Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Britannia Industries Ltd

Q1 impacted by high base; Focus remains on achieving steady growth

Consumer Goods | Sharekhan code: BRITANNIA | Result Update

Stock Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 3,504**	
Price Target: **Rs. 4,200**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

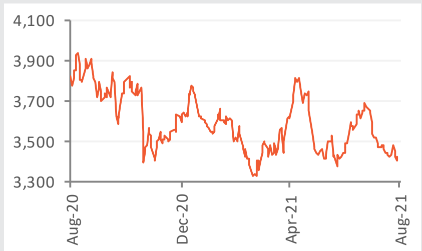
Company details

Market cap:	Rs. 84,400 cr
52-week high/low:	Rs. 4,004 / 3,318
NSE volume: (No of shares)	5.4 lakh
BSE code:	500825
NSE code:	BRITANNIA
Free float: (No of shares)	11.9 cr

Shareholding (%)

Promoters	50.6
FII	19.8
DII	11.1
Others	18.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.2	2.0	-0.5	-7.2
Relative to Sensex	-2.1	-7.8	-9.4	-50.6

Sharekhan Research, Bloomberg

Summary

- Q1FY2022 performance was affected by high base of Q1FY2021. Revenue stood flat and OPM down 469 bps to 16.3%. On a two-year CAGR basis, revenue and operating profit grew 12% and 19%, respectively.
- Britannia continues to gain market share in key markets. Management is focusing on achieving high single-digit to low double-digit volume growth.
- Raw-material inflation stands at 8-9%. Calibrated price hikes and cost efficiencies would help in mitigating the impact.
- The stock has underperformed the broader indices and is trading at attractive valuation of 38x its FY2023E EPS. We maintain Buy with an unchanged PT of Rs. 4,200.

Britannia Industries Limited's (Britannia) Q1FY2022 performance is not strictly comparable on a y-o-y basis due to high base of Q1FY2021, which witnessed ~27% revenue growth (driven by 25% volume growth) and operating profit margin (OPM) expanding by 634 bps to 21% due to better operating leverage, benign input prices, and lower advertisement spends. Hence, for Q1FY2022, revenue stood flat (with 1% volume growth) and OPM decreased by 470 bps to 16.3% mainly because of raw-material inflation (gross margin fell by 296 bps y-o-y) and restoration of investments behind brands (other expenses up 164 bps y-o-y). However, looking at the performance from a two-year CAGR basis, revenue and operating profit grew by 12% and 19%, respectively. Focus states continue to perform well and growth in Q1FY2022 was 1.33x ahead of average three years. Key channels, including modern trade and Canteen Stores Department (CSD), are seeing recovery, while e-commerce continues to perform well (now 2% of sales), which aided channel growth back to 1.12x in Q1FY2022 compared to 1.0x in Q1FY2020 (and 0.96x in Q1FY2021). International business and adjacencies together saw 17% and 20% dip in revenue and operating profit, respectively. International business was affected by less availability of export containers, while large impact of adjacencies was seen on out-of-home categories. However, the company has taken steps to revamp its international business: 1) distribution revamp in the Middle East and 2) entry into commercial tie-ups in Egypt and Uganda to cater to more regions. Going ahead, Britannia is focusing on achieving 8-10% volume growth in the medium term. This will be done through market share gains, distribution expansion, improved penetration in the Hindi speaking belt, and new product launches. The company has a strong pipeline of new products and will launch relevant new products in the backdrop of a normal demand environment. New product launches will be largely in the health and wellness and premium categories. Raw-material inflation is 9-10% (including fuel inflation). The company is focusing on mitigating it through cost efficiencies (leading to saving 200-300 bps) and calibrated price increase. Further, with focus on gaining more efficiencies in the coming years, the company has launched three new digital programmes S4 HANA (core ERP programme), Arteria (dealer management), and vendor management. The company is targeting OPM of 16-17% in FY2022, which will continue to improve in the subsequent years. The company has planned for capex of Rs. 130 crore-140 crore in FY2022 (capex for next four years is Rs. 800 crore).

Key positives

- Revenue grew by 10% q-o-q, OPM stood almost flat at 16% sequentially.
- Asset turnover at new commissioned Ranjangaon facility is 1.84x, which will go upto 2.5x.
- Focus states are growing at 1.33x their last three years' average.
- Inter-corporate deposits to group companies reduced to Rs. 470 crore from Rs. 790 crore in March 2021.

Key negatives

- Raw-material inflation of 9% led to gross margin decline of 296 bps y-o-y.
- Out-of-home adjacent categories are yet to recover to pre-COVID levels.

Our Call

View: Retain Buy with an unchanged PT of Rs. 4,200: We have reduced our estimates for FY2022/FY2023 by 7%/4% to factor in lower-than-estimated OPM earlier. Q1FY2022 performance can be considered as an aberration due to high base of Q1FY2021. With normalisation in base and resurgence in demand, we expect performance to improve in the quarters ahead. We expect growth in Britannia's biscuit volumes to beat the category's growth in the coming years. This along with scale-up in revenue of adjacent categories and efficiencies would help Britannia to achieve double-digit earnings growth over FY2021-FY2023E. The stock has underperformed the broader indices for the past one year and is currently trading at 38x its FY2023E EPS, which is a significant discount to its large five years' average multiple of 45x. Thus, in view of favourable risk-reward ratio and steady earnings visibility, we maintain Buy on the stock with an unchanged price target (PT) of Rs. 4,200.

Key risk

Any slowdown in sales of key categories or significant increase in key input prices from the current level would act as a key risk our earnings estimates in the near term.

Valuation (Consolidated) Rs cr

Particulars	FY19	FY20	FY21	FY22E	FY23E
Revenue	11,055	11,600	13,136	14,689	16,569
OPM (%)	15.7	15.9	19.1	17.3	18.0
Adjusted PAT	1,156	1,410	1,850	1,890	2,253
% YoY growth	*15.2*	*21.9*	*31.2*	*2.1*	*19.2*
Adjusted EPS (Rs.)	48.1	58.6	76.8	78.4	93.5
P/E (x)	72.9	59.7	45.6	44.7	37.5
P/B (x)	19.8	19.1	23.8	19.9	16.0
EV/EBIDTA (x)	48.8	46.7	34.5	33.3	28.2
RoNW (%)	30.2	32.6	46.5	48.6	47.4
RoCE (%)	28.0	26.7	31.3	32.8	36.0

Source: Company; Sharekhan estimates

Consolidated performance stood flat on high base; OPM decreased by 469 bps: Britannia's Q1FY2022 performance is not comparable on a y-o-y basis due to a high base of Q1FY2021, which was boosted by pantry loading and higher in-house consumption, resulting in 27% growth in revenue and 2x growth in PAT. In Q1FY2022, revenue stood flat on a y-o-y basis at Rs. 3,403.5 crore, ahead of our expectation of Rs. 3,091.7 crore and street expectation of Rs. 3,131.5 crore. Revenue grew by ~10% q-o-q. Raw-material inflation resulted in gross margin declining by 296 bps y-o-y and 178 bps q-o-q to 38.7%. This along with increased advertisement and promotional spends resulted in a 469 bps decline in OPM to 16.3% as against our expectation of 16.8% and street expectation of 17.4%. Operating profit decreased by ~23% to Rs. 553.8 crore. Other income stood lower by 35% y-o-y to Rs. 60.5 crore. This along with a decline in margins led to a 29% y-o-y decrease in PAT to Rs. 387 crore, slightly lower than our expectation of Rs. 397 crore and street expectation of Rs. 398.6 crore.

Key Conference call takeaways

- Operations were fully on stream in Q1FY2022. There was no material impact of the second wave on production and supply of products. Management is disappointed on the marketing and sales front as the front-end team was unable to visit the market due to stringent safety norms followed by the company. However, as of now, 90% of the front-end team is on field and the company expects sales to improve in the coming quarters.
- Innovation remains at the core of Britannia's growth strategy. However, COVID-19 led disruption has slowed down the pace of innovations in the market. The company launched two new products – Good Day Chocochip and Britannia 5050 Potazos (combination of chip and biscuit). The new launches were backed by strong media and promotional activities. The company has a strong pipeline of new launches, which will be largely based on the health and wellness platform to be introduced in the market. After the launch of wafer biscuit, the company is planning to launch wafer sticks and would launch Milk Bikis classic. 5050 Potazos are currently manufactured in its North eastern facility and the company will add the product line in three of its existing facilities to expand the product's reach in the coming quarters. The company is also planning to launch more variants/add-on under the Nutri-Choice brand.
- New communication of 100% atta helped Milk Bikis to gain strong traction in the value segment. Many consumers are upgrading to Milk Bikis in the value segment (especially in the Hindi speaking belt). The company is planning to improve its product penetration in the Hindi-speaking belt through various promotional and endorsement activities.
- The company has launched three new digital programmes to gain benefits, both on the revenue and profitability front in the long run. S4 HANA (Core ERP; implemented at 80+ factories; and 60+ deports) will help in material resource planning, warehouse management system, and profitability analysis. Arteria will give advantage over competitors to track real-time sales data of 20 lakh+ outlets, which will help in creating orders. It will also help in integrated scheme management and price and promotion controls. Vendor management would help in sourcing, digital contracts, and catalogue buying, covering 500 vendors. The company's inventory with distributors has reduced by 25% and lot of efficiencies have been seen at the supply end.
- International business was affected by non-availability of container affecting export sales in Q1FY2022. However, with easing of the pandemic situation in most countries, supply issue is resolved and export sales will sequentially improve in the coming quarters. In Middle East, the company has changed its distributor partner and improved its marketing and promotional activities. With change in distributor partner, Middle East is expected to perform well in the coming quarters. Moreover, the company has entered into operational tie-ups in countries such as Egypt and Uganda with a focus on expanding business in the African region. Nepal continues to perform well for the company and registered double-digit growth of 26% during the quarter.

- Adjacencies performance was affected as out-of-consumption categories were affected due to lesser mobility. However, the company expects the same to revive in the quarters ahead.
- In Q1FY2022, raw-material inflation for the company stood at 8-9% (along with fuel inflation of 1-2%). The company is banking on calibrated price hikes, better mix, and cost efficiencies (savings of around 200-300 bps) to mitigate the impact of raw-material inflation.
- Britannia's direct distribution reach, which fell to 19.7 lakh outlets in March 2020, improved to 20.8 lakh outlets in June 2021 (lower than March 2021 levels of 23.7 lakhs due to disruption caused by the second wave). The number of rural-preferred dealers rose to 23,000 in June 2021, slightly better than 19,000 in March 2020. The company has maintained its thrust on scaling up its direct and rural distribution in the coming years. Growth in key channels (including modern trade, E-commerce) is 1.12x of Q1FY2020 levels. E-commerce contribution as a percentage to sales has gone up to 2% (from 0.5%) and the company is targeting it to go upto 5% in the medium term.
- The company has planned for capex of Rs. 130 crore-140 crore in FY2022 (capex of the next four years is Rs. 800 crore). Capex would be largely in expanding capacities in some of the existing plants (including new commission Ranjangaon facility). Further, the company is planning to come up with two new facilities in Tamil Nadu and Uttar Pradesh to cater to increased demand for its products.
- Britannia has spent around Rs. 650 crore to set-up a facility in Ranjangaon, Pune. At current utilisation (10% of total production), the company is generating revenue of Rs. 1,200 crore (1.84x asset/turnover ratio). The company is planning to add one rusk line and few lines of biscuits, which will help revenue to scale up to Rs. 1,600 crore at optimum utilisation (asset turnover to go up to 2.5x). Dairy facility will come on stream from Q2FY2023.
- Inter-corporate deposit to group companies has reduced to Rs. 470 crore from Rs. 790 crore in March 2021.

Results (Consolidated) Rs cr

Particulars	Q1FY22	Q1FY21	yoy%	Q4FY21	QoQ%
Sales	**3351.9**	**3384.5**	**-1.0**	**3038.1**	**10.3**
Other operating income	51.5	36.2	42.3	92.6	-44.4
Total revenues	**3403.5**	**3420.7**	**-0.5**	**3130.8**	**8.7**
Raw material cost	2086.5	1995.9	4.5	1863.6	12.0
Employee cost	139.3	137.0	1.7	124.2	12.2
Other expenses	623.9	570.9	9.3	637.5	-2.1
Total operating expenses	2849.7	2703.7	5.4	2625.4	8.5
Operating Profit	**553.8**	**716.9**	**-22.8**	**505.4**	**9.6**
Other income	60.5	93.7	-35.5	63.2	-4.3
Interest expenses	34.2	25.6	33.6	23.7	44.4
Depreciation	49.1	48.0	2.3	52.8	-7.1
Profit before tax	531.0	737.0	-28.0	492.1	7.9
Tax charges	144.2	194.4	-25.8	132.6	8.7
Reported PAT	**387.0**	**542.7**	**-28.7**	**359.5**	**7.7**
EPS (Rs.)	**16.1**	**22.6**	**-28.7**	**15.0**	**7.6**
			bps		bps
Gross margin (%)	38.7	41.7	-296	40.5	-178
OPM (%)	16.3	21.0	-469	16.1	13
NPM (%)	11.4	15.9	-449	11.5	-11
Tax rate (%)	27.2	26.4		26.9	

Source: Company; Sharekhan Research

Results (standalone) Rs cr

Particulars	Q1FY22	Q1FY21	yoy%	Q4FY21	QoQ%
Total Revenue	**3236.2**	**3219.9**	**0.5**	**2952.6**	**9.6**
Operating Profit	523.7	671.8	-22	487.8	7.4
Other income	152	87.3	74.1	134.3	13.2
PBT	602.7	697.1	-13.5	478.7	25.9
Reported PAT	**465.9**	**515.9**	**-9.7**	**353.5**	**31.8**
			bps		bps
Gross margin (%)	37.2	40.2	-299	40.5	-334
OPM (%)	16.2	20.9	-468	17.8	-166
NPM (%)	14.4	16	-163	13.2	121
Tax rate (%)	22.7	26		26.1	

Source: Company; Sharekhan Research

Subsidiaries performance* Rs cr

Particulars	Q1FY22	Q1FY21	yoy%	Q4FY21	QoQ%
Total revenue	**167.3**	**200.8**	**-16.7**	**178.1**	**-6.1**
Operating Profit	30.1	45.2	-33.4	17.6	71.1
Reported PAT	**-78.9**	**26.8**	**-**	**6.0**	**-**
			bps		bps
OPM (%)	18.0	22.5	-452	9.9	811
NPM (%)	-	13.4		3.4	

Source: Company; Sharekhan Research
** Difference between consolidated and standalone*

Outlook and Valuation

■ Sector View – Demand remains resilient; Margins to improve sequentially

Quarterly commentary of most consumer goods companies indicated strong sales recovery from June-July 2021 with easing of lockdown restrictions in most parts of India. Demand, which started recovering from Q3FY2021, remained resilient in Q1FY2022. With a normal monsoon expected for the third consecutive year, agricultural production is predicted to be better in Kharif season 2021. This will give a further boost to rural demand in the coming quarters. We believe the shift in demand for branded products, rural demand staying ahead of urban demand, gradual recovery in out-of-home categories, and product launches remain key catalysts for revenue growth in the near to medium term. On the other hand, prices of key raw materials (including palm oil, copra, and raw tea) have started correcting from their high. The substance of same along with calibrated price hikes would enable consumer goods companies to post better OPM on a sequential basis. Profitability is likely to be better off in H2FY2022. Improving revenue mix and better operational efficiencies remain key margin drivers in the medium term.

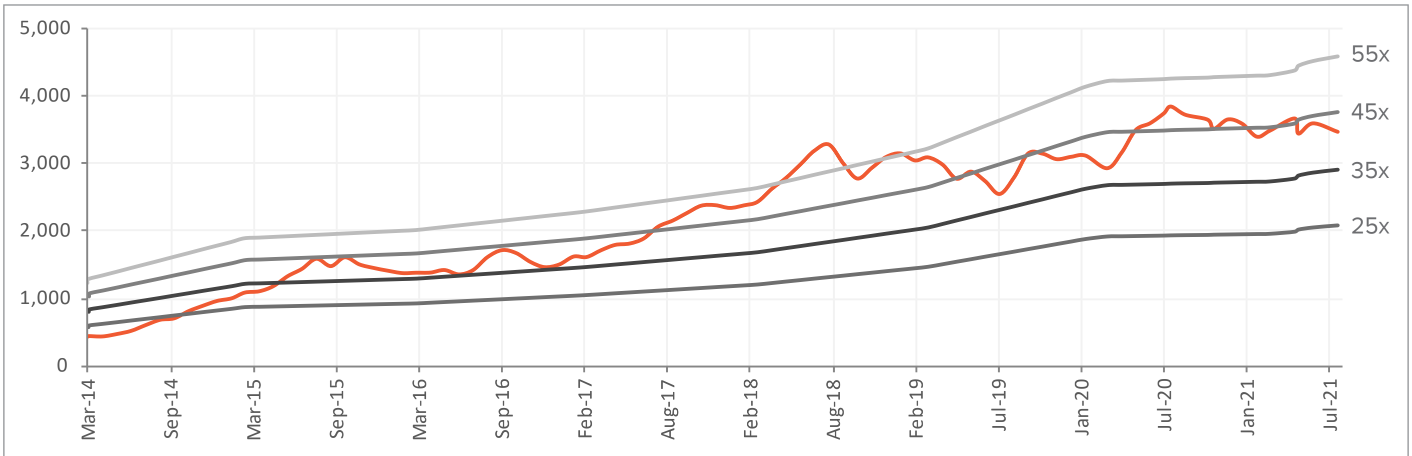
■ Company Outlook – Focus on achieving close to low double-digit volume growth in the medium term

Britannia is focusing on achieving 8-10% volume growth in the medium term. This will be done through market share gains, distribution expansion, improved penetration in the Hindi speaking belt, and new product launches. The company has a strong pipeline of new products and will launch relevant new products in the backdrop of a normal demand environment. New product launches will be largely in the health and wellness and premium categories. Raw-material inflation is 9-10% (including fuel inflation). The company is focusing on mitigating it through cost efficiencies (leading to saving of 200-300 bps) and calibrated price increase. Further, with a focus on gaining more efficiencies in the coming years, the company has launched three new digital programmes – S4 HANA (core ERP programme), Arteria (dealer management), and vendor management. The company is targeting OPM of 16-17% in FY2022, which will continue to improve in the subsequent years.

■ Valuation – Retain Buy with an unchanged PT of Rs. 4,200

We have reduced our estimates for FY2022/FY2023 by 7%/4% to factor in lower- than-estimated OPM earlier. Q1FY2022 performance can be considered as an aberration due to high base of Q1FY2021. With normalisation in base and resurgence in demand, we expect performance to improve in the quarters ahead. We expect growth in Britannia's biscuit volumes to beat the category's growth in the coming years. This along with scale-up in revenue of adjacent categories and efficiencies would help Britannia to achieve double-digit earnings growth over FY2021-FY2023E. The stock has underperformed the broader indices for the past one year and is currently trading at 38x its FY2023E EPS, significant discount to its large five-year average multiple of 45x. Thus, in view of favourable risk-reward ratio and steady earnings visibility, we maintain Buy on the stock with an unchanged PT of Rs. 4,200.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Hindustan Unilever	67.3	55.2	47.1	47.9	40.0	34.2	36.5	27.2	31.4
Nestle India*	82.0	68.0	57.8	52.8	46.1	40.0	136.4	139.7	142.5
Britannia	45.6	44.7	37.5	34.5	33.3	28.2	31.3	32.8	36.0

Source: Company, Sharekhan estimates
**Values for Nestle India are for CY2020, CY2021E and CY2022E*

About company

Britannia is one of India's leading packaged food companies with a 100-year legacy and annual revenue in excess of Rs. 13,000 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 FY2022 will be boosted by market share gains, distribution expansion, improved penetration in the Hindi speaking belt, and new product launches. Operating efficiencies and stable raw material prices would help OPM expansion to sustain, which is expected to reach 17.3% 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.0
2	JP Morgan Chase & Co	1.7
3	General Insurance Corp of India	1.6
4	Arisaig Partners Asia Pte Ltd	1.5
5	Blackrock Inc	1.4
6	SBI Funds Management Pvt Ltd	1.4
7	Vanguard Group Inc	1.3
8	Kotak Mahindra Asset Management Co	1
9	Arisaig India Fund Ltd	1.1
10	Mirae asset global investment company	0.8

Source: Bloomberg (Old data)

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

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