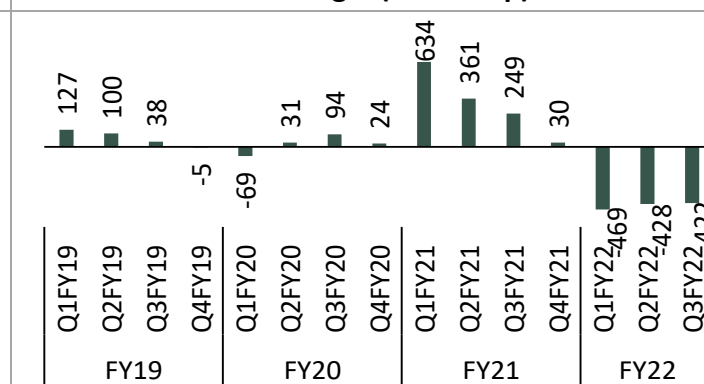
Source: Company, IDBI Capital research

Exhibit 9: EBITDA Margin (%)



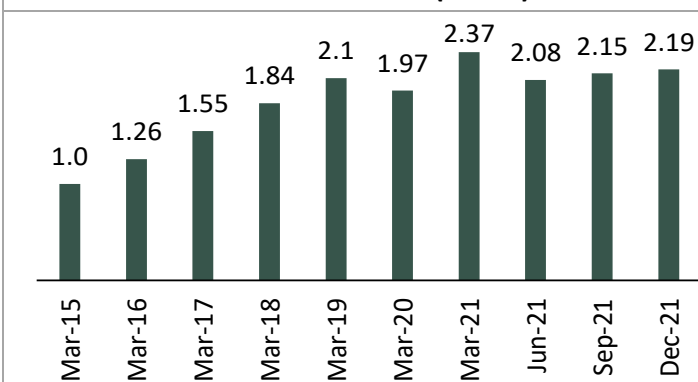
Source: Company, IDBI Capital research

Exhibit 10: EBITDA Margin (YoY in bp)



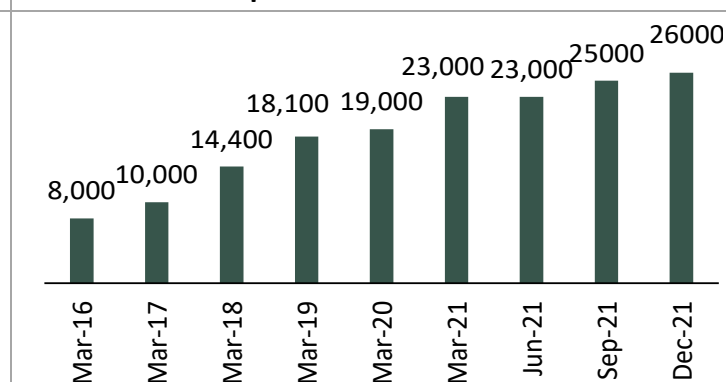
Source: Company, IDBI Capital research

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	FY22E	FY23E	FY24E
Net sales	1,10,548	1,15,995	1,31,361	1,42,817	1,56,525	1,72,354
<i>Change (yoy, %)</i>	10.7	4.9	13.2	8.7	9.6	10.1
Operating expenses	(93,213)	(97,564)	(1,06,269)	(1,19,466)	(1,28,596)	(1,41,096)
EBITDA	17,335	18,431	25,092	23,351	27,929	31,259
<i>Change (yoy, %)</i>	15.4	6.3	36.1	-6.9	19.6	11.9
<i>Margin (%)</i>	15.7	15.9	19.1	16.4	17.8	18.1
Depreciation	(1,619)	(1,848)	(1,979)	(2,065)	(2,365)	(2,609)
EBIT	15,717	16,583	23,114	21,286	25,563	28,649
Interest paid	(91)	(769)	(1,109)	(1,419)	(1,053)	(1,000)
Other income	2,065	2,794	3,129	2,347	2,582	2,840
Pre-tax profit	17,690	18,608	25,134	22,214	27,092	30,489
Tax	(6,125)	(4,507)	(6,630)	(5,820)	(7,098)	(7,988)
<i>Effective tax rate (%)</i>	34.6	24.2	26.4	26.2	26.2	26.2
Minority Interest	(46.3)	(85.9)	141.1	(112.3)	(136.9)	(154.1)
Net profit	11,519	14,015	18,645	16,282	19,857	22,347
Exceptional items	-	(170)	6	-	-	-
Adjusted net profit	11,519	14,185	18,639	16,282	19,857	22,347
<i>Change (yoy, %)</i>	14.8	23.1	31.4	(12.6)	22.0	12.5
EPS	48.0	59.1	77.5	67.7	82.6	92.9
Dividend per sh	14.8	18.0	117.4	21.3	25.6	28.8
<i>Dividend Payout %</i>	30.8	30.5	151.5	31.4	31.0	31.0

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Shareholders' funds	42,533	44,028	35,476	46,866	60,567	75,986
Share capital	240	241	241	241	241	241
Reserves & surplus	42,292	43,788	35,236	46,625	60,326	75,746
Total Debt	1,380	15,141	20,872	20,872	19,872	18,872
Other liabilities	426	724	635	634	634	634
Curr Liab & prov	17,753	18,173	22,749	23,895	25,267	26,852
Current liabilities	15,788	16,261	18,874	20,021	21,393	22,977
Provisions	1,965	1,913	3,875	3,875	3,875	3,875
Total liabilities	19,559	34,038	44,255	45,401	45,773	46,357
Total equity & liabilities	62,418	78,422	80,088	92,623	1,06,697	1,22,700
Net fixed assets	17,748	19,033	19,118	19,388	19,815	20,332
Investments	7,411	18,989	13,852	13,852	13,852	13,852
Other non-curr assets	1,995	3,651	2,922	2,922	2,922	2,922
Current assets	35,263	36,750	44,197	56,238	69,884	85,371
Inventories	7,814	7,410	10,915	11,867	13,006	14,321
Sundry Debtors	3,942	3,204	2,573	2,797	3,066	3,376
Cash and Bank	1,098	1,229	2,113	12,978	25,217	39,078
Loans and advances	-	-	-	-	-	-
Total assets	62,418	78,422	80,088	92,623	1,06,697	1,22,700

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	17,689	18,438	25,128	22,214	27,092	30,489
Depreciation	1,619	1,848	1,979	2,065	2,365	2,609
Tax paid	(5,961)	(5,033)	(6,328)	(5,820)	(7,098)	(7,988)
Chg in working capital	(134)	1,511	1,156	(30)	(35)	(41)
Other operating activities	(1,655)	(1,919)	(3,423)	1,419	1,053	1,000
Cash flow from operations (a)	11,558	14,845	18,511	19,849	23,377	26,069
Capital expenditure	(4,012)	(2,442)	(2,421)	(2,335)	(2,793)	(3,126)
Chg in investments	(5,712)	(14,151)	7,033	(112)	(137)	(154)
Other investing activities	1,169	1,276	-	-	-	-
Cash flow from investing (b)	(8,555)	(15,316)	4,613	(2,447)	(2,930)	(3,280)
Equity raised/(repaid)	298	240	1,032	-	-	-
Debt raised/(repaid)	-	6,407	5,678	-	(1,000)	(1,000)
Dividend (incl. tax)	(3,544)	(4,325)	(28,238)	(5,117)	(6,156)	(6,928)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(281)	(1,742)	(909)	(1,419)	(1,053)	(1,000)
Cash flow from financing (c)	(3,527)	579	(22,437)	(6,536)	(8,209)	(8,928)
Net chg in cash (a+b+c)	(524)	108	686	10,865	12,238	13,862

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	177	183	148	195	252	316
Adj EPS (Rs)	48.0	59.1	77.5	67.7	82.6	92.9
Adj EPS growth (%)	14.7	23.2	31.1	(12.6)	22.0	12.5
EBITDA margin (%)	15.7	15.9	19.1	16.4	17.8	18.1
Pre-tax margin (%)	16.0	16.0	19.1	15.6	17.3	17.7
Net Debt/Equity (x)	0.0	0.3	0.5	0.2	(0.1)	(0.3)
ROCE (%)	38.8	31.6	39.3	33.8	34.0	32.3
ROE (%)	30.1	32.8	46.9	39.5	37.0	32.7

DuPont Analysis

Asset turnover (x)	1.9	1.6	1.7	1.7	1.6	1.5
Leverage factor (x)	1.5	1.6	2.0	2.1	1.9	1.7
Net margin (%)	10.4	12.2	14.2	11.4	12.7	13.0

Working Capital & Liquidity ratio

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

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	73.7	59.8	45.6	52.2	42.8	38.0
Price/Book value (x)	20.0	19.3	24.0	18.1	14.0	11.2
EV/Net sales (x)	7.7	7.4	6.6	6.0	5.4	4.8
EV/EBITDA (x)	49.0	46.8	34.6	36.7	30.2	26.5
Dividend Yield (%)	0.4	0.5	3.3	0.6	0.7	0.8

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

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

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