

BSE SENSEX 49,751 S&P CNX 14,708



Bloomberg	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USDb)	803.8 / 11.1
52-Week Range (INR)	4015 / 2101
1, 6, 12 Rel. Per (%)	-9/-43/-12
12M Avg Val (INR M)	2936

### Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E	2023E
Sales	116.0	131.6	142.1	163.1
Sales Gr. (%)	4.9	13.5	8.0	14.8
EBITDA	18.4	26.0	25.6	29.3
Margin (%)	15.9	19.8	18.0	18.0
PAT	14.1	19.7	19.1	22.0
EPS (INR)	58.6	82.1	79.4	91.5
EPS Gr. (%)	21.8	40.0	-3.3	15.2
BV/Sh.(INR)	183.1	185.4	201.3	219.6

### Ratios

RoE (%)	32.6	44.6	41.1	43.5
RoCE (%)	24.1	29.9	27.6	29.9
Payout (%)	59.7	80.0	80.0	80.0

### Valuations

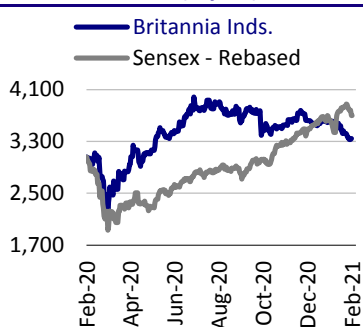
P/E (x)	56.9	40.6	42.0	36.5
P/BV (x)	18.2	18.0	16.6	15.2
EV/EBITDA (x)	42.7	30.2	30.6	26.6
Div. Yield (%)	1.0	2.0	1.9	2.2

### Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	50.6	50.6	50.6
DII	10.7	11.5	13.6
FII	17.7	16.0	15.8
Others	21.1	21.9	20.0

FII Includes depository receipts

### Stock Performance (1-year)



**CMP: INR3,337 TP: INR4,120 (+24%) Upgrade to Buy**

## Widening moats strengthen right-to-win; upgrade to Buy

### Structural opportunity attractive; track record best among peers

- Widening moats:** The management's efforts in the last few years on a) expanding distribution, especially direct reach which is now at 2.3m outlets (next only to HUVR) while its total reach is now the best for any listed Food company and is nearing Parle among unlisted ones; b) boosting R&D capabilities, after setting up a [new R&D center](#) five years ago; c) successful implementation of its low unit packs strategy, leading to consistently strong growth in the hinterland; d) consistent cost rationalization, which is essential in a low gross margin category like Foods; e) continued investments in boosting overall and regional manufacturing capabilities (including the ongoing INR15b on its mega facility in Ranjangaon); and f) its new regional strategy (similar to HUVR's highly successful WIMI strategy) is resulting in consistently widening moats over peers in Biscuits (market leadership has extended for 37 quarters now) and in the broader USD40b Food category where BRIT made an [impressive initial foray in FY20](#).
- Exciting long-term opportunity:** With the widening of its moats, BRIT has strengthened its right to win and is poised to gain further market share (currently only in the mid-30s despite widening of moats) in the Biscuits category, which contributes ~80% of sales, and in the overall USD40b Packaged Food industry, where it has made a strong foray in recent years.
- Remarkable track record:** BRIT's track record over the last 10 years ending FY20 is extremely strong, with topline and earnings ahead of peers. This is remarkable given that most FMCG peers have struggled to post double-digit CAGR over the last three-to-five years.

### Valuation and view

- Inexpensive valuations:** The extraordinary strong base in FY21E (40% EPS growth forecasted), led by high in-home consumption and low material and A&P costs, does put some pressure on the next few quarters particularly in 1QFY22 where the base has shown 105.4% EPS growth. However, beyond that it will become less challenging in subsequent quarters. On the other hand, the stock is now attractive at 36.5x FY23E EPS, a discount to its 3/5 year average P/E multiple of 48x/46x and also on a relative basis as compared to its peers.
- Recent underperformance leads to a favorable risk-reward ratio:** Since our [downgrade in Nov'19](#) on challenging valuations and rising raw material costs (not a concern now), the stock has underperformed peers (4% return v/s double-digit average returns by its peers). While we remain cautious due to challenges to FY22 earnings growth and thus our buy call may be slightly advanced, we believe downside is limited as the narrative is likely to move to FY23 and beyond in the next few months.
- Upgrade to Buy:** Immense structural opportunity, remarkable track record, RoEs of over 40% superior to most consumer peers, and an attractive risk-reward ratio on FY23E earnings, after its recent underperformance, leads us to upgrade BRIT to a **Buy**. Our TP of INR4,120 (based on 45x FY23E EPS) implies an upside of 24% from its CMP.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

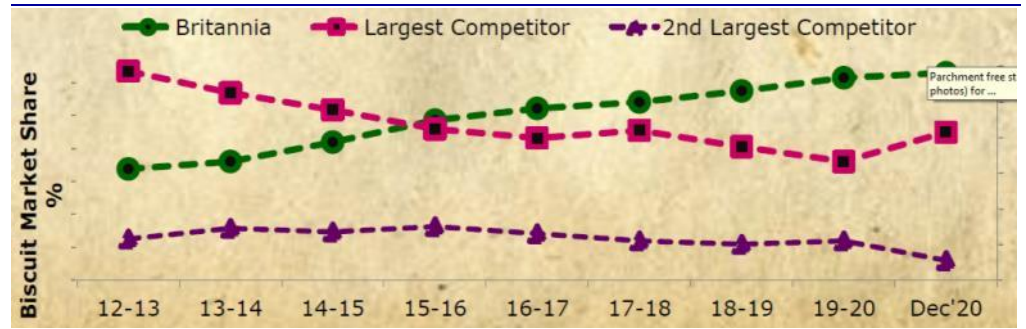
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**What has BRIT achieved in FY21?**

**A. Consistently gained market share**

- BRIT has done well on topline and earnings growth in FY21 YTD and continues to grow ahead of competition. Despite there being a tailwind in favor of in-home consumption in categories like Biscuits, it continued to grow well ahead of peers. It has gained market share for 37 consecutive quarters now, according to their latest presentation shared after the 3QFY21 result.

**Exhibit 1: BRIT consistently gains market share over Parle and ITC**

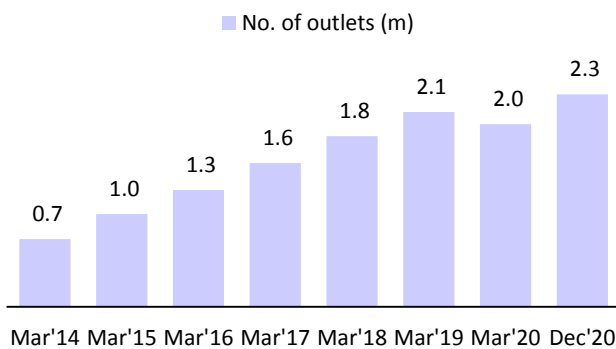


Source: Company, MOFSL

**B. Invested more in expanding its direct distribution**

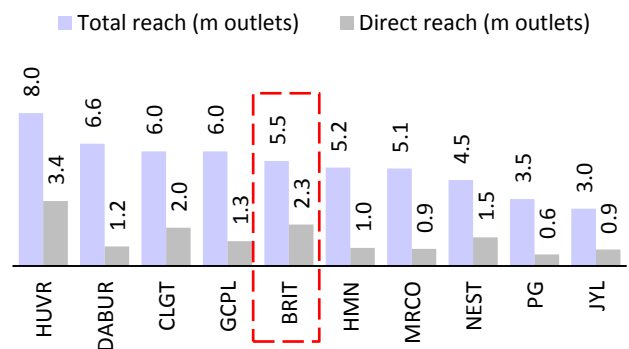
- Even in a disruptive period, the company has expanded its direct distribution reach further. Direct reach stands ~2.3m outlets.
- To put things in perspective, BRIT’s direct reach is the second best after HUVR in the FMCG space and well ahead of other Food and non-Food peers. Total reach is also the highest among listed Food players in India and among the highest overall.

**Exhibit 2: BRIT’s direct reach has been growing steadily**



Source: Company, MOFSL

**Exhibit 3: Direct v/s total reach of the peer group**



Source: Company, MOFSL

**Key improvements in recent years**

**A. Significant expansion in direct reach**

- Expansion in direct reach is important as: a) it reduces wholesale dependence, b) provides better control on the movement of desired products across regions, and c) enables better data collection and analytics compared to the category and brand agnostic wholesale trade. Direct reach, however, involves higher initial costs, which the management is willing to incur for longer term benefits.

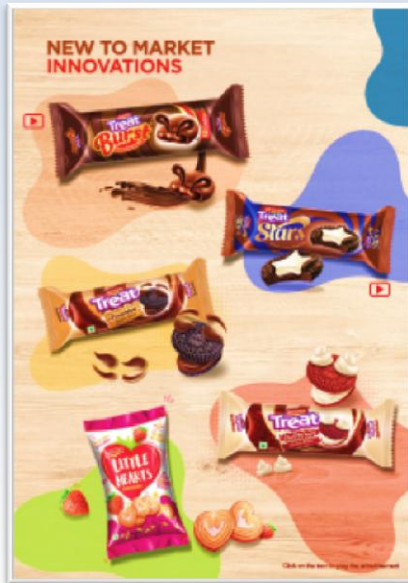
**B. Faster new product traction**

- After setting up its new R&D center at Bidadi near Bengaluru in CY16 (the benefits of which were highlighted in our [Nov'18 note](#)), BRIT has scaled up its R&D efforts

considerably, leading to: a) better innovation pipeline in Biscuits, b) faster execution of innovations in Biscuits, and c) quicker execution of existing and new adjacencies in Foods. Leveraging the best distribution reach among listed Food companies and the best direct reach among all Consumer companies, except HUVR, BRIT can scale up its adjacencies businesses. Adjacencies are attractive given the higher opportunity and as they are usually gross margin accretive. Once it scales up eventually and marketing spends normalize, they would be potentially EBITDA margin accretive as well.

- While the potential market share gain in Biscuits (82% of sales) is an attractive proposition, the longer term investment case for BRIT will be partly based on its success in the non-Biscuits category. FY20 was a breakthrough year, with 2% of sales accruing from new categories led by Cream Wafers and Milkshakes with Salty Snacks and Croissants (currently in the test marketing phase) also likely to contribute similarly going forward. Since the nature of these products is urban, discretionary, and modern trade (MT) dependent, it is likely that they would have been affected in FY21 when these channels and segments struggled. However, growth is likely to resume now as urban and MT have gradually returned to normalcy.

New innovations in FY20

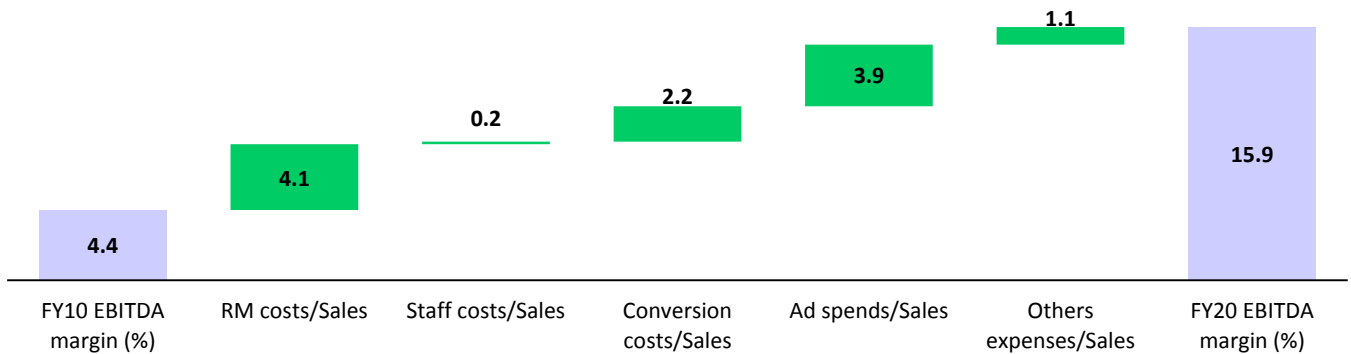


New categories contribute 2% of revenue in FY20

**C. Sharpened focus on cost savings**

- Apart from HUVR, BRIT had been the trend setter in terms of cost savings over the last 4-5 years in the Consumer Staples space. After the lifting of COVID-related lockdowns, most Consumer companies have been working on intensive cost cutting programs that would lead to sustained savings in the future. BRIT has also doubled down on its already impressive cost rationalization efforts in recent years.

**Exhibit 4: EBITDA margin expands by 1,150bp over FY10-20**

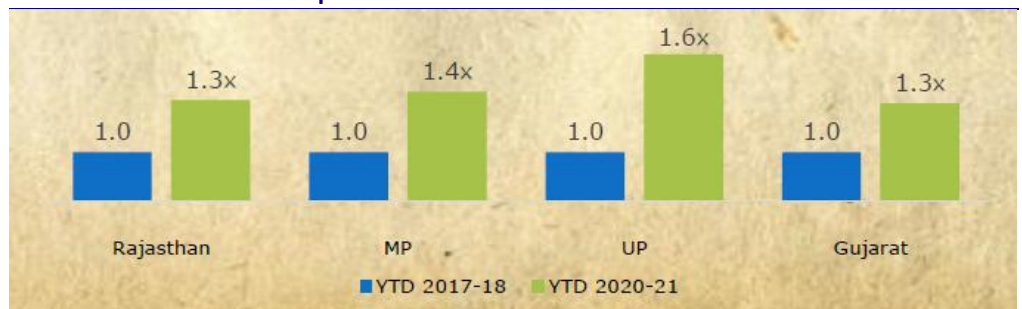


Source: Company, MOFSL

**D. Successful momentum in the hinterland**

- One of the key reasons for BRIT’s impressive sales growth and market share gains is the immense improvement it has made in recent years in states like Gujarat, Rajasthan, Madhya Pradesh, and Uttar Pradesh.
- This has been led by a combination of successful initiatives such as: a) introduction of lower unit packs (LUPs) of INR5 and INR10 of premium products in these markets, b) expansion in total and direct reach, and c) local manufacturing in some of these states, leading to lower distances traveled and hence cost competitiveness.
- Sales in some of these states have grown by 30-60% from FY17 levels and yet there is a long runway for growth. Its existing strategy and infrastructure can potentially lead to a doubling of sales from the ~15% market share that the company has in these erstwhile weak states.

**Exhibit 5: BRIT has made impressive strides in the Hindi belt since FY17**



Source: Company, MOFSL



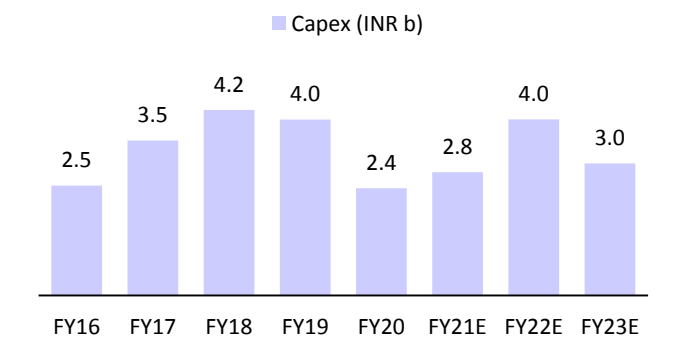
**E. Charted strategy for ‘Many Indias’**

- In its FY20 annual report, BRIT revealed a new strategy focusing on localization to grow its Biscuits business. Large brands like Good Day, Milk Bikis, and Marie Gold have employed localized strategies to meet the unique needs of different markets and fight local players. A focused and localized strategy has been adopted in the Hindi Heartland states as well.
- A similar strategy called ‘Winning in Many Indias’ has been employed by HUVR and has been a key driver of sales in the last decade. The Food segment offers an even greater degree of customization, based on regional preferences, compared to Personal Care products. Successful execution of this strategy in Biscuits could pave the way for further growth in adjacencies as well.

**F. Enhancing capacities**

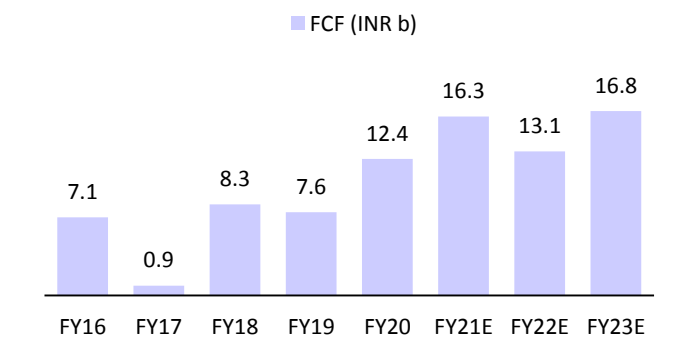
- Keeping an eye on the longer term opportunity, BRIT has invested in direct distribution and on manufacturing capacities. The company is midway through its INR15b capex at its mega facility in Ranjangaon. It will eventually receive significant incentives from the Maharashtra government as it will reach ultra-mega project size. In addition, the company is also setting up greenfield plants in Tamil Nadu and UP. All these initiatives will enable sustained strong double-digit sales growth in the next few years.
- To ramp up its IT ecosystem, BRIT is upgrading its ERP to S4 Hana. It is also upgrading its dealer management system, which is 12 years old, and is also introducing a new Areva’s vendor management system.

**Exhibit 6: Consistently invests in capacity addition to support topline growth...**



Source: Company, MOFSL

**Exhibit 7: ...yet FCF has been healthy**



Source: Company, MOFSL

**G. Undertaken multifold sustainability initiatives**

- BRIT’s health initiatives and medium to long-term sustainability targets have been noteworthy. Processes are being introduced to recycle, reduce, and recover used plastic. To name a few: a) the company is in the process of developing 100% reusable packaging (timeframe to be specified), b) use of laminates has seen a 15% reduction over FY14 levels, with an aim to decrease it further in coming years, c) use of plastic trays for Cream products has reduced, and (d) BRIT is building an in-house plastic recycling facility.
- It is working on reducing sugar and sodium content by 5% each by CY22.
- The management has reduced fuel consumption by 35% over FY14 levels and is working to reduce it further. Around 45% of BRIT’s power consumption is likely to be from renewables by the end of FY21.

## Structural case for BRIT

### A. Large opportunity in Packaged Food

- According to [IBEE](#), the Packaged Food opportunity in India is pegged at USD40-50b. Conversion in Food from loose to packaged, and subsequently to branded Packaged Food, is among the largest opportunities in the Consumer space in India.

### B. Among the best in scale and strengths

- Among the listed companies in the Foods space in India, BRIT and NEST are several paces ahead of peers on parameters like:
  - a) scale of operations,
  - b) distribution reach (between 4.5m and 5.5m outlets for both players),
  - c) balance sheet strength (Food is a more capital intensive business. Barring Premium segments, it has a relatively low margin and requires diversified manufacturing capabilities. BRIT/NEST are spending INR15b/INR25b over the next four years to boost capacity), and
  - d) R&D investments.
- While historical sales CAGR has been healthy for both companies (adjusted revenue growth numbers for BRIT for the last 5/10 years stands at 8.3%/11.9% CAGR. The same for NEST stands at 4.6% CAGR over the last five years since the new CEO took charge), the runway is very long. Sales of ~USD1.8b each for both companies (FY21E for BRIT, CY20 for Nestle) makes them among the largest listed Consumer companies in India. The combined sales of ~USD3.6b constitutes only 7-10% of the USD40-50b Packaged Food market.
- Even among unlisted Food companies (except Amul), Mondelez and Parle are smaller in terms of revenue when compared to BRIT and NEST, with total sales of ~INR73b (FY20) and ~INR90b (FY19), respectively. Combined revenue for the top five Food players is less than USD13b, a fraction of the USD40-50b opportunity. Even if we were to include ITC and HUVR's (including GSK) food businesses, the total revenues of these 7 players would be less than USD16b though neither ITC nor HUVR are pure-play Food companies.

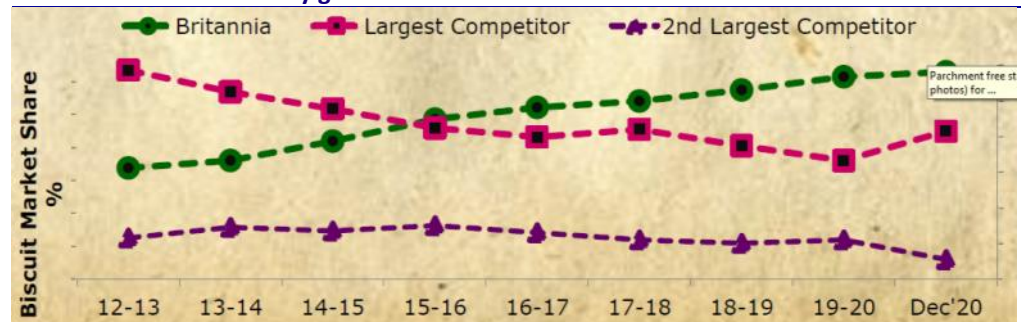
### C. Why is distribution reach important for Food companies?

- Unlike most Personal Care categories, where purchase frequency is usually once a month, frequency can be higher for many Packaged Food companies. Food is also an impulse purchase category, which means that the closer a product is to the customer (in terms of availability of outlets across the country), better is the opportunity to trigger that impulse. Given the high frequency of consumption, there is significant scope for innovation for Food companies, further triggering the impulse purchases of customers.
- The Biscuits category, which is pegged at INR300-350b (USD4.1-4.8b), is one of the largest in the Packaged Food space in India. The key is to get the value proposition right. BRIT with its LUPs of Premium Biscuits and expansion of direct distribution reach has had tremendous success in the hinterland with rapid market share gains.

#### D. A vast opportunity to expand market share in a large and growing category

- For 37 quarters now, BRIT has continuously gained market share from peers, aided by consistently strengthening moats like: a) distribution expansion (more than doubling its direct reach and ~60% increase in overall reach), b) boosting of R&D capabilities after setting up of a dedicated R&D center in CY16, c) building manufacturing capabilities, and d) getting the value proposition right in the hinterland. Despite its clear market leadership, its market share of close to mid-30s could continue to increase in the large Biscuits category, which has been growing in the mid-single-digit CAGR range for the last 5/10 years.

Exhibit 8: BRIT consistently gains market share over Parle and ITC



Source: Company, MOFSL

#### E. Immense opportunity in adjacencies

- In addition to existing categories like Cakes, Rusks, Bread, and Cheese, BRIT has forayed into other Food categories like Cream Wafers, Milk Shakes, Salty Snacks, and Croissants over the last two years. There is a long runway for growth on account of: a) massive opportunity in the Indian Packaged Food space as discussed earlier, b) boost to innovation by the R&D center, c) unparalleled distribution expansion spree in recent years; and d) potentially higher gross margin and eventually EBITDA margin in these categories compared to the Biscuits segment.

### What will be back in FY22 and beyond?

#### A. Premiumization

- As MT gradually returns to normal, higher sales of Premium brands will be back on the table. This will facilitate sales growth and lead to strong margin improvement.

#### B. New product launches and new category sales

- Due to COVID-led lockdown restrictions, FY21 saw the management focusing on only the largest selling SKUs for a considerable part of the year. It admitted that the new product pipeline, an erstwhile strength of the company, took a back seat, particularly as MT channel struggled for most part of the year. MT was affected initially due to closures and subsequently as footfalls normalized gradually.

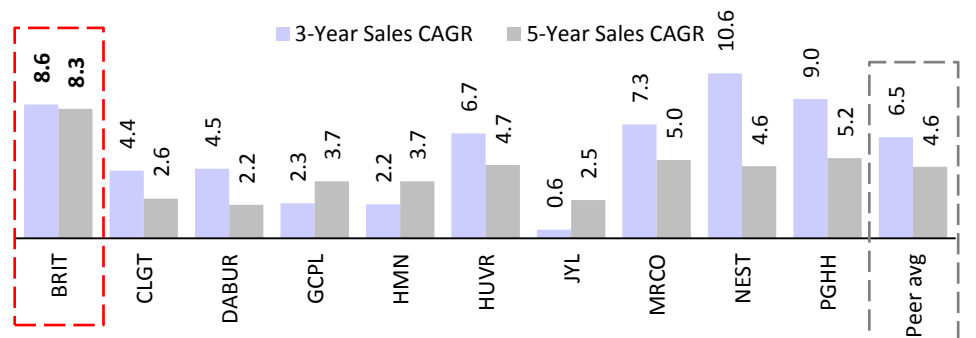
**C. Large packs**

- There was some pantry loading for a few initial months of FY21 due to COVID-led lockdown. This led to higher than usual sales of large packs in the general trade (GT) channel. The trend did not sustain once the lockdowns were lifted. The gradual return of normalcy in MT will help sustainably grow sales of higher margin large packs in FY22 and beyond.

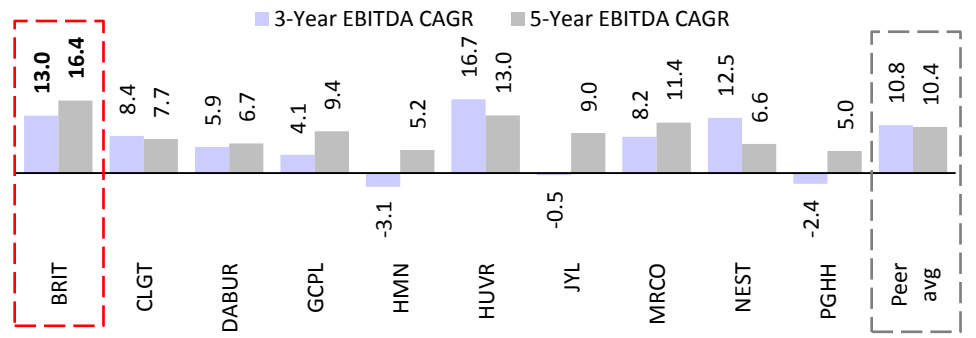
**Demonstrated a track record of performance**

- Even before in-home consumption assisted sales growth in FY21E and strong margin improvement was boosted by lower RM costs, lesser than usual ad spends, and smaller trade spends due to strong demand, BRIT had done very well in the preceding years as well.
- In a highly disruptive period for Consumer companies, with below normal monsoon or floods in most of the past five years as well as demand side and supply side disruptions like demonetization and GST implementation respectively, BRIT has done very well to grow its sales, EBITDA and PAT at a far superior pace compared to most Staple peers. If one considers the impact of Ind AS and GST accounting on promotion spends, which are now netted off from sales, it is likely to have been one of the few Consumer companies that have recorded double-digit topline growth over this difficult period.

**Exhibit 9: BRIT's 3/5 year sales CAGR of 8.6%/8.3% ending FY20 outperforms our universe of Staple companies**

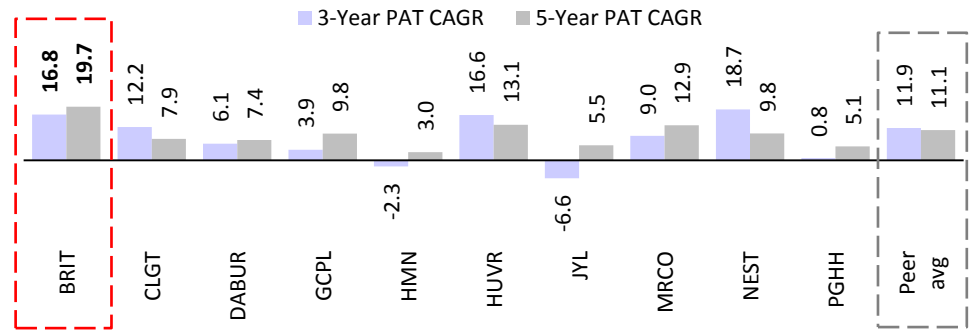


**Exhibit 10: BRIT's strong 3/5 year EBITDA CAGR of 13%/16.4% ending FY20 makes it is one of the best performing companies within our universe of Staple companies**





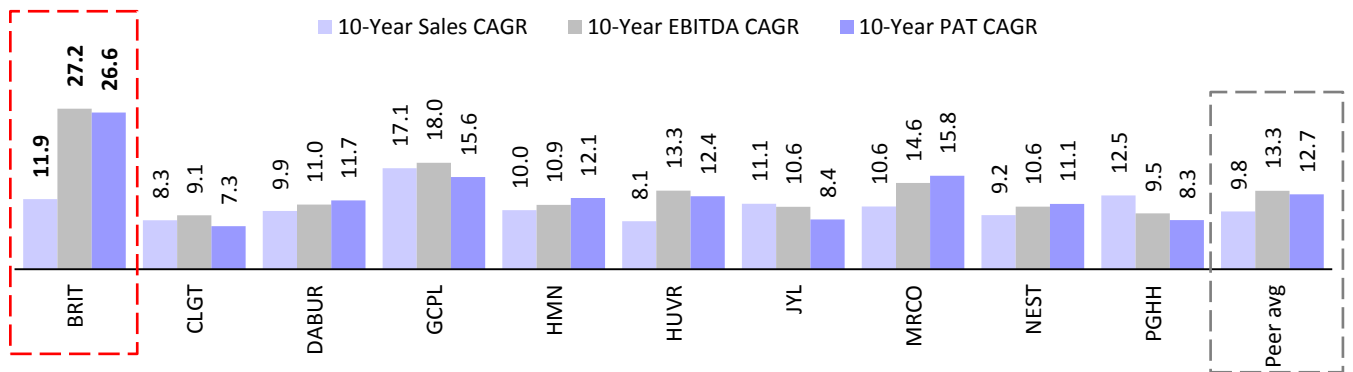
**Exhibit 11: With a 3/5 year PAT CAGR of 16.8%/19.7% ending FY20, BRIT delivers a far better PAT performance than our universe of Staple companies**



Source: Company, MOFSL

- When it comes to the past 10 years, BRIT’s performance has been even more impressive v/s peers.

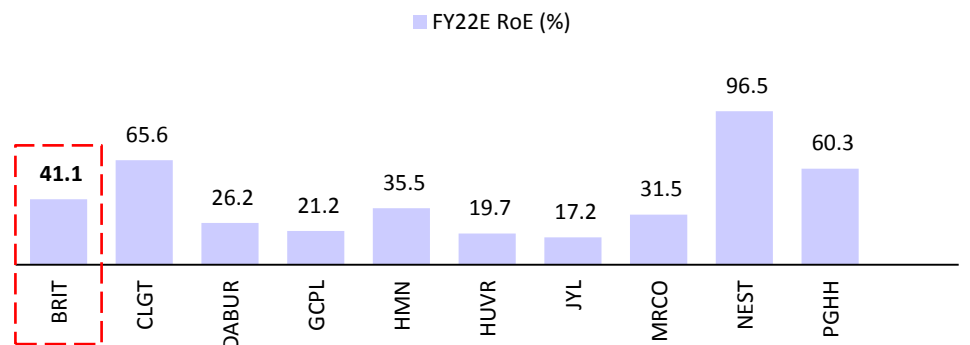
**Exhibit 12: BRIT has one of the best sales and profit performance among our universe of Staple companies, with a 10-year sales/EBITDA/PAT CAGR of 11.9%/27.2%/26.6% ending FY20**



Source: Company, MOFSL

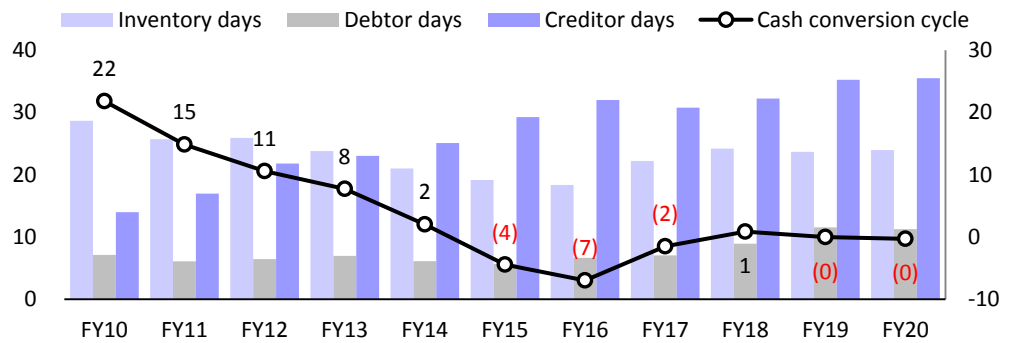
- Not only is its topline and earnings track record superior to peers, it also has stronger RoEs compared to most Staples peers. For comparison, we are taking FY22 as a more normalized year for peers who have been affected the most by COVID-related disruptions in FY21.
- NWC reduction has been one of the key factors aiding high RoEs. BRIT’s cash conversion cycle has improved to zero days in FY20 from 22 days in FY10.

**Exhibit 13: Median FY22E RoE for our Staples universe is 33.5%**



Source: Company, MOFSL

**Exhibit 14: NWC has reduced from 22 days in FY10 to 0 days in FY20 leading to high RoEs**



Source: Company, MOFSL

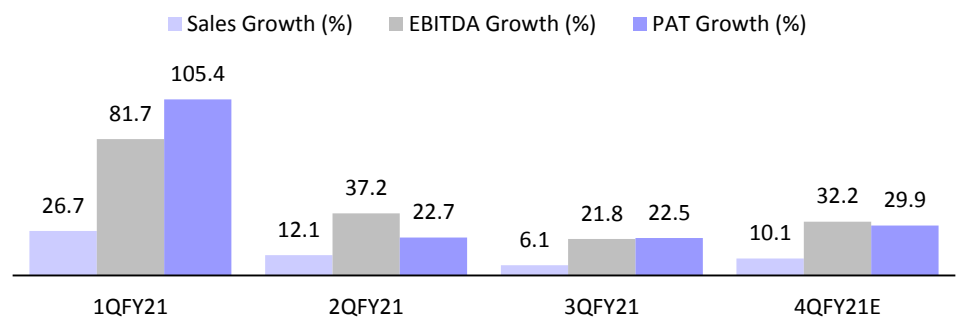
### Macro outlook is healthy

- Outlook for Staples is good:** 3QFY21 was a good quarter for most Discretionary players and also for many Staples companies. This led to a multi-year high quarterly performance. The outlook for Staples demand is buoyant and has been boosted by healthy rural growth after many years, the likelihood of a bountiful rabi season, and prediction of a normal monsoon in CY21.
- Hinterland benefits** - Despite its impressive growth in the hinterland, particularly in the Hindi heartland, BRIT's market share in these markets, which forms 30-35% of national Biscuits, is only ~15%. Going forward, growth can be even stronger than what was achieved due to the combination of a good demand outlook in these markets, and BRIT's efforts on distribution, product and pricing strategy, and localized manufacturing, which have yielded some success in these markets.

### Key worries

- Normalization of in-home consumption:** Biscuits, the largest category, has seen a substantial bump up in sales, leading to a likely sales growth of 13.5% in FY21. This growth is not too divergent from the high single-digit growth/double-digit growth of the preceding 3/5/10 years. There is a potential for double-digit sales growth on a steady state going forward, given the opportunity for growth in the Biscuits category and adjacencies where momentum now seems to be coming through. We don't see FY21 sales growth as a challenge going forward.

**Exhibit 15: The high base effect becomes less challenging from 2QFY22E onwards**



Source: Company, MOFSL

- Elevated margin:** As we have been pointing out over the last few quarters, the extraordinary margin improvement (~390bp YoY) in FY21 has been fueled by

strong demand, lower than usual ad and trade spends, and low RM costs. This means that earnings growth could be flat or may even decline in FY22. While we believe there is some downside risk to our FY22E earnings, we are not concerned about our FY23E sales and margin forecasts.

- **Inter-corporate deposits (ICDs):** Group ICDs stood at INR7b at the end of Sep'20 compared to INR6b in Mar'20 (INR3.5b to Bombay Dyeing and INR2.5b to GoAir as per the FY20 annual report). While Mar'20 group ICDs were lower than INR6.85b at the end of FY19 (INR3.5b to Bombay Dyeing and INR3.35b to GoAir), they were still higher than the threshold of INR5b voluntarily set by the management a year ago. While this is a small fraction of the cash and equivalents of ~INR45b at the end of FY21, it is notably higher than the self-imposed threshold earlier.

**Exhibit 16: Group ICDs rises to INR6b in FY20 from INR400m in FY15 (INR m)**

Name of the borrower	Mar'15	Mar'16	Mar'17	Mar'18	Mar'19	Mar'20
<b>Group companies</b>						
Bombay Dyeing	-	1,000	3,500	3,500	3,500	3,500
Bombay Burmah	400	400	400	-	-	-
Go Airlines	-	-	-	-	3,350	2,500
<b>Group companies sub-total (a)</b>	<b>400</b>	<b>1,400</b>	<b>3,900</b>	<b>3,500</b>	<b>6,850</b>	<b>6,000</b>
Group companies as a percentage of total ICDs	12.3	22.0	45.7	36.4	57.1	46.6
<b>Finance companies</b>						
Bajaj Finance	250	900	1,028	2,012	2,643	3,944
Kotak Mahindra Prime	-	100	100	-	-	-
Kotak Mahindra Investments	-	773	373	250	600	-
Shriram Transport Finance	-	350	97	820	322	-
IL&FS	-	635	688	-	-	-
Tata Housing Development	-	100	-	250	-	-
PNB Housing Finance	-	-	250	1,272	-	-
HDFC	-	-	1,500	750	1,578	1,250
Mahindra & Mahindra Financial Services	-	-	-	250	-	-
Tata Capital	-	-	-	500	-	-
LIC Housing Finance	-	-	-	-	-	1,140
Standard Chartered Investments and Loans	-	-	-	-	-	250
<b>Finance companies sub-total (b)</b>	<b>250</b>	<b>2,858</b>	<b>4,035</b>	<b>6,103</b>	<b>5,142</b>	<b>6,584</b>
Finance companies as a percentage of total ICDs	7.7	44.9	47.3	63.6	42.9	51.1
<b>Other companies</b>						
Scal Services	2,000	1,500	-	-	-	-
Macrofil Investments	600	600	600	-	-	300
<b>Other companies sub-total (c)</b>	<b>2,600</b>	<b>2,100</b>	<b>600</b>	<b>-</b>	<b>-</b>	<b>300</b>
Other companies as a percentage of total ICDs	80.0	33.0	7.0	-	-	2.3
<b>Total ICDs (a + b + c)</b>	<b>3,250</b>	<b>6,358</b>	<b>8,535</b>	<b>9,603</b>	<b>11,992</b>	<b>12,884</b>

Source: Company, MOFSL

**Exhibit 17: Total investment and loans and advances have jumped up sharply in recent years**

(INR m)	FY15	FY16	FY17	FY18	FY19	FY20
<b>Investments</b>						
Investments in debentures/bonds	250	1,141	1,141	856	5,300	14,549
Investments in mutual funds and equity instr.	4,859	6,623	3,588	8,918	9,197	14,109
Other investments	71	120	139	1,019	267	274
<b>Investments sub-total (a)</b>	<b>5,179</b>	<b>7,884</b>	<b>4,869</b>	<b>10,793</b>	<b>14,763</b>	<b>28,932</b>
<b>Loans and advances</b>						
Inter-corporate deposits	3,250	6,358	8,535	9,603	11,992	12,884
Incentives recoverable	0	0	472	720	776	1,319
Interest accrued but not due	124	190	339	288	487	978
Advance Taxes	157	232	254	223	370	688
Deposits	398	528	312	169	516	558
Advances	1,771	600	1,634	879	1,019	427
Others	112	0	0	0	0	0
<b>Loans and advances sub-total (b)</b>	<b>5,813</b>	<b>7,907</b>	<b>11,546</b>	<b>11,883</b>	<b>15,160</b>	<b>16,854</b>
<b>Total (a + b)</b>	<b>10,993</b>	<b>15,791</b>	<b>16,414</b>	<b>22,675</b>	<b>29,923</b>	<b>45,786</b>

Source: Company, MOFSL

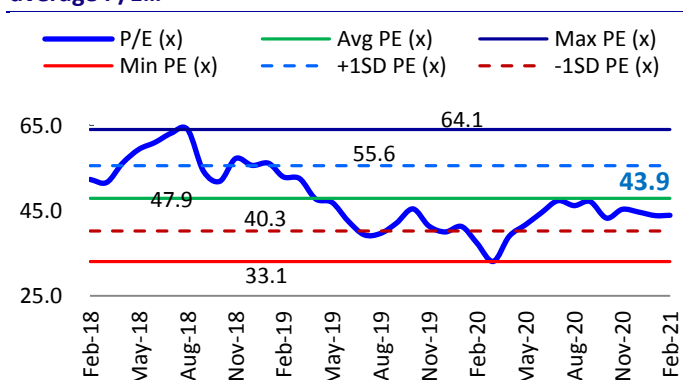
- ICDs to group companies, as a percentage of total ICDs, declined to 46.6% in FY20 from 57.1% in FY19.
- ICDs to group companies, as a percentage of total loans, advances, and investments, declined to 13.1% in FY20 from 22.9% in FY19.

**Exhibit 18: ICDs to group companies as a percentage of total ICDs fell to 46.6% in FY20 from 57.1% in FY19**

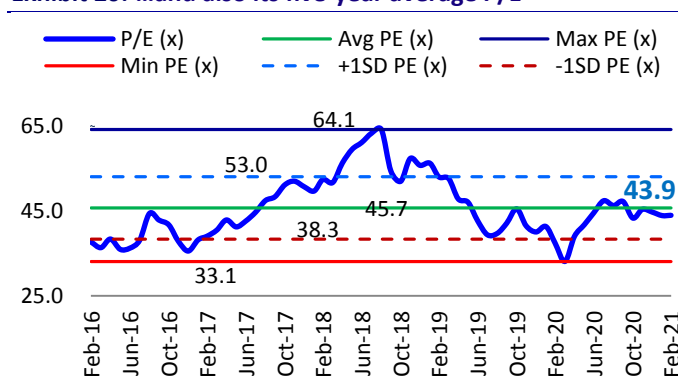
Particulars	FY15	FY16	FY17	FY18	FY19	FY20
ICDs to group companies (INR m)	400	1,400	3,900	3,500	6,850	6,000
ICDs to group companies as a percentage of total ICDs	12.3	22.0	45.7	36.4	57.1	46.6
ICDs to group companies as a percentage of total loans, advances, and investments	3.6	8.9	23.8	15.4	22.9	13.1
Total ICDs as a percentage of total loans, advances, and investments	29.6	40.3	52.0	42.4	40.1	28.1

## Valuations

- For a stock with an immensely attractive structural story, valuations are at a discount to its three and five year average.

**Exhibit 19: Currently trading at a discount to its three-year average P/E...**

Source: Company, MOFSL

**Exhibit 20: ...and also its five-year average P/E**

Source: Company, MOFSL

- Valuations at a discount to several Staple peers despite a better track record, RoE, and structural earnings potential.

**Exhibit 21: BRIT is trading at a discount to most large Consumer Staple peers**

Company	CMP (INR)	M-cap		EPS (INR)			EPS growth YoY (%)			P/E (x)			EV-to-EBITDA (x)		
		(INR b)	(USD b)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Jyothy Labs.	146	54	0.7	5.7	5.9	6.2	25.7	3.8	4.9	25.7	24.8	23.6	17.5	16.6	14.9
Emami	470	216	3.0	16.9	17.0	18.7	36.5	0.2	10.1	27.8	27.7	25.2	22.7	22.2	19.6
Godrej Consumer	680	716	9.9	16.8	17.8	20.6	18.7	5.7	15.9	40.4	38.2	33.0	29.3	27.5	24.2
Colgate-Palm.	1,555	420	5.8	36.1	40.0	45.3	20.4	10.7	13.3	43.0	38.9	34.3	28.0	25.6	23.1
<b>Britannia Inds.</b>	<b>3,337</b>	<b>804</b>	<b>11.1</b>	<b>82.1</b>	<b>79.4</b>	<b>91.5</b>	<b>40.0</b>	<b>-3.3</b>	<b>15.2</b>	<b>40.6</b>	<b>42.0</b>	<b>36.5</b>	<b>30.2</b>	<b>30.6</b>	<b>26.6</b>
Marico	422	543	7.5	8.7	9.8	11.4	6.4	13.1	16.2	48.7	43.0	37.0	32.8	29.1	25.4
Dabur India	500	882	12.2	9.9	11.4	13.3	15.0	14.4	17.0	50.4	44.0	37.6	40.4	35.1	29.7
Hind. Unilever	2,178	5,081	70.1	34.1	41.7	48.9	9.3	22.1	17.3	63.8	52.2	44.5	43.6	36.5	31.5
P&G Hygiene	12,997	424	5.8	180.8	232.9	280.4	32.5	28.8	20.4	71.9	55.8	46.4	51.9	40.4	33.6
Nestle India	16,165	1,552	21.4	217.4	253.7	291.8	5.2	16.7	15.0	74.3	63.7	55.4	47.5	41.6	36.2
<b>Average Consumer Staples</b>										<b>48.7</b>	<b>43.0</b>	<b>37.4</b>	<b>34.4</b>	<b>30.5</b>	<b>26.5</b>

Source: Company, MOFSL

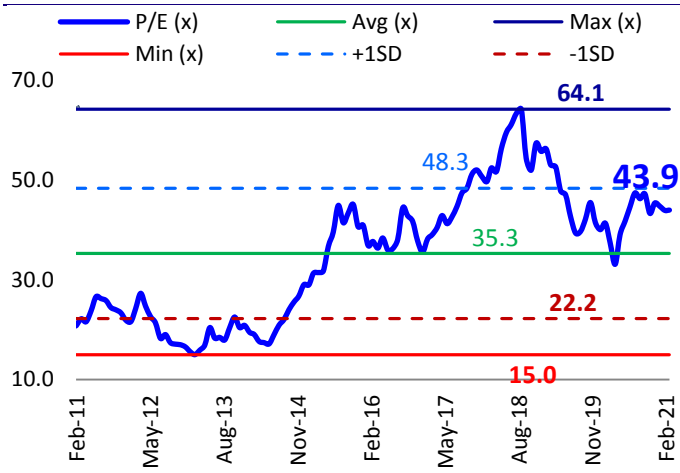
- We forecast a decline in EPS in FY22E after a 40% growth in FY21E, led by a combination of in-home consumption demand, benign material cost benefits, and lower ad and trade spends. Depending on the movement in material costs in FY22, there may even be a downside risk to our earnings estimates. However, there are much lesser worries on its FY23 earnings on which valuations now appear attractive at 36.5x FY23E EPS.
- BRIT is among the best structural plays, with demonstrated superiority in earnings, better RoE, and with further increasing moats. It is now available at a much more reasonable valuation compared to the past.

**Valuation and view**

- **Inexpensive valuations:** The extraordinary strong base in FY21E (40% EPS growth forecasted), led by high in-home consumption and low material and A&P costs, does put some pressure on the next few quarters particularly in 1QFY22. Nevertheless, the recent underperformance has made the stock attractive at 36.5x FY23E EPS, a discount to its 3/5 year average P/E multiple of 48x/46x and also on a relative basis as compared to its peers.
- **Recent underperformance leads to a favorable risk-reward ratio:** Since our [downgrade in Nov'19](#) on challenging valuations and rising raw material costs (not a concern now), the stock has underperformed peers (4% return v/s double-digit average returns by its peers). While we remain cautious due to challenges to FY22 earnings growth and thus our buy call may be slightly advanced, we believe downside is limited as the narrative is likely to move to FY23 and beyond in the next few months.
- **Upgrade to Buy:** Immense structural opportunity, remarkable track record, RoEs of over 40% superior to most consumer peers, and an attractive risk-reward ratio on FY23E earnings, after its recent underperformance, leads us to upgrade BRIT to a **Buy**. Our TP of INR4,120 (based on 45x FY23E EPS) implies an upside of 24% from its CMP.

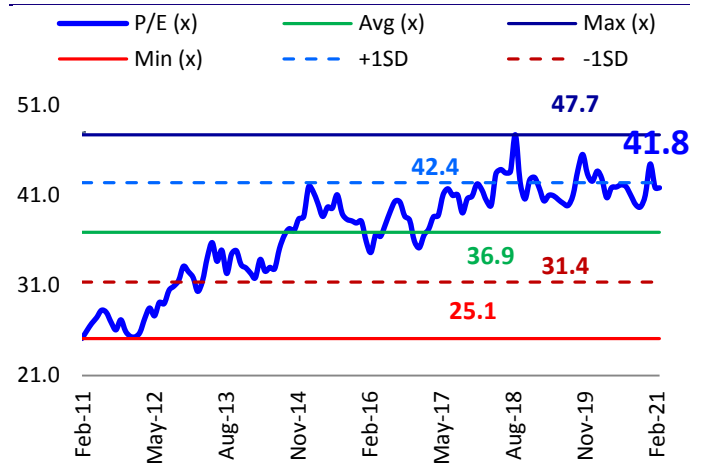


Exhibit 22: BRIT P/E chart



Source: MOFSL, Company

Exhibit 23: Consumer P/E chart



Source: MOFSL, Company

## Financials and valuations

Income Statement								(INR b)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
<b>Net Revenues</b>	<b>84.0</b>	<b>90.5</b>	<b>99.1</b>	<b>110.5</b>	<b>116.0</b>	<b>131.6</b>	<b>142.1</b>	<b>163.1</b>
Change (%)	6.9	7.8	9.5	11.5	4.9	13.5	8.0	14.8
Raw Material Cost	50.1	55.9	61.1	65.6	69.3	75.8	83.9	96.3
<b>Gross Profit</b>	<b>33.8</b>	<b>34.7</b>	<b>38.1</b>	<b>44.9</b>	<b>46.7</b>	<b>55.8</b>	<b>58.3</b>	<b>66.8</b>
Margin (%)	40.3	38.3	38.4	40.6	40.3	42.4	41.0	41.0
Advertising	4.5	3.9	4.1	5.0	4.8	5.2	6.0	7.1
% of Sales	5.3	4.3	4.1	4.5	4.1	3.9	4.2	4.3
Other Expenditure	17.2	18.0	18.9	22.6	23.5	24.6	26.7	30.4
<b>EBITDA</b>	<b>12.1</b>	<b>12.8</b>	<b>15.0</b>	<b>17.3</b>	<b>18.4</b>	<b>26.0</b>	<b>25.6</b>	<b>29.3</b>
Change (%)	40.6	5.2	17.5	15.4	6.3	41.3	-1.8	14.7
Margin (%)	14.5	14.1	15.1	15.7	15.9	19.8	18.0	18.0
Depreciation	1.1	1.2	1.4	1.6	1.8	1.9	2.5	2.8
Int. and Fin. Charges	0.0	0.1	0.1	0.1	0.8	1.2	1.3	1.4
Financial Other Income	1.2	1.5	1.7	2.1	2.8	3.5	3.7	4.2
<b>PBT</b>	<b>12.2</b>	<b>13.0</b>	<b>15.2</b>	<b>17.7</b>	<b>18.6</b>	<b>26.4</b>	<b>25.5</b>	<b>29.4</b>
Tax	4.0	4.0	5.1	6.0	4.5	6.6	6.4	7.4
Deferred Tax	0.0	0.2	0.0	0.1	0.0	0.0	0.0	0.0
Tax Rate (%)	32.5	32.2	33.9	34.6	24.2	25.2	25.2	25.2
<b>PAT</b>	<b>8.2</b>	<b>8.8</b>	<b>10.0</b>	<b>11.6</b>	<b>14.1</b>	<b>19.7</b>	<b>19.1</b>	<b>22.0</b>
Change (%)	43.6	7.3	13.6	15.2	21.9	40.0	-3.3	15.2
Margin (%)	9.8	9.8	10.1	10.5	12.2	15.0	13.4	13.5
Non-rec. (Exp.)/Income	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	0.0
<b>Reported PAT</b>	<b>8.2</b>	<b>8.8</b>	<b>10.0</b>	<b>11.6</b>	<b>13.9</b>	<b>19.7</b>	<b>19.1</b>	<b>22.0</b>

Balance Sheet								(INR b)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Reserves	20.7	26.7	33.8	42.3	43.8	44.3	48.2	52.6
<b>Networth</b>	<b>20.9</b>	<b>27.0</b>	<b>34.1</b>	<b>42.5</b>	<b>44.0</b>	<b>44.6</b>	<b>48.4</b>	<b>52.8</b>
Minority Interest	0.0	0.0	0.1	0.3	0.4	0.0	0.0	0.0
Loans	1.3	1.2	2.0	1.6	15.4	16.1	16.1	15.3
<b>Capital Employed</b>	<b>22.3</b>	<b>28.2</b>	<b>36.2</b>	<b>44.4</b>	<b>59.8</b>	<b>60.7</b>	<b>64.5</b>	<b>68.1</b>
Gross Block	18.1	12.3	15.6	20.6	24.8	27.6	31.6	34.6
Less: Accum. Depn.	-9.8	-2.0	-3.4	-5.0	-7.4	-9.3	-11.8	-14.6
<b>Net Fixed Assets</b>	<b>8.3</b>	<b>10.3</b>	<b>12.2</b>	<b>15.6</b>	<b>17.4</b>	<b>18.2</b>	<b>19.8</b>	<b>20.0</b>
Goodwill on consolidation	1.2	1.3	1.3	1.3	1.4	1.4	1.4	1.4
Capital WIP	0.9	0.3	2.0	1.0	0.4	0.4	0.4	0.4
Investments	7.9	4.9	10.8	14.8	28.9	30.5	32.9	36.0
Current	6.6	3.6	8.9	9.2	14.1	15.7	18.1	21.1
Non-current	1.3	1.3	1.9	5.6	14.8	14.8	14.8	14.8
Deferred Liability	-0.4	-0.2	-0.2	-0.1	-0.1	-0.1	-0.1	-0.1
<b>Currents Assets</b>	<b>16.2</b>	<b>24.1</b>	<b>25.4</b>	<b>29.6</b>	<b>30.1</b>	<b>31.0</b>	<b>33.0</b>	<b>36.2</b>
Inventory	4.4	6.6	6.5	7.8	7.4	8.8	9.8	11.3
Account Receivables	1.7	1.8	3.0	3.9	3.2	3.9	4.3	5.0
Cash and Bank Balance	0.9	1.2	1.9	1.1	1.2	1.7	2.2	3.0
Others	9.2	14.5	13.9	16.8	18.3	16.5	16.6	16.9
<b>Curr. Liab. &amp; Prov.</b>	<b>12.7</b>	<b>12.9</b>	<b>15.7</b>	<b>18.0</b>	<b>18.5</b>	<b>21.0</b>	<b>23.0</b>	<b>25.9</b>
Account Payables	7.7	7.6	9.9	11.4	11.2	12.9	14.2	16.4
Other Liabilities	5.0	5.3	5.7	6.6	7.4	8.0	8.7	9.5
<b>Net Current Assets</b>	<b>3.5</b>	<b>11.2</b>	<b>9.7</b>	<b>11.7</b>	<b>11.6</b>	<b>10.1</b>	<b>10.0</b>	<b>10.3</b>
<b>Net Assets</b>	<b>22.3</b>	<b>28.2</b>	<b>36.2</b>	<b>44.4</b>	<b>59.8</b>	<b>60.7</b>	<b>64.5</b>	<b>68.1</b>

E: MOFSL Estimates

## Financials and valuations

<b>Ratios</b>								
<b>Y/E March</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
<b>Basic (INR)</b>								
<b>EPS</b>	<b>34.3</b>	<b>36.8</b>	<b>41.8</b>	<b>48.1</b>	<b>58.6</b>	<b>82.1</b>	<b>79.4</b>	<b>91.5</b>
BV/Share	87.2	112.4	141.9	177.0	183.1	185.4	201.3	219.6
DPS	10.0	11.0	12.5	15.0	35.0	65.7	63.5	73.2
Payout (%)	29.1	29.9	29.9	31.2	59.7	80.0	80.0	80.0
<b>Valuation (x)</b>								
P/E	97.2	90.6	79.8	69.3	56.9	40.6	42.0	36.5
EV/Sales	9.4	8.8	8.0	7.1	6.8	6.0	5.5	4.8
EV/EBITDA	65.3	62.3	52.6	45.4	42.7	30.2	30.6	26.6
P/BV	38.3	29.7	23.5	18.9	18.2	18.0	16.6	15.2
Dividend Yield	0.3	0.3	0.4	0.4	1.0	2.0	1.9	2.2
<b>Return Ratios (%)</b>								
RoE	49.5	36.9	32.9	30.2	32.6	44.6	41.1	43.5
RoCE	41.1	31.1	27.9	25.5	24.1	29.9	27.6	29.9
RoIC	80.0	45.6	41.5	41.9	44.3	63.0	60.6	68.7
<b>Working Capital Ratios</b>								
Debtor (Days)	7	7	11	13	10	11	11	11
Asset Turnover (x)	3.8	3.2	2.7	2.5	1.9	2.2	2.2	2.4
<b>Leverage Ratio</b>								
Debt/Equity (x)	0.1	0.0	0.1	0.0	0.3	0.4	0.3	0.3

<b>Cash Flow Statement</b>								<b>(INR b)</b>
<b>Y/E March</b>	<b>2016</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>	<b>2021E</b>	<b>2022E</b>	<b>2023E</b>
OP Profit	12.2	13.0	15.2	17.7	18.4	26.4	25.5	29.4
Dep	1.1	1.2	1.4	1.6	1.8	1.9	2.5	2.8
Financial Other Income	-0.4	-0.5	-0.5	-0.5	-0.7	-3.5	-3.7	-4.2
Net Interest Paid	0.7	0.8	1.0	1.3	1.0	1.2	1.3	1.4
Direct Taxes Paid	4.0	4.0	5.0	6.0	5.0	6.6	6.4	7.4
Inc in WC	-1.3	4.5	-2.3	0.0	-1.3	-2.0	-0.5	-0.5
<b>CF from Operations</b>	<b>9.6</b>	<b>4.4</b>	<b>12.5</b>	<b>11.6</b>	<b>14.8</b>	<b>19.1</b>	<b>17.1</b>	<b>19.8</b>
(Inc)/Dec in FA	-2.5	-3.5	-4.2	-4.0	-2.4	-2.8	-4.0	-3.0
<b>Free Cash Flow</b>	<b>7.1</b>	<b>0.9</b>	<b>8.3</b>	<b>7.6</b>	<b>12.4</b>	<b>16.3</b>	<b>13.1</b>	<b>16.8</b>
(Pur.)/Sale of Investments	-2.1	3.6	-5.4	-3.3	-13.3	-1.6	-2.4	-3.1
Other Non Rec Exp	-3.9	-1.2	0.1	-1.5	0.4	2.1	6.3	6.9
<b>CF from Investments</b>	<b>-8.5</b>	<b>-1.1</b>	<b>-9.5</b>	<b>-8.8</b>	<b>-15.3</b>	<b>-2.3</b>	<b>-0.1</b>	<b>0.9</b>
Issue of Shares	0.0	0.1	0.2	0.3	7.4	0.0	0.0	0.0
Inc in Debt	0.0	0.0	0.0	-0.4	-2.3	0.7	0.0	-0.8
Dividend Paid	2.3	2.9	3.2	3.5	4.3	15.8	15.3	17.6
Other Item	0.2	0.1	-0.7	-0.1	0.2	1.2	1.3	1.4
<b>CF from Fin. Activity</b>	<b>-2.5</b>	<b>-3.0</b>	<b>-2.3</b>	<b>-3.5</b>	<b>0.6</b>	<b>-16.2</b>	<b>-16.6</b>	<b>-19.8</b>
<b>Inc/Dec of Cash</b>	<b>-1.4</b>	<b>0.3</b>	<b>0.7</b>	<b>-0.8</b>	<b>0.1</b>	<b>0.5</b>	<b>0.4</b>	<b>0.8</b>
Add: Beginning Balance	2.3	0.9	1.2	1.9	1.1	1.2	1.7	2.2
<b>Closing Balance</b>	<b>0.9</b>	<b>1.2</b>	<b>1.9</b>	<b>1.1</b>	<b>1.2</b>	<b>1.7</b>	<b>2.2</b>	<b>3.0</b>

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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