

Britannia Industries

Estimate change



TP change



Rating change


CMP: INR3,784
TP: INR3,700 (-2%)
Neutral

Significant beat leads to 15% earnings upgrade; Expensive valuations drive Neutral rating

Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We request your ballot.



Bloomberg	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USD\$b)	910.6 / 12.4
52-Week Range (INR)	3949 / 2101
1, 6, 12 Rel. Per (%)	1/33/41
12M Avg Val (INR M)	1971

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	116.0	137.2	148.6
Sales Gr. (%)	4.9	18.3	8.3
EBITDA	18.4	25.9	26.1
Margins (%)	15.9	18.9	17.5
Adj. PAT	14.1	19.5	19.2
Adj. EPS (INR)	58.6	81.3	79.7
EPS Gr. (%)	21.8	38.6	-1.9
BV/Sh.(INR)	183.1	174.7	180.3
Ratios			
RoE (%)	32.6	45.4	44.9
RoCE (%)	24.1	30.1	29.7
Payout (%)	59.7	80.0	80.0
Valuations			
P/E (x)	64.5	46.6	47.5
P/BV (x)	20.7	21.7	21.0
EV/EBITDA (x)	48.6	34.7	34.4
Div. Yield (%)	0.9	1.7	1.7

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	50.6	50.6	50.7
DII	13.4	13.6	12.4
FII	14.7	15.8	15.8
Others	21.3	20.0	21.2

FII Includes depository receipts

- Britannia Industries (BRIT) has been aided by a confluence of positive factors, such as high in-home consumption (biscuits constitute 82% of sales), reduction in ad spend, decline in material cost, and low promotional spend (owing to strong demand). These are likely to drive the strongest topline growth since FY12 (18.3% in FY21E) and the highest PAT growth since FY16 (38% in FY21E).
- However, this extraordinary earnings growth in FY21 presents a significant hurdle from an FY22/FY23 perspective as none of these factors present a structural positive. Furthermore, material costs could result in high volatility in earnings for BRIT – it has one of the lowest gross margins among peers (40% in FY20).
- While we like the structural story, expensive valuations (47.5x FY22), sustained concerns of elevated group inter-corporate deposits (ICDs) at around INR6b (similar to 4QFY20 when they crossed their own stated threshold of INR5b), and an uncertain earnings outlook beyond FY21 have led us to maintain our **Neutral** rating.

Strong performance on all fronts, with highest ever margins

- **BRIT's consol. sales increased 26.7% YoY to INR34.2b** in 1QFY21 (est.: INR32.9b). Standalone sales grew 24.8% YoY to INR32.3b. Base business volume growth was 21% (our estimate: +19%).
- Consol. EBITDA grew 81.7% YoY to INR7.2b (est.: INR5.5b), consol. PBT rose 81% YoY to INR7.4b (est.: INR5.5b), and consol. adj. PAT increased 105.4% YoY to INR5.4b (est.: INR4.1b).
- **The consol. gross margin expanded by 120bp YoY to 41.7%**. Management forecast moderate inflation in prices of key raw materials. Lower staff cost (-50bp YoY) and lower other expenses (-460bp YoY) imply **EBITDA margin expansion by 630bp YoY to 21% (highest ever margins)**.

Highlights from management commentary

- BRIT successfully pursued rural sales (37% of sales) as urban sales slowed to some extent.
- Advertisement and sales promotion (A&SP) spends were rationalized for the quarter; they contributed ~200bp to the 460bp reduction witnessed in other expenses to sales in 1QFY21.
- Group ICDs remain at end-4QFY20 levels (INR6b).
- Capex of INR7b over the next two years (with Dairy capex to be determined and added later) would be significantly higher than the INR2–2.5b annual rate expected earlier.

Valuation and view

- Changes to the model have resulted in a 15.7%/3.3% increase in FY21/FY22 EPS.
- A confluence of positive factors such as: a) high in-home consumption (biscuits constitute 82% of sales), b) reduction in ad spend, c) decline in material cost, and d) low promotional spend (owing to strong demand) are likely to drive the strongest topline growth for BRIT since FY12 (18.3% in FY21E) and the highest PAT growth since FY16 (38% in FY21E).
- However, this extraordinary earnings growth in FY21 also presents a significant hurdle from an FY22/FY23 perspective as none of the above-mentioned factors present a structural positive. Furthermore, material cost could result in high volatility in earnings for BRIT, which has one of the lowest gross margins among peers (40% in FY20).
- We like the structural story, particularly as new category traction has been impressive in FY20 (as highlighted in our AR analysis note). However, we maintain our **Neutral** rating on account of: (1) expensive valuations at 47.5x FY22, (2) sustained concerns of elevated group ICDs at around INR6b – similar to 4QFY20, when they crossed their own stated threshold of INR5b, (3) an uncertain earnings outlook beyond FY21, and (4) impact on ROCEs going ahead despite very strong earnings growth in FY21 due to increased capex and the continued presence of high cash and debt levels on the books. Our TP of INR3,700 is set at 45x Jun'22 EPS.



Consol. Quarterly Perf.

Y/E March	FY20				FY21				FY20	FY21E	FY21	Variance
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Base business volume gr. (%)	3.0	3.0	3.0	0.0	21.0	15.5	10.5	8.8	2.3	14.0	19.0	
Net Sales	27,004	30,488	29,827	28,677	34,207	36,281	34,003	32,687	115,996	137,178	32,944	3.8
YoY change (%)	6.2	6.2	4.9	2.5	26.7	19.0	14.0	14.0	4.9	18.3	22.0	
Gross Profit	10,912	12,247	12,185	11,377	14,248	15,238	14,281	13,391	46,721	57,158	13,634	
Margins (%)	40.4	40.2	40.9	39.7	41.7	42.0	42.0	41.0	40.3	41.7	41.4	
EBITDA	3,947	4,922	5,020	4,543	7,169	6,901	6,281	5,526	18,432	25,877	5,524	29.8
Margins (%)	14.6	16.1	16.8	15.8	21.0	19.0	18.5	16.9	15.9	18.9	16.8	
YoY growth (%)	1.4	8.3	11.1	4.1	81.7	40.2	25.1	21.6	6.3	40.4	40.0	
Depreciation	448	449	467	485	480	537	548	629	1,848	2,194	526	
Interest	101	161	237	270	256	270	280	296	769	1,102	165	
Other Income	675	682	652	786	937	800	870	926	2,794	3,533	710	
PBT	4,072	4,994	4,969	4,574	7,370	6,894	6,323	5,527	18,609	26,114	5,543	33.0
Tax	1,430	955	1,273	849	1,944	1,735	1,592	1,302	4,507	6,573	1,395	
Rate (%)	35.1	19.1	25.6	18.6	26.4	25.2	25.2	23.6	24.2	25.2	25.2	
Adjusted PAT	2,642	4,038	3,696	3,725	5,427	5,159	4,732	4,224	14,102	19,541	4,148	30.8
YoY change (%)	2.4	33.2	22.9	26.5	105.4	27.7	28.0	13.4	21.9	38.6	57.0	

E: MOFSL Estimates

Key Performance Indicators

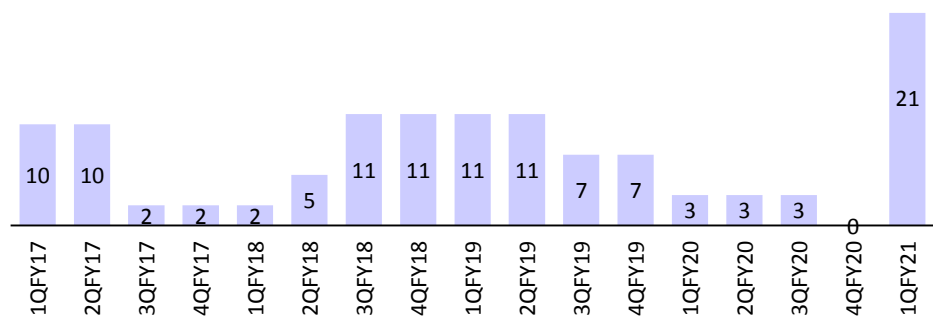
Y/E March	FY20				FY21			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
2Y average growth %								
Volumes	7.0	7.0	5.0	3.5	12.0	9.3	6.8	4.4
Sales	9.3	9.5	7.8	6.4	16.4	12.6	9.5	8.2
EBITDA	9.9	14.3	12.3	7.0	41.5	24.3	18.1	12.8
PAT	10.9	24.7	18.5	19.1	53.9	30.5	25.5	19.9
% sales								
COGS	59.6	59.8	59.1	60.3	58.3	58.0	58.0	59.0
Staff cost	4.5	4.1	4.1	4.2	4.0	3.7	3.9	4.2
Others	21.3	20.0	19.9	19.6	16.7	19.3	19.6	19.8
Depreciation	1.7	1.5	1.6	1.7	1.4	1.5	1.6	1.9
YoY change %								
COGS	5.4	6.0	5.7	5.1	24.0	15.4	11.8	11.5
Staff cost	11.0	14.4	3.9	11.7	13.6	8.0	10.0	13.9
Others	10.9	3.8	-1.7	-7.5	-0.9	15.0	12.0	15.3
Other income	60.6	55.0	8.6	27.2	38.9	17.4	33.5	17.8
EBIT	-1.1	7.2	11.2	4.1	91.2	42.3	25.9	20.7

E: MOFSL Estimates

Key exhibits

Exhibit 1: BRIT's base business volumes grew 21% in 1QFY21

■ BRIT's base business volume growth (%)



Source: Company, MOFSL

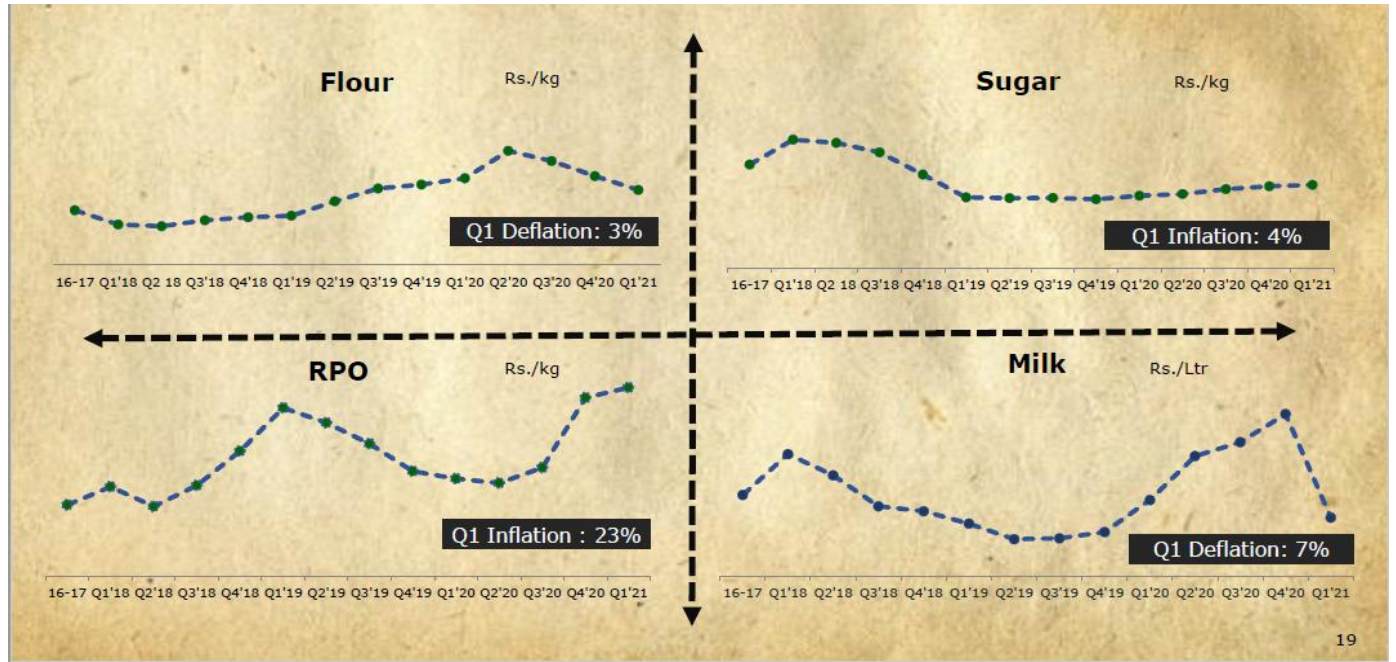
Standalone performance

- 1QFY21 standalone sales, EBITDA, and adj. PAT grew 24.8%, 73%, and 97.9% YoY, respectively. The EBITDA margin was up 580bp YoY to 20.9%.

Imputed subsidiary performance

- 1QFY21 imputed subsidiary sales, EBITDA, and PAT grew by 66%, 602%, and 299%, respectively. The subsidiary EBITDA margin expanded by 1720bp YoY to 22.5% during the quarter.

Exhibit 2: Overall commodity inflation was moderate at ~3% in 1QFY21



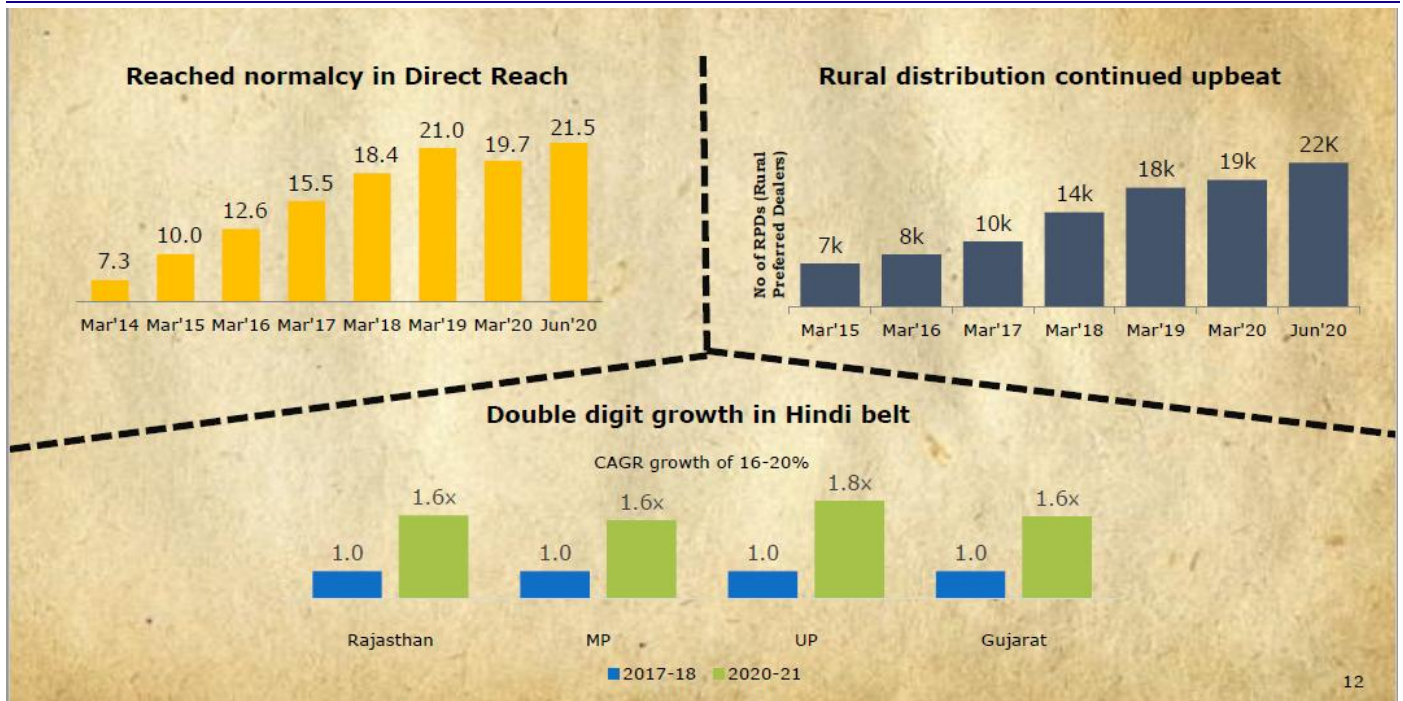
Source: Company presentation

Exhibit 3: Adjacency business witnessed strong growth, with improvement in profitability



Source: Company presentation

Exhibit 4: Focus on distribution continues despite lockdown disruption



Source: Company presentation

Exhibit 5: New products launched in 1QFY21, along with lockdown challenges



Source: Company presentation



Conference call highlights

Factors that aided sales growth

- BRIT successfully pursued rural sales as urban sales slowed to some extent. Rural contributed 37% to sales.
- The company also managed to resume manufacturing earlier than peers.
- While direct reach fell by over 100k outlets due to the lockdown, the company has managed to bring its reach back to pre-COVID-19 levels.
- Industry growth is also very healthy. The management reckons BRIT is growing ahead of the market owing to the execution efficiencies.
- Volume growth was 21%, with the remaining growth attributed to the mix and price increase. BRIT was selling more premium products, especially in the first two months of 1QFY21.

Costs

- BRIT rationalized A&SP spend for the quarter. ~200bp of the 460bp reduction in other expenses to sales was on account of the A&SP reduction.
- The A&SP reduction is not sustainable going forward.
- BRIT has renegotiated contracts wherever possible.
- Overall, material cost inflation of 3% YoY was witnessed in 1QFY21. Deflation of flour and milk and very low inflation in sugar costs were also seen during the quarter.
- BRIT would continue its efforts for cost savings going forward.

New launches, adjacencies, and international business

- BRIT launched 'Lassi' in some states under the 'Winkin' Cow' brand in 1QFY21.
- It also launched Layer Cake in eastern India, the largest market for cakes.
- Cheese did very well during the quarter. On the other hand, demand for Milk Shakes was affected as this is more discretionary in nature.
- Most markets for its international business expanded well.
- In the FY20 Annual Report, BRIT indicated that 2% of sales were from new categories such as Milk Shakes and Cream Wafers, with the latter category seeing growth recently.

ICDs outstanding and balance sheet

- Group ICDs – GoAir has repaid its ICDs to some extent, but group ICDs remained at INR6b, broadly in line with Mar'20 quarter levels.
- BRIT would incur capex for augmentation in Orissa and the setup of new plants in Orissa, Tamil Nadu (TN), and Uttar Pradesh (UP). Capex over the next two years is expected to be INR7b; additional capex is forecast for Dairy as well.
- UP is now the second largest market for BRIT.

Valuation and view

What happened in the last decade?

- The past decade ended FY20 was a phenomenal one for BRIT on account of: a) huge market share gains, b) strengthening distribution reach (particularly direct reach), and c) better product development v/s peers.
- The distribution advantage is particularly important for food players such as Britannia as the velocity of food consumption is much higher v/s personal care products. With the stated goal of being a total foods player, the company's utilization of this reach would play a crucial role in its expansion to other food sub-categories.
- Financial performance over the last decade has been splendid, with the company reporting a sales CAGR of ~12%, and EBITDA and PAT CAGRs of ~27% each. This is easily among the best of breed for the decade v/s other Consumer peers. Financial performance over the past five years has also been healthy, with an ~8% sales CAGR, ~16% EBITDA CAGR, and ~20% PAT CAGR.

Our view on the stock

- Changes to the model have resulted in a 15.7%/3.3% increase in FY21/FY22 EPS.
- A confluence of positive factors such as: a) high in-home consumption (biscuits constitute 82% of sales), b) reduction in ad spend, c) decline in material cost, and d) low promotional spend (owing to strong demand) are likely to drive the strongest topline growth since FY12 (18.3% in FY21E) and the highest PAT growth since FY16 (38% in FY21E).
- However, this extraordinary FY21 earnings growth also presents a significant hurdle from an FY22/FY23 perspective as none of the above-mentioned factors present a structural positive. Furthermore, material costs could result in high volatility in earnings as BRIT has one of the lowest gross margins among peers (40% in FY20).
- We like the structural story, particularly as new category traction has been impressive in FY20 (as highlighted in our AR analysis note). However, we maintain our **Neutral** rating on account of: (1) expensive valuations at 47.5x FY22, (2) sustained concerns of elevated group ICDs at around INR6b – similar to 4QFY20, when they crossed their own stated threshold of INR5b, (3) an uncertain earnings outlook beyond FY21, and (4) impact on ROCEs going ahead despite very strong earnings growth in FY21 due to increased capex and the continued presence of high cash and debt levels on the books. Our TP of INR3,700 is set at 45x Jun'22 EPS.

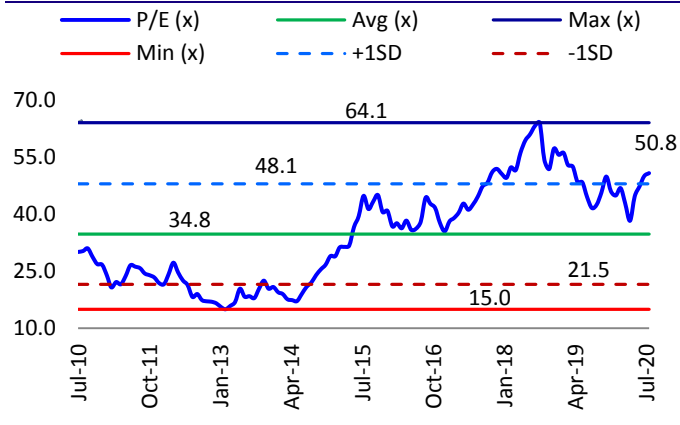


Exhibit 6: We have increased our PAT forecasts by 15.7%/3.3% for FY21/FY22

INR Mn	New		Old		% Change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Sales	137,178	148,609	132,269	147,000	3.7%	1.1%
EBITDA	25,877	26,078	22,765	25,164	13.7%	3.6%
Adj. PAT	19,541	19,160	16,891	18,545	15.7%	3.3%

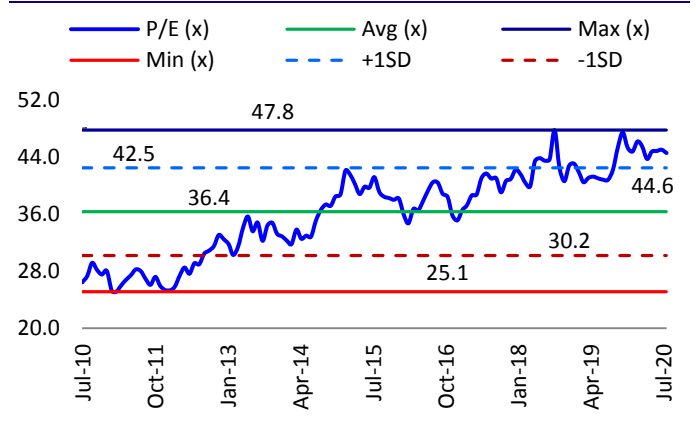
Source: Company, MOFSL

Exhibit 7: BRIT P/E (x)



Source: Company, MOFSL

Exhibit 8: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR m)	
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	
Net Revenues	83,972	90,541	99,140	110,547	115,996	137,178	148,609	
Change (%)	6.9	7.8	9.5	11.5	4.9	18.3	8.3	
Raw Material Cost	50,127	55,888	61,071	65,615	69,275	80,020	87,704	
Gross Profit	33,845	34,653	38,069	44,932	46,721	57,158	60,905	
Margin (%)	40.3	38.3	38.4	40.6	40.3	41.7	41.0	
Advertising	4,461	3,850	4,113	5,008	4,754	5,419	6,894	
% of Sales	5.3	4.3	4.1	4.5	4.1	4.0	4.6	
Other Expenditure	17,240	18,022	18,940	22,590	23,535	25,862	27,933	
EBITDA	12,144	12,781	15,017	17,334	18,432	25,877	26,078	
Change (%)	40.6	5.2	17.5	15.4	6.3	40.4	0.8	
Margin (%)	14.5	14.1	15.1	15.7	15.9	18.9	17.5	
Depreciation	1,134	1,193	1,421	1,619	1,848	2,194	2,721	
Int. and Fin. Charges	49	55	76	91	769	1,102	1,371	
Financial Other Income	1,244	1,505	1,664	2,065	2,794	3,533	3,619	
PBT	12,205	13,039	15,184	17,689	18,609	26,114	25,605	
Tax	3,967	4,019	5,137	5,998	4,477	6,573	6,445	
Deferred Tax	-6	178	5	127	30	0	0	
Tax Rate (%)	32.5	32.2	33.9	34.6	24.2	25.2	25.2	
PAT	8,244	8,842	10,041	11,564	14,102	19,541	19,160	
Change (%)	43.6	7.3	13.6	15.2	21.9	38.6	-1.9	
Margin (%)	9.8	9.8	10.1	10.5	12.2	14.2	12.9	
Non-rec. (Exp.)/Income	0	0	0	0	-170	0	0	
Reported PAT	8,246	8,845	10,040	11,555	13,936	19,541	19,160	
Balance Sheet							(INR m)	
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	
Share Capital	240	240	240	240	241	241	241	
Reserves	20,677	26,724	33,822	42,292	43,788	41,767	43,116	
Networth	20,917	26,964	34,062	42,533	44,028	42,008	43,357	
Minority Interest	25	26	131	327	357	0	0	
Loans	1,311	1,246	2,007	1,560	15,376	16,124	16,124	
Capital Employed	22,252	28,236	36,201	44,420	59,761	58,132	59,481	
Gross Block	18,142	12,309	15,554	20,615	24,750	28,750	32,750	
Less: Accum. Depn.	-9,799	-1,988	-3,380	-5,035	-7,358	-9,552	-12,273	
Net Fixed Assets	8,343	10,322	12,174	15,579	17,392	19,199	20,477	
Goodwill on consolidation	1,159	1,278	1,282	1,304	1,390	1,390	1,390	
Capital WIP	901	301	2,028	1,012	396	396	396	
Investments	7,884	4,869	10,793	14,763	28,932	27,365	27,721	
Current	6,623	3,588	8,918	9,197	14,109	12,542	12,898	
Non-current	1,261	1,280	1,875	5,566	14,823	14,823	14,823	
Deferred Liability	-444	-231	-226	-99	-69	-69	-69	
Currents Assets	16,208	24,088	25,377	29,623	30,117	31,374	33,076	
Inventory	4,407	6,615	6,528	7,814	7,410	9,213	10,268	
Account Receivables	1,706	1,792	3,046	3,942	3,204	4,156	4,541	
Cash and Bank Balance	877	1,208	1,864	1,098	1,229	1,497	1,617	
Others	9,219	14,474	13,938	16,768	18,275	16,508	16,650	
Curr. Liab. & Prov.	12,687	12,852	15,679	17,960	18,535	21,661	23,648	
Account Payables	7,691	7,573	9,941	11,405	11,163	13,637	14,907	
Other Liabilities	4,996	5,279	5,738	6,555	7,372	8,024	8,741	
Net Current Assets	3,521	11,236	9,698	11,663	11,582	9,714	9,429	
Net Assets	22,252	28,236	36,201	44,420	59,761	58,132	59,481	

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)							
EPS	34.3	36.8	41.8	48.1	58.6	81.3	79.7
BV/Share	87.2	112.4	141.9	177.0	183.1	174.7	180.3
DPS	10.0	11.0	12.5	15.0	35.0	65.0	63.7
Payout (%)	29.1	29.9	29.9	31.2	59.7	80.0	80.0
Valuation (x)							
P/E	110.2	102.7	90.5	78.6	64.5	46.6	47.5
EV/Sales	10.7	10.0	9.1	8.1	7.7	6.5	6.0
EV/EBITDA	74.2	70.7	59.8	51.6	48.6	34.7	34.4
P/BV	43.4	33.7	26.7	21.4	20.7	21.7	21.0
Dividend Yield	0.3	0.3	0.3	0.4	0.9	1.7	1.7
Return Ratios (%)							
RoE	49.5	36.9	32.9	30.2	32.6	45.4	44.9
RoCE	41.1	31.1	27.9	25.5	24.1	30.1	29.7
RoIC	80.0	45.6	41.5	41.9	44.3	61.0	59.6
Working Capital Ratios							
Debtor (Days)	7	7	11	13	10	11	11
Asset Turnover (x)	3.8	3.2	2.7	2.5	1.9	2.4	2.5
Leverage Ratio							
Debt/Equity (x)	0.1	0.0	0.1	0.0	0.3	0.4	0.4

Cash Flow Statement

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
(INR m)							
OP Profit	12,205	13,040	15,184	17,689	18,439	26,114	25,605
Dep	1,134	1,193	1,421	1,619	1,848	2,194	2,721
Financial Other Income	-368	-497	-470	-487	-684	-3,533	-3,619
Net Interest Paid	675	843	964	1,277	999	-1,102	-1,371
Direct Taxes Paid	4,032	3,966	4,965	5,961	5,033	6,573	6,445
Inc in WC	-1,329	4,514	-2,283	25	-1,274	-2,137	-405
CF from Operations	9,592	4,413	12,488	11,558	14,845	21,441	20,038
(Inc)/Dec in FA	-2,494	-3,518	-4,212	-3,994	-2,434	-4,000	-4,000
Free Cash Flow	7,098	895	8,276	7,564	12,411	17,441	16,038
(Pur.)/Sale of Investments	-2,109	3,593	-5,374	-3,341	-13,266	1,567	-355
Other Non Rec Exp	-3,914	-1,206	72	-1,462	406	-220	3,620
CF from Investments	-8,517	-1,131	-9,514	-8,797	-15,294	-2,653	-735
Issue of Shares	43	58	151	298	7,449	0	0
Inc in Debt	0	0	0	-419	-2,305	748	0
Dividend Paid	2,308	2,884	3,174	3,544	4,325	18,165	17,811
Other Item	197	125	-706	-138	240	1,102	1,371
CF from Fin. Activity	-2,462	-2,951	-2,318	-3,527	579	-18,520	-19,182
Inc/Dec of Cash	-1,387	331	657	-766	130	268	121
Add: Beginning Balance	2,263	877	1,208	1,864	1,098	1,229	1,497
Closing Balance	877	1,208	1,864	1,098	1,229	1,497	1,617

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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