

Sector: Consumer Goods

Result Update

	Change
Reco: Buy	↔
CMP: Rs. 3,784	
Price Target: Rs. 4,200	↑

↑ Upgrade ↔ No change ↓ Downgrade

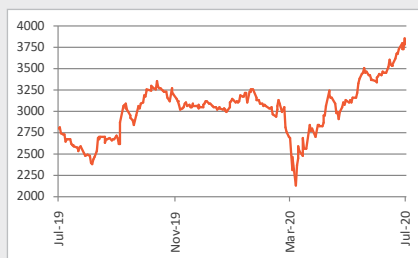
Company details

Market cap:	Rs. 91,027 cr
52-week high/low:	Rs. 3,949/2,101
NSE volume: (No of shares)	4.5 lakh
BSE code:	500825
NSE code:	BRITANNIA
Sharekhan code:	BRITANNIA
Free float: (No of shares)	11.9 cr

Shareholding (%)

Promoters	50.6
FII	14.7
DII	13.4
Others	21.3

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	11.2	33.7	21.0	34.3
Relative to Sensex	0.7	16.5	32.8	39.9

Sharekhan Research, Bloomberg

Britannia Industries (Britannia) clocked strong numbers in Q1FY2021 with revenues growing by 26.5% y-o-y and higher OPM at 21% (better than our as well as the street's expectation of 16.2-16.5%). Strong revenue growth was driven by a mix of volume and value with sales volumes rising by 21.5% and value growth standing at 5% (realisation growth of 2.5% and mix improvement of 2.5%). Better mix drove up gross margins by 124 bps to 41.7%. Further, cut on advertisement spends (down by 200 bps) and efficiencies at various levels of operations led to strong 634 bps expansion in OPM. Adjacencies (including bread, rusk and dairy products) performed well. Bread and rusk clocked higher growth than biscuits mainly on account of strong demand and lesser availability of non-branded products. In the dairy segment, cheese registered strong double-digit growth, which also helped the segment's margins improve. Globally, all geographies except the Middle East registered double-digit growth. Direct reach attained normalcy in June to 21.5 lakh retail outlets from 19.7 lakh outlets in March. Rural distribution grew by 22% to 22,000 rural preferred dealers. The company expects strong growth momentum to sustain in the coming quarters with higher demand from in-house consumption, improvement in supply in key markets, market share gains from small players and strong recovery in rural demand. Raw material cost inflation stood at 3% in Q1FY2021. However, prices of some key inputs such as milk and palm oil have seen correction on sequential basis and positive impact of same would start flowing from Q2FY2021. Further, efficiencies would continue to play a major role in driving OPM in the near term. Inter-company deposits (ICDs) stood at Rs. 600 crore, similar to that of Q4FY2020.

Key positives

- ◆ Revenue grew by 26%, highest in the past several quarters.
- ◆ Gross margins improved by 124 bps, while OPM improved by 634 bps.
- ◆ Adjacent product categories such as rusk, bread and cheese clocked double-digit revenue growth and registered improvement in profitability.

Our Call

View: Maintain Buy with revised PT of Rs. 4,200: We have raised our earnings estimates by 5% and 4%, respectively, for FY2021 and FY2022, to factor in strong operating performance in Q1FY2021 and likely sustenance of expansion in OPM. Higher demand due to strong growth in in-house consumption and consumer shifting to trusted brands will help Britannia achieve higher volume growth in the near to medium. With adjacent categories (including cakes and wafer-biscuits) gaining good traction, the company is inching towards becoming a total food products company. Even though the stock has seen a good run-up in recent times, strong growth prospects and better earnings visibility makes Britannia a better pick in the consumer goods space. We maintain our Buy recommendation on the stock with a revised price target of Rs. 4,200. The stock is currently trading at 43x its FY2022E EPS.

Key Risks

Regular lockdown in some of the key domestic markets would act as a ceiling to the strong growth momentum and will consequently impact earnings growth.

Valuation (Consolidated)

Particulars	Rs cr				
	FY18	FY19	FY20	FY21E	FY22E
Revenue	9,914	11,055	11,600	13,366	14,876
OPM (%)	15.1	15.7	15.9	17.5	17.9
Adjusted PAT	1,004	1,156	1,410	1,822	2,119
% YoY growth	13.6	15.2	21.9	29.2	16.3
Adjusted EPS (Rs.)	41.8	48.1	58.6	75.8	88.1
P/E (x)	90.5	78.7	64.5	50.0	43.0
P/B (x)	26.7	21.4	20.7	16.1	12.6
EV/EBIDTA (x)	60.5	52.6	50.3	39.2	34.0
RoNW (%)	32.9	30.2	32.6	36.2	32.9
RoCE (%)	47.4	42.8	35.2	36.4	35.5

Source: Company; Sharekhan estimates

Consolidated revenue grew strongly by ~26.7%; OPM expanded by 634 bps: Consolidated revenue bettered expectations to grow by 26.7% y-o-y to Rs. 3,420.6 crore in Q1FY2021 from Rs. 2,700.4 crore in Q1FY2020, driven by a 21.5% volume growth and ~5% price and mix growth. Revenue growth in April-May stood at ~24%. Moderation in prices of key raw materials including flour and milk prices along with improvement in revenue mix resulted in gross margins to expand by 124 bps to 41.7%. This, along with a fall in other expenditure, largely advertisement costs (other expenditure fell by 464 bps as a percentage of sales, of which ~200 bps was attributed to advertisement costs) and cost efficiencies drove up OPM by 634 bps to 21%. This resulted in operating profit growing by 81.7% y-o-y to Rs. 716.9 crore. A significant rise in other income along with lower incidence of tax resulted in adjusted PAT to grow by 109.5% y-o-y to Rs. 542.8 crore (ahead of our expectation of Rs. 392.1 crore).

Domestic business registered good growth; Adjacencies performed well: Domestic business revenue grew by 24.8% y-o-y to Rs. 3,220 crore. The company continued its investment momentum in key brands through innovative product launches and relevant activations. The company ran on-air as well as print and digital promotions for key brands such as Good Day and Nutrigo, which helped brands gain good traction. While the focus was on meeting demand, the company launched new products such as Winkin Cow Lassi and the Rs. 5 price point Layerz cake during the quarter. Revenues of subsidiaries grew by ~66% y-o-y led by good growth in dairy business. The dairy business performed well led by good growth in cheese and maintained profitability due to benign milk prices. The bakery adjacency (rusk and bread) grew faster than the company's overall growth due to higher in-house consumption and market share gains from small players for rusks. In terms of international business, Middle East and Africa witnessed recovery and are back on growth trajectory (Middle East grew by single digits), whereas other regions are growing in double digits. Operating profit of subsidiaries stood at Rs. 45.2 crore in Q1FY2021 as against Rs. 6.5 crore in Q1FY2020 with OPM improving significantly to 22.5%.

Other conference call highlights:

- ◆ Britannia undertook various steps to ramp-up operations post the reopening of lockdown such as 1) direct supply to distributors from factories, 2) enabling pick-up for retailers at the distributor points, 3) expanding rural reach and 4) enabling tele-ordering. Britannia focused on only 20% SKUs that delivered ~80% of total volumes (largely essentials). However, now the entire product portfolio is back in the market by the end of the quarter. The company has ramped up volumes, added new capacities, prioritised production towards premium segment and increased productivity.
- ◆ Britannia's direct distribution reach, which fell to 19.7 lakh outlets in March 2020, recovered back to 21.5 lakh outlets in June 2020. The number of rural preferred dealers rose to 22,000 from 19,000. The Hindi-speaking belt witnessed a good growth of 1.6x-1.8x over the last two years.
- ◆ Traditional trade channel registered good growth in Q1FY2021 (~30% higher growth than overall company growth) driven by addition of new distributors and new towns. Modern trade has taken a hit whereas e-commerce channels (contributes ~1% to total revenue) did exceptionally well. Alternate channels (largely institutional) were severely impacted. Contribution from rural areas stood at ~37% and the company intends to focus on rural and traditional trade channels in the near term.
- ◆ Costs pertaining to sanitisation, safety and hygiene increased. However, the company neutralised the incremental costs through operating efficiencies. Cost rationalisation was achieved through prudent advertisement spends, improved manpower productivity, reduction in wastage, renegotiated contracts, lower distributor stock, reduced depot space, reduced distance to market, efficient working capital management and savings in discretionary spends. Britannia prioritised high-margin categories and staples by focusing on premium segment, milk and Marie brand of biscuits.
- ◆ The average cost inflation stood at a moderate 3% in Q1FY2021. Milk and flour prices, which were higher in the previous quarters, have corrected. The benefit of the same was seen in Q1FY2021. Palm oil prices have started correcting at the end of the quarter and benefit of the same will accrue from Q2FY2021. The commodity prices are expected to remain stable driven by good monsoon and harvest, which along with and operating efficiencies will help margins to remain high in the near to medium term.
- ◆ Contribution from new launches stood at ~2% for FY2020 led by good traction in Winkin Cow milkshakes and Treat wafers. Croissants are yet in test market and are expected to be launched pan India by Q3FY2021.
- ◆ Britannia is expecting to increase capacity at its Odisha plant, add new production lines in the Ranjangaon facility as well as set up new facilities in Bihar, Tamil Nadu and Uttar Pradesh. This would envisage a capex of around Rs. 700 crore over the next two to three years in addition to the capex on dairy business.
- ◆ Inter-corporate deposits (ICDs) remained at FY2020 levels of about Rs. 600 crore in Q1FY2021.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY21	Q1FY20	Y-o-Y (%)	Q4FY20	Q-o-Q (%)
Net Sales	3384.5	2677.3	26.4	2807.8	20.5
Other operating income	36.2	23.0	57.2	59.9	-39.6
Net revenue	3420.7	2700.4	26.7	2867.7	19.3
Raw materials	1995.9	1609.2	24.0	1730.0	15.4
Employee costs	137.0	120.6	13.6	120.9	13.3
Other expenditure	570.9	576.0	-0.9	562.5	1.5
Total expenditure	2703.7	2305.7	17.3	2413.4	12.0
Operating profit	716.9	394.7	81.7	454.3	57.8
Other income	93.7	67.5	38.9	78.6	19.2
Interest expenses	25.6	10.1	153.6	27.0	-5.1
Depreciation	48.0	44.8	7.1	48.5	-1.1
Profit Before Tax	737.0	407.2	81.0	457.4	61.1
Tax	194.4	148.2	31.2	84.9	128.9
Adjusted PAT	542.7	259.1	109.5	372.5	45.7
Share of profit from associates	0.1	0.0	-	0.1	-
Adjusted PAT after MI	542.8	259.1	109.5	372.6	45.7
Extra-ordinary items	-0.1	10.5	-	0.3	-
Reported PAT	542.9	248.6	118.3	372.4	45.8
Adjusted EPS (Rs)	22.6	10.8	109.5	31.0	-27.2
			bps		bps
GPM (%)	41.7	40.4	124	39.7	198
OPM (%)	21.0	14.6	634	15.8	512

Source: Company; Sharekhan Research

Results (Standalone)

Particulars	Rs cr				
	Q1FY21	Q1FY20	Y-o-Y (%)	Q4FY20	Q-o-Q (%)
Net revenue	3219.9	2579.5	24.8	2691.9	19.6
Operating profit	671.8	388.2	73.0	430.3	56.1
Profit Before Tax	697.1	408.1	70.8	445.5	56.5
Adjusted PAT	515.9	260.9	97.7	381.2	35.3
Extra-ordinary items	0.0	-10.7	-	0.0	-
Reported PAT	515.9	250.2	106.2	381.2	35.3
Adjusted EPS (Rs)	21.5	10.9	97.7	15.9	35.3
			bps		bps
GPM (%)	40.2	40.0	20	38.4	178
OPM (%)	20.9	15.0	581	16.0	488

Source: Company; Sharekhan Research

Results (Subsidiaries)

Particulars	Rs cr		
	Q1FY21	Q1FY20	y-o-y (%)
Net revenue	200.8	120.9	66.1
Operating profit	45.2	6.5	-
Adjusted PAT	26.8	-1.9	-
Extra-ordinary items	-0.1	0.3	-
Reported PAT	26.7	-1.6	-
			bps
GPM (%)	65.7	50.0	-
OPM(%)	22.5	5.3	-

Source: Company; Sharekhan Research

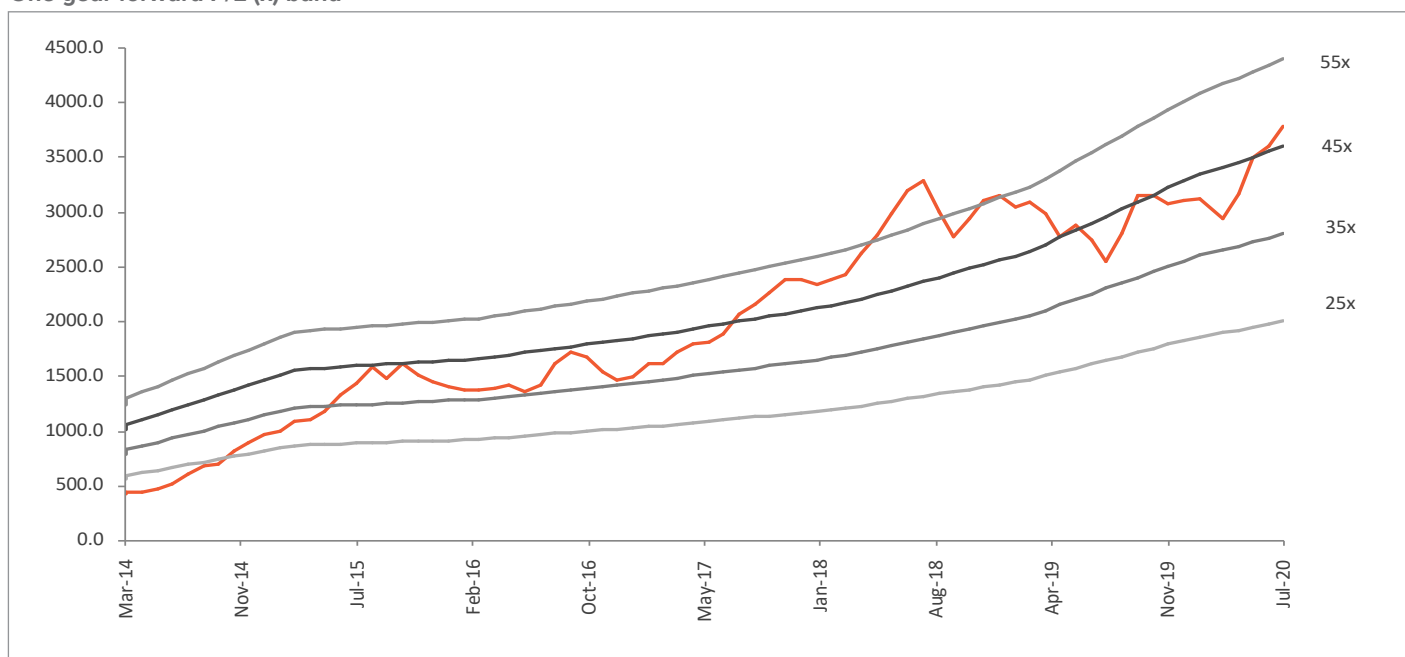
Outlook

Growth momentum to sustain: Britannia registered stellar performance in Q1FY2021 with more than 20% volume growth and strong expansion in OPM. The company's manufacturing and supply is back to pre-COVID levels. The company is focusing on continuously expanding its distribution reach (especially in rural markets). The company expects strong growth momentum to sustain in the coming quarters with higher demand from in-house consumption, improvement in supply in key markets, market share gains from small players and strong recovery in rural demand. However, with normalisation of business environment, we expect the growth rate to normalise in another two to three quarters. Raw material cost inflation stood at 3% in Q1FY2021. However, prices of some key inputs such as milk and palm oil have seen correction q-o-q and positive impact of the same would start flowing from Q2FY2021. Further, efficiencies would continue to play a major role in driving OPM in the near term.

Valuation

Maintain Buy with revised PT of Rs. 4,200: We have raised our earnings estimates by 5% and 4%, respectively, for FY2021 and FY2022, to factor in strong operating performance in Q1FY2021 and likely sustenance of expansion in OPM. Higher demand due to strong growth in in-house consumption and consumer shifting to trusted brands will help Britannia achieve higher volume growth in the near to medium. With adjacent categories (including cakes and wafer-biscuits) gaining good traction, the company is inching towards becoming a total food products company. Even though the stock has seen a good run-up in recent times, strong growth prospects and better earnings visibility makes Britannia a better pick in the consumer goods space. We maintain our Buy recommendation on the stock with a revised price target of Rs. 4,200. The stock is currently trading at 43x its FY2022E EPS.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Nestle	100.8	84.4	76.0	61.6	57.6	53.0	70.3	96.9	137.0
Hindustan Unilever	65.5	64.3	48.1	46.4	51.4	40.8	105.2	35.9	27.9
Britannia	64.5	50.0	43.0	50.3	39.2	34.0	35.2	36.4	35.5

Source: Company, Sharekhan estimates

*Values for Nestle India are for CY2019, CY2020E and CY2021E

About company

Britannia is one of India's leading packaged food companies with a 100-year legacy and annual revenue in excess of Rs. 11,000 crore. The company is among the most trusted food brands and manufactures well-known brands such as Good Day, Tiger, NutriChoice, Milk Bikis and Marie Gold, which are household names in India. Britannia's product portfolio includes biscuits, bread, cakes, rusk and dairy products, including cheese, beverages, milk and yoghurt. The company is the market leader in the biscuit category, with close to 34% market share in the domestic market. The dairy business contributes 5% of overall revenue.

Investment theme

Britannia is a strong brand with market leadership in the domestic biscuit market. Sustained new launches and entry into healthier and premium variants helped it gain market share and beat category growth. The company is also focusing on growing its adjacent categories such as dairy and bakery. Revenue performance in FY2021 will be boosted by strong demand from in-house consumption, recovery in rural demand, market share gains from small players and strong growth in adjacencies. Operating efficiencies and stable raw material prices would help OPM expansion to sustain, which is expected to reach 18% by FY2022 from 15.9% in FY2020.

Key Risks

- ◆ Regular lockdown in some of the key domestic markets would act as an obstacle to the strong growth momentum and will consequently have an impact on earnings growth.
- ◆ Dismal performance by some of the new ventures would affect the company's overall performance in the near to medium term.

Additional Data

Key management personnel

Nusli N Wadia	Chairman
Varun Berry	Managing Director
N Venkataraman	Chief Financial Officer
T V Thulsidass	Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.8
2	General Insurance Corp of India	1.6
3	Arisaig Partners Asia Pte Ltd	1.5
4	JP Morgan Chase & Co	1.4
5	SBI Funds Management Pvt Ltd	1.2
6	Kotak Mahindra Asset Management Co	1.2
7	SBI Arbitrage Opportunities Fund	1.1
8	Arisaig India Fund Ltd	1.1
9	ICICI Prudential Asset Management	1.0
10	Vanguard Group Inc	0.9

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.