

BUY

TP: Rs 5,844 | ▲ 25%

BRITANNIA INDUSTRIES

Consumer Staples

07 August 2023

Increased regional competition hurts growth

- Relatively soft quarter (revenue up just 8% YoY) due to stiffer local competition and sluggish rural growth
- Volume growth tepid but management expects a rebound from Q3FY24 onwards
- Investment in brands and innovation to spur profitable growth; retain BUY, TP Rs 5,844

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Soft quarter: BRIT's Q1FY24 revenue grew at a muted 8% YoY to Rs 40.1bn as the company took price corrections in the wake of increased regional competition. Market share was flattish during the quarter, but the company widened the gap with the second largest player as the latter had lost share last quarter. During Q1, BRIT took a price correction of 1.8% YoY which translated into 300bps QoQ gross margin contraction to 41.9%. EBITDA grew 38% YoY while dropping 14% QoQ to Rs 6.9bn, with operating margin expansion of 370bps YoY and a sequential decline of 270bps QoQ to 17.2%.

Distribution-led growth strategy: BRIT continues to expand its direct distribution reach which stood at 2.67mn outlets at end-Q1FY24 and also raised its rural preferred dealer count to 28,000. Despite competitive pressure, the company grew 2.2x in focus states of Uttar Pradesh, Madhya Pradesh, Gujarat, and Rajasthan as compared to its markets in the rest of India. The thrust on innovation continues, as reflected in recent launches of *Jim Jam Pops* biscuits and multigrain rusk.

Augmenting manufacturing capabilities: The company scaled up its Uttar Pradesh and Tamil Nadu manufacturing capabilities with the commercialisation of five product lines each during the quarter. It is also in the process of setting up a facility in Bihar which should ease the supply constraints seen during the quarter. Manufacturing capacity will continue to be augmented in FY24, and management expects to incur total capex of Rs 4bn-4.5bn.

Maintain BUY: BRIT reported a muted first quarter as local competition intensified due to easing input costs. Margins softened sequentially but are expected to improve as the company has stepped up cost-saving initiatives. We believe that BRIT's focus on innovation, brand investment and product launches will spur profitable growth. The stock is trading at 50.4x/42.3x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 53x FY25E EPS, assigning a 30% premium to the 10Y average multiple, for an unchanged TP of Rs 5,844.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	BRIT IN/Rs 4,660
Market cap	US\$ 13.7bn
Free float	49%
3M ADV	US\$ 21.8mn
52wk high/low	Rs 5,270/Rs 3,564
Promoter/FPI/DII	51%/21%/28%

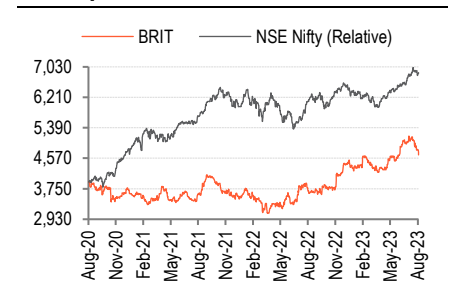
Source: NSE | Price as of 7 Aug 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,63,006	1,76,567	1,96,616
EBITDA (Rs mn)	28,309	31,600	37,222
Adj. net profit (Rs mn)	19,461	22,287	26,562
Adj. EPS (Rs)	80.8	92.5	110.3
Consensus EPS (Rs)	80.8	88.3	101.3
Adj. ROAE (%)	65.1	48.7	49.3
Adj. P/E (x)	57.7	50.4	42.3
EV/EBITDA (x)	39.6	35.5	30.1
Adj. EPS growth (%)	27.6	14.5	19.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

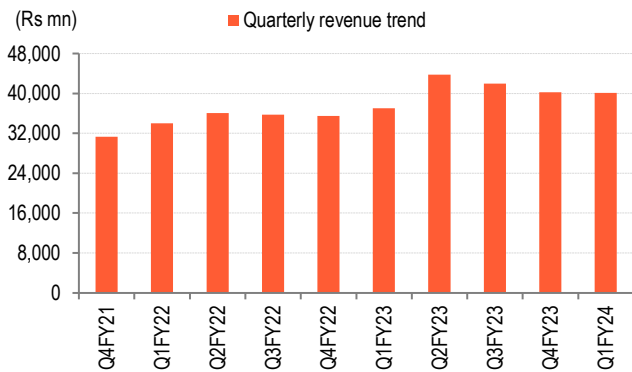


Fig 1 – Quarterly review

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	40,107	40,232	37,010	(0.3)	8.4	41,451	(3.2)
EBITDA	6,889	8,009	5,007	(14.0)	37.6	7,834	(12.1)
Adj. PAT	4,576	5,587	3,374	(18.1)	35.6	5,578	(18.0)
Gross Margin (%)	41.9	44.9	36.9	(300bps)	500bps	43.2	(130bps)
EBITDA Margin (%)	17.2	19.9	13.5	(270bps)	370bps	18.9	(170bps)
Adj. PAT Margin (%)	11.4	13.9	9.1	(250bps)	230bps	13.5	(210bps)

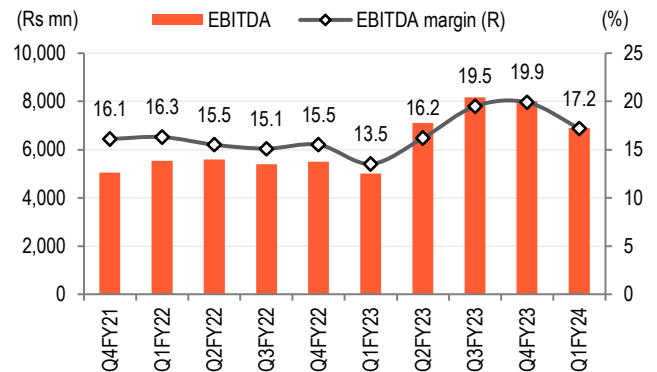
Source: Company, BOBCAPS Research

Fig 2 – Quarterly revenue trend



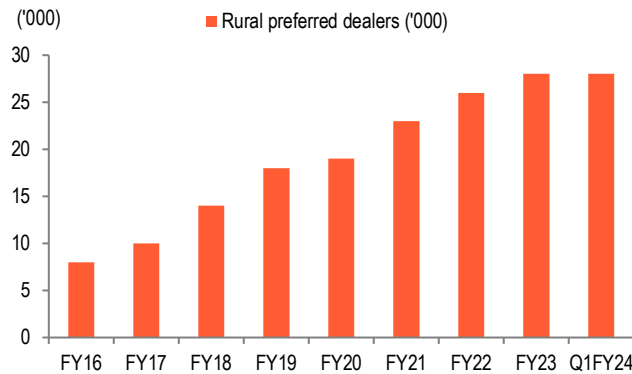
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



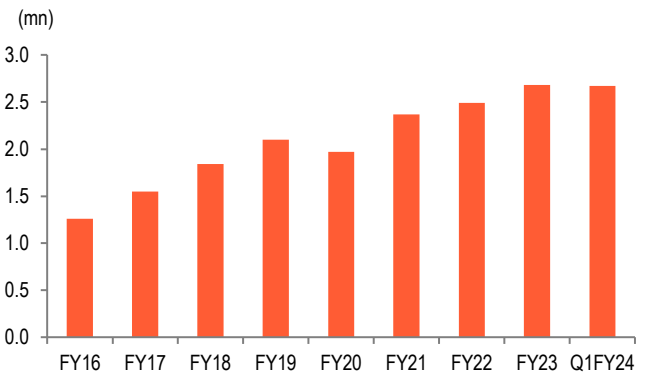
Source: Company, BOBCAPS Research

Fig 4 – Rural preferred dealers



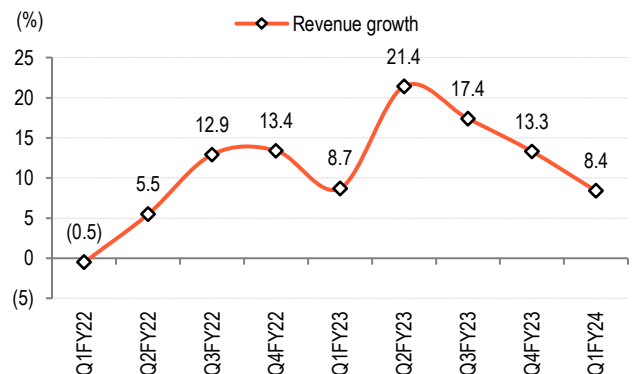
Source: Company, BOBCAPS Research

Fig 5 – Direct distribution reach



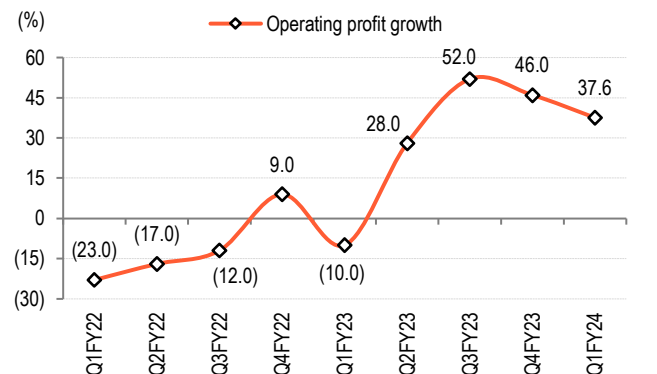
Source: Company, BOBCAPS Research

Fig 6 – Revenue growth YoY



Source: Company, BOBCAPS Research

Fig 7 – Operating profit growth YoY



Source: Company, BOBCAPS Research

Earnings call highlights

- BRIT's revenue growth for Q1FY24 was at 8% YoY which incorporated transaction growth of 9% as well. Operating profit grew 38% YoY and market share was stable even as the company widened the gap with its second-largest competitor this quarter.
- Q1 volume growth was impacted by increased local competition, though the company expects a rebound in H2FY24.
- BRIT's direct distribution reach now stands at ~2.67mn outlets. Rural distribution continues to move up and totals 28,000 rural distributors. Focus states grew 2.2x faster than the rest of BRIT's markets in India.
- During Q1, BRIT saw ~3% YoY inflation in flour and 1% inflation in sugar. On the flip side, there was substantial deflation in palm oil by 21% YoY, in corrugated boxes by 25% and in laminates by 18%.
- The company continued to focus on *Marie*, *Milk Bikis*, *Pure Magic* and *50-50* in biscuits, as well as *Croissant* and *Winkin Cow* dairy products. As inflation receded, local competitors started to raise grammage to remain competitive. BRIT too ran some consumer promotions by way of grammage restoration.
- During Q1, the company launched *Jim Jam Pops* biscuits and multigrain rusk. It further scaled up *50-50 Golmaal* biscuits and launched *Rich* milk shakes and coconut water this season, posting high-double-digit growth in the drinks category.
- In rusk, BRIT witnessed substantial local competition in the form of ~2,500 regional rivals, largely in the north. Rusk contributes a reasonable amount of topline as well as profits.
- In dairy, *Winkin Cow* products are doing well. *The Laughing Cow* cheese is now moving forward and expected to be a key growth driver. The launch of Rs 10 cheese sachets is underway as well.
- The company reported good growth in international markets. The Middle East and Africa region has been growing in high-double-digits with improved margins. BRIT also saw double-digit, profitable growth in the rest of the international markets led by the Americas.
- Nepal continues to post high-double-digit growth with expanded margins. The company started business in Egypt which is doing well. It also entered Kenya with a joint venture though this is facing forex issues.
- The Barabanki (Uttar Pradesh) and Tirunelveli (Tamil Nadu) manufacturing facilities have been scaled up with five running lines.
- Advertising and sales promotion has been increased to support brands and drive innovation. The company has also doubled down on cost efficiency programmes across all functions to remain competitive.

Valuation methodology

BRIT reported a muted first quarter as local competition intensified due to easing input costs. Margins softened sequentially but are expected to improve as the company has stepped up cost-saving initiatives. We believe that BRIT's focus on innovation, brand investment and product launches will spur profitable growth.

The stock is trading at 50.4x/42.3x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 53x FY25E EPS, assigning a 30% premium to the 10-year average multiple, for an unchanged TP of Rs 5,844.

Key risks

Key downside risks to our estimates are:

- delayed rural recovery, and
- increased regional competition.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	13.7	4,660	5,844	BUY
Dabur India	DABUR IN	12.2	565	669	BUY
Godrej Consumer Products	GCPL IN	12.8	1,031	1,159	BUY
Hindustan Unilever	HUVR IN	73.5	2,569	3,069	BUY
ITC	ITC IN	68.8	455	523	BUY
Marico	MRCO IN	9.0	576	646	BUY
Nestle India	NEST IN	26.3	22,459	26,430	BUY
Tata Consumer Products	TATACONS IN	9.5	838	994	BUY
Zydus Wellness	ZYWL IN	1.1	1,464	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 Aug 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	1,31,361	1,41,363	1,63,006	1,76,567	1,96,616
EBITDA	25,093	22,015	28,309	31,600	37,222
Depreciation	1,979	2,005	2,259	2,622	2,846
EBIT	23,114	20,010	26,050	28,978	34,376
Net interest inc./(exp.)	1,109	1,443	1,691	1,930	1,846
Other inc./(exp.)	3,129	2,228	2,159	3,291	3,687
Exceptional items	6	10	(3,756)	0	0
EBT	25,128	20,785	30,274	30,340	36,217
Income taxes	6,630	5,624	7,165	8,186	9,779
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(133)	(88)	(55)	(103)	(123)
Reported net profit	18,639	15,248	23,217	22,287	26,562
Adjustments	6	10	(3,756)	0	0
Adjusted net profit	18,645	15,258	19,461	22,287	26,562

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	13,148	13,228	14,488	16,836	18,361
Other current liabilities	1,405	1,307	1,763	1,633	1,818
Provisions	3,875	4,851	5,390	6,060	6,719
Debt funds	20,872	24,655	29,805	28,116	27,816
Other liabilities	4,949	5,377	6,435	6,634	7,299
Equity capital	241	241	241	241	241
Reserves & surplus	35,599	25,615	35,404	45,536	53,627
Shareholders' fund	35,840	25,856	35,645	45,777	53,868
Total liab. and equities	80,088	75,275	93,527	1,05,055	1,15,881
Cash and cash eq.	1,427	1,181	1,024	4,255	10,169
Accounts receivables	2,573	3,319	3,289	7,256	8,080
Inventories	10,915	13,675	11,933	12,742	13,896
Other current assets	15,349	13,312	13,207	13,629	14,432
Investments	27,949	17,763	33,649	33,849	34,049
Net fixed assets	16,343	15,841	24,722	26,669	28,323
CWIP	1,165	5,357	1,050	1,050	1,050
Intangible assets	1,444	1,552	1,424	1,424	1,424
Deferred tax assets, net	97	517	573	645	719
Other assets	2,825	2,759	2,658	3,536	3,740
Total assets	80,088	75,275	93,527	1,05,055	1,15,881

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	25,083	18,864	32,520	29,580	37,598
Capital expenditures	(2,405)	(5,502)	(7,115)	(4,500)	(4,500)
Change in investments	4,675	12,495	(10,300)	(200)	(200)
Other investing cash flows	2,086	2,116	2,244	2,333	3,411
Cash flow from investing	4,356	9,109	(15,171)	(2,367)	(1,289)
Equities issued/Others	1,032	0	0	0	0
Debt raised/repaid	5,690	(3,387)	2,292	(1,689)	(300)
Interest expenses	(1,013)	(1,186)	(1,957)	(1,930)	(1,846)
Dividends paid	(28,238)	(24,848)	(13,592)	(12,258)	(18,593)
Other financing cash flows	104	6,963	2,974	103	123
Cash flow from financing	(22,425)	(22,458)	(10,284)	(15,774)	(20,616)
Chg in cash & cash eq.	686	(353)	(192)	3,253	5,914
Closing cash & cash eq.	1,427	1,181	980	4,255	10,169

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	77.4	63.3	96.4	92.5	110.3
Adjusted EPS	77.4	63.3	80.8	92.5	110.3
Dividend per share	118.0	74.5	56.4	50.9	77.2
Book value per share	148.8	107.3	148.0	190.0	223.6

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	8.5	7.9	6.9	6.4	5.7
EV/EBITDA	44.7	51.0	39.6	35.5	30.1
Adjusted P/E	60.2	73.6	57.7	50.4	42.3
P/BV	31.3	43.4	31.5	24.5	20.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	74.2	73.4	76.7	73.5	73.3
Interest burden (PBT/EBIT)	80.6	76.2	89.1	76.9	77.3
EBIT margin (EBIT/Revenue)	17.6	14.2	16.0	16.4	17.5
Asset turnover (Rev./Avg TA)	164.0	187.8	174.3	168.1	169.7
Leverage (Avg TA/Avg Equity)	2.2	2.9	2.6	2.3	2.2
Adjusted ROAE	52.0	59.0	65.1	48.7	49.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	13.2	7.6	15.3	8.3	11.4
EBITDA	36.1	(12.3)	28.6	11.6	17.8
Adjusted EPS	31.1	(18.2)	27.6	14.5	19.2
Profitability & Return ratios (%)					
EBITDA margin	19.1	15.6	17.4	17.9	18.9
EBIT margin	17.6	14.2	16.0	16.4	17.5
Adjusted profit margin	14.2	10.8	11.9	12.6	13.5
Adjusted ROAE	52.0	59.0	65.1	48.7	49.3
ROCE	40.8	39.6	39.8	39.2	42.1
Working capital days (days)					
Receivables	7	9	7	15	15
Inventory	52	57	45	45	45
Payables	63	55	55	60	60
Ratios (x)					
Gross asset turnover	1.5	1.6	1.5	1.5	1.5
Current ratio	1.2	1.0	1.1	1.4	1.5
Net interest coverage ratio	20.8	13.9	15.4	15.0	18.6
Adjusted debt/equity	0.6	1.0	0.8	0.6	0.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

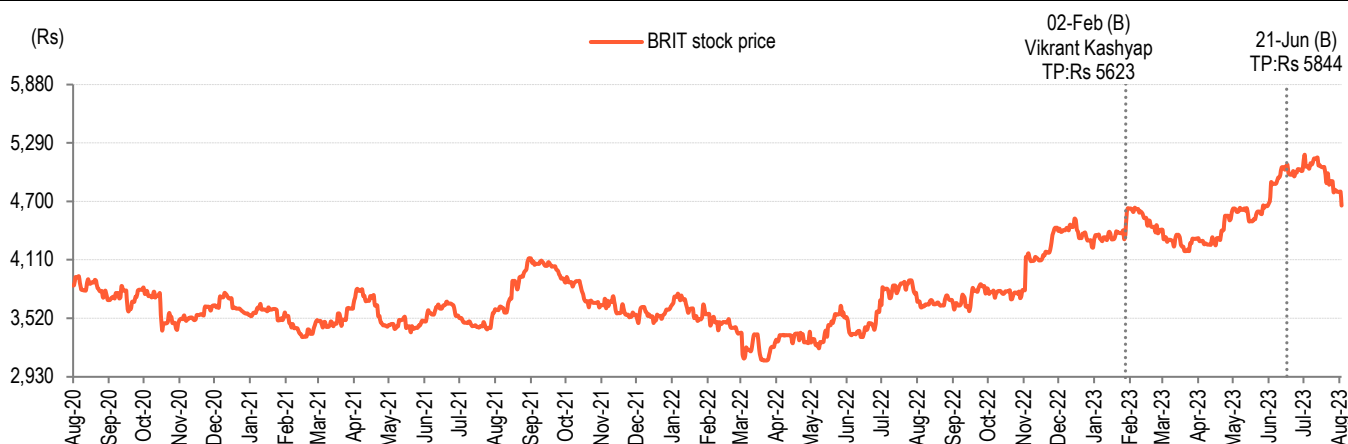
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BRITANNIA INDUSTRIES (BRIT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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