

**BUY**

TP: Rs 5,623 | ▲ 22%

**BRITANNIA INDUSTRIES**

Consumer Staples

06 May 2023

## Impressive all-around performance

- Strong 13% YoY topline growth in Q4 fuelled by pricing, enhanced distribution reach and market share gains
- EBITDA margin continued to improve (+690bps YoY to 19.9%) on softening input prices and cost rationalisation
- Focus remains on growing adjacent categories, enhancing rural reach and innovation; maintain BUY, TP Rs 5,623 (unchanged)

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**Stellar performance fuelled by pricing and market share gains:** BRIT's Q4FY23 revenue grew 13.3% YoY to Rs 40.2bn backed by significant distribution gains and price increases even as volumes remained in low single digits. The company continued to strengthen its rural presence, taking the rural distributor count to 28,000. BRIT has steadily gained market share over the past decade, widening the gap with No. 2 player. Innovation remains a focus area for the company, reflected in recent launches of coconut water and milk shakes.

**Margin expansion continues:** BRIT reported strong margin expansion led by cost rationalisation initiatives and correction in prices of palm oil and other packaging materials. Wheat prices, however, remained elevated. BRIT is watchful of movement in key commodity prices and intends to take appropriate pricing action to remain competitive and gain market share. Q4 EBITDA grew 46% YoY while declining 2% QoQ to Rs 8bn, with robust margin expansion of 690bps YoY and 120bps QoQ to 19.9%. Going ahead, the company expects EBITDA margin to remain around 17.5%.

**Augmenting manufacturing capabilities to support growth:** The company commercialised two greenfield biscuit units during the quarter at Uttar Pradesh and Tamil Nadu, along with brownfield expansion in Odisha. It also started operations at three manufacturing lines for rusk, in line with its strategy of manufacturing inhouse and enhancing productivity. The company further increased capacity for beverages, including dairy lines, to leverage seasonal opportunities and improve supplies to the bakery division for captive consumption.

**Maintain BUY:** BRIT continues to report double-digit growth with improvement in margins despite high inflation. We expect the company's focus on innovation, broader manufacturing capabilities, brand investment, direct reach expansion, and product launches to spur profitable growth. The stock is trading at 47.1x/42.0x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 51x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 5,623.

## Key changes

| Target | Rating |
|--------|--------|
| ◀ ▶    | ◀ ▶    |

|                  |                   |
|------------------|-------------------|
| Ticker/Price     | BRIT IN/Rs 4,626  |
| Market cap       | US\$ 13.6bn       |
| Free float       | 49%               |
| 3M ADV           | US\$ 14.9mn       |
| 52wk high/low    | Rs 4,669/Rs 3,157 |
| Promoter/FPI/DII | 51%/19%/30%       |

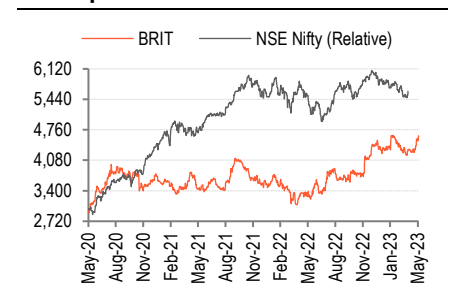
Source: NSE | Price as of 5 May 2023

## Key financials

| Y/E 31 Mar              | FY23P    | FY24E    | FY25E    |
|-------------------------|----------|----------|----------|
| Total revenue (Rs mn)   | 1,63,006 | 1,82,922 | 2,01,583 |
| EBITDA (Rs mn)          | 28,309   | 33,166   | 37,446   |
| Adj. net profit (Rs mn) | 19,461   | 23,649   | 26,561   |
| Adj. EPS (Rs)           | 80.8     | 98.2     | 110.3    |
| Consensus EPS (Rs)      | 80.8     | 88.3     | 101.3    |
| Adj. ROAE (%)           | 65.1     | 51.1     | 48.9     |
| Adj. P/E (x)            | 57.3     | 47.1     | 42.0     |
| EV/EBITDA (x)           | 39.3     | 33.6     | 29.7     |
| Adj. EPS growth (%)     | 27.6     | 21.5     | 12.3     |

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

## Stock performance



Source: NSE

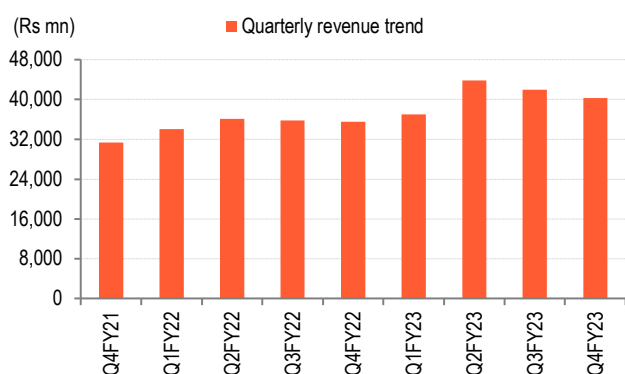


**Fig 1 – Quarterly performance**

| (Rs mn)             | Q4FY23 | Q3FY23 | Q4FY22 | QoQ (%) | YoY (%) | Estimates | Variance (%) |
|---------------------|--------|--------|--------|---------|---------|-----------|--------------|
| Revenue             | 40,232 | 41,968 | 35,505 | (4.1)   | 13.3    | 41,008    | (1.9)        |
| EBITDA              | 8,009  | 8,176  | 5,497  | (2.0)   | 45.7    | 6,937     | 15.5         |
| Adj. PAT            | 5,587  | 5,568  | 3,798  | 0.3     | 47.1    | 4,859     | 15.0         |
| Gross Margin (%)    | 44.9   | 43.7   | 38.0   | 120bps  | 690bps  | 40.7      | 420bps       |
| EBITDA Margin (%)   | 19.9   | 19.5   | 15.5   | 40bps   | 440bps  | 16.9      | 300bps       |
| Adj. PAT Margin (%) | 13.9   | 13.3   | 10.7   | 60bps   | 320bps  | 11.8      | 210bps       |

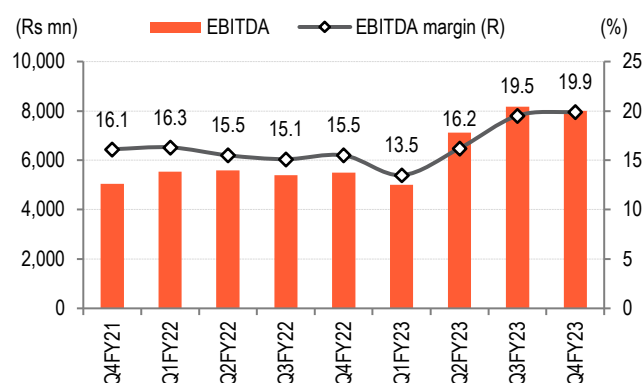
Source: Company, BOBCAPS Research

**Fig 2 – Quarterly revenue trend**



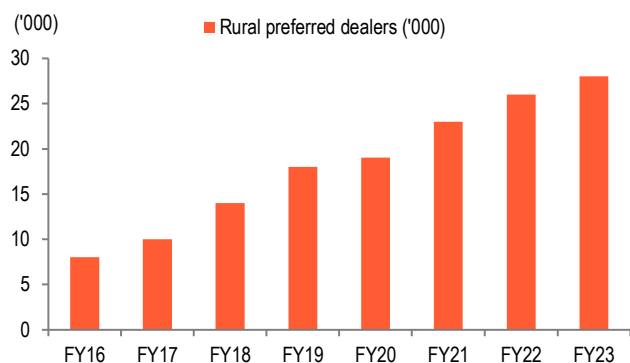
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA and margin**



Source: Company, BOBCAPS Research

**Fig 4 – Rural preferred dealers**



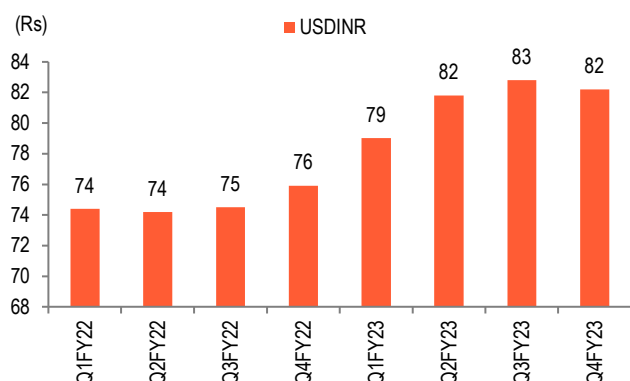
Source: Company, BOBCAPS Research

**Fig 5 – Direct distribution reach**



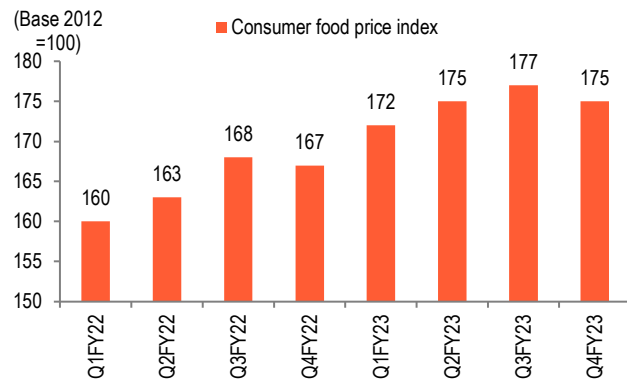
Source: Company, BOBCAPS Research

**Fig 6 – USDINR rate**



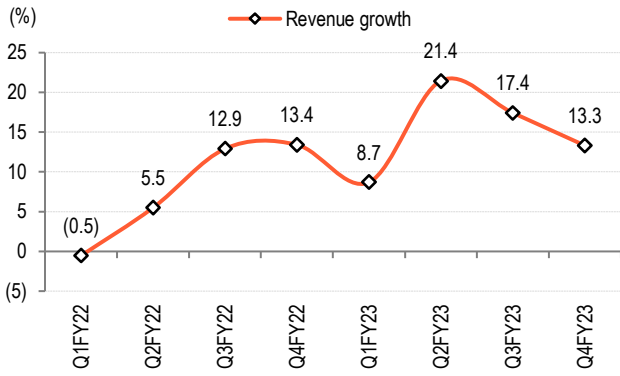
Source: Company, BOBCAPS Research

**Fig 7 – Consumer food price index**



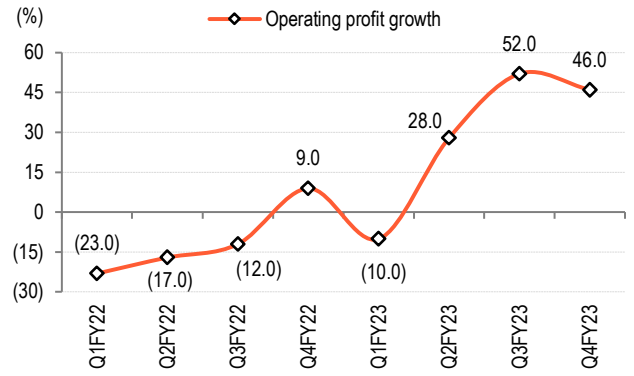
Source: Company, BOBCAPS Research

**Fig 8 – Revenue growth YoY**



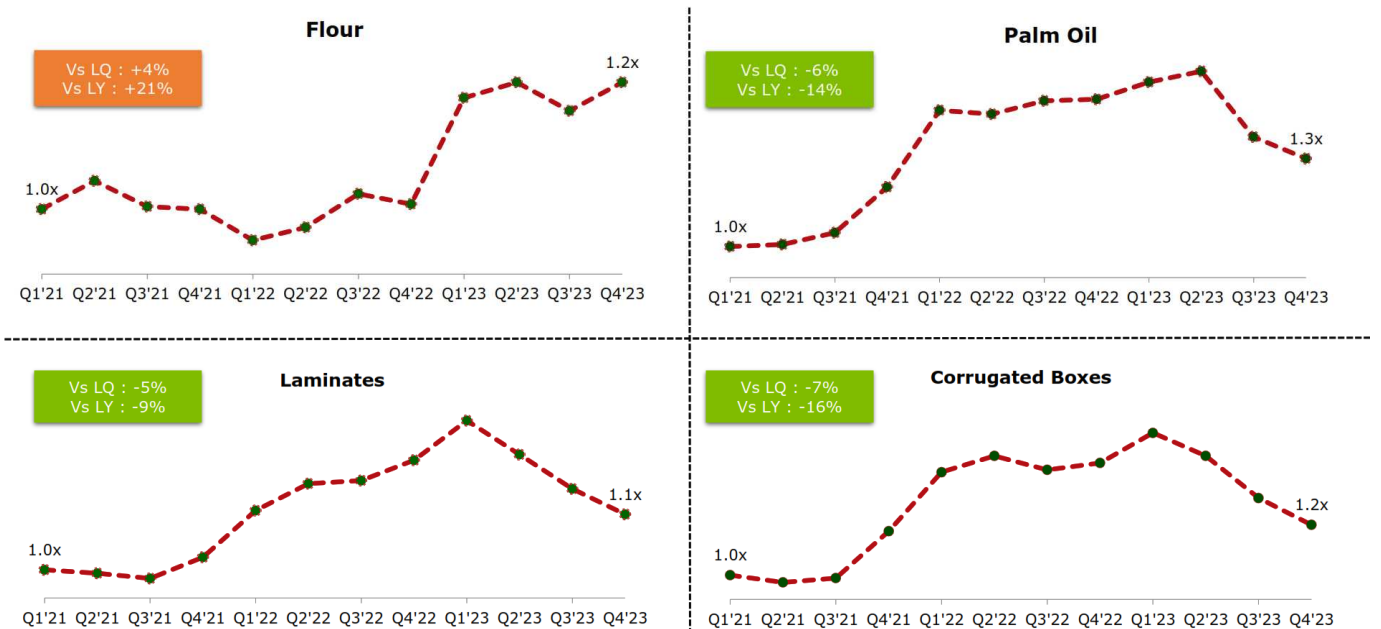
Source: Company, BOBCAPS Research

**Fig 9 – Operating profit growth YoY**



Source: Company, BOBCAPS Research

**Fig 10 – Input prices soften during Q4 except flour**



Source: Company, BOBCAPS Research

## Earnings call highlights

- BRIT reported 13% YoY revenue growth and a 46% increase in operating profit during Q4FY23 (30% in FY23). The company continued to gain market share, widening the gap with its second-largest competitor.
- The number of rural distributors has risen from 26,000 in FY22 to 28,000 in FY23. BRIT continues to gain more share in rural markets as well. Direct reach has gone up by 200,000 outlets to 2.7mn outlets.
- In the biscuits segment, *Golmaal* has now been extended to markets in South and West India and registered 40% sequential growth. *Nutri Choice Seeds & Herbs* grew 50% sequentially while *Milk Bikis Classic* which was launched in Tamil Nadu during Q4 is also seeing a healthy sequential shift, per management.
- The non-biscuit portfolio has grown at 1.5x this year and management expects the trajectory to go up over the next five years.
- Adjacent businesses continued their profitable growth. Croissants – now a Rs 1bn market category – performed well and the company launched an orange variant., BRIT's *Winkin Cow* is now a Rs 1.5bn brand. The company has increased distribution reach in milkshake segment by 2x over last year.
- BRIT launched coconut water during Q4.
- The company is scaling up its dairy business in joint venture with Bel. Total direct milk collection is now 70,000 liters and milk collection is 200,000l per day. BRIT is now supplying the entire SMP and SCM for captive consumption in its bakery division.
- Pricing action was taken during Q4 to mitigate the impact of high inflation. Wheat, palm oil, laminates and corrugated boxes form 60% of the company's total commodity purchases. Wheat flour is the largest purchase, prices of which were up 4% QoQ and 21% YoY.
- The company will continue to monitor prices of wheat and sugar. It has stepped up cost efficiencies and is evaluating price corrections if needed.
- During the quarter, BRIT received Rs 900mn from a production-linked incentive (PLI) scheme for FY22 and FY23 which is accounted for in other income. It expects to receive Rs 150mn-200mn every quarter.
- Management expects to incur capex of Rs 5bn-6bn in FY24, largely toward dairy businesses.

## Valuation methodology

BRIT continues to report double-digit growth with improvement in margins despite high inflation. We expect the company's focus on innovation, broader manufacturing capabilities, brand investment, direct reach expansion, and product launches to spur profitable growth. The stock is trading at 47.1x/42.0x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 51x FY25E EPS, in line with the long-term mean, for an unchanged TP of Rs 5,623.

**Fig 11 – Revised estimates**

| (Rs mn)             | New     |         | Old     |         | Change (%) |         |
|---------------------|---------|---------|---------|---------|------------|---------|
|                     | FY24E   | FY25E   | FY24E   | FY25E   | FY24E      | FY25E   |
| Revenue             | 182,922 | 201,583 | 184,375 | 202,344 | (0.8)      | (0.4)   |
| EBITDA              | 34,352  | 38,743  | 34,629  | 38,743  | (0.8)      | -       |
| EBITDA Margin (%)   | 18.1    | 18.6    | 18.8    | 19.1    | (70bps)    | (50bps) |
| Adj. PAT            | 23,442  | 26,562  | 23,645  | 26,562  | (0.9)      | -       |
| Adj. PAT Margin (%) | 12.9    | 13.2    | 12.8    | 13.1    | 10bps      | 10bps   |

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- continued slowdown in rural consumption, and
- a further rise in wheat and milk prices.

## Sector recommendation snapshot

| Company                  | Ticker      | Market Cap (US\$ bn) | Price (Rs) | Target (Rs) | Rating |
|--------------------------|-------------|----------------------|------------|-------------|--------|
| Britannia Industries     | BRIT IN     | 13.6                 | 4,626      | 5,623       | BUY    |
| Dabur India              | DABUR IN    | 10.9                 | 505        | 628         | BUY    |
| Godrej Consumer Products | GCPL IN     | 11.7                 | 937        | 1,112       | BUY    |
| Hindustan Unilever       | HUVR IN     | 81.1                 | 2,501      | 3,069       | BUY    |
| ITC                      | ITC IN      | 65.1                 | 429        | 459         | BUY    |
| Nestle India             | NEST IN     | 26.0                 | 22,020     | 24,670      | BUY    |
| Tata Consumer Products   | TATACONS IN | 8.8                  | 776        | 924         | BUY    |

Source: BOBCAPS Research, NSE | Price as of 5 May 2023

## Financials

### Income Statement

| Y/E 31 Mar (Rs mn)         | FY21A           | FY22A           | FY23P           | FY24E           | FY25E           |
|----------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Total revenue</b>       | <b>1,31,361</b> | <b>1,41,363</b> | <b>1,63,006</b> | <b>1,82,922</b> | <b>2,01,583</b> |
| EBITDA                     | 25,093          | 22,015          | 28,309          | 33,166          | 37,446          |
| Depreciation               | 1,979           | 2,005           | 2,259           | 2,591           | 2,923           |
| EBIT                       | 23,114          | 20,010          | 26,050          | 30,574          | 34,523          |
| Net interest inc./(exp.)   | 1,109           | 1,443           | 1,691           | 1,866           | 1,846           |
| Other inc./(exp.)          | 3,129           | 2,228           | 2,159           | 3,669           | 3,687           |
| Exceptional items          | 6               | 10              | (3,756)         | 0               | 0               |
| EBT                        | 25,128          | 20,785          | 30,274          | 32,378          | 36,364          |
| Income taxes               | 6,630           | 5,624           | 7,165           | 8,742           | 9,818           |
| Extraordinary items        | 0               | 0               | 0               | 0               | 0               |
| Min. int./Inc. from assoc. | (133)           | (88)            | (55)            | (13)            | (15)            |
| <b>Reported net profit</b> | <b>18,639</b>   | <b>15,248</b>   | <b>23,217</b>   | <b>23,649</b>   | <b>26,561</b>   |
| Adjustments                | 6               | 10              | (3,756)         | 0               | 0               |
| <b>Adjusted net profit</b> | <b>18,645</b>   | <b>15,258</b>   | <b>19,461</b>   | <b>23,649</b>   | <b>26,561</b>   |

### Balance Sheet

| Y/E 31 Mar (Rs mn)              | FY21A         | FY22A         | FY23P         | FY24E           | FY25E           |
|---------------------------------|---------------|---------------|---------------|-----------------|-----------------|
| Accounts payables               | 13,148        | 13,228        | 14,488        | 17,431          | 18,945          |
| Other current liabilities       | 1,405         | 1,307         | 1,763         | 1,692           | 1,864           |
| Provisions                      | 3,875         | 4,851         | 5,390         | 6,269           | 6,882           |
| Debt funds                      | 20,872        | 24,655        | 29,805        | 28,116          | 27,816          |
| Other liabilities               | 4,949         | 5,377         | 6,435         | 6,845           | 7,464           |
| Equity capital                  | 241           | 241           | 241           | 241             | 241             |
| Reserves & surplus              | 35,599        | 25,615        | 35,404        | 46,059          | 54,042          |
| Shareholders' fund              | 35,840        | 25,856        | 35,645        | 46,300          | 54,283          |
| <b>Total liab. and equities</b> | <b>80,088</b> | <b>75,275</b> | <b>93,527</b> | <b>1,06,652</b> | <b>1,17,254</b> |
| Cash and cash eq.               | 1,427         | 1,181         | 1,024         | 4,336           | 9,743           |
| Accounts receivables            | 2,573         | 3,319         | 3,289         | 7,517           | 8,284           |
| Inventories                     | 10,915        | 13,675        | 11,933        | 13,192          | 14,338          |
| Other current assets            | 15,349        | 13,312        | 13,207        | 13,883          | 14,631          |
| Investments                     | 27,949        | 17,763        | 33,649        | 33,849          | 34,049          |
| Net fixed assets                | 16,343        | 15,841        | 24,722        | 27,131          | 29,207          |
| 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           | 669             | 737             |
| Other assets                    | 2,825         | 2,759         | 2,658         | 3,600           | 3,791           |
| <b>Total assets</b>             | <b>80,088</b> | <b>75,275</b> | <b>93,527</b> | <b>1,06,652</b> | <b>1,17,254</b> |

### Cash Flows

| Y/E 31 Mar (Rs mn)                 | FY21A           | FY22A           | FY23P           | FY24E           | FY25E           |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Cash flow from operations</b>   | <b>25,083</b>   | <b>18,864</b>   | <b>32,520</b>   | <b>31,202</b>   | <b>37,719</b>   |
| Capital expenditures               | (2,405)         | (5,502)         | (7,115)         | (5,000)         | (5,000)         |
| Change in investments              | 4,675           | 12,495          | (10,300)        | (200)           | (200)           |
| Other investing cash flows         | 2,086           | 2,116           | 2,244           | 2,623           | 3,430           |
| <b>Cash flow from investing</b>    | <b>4,356</b>    | <b>9,109</b>    | <b>(15,171)</b> | <b>(2,577)</b>  | <b>(1,770)</b>  |
| 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)         | (1,866)         | (1,846)         |
| Dividends paid                     | (28,238)        | (24,848)        | (13,592)        | (13,007)        | (18,592)        |
| Other financing cash flows         | 104             | 6,963           | 2,974           | 13              | 15              |
| <b>Cash flow from financing</b>    | <b>(22,425)</b> | <b>(22,458)</b> | <b>(10,284)</b> | <b>(16,549)</b> | <b>(20,724)</b> |
| <b>Chg in cash &amp; cash eq.</b>  | <b>686</b>      | <b>(353)</b>    | <b>(192)</b>    | <b>3,334</b>    | <b>5,407</b>    |
| <b>Closing cash &amp; cash eq.</b> | <b>1,427</b>    | <b>1,181</b>    | <b>980</b>      | <b>4,336</b>    | <b>9,743</b>    |

### Per Share

| Y/E 31 Mar (Rs)      | FY21A | FY22A | FY23P | FY24E | FY25E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS         | 77.4  | 63.3  | 96.4  | 98.2  | 110.3 |
| Adjusted EPS         | 77.4  | 63.3  | 80.8  | 98.2  | 110.3 |
| Dividend per share   | 118.0 | 74.5  | 56.4  | 54.0  | 77.2  |
| Book value per share | 148.8 | 107.3 | 148.0 | 192.2 | 225.3 |

### Valuations Ratios

| Y/E 31 Mar (x) | FY21A | FY22A | FY23P | FY24E | FY25E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales       | 8.5   | 7.9   | 6.8   | 6.1   | 5.5   |
| EV/EBITDA      | 44.4  | 50.6  | 39.3  | 33.6  | 29.7  |
| Adjusted P/E   | 59.8  | 73.0  | 57.3  | 47.1  | 42.0  |
| P/BV           | 31.1  | 43.1  | 31.3  | 24.1  | 20.5  |

### DuPont Analysis

| Y/E 31 Mar (%)               | FY21A       | FY22A       | FY23P       | FY24E       | FY25E       |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Tax burden (Net profit/PBT)  | 74.2        | 73.4        | 76.7        | 73.0        | 73.0        |
| Interest burden (PBT/EBIT)   | 80.6        | 76.2        | 89.1        | 77.3        | 76.9        |
| EBIT margin (EBIT/Revenue)   | 17.6        | 14.2        | 16.0        | 16.7        | 17.1        |
| Asset turnover (Rev./Avg TA) | 164.0       | 187.8       | 174.3       | 171.5       | 171.9       |
| Leverage (Avg TA/Avg Equity) | 2.2         | 2.9         | 2.6         | 2.3         | 2.2         |
| <b>Adjusted ROAE</b>         | <b>52.0</b> | <b>59.0</b> | <b>65.1</b> | <b>51.1</b> | <b>48.9</b> |

### Ratio Analysis

| Y/E 31 Mar                                   | FY21A      | FY22A      | FY23P      | FY24E      | FY25E      |
|--|------------|------------|------------|------------|------------|
| <b>YoY growth (%)</b>                        |            |            |            |            |            |
| Revenue                                      | 13.2       | 7.6        | 15.3       | 12.2       | 10.2       |
| EBITDA                                       | 36.1       | (12.3)     | 28.6       | 17.2       | 12.9       |
| Adjusted EPS                                 | 31.1       | (18.2)     | 27.6       | 21.5       | 12.3       |
| <b>Profitability &amp; Return ratios (%)</b> |            |            |            |            |            |
| EBITDA margin                                | 19.1       | 15.6       | 17.4       | 18.1       | 18.6       |
| EBIT margin                                  | 17.6       | 14.2       | 16.0       | 16.7       | 17.1       |
| Adjusted profit margin                       | 14.2       | 10.8       | 11.9       | 12.9       | 13.2       |
| Adjusted ROAE                                | 52.0       | 59.0       | 65.1       | 51.1       | 48.9       |
| ROCE   | 40.8       | 39.6       | 39.8       | 41.1       | 42.1       |
| <b>Working capital days (days)</b>           |            |            |            |            |            |
| Receivables                                  | 7          | 9          | 7          | 15         | 15         |
| Inventory                                    | 52         | 57         | 45         | 45         | 45         |
| Payables                                     | 63         | 55         | 55         | 60         | 60         |
| <b>Ratios (x)</b>                            |            |            |            |            |            |
| 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       | 16.4       | 18.7       |
| <b>Adjusted debt/equity</b>                  | <b>0.6</b> | <b>1.0</b> | <b>0.8</b> | <b>0.6</b> | <b>0.5</b> |

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

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**BUY** – Expected return >+15%

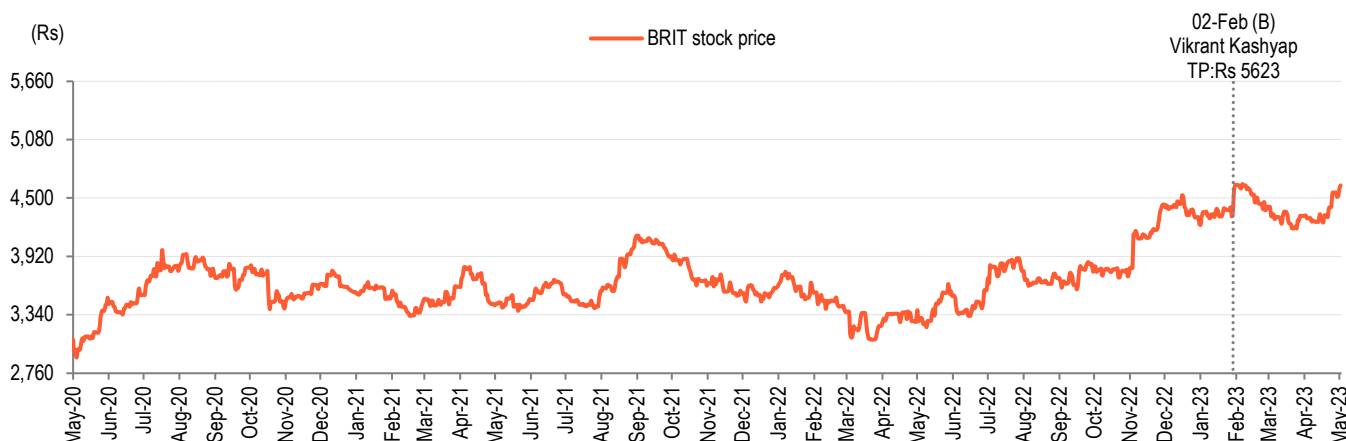
**HOLD** – Expected return from -6% to +15%

**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.

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

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