

Britannia Industries

Estimate change

TP change

Rating change



Bloomberg	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USDb)	851.4 / 11.4
52-Week Range (INR)	4152 / 3306
1, 6, 12 Rel. Per (%)	-2/-7/-24
12M Avg Val (INR M)	1683

Financials & Valuations (INR b)

Y/E March	2022E	2023E	2024E
Sales	140.5	159.9	181.9
Sales Gr. (%)	6.9	13.8	13.7
EBITDA	21.7	25.8	31.2
Margins (%)	15.5	16.2	17.2
Adj. PAT	15.3	18.4	22.4
Adj. EPS (INR)	63.7	76.3	93.0
EPS Gr. (%)	-17.1	19.7	21.9
BV/Sh.(INR)	196.8	212.0	230.6

Ratios

RoE (%)	37.0	37.3	42.0
RoCE (%)	23.6	25.4	29.7
Payout (%)	80.0	80.0	80.0

Valuations

P/E (x)	55.6	46.4	38.1
P/BV (x)	18.0	16.7	15.4
EV/EBITDA (x)	38.1	32.0	26.3
Div. Yield (%)	1.4	1.7	2.1

Shareholding pattern (%)

As On	Dec-21	Sep-21	Dec-20
Promoter	50.6	50.6	50.6
DII	11.5	11.5	10.7
FII	17.6	17.7	17.7
Others	20.3	20.3	21.1

FII Includes depository receipts

CMP: INR3,535

TP: INR4,180 (+18%)

Buy

In-line result, material cost pressure is an overhang

- Though BRIT's 3QFY22 result was broadly in line with expectations, the recovery on margins is likely to take longer than anticipated.
- Positives from the results were: a) about 6% base business volume growth, which was creditable given that grammage reduction has played a key role in the 8% effective price increase YTD; b) overall volume growth of 6% and sales growth of 13% that were still better than staple peers; and c) continued market share gains, with healthy performance in rural India (unlike staples peers). BRIT also saw good traction in Milk Bikis and Potazos.
- Conversely, the key overhangs included: a) higher-than-expected material cost inflation that escalated pressure on gross margin (especially for a business with ~40% gross margin) and b) sequential increase in ICDs for two quarters (albeit still down v/s Mar'21 level).
- We believe massive investments in distribution and capacity expansion (both of which are largely complete) in recent years would lead to double-digit sales growth. Margin will bounce back once the ongoing commodity cost pressures abate leading to high teens earnings growth. Maintain **BUY**.

Largely in-line quarter

- **BRIT's 3QFY22 consolidated sales rose 12.9% YoY to INR35.7b** (in line). Consolidated EBITDA declined 11.7% YoY to INR5.4b (in line). Consolidated PBT dipped 17.4% YoY to INR5.1b (in-line), while consolidated Adj. PAT decreased 18.1% YoY to INR3.7b (in line).
- Base business volume growth was at ~6% in 3QFY22 (in line).
- Consolidated gross margin contracted 520bp YoY to 37.9%.
- Lower staff costs (-60bp YoY) and lower other expenses (-40bp YoY) led to **in-line EBITDA margin contraction of 420bp YoY to 15.1%**.
- BRIT's sales grew 5.8% YoY in 9MFY22, while EBITDA/Adj. PAT declined 17.6%/23.6% YoY, respectively.

Highlights from the management commentary

- **Healthy rural growth:** BRIT's rural growth was 2x that of urban growth, unlike the rural slowdown mentioned by peers.
- **Market share growth** continued and BRIT widened its share versus Parle during both 9MFY22 and 3QFY22.
- **Price increases** (YTD 8% of which 4-5% have been in the form of grammage reduction) have addressed cost inflation until 2QFY22, when inflation was 14% YoY. Management will evaluate further actions to address additional cost increases of ~4% and 1.5% in 3QFY22 and 4QFY22 QTD, respectively. BRIT has planned further price increases of 2% in 4QFY22 but it will need 4% hike to offset the entire RM inflation, which is higher than expected.
- **New initiatives:** Potazos (a bridge between snacks and biscuits) is tracking an annual run rate of INR700m sales and seeing further growth MoM. Milk Bikis has become a national brand now and it has been a key sales and volume growth driver recently. Tiger Crunch is an INR3b brand now.

Krishnan Sambamoorthy – Research Analyst (Krishnan.Sambamoorthy@MotilalOswal.com)

Research Analyst: Dhairya Dhruv (Dhairya.Dhruv@MotilalOswal.com)/Kaiwan Jal Olia (kaiwan.o@motilaloswal.com)

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Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- **Group ICDs stood at ~INR 5.8b in Dec'21.** While these were well below the INR7.9b level in Mar'22, there has been a sequential increase in each of the past two quarters from INR5.05b in Sep'21 and INR 4.7b in Jun'21.

Valuation and view: Result in line; valuation inexpensive – Reiterate BUY

- While BRIT's in-line result meant no material change in FY22 EPS, the ongoing commodity cost inflation has led to 6-8% cuts in our FY23E and FY24E EPS.
- The base on margins is likely to be less challenging in subsequent quarters, and the longer term opportunity is extremely attractive.
- The stock trades at an inexpensive valuation of 38.1x FY24E given: a) a strong track record of ~18%/30% EPS CAGR in the preceding 5/10 years ended FY21, b) one of the best structural growth opportunities in the sector, and c) a best-of-breed RoE of over 35%. These valuations are at a substantial discount to its historical three-/five-year average of 48x/49x, respectively. Maintain **BUY** with a TP of INR4,180, targeting 45x FY24E EPS.

Consol. Quarterly Performance

Y/E March	FY21				FY22				FY21	FY22E	FY22	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Base business volume growth (%)	21.0	9.0	3.0	8.0	1.0	5.0	6.0	3.0	10.0	3.9	6.0	
Net Sales	34.2	34.2	31.7	31.3	34.0	36.1	35.7	34.6	131.4	140.5	35.1	1.7
YoY change (%)	26.7	12.1	6.1	9.2	-0.5	5.5	12.9	10.5	13.2	6.9	11.0	
Gross Profit	14.2	14.5	13.6	12.7	13.2	13.5	13.6	13.2	55.1	53.4	13.4	
Margin (%)	41.7	42.5	43.1	40.5	38.7	37.5	37.9	38.0	41.9	38.0	38.0	
EBITDA	7.2	6.8	6.1	5.1	5.5	5.6	5.4	5.2	25.1	21.7	5.6	(2.8)
Margin (%)	21.0	19.8	19.3	16.1	16.3	15.5	15.1	15.1	19.1	15.5	15.8	
YoY growth (%)	81.7	37.2	21.8	11.3	-22.8	-17.3	-11.7	3.2	36.1	-13.4	-9.2	
Depreciation	0.5	0.5	0.5	0.5	0.5	0.5	0.5	0.5	2.0	2.0	0.5	
Interest	0.3	0.3	0.3	0.2	0.3	0.4	0.4	0.4	1.1	1.5	0.6	
Other Income	0.9	0.7	0.8	0.6	0.6	0.5	0.6	0.6	3.1	2.3	0.7	
PBT	7.4	6.7	6.1	4.9	5.3	5.2	5.1	4.9	25.1	20.5	5.1	0.2
Tax	1.9	1.7	1.6	1.3	1.4	1.4	1.4	0.9	6.6	5.2	1.2	
Rate (%)	26.4	26.1	26.2	26.9	27.2	27.0	26.9	19.3	26.4	25.2	23.0	
Adjusted PAT	5.4	5.0	4.5	3.6	3.9	3.8	3.7	3.9	18.5	15.3	3.9	(4.9)
YoY change (%)	105.4	22.7	22.5	-3.5	-28.7	-23.0	-18.1	9.9	31.2	-17.1	-13.9	

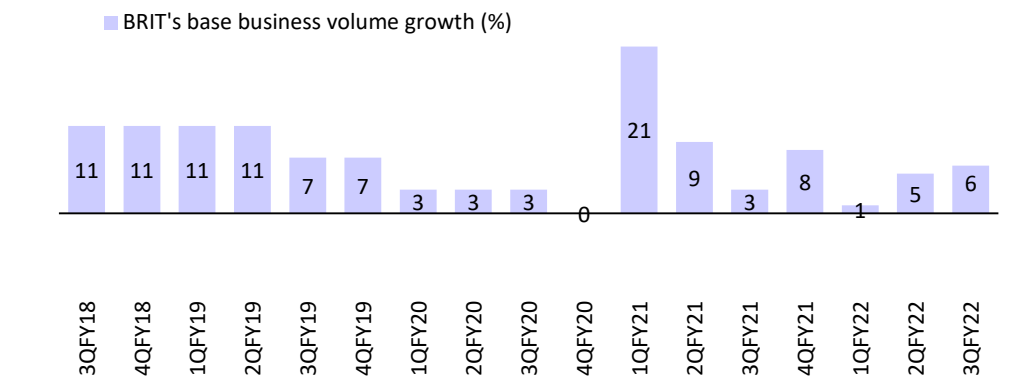
E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY21				FY22		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
2Y average growth %							
Volumes	12.0	6.0	3.0	4.0	11.0	7.0	4.5
Sales	16.4	9.2	5.5	5.8	13.1	8.8	9.5
EBITDA	41.5	22.8	16.5	7.7	29.5	9.9	5.0
PAT	53.9	28.0	22.7	11.5	38.3	-0.1	2.2
% sales							
COGS	58.3	57.5	56.9	59.5	59.7	59.1	60.3
Staff cost	4.0	3.9	4.2	4.0	4.2	4.1	4.2
Others	16.7	18.8	19.6	20.4	20.6	19.9	19.6
Depreciation	1.4	1.4	1.5	1.7	1.4	1.4	1.4
YoY change %							
COGS	24.0	7.7	2.1	7.7	4.5	14.7	23.2
Staff cost	13.6	8.8	8.4	2.7	1.7	14.2	-2.9
Others	-0.9	5.8	4.4	13.3	9.3	-0.5	10.8
Other income	38.9	7.9	26.7	-19.6	-35.5	-27.3	-33.2
EBIT	91.2	40.1	23.6	11.5	-24.6	-18.9	-13.1

Key exhibits

Exhibit 1: Volumes from BRIT's base business up 6% in 3QFY22



Source: Company, MOFSL

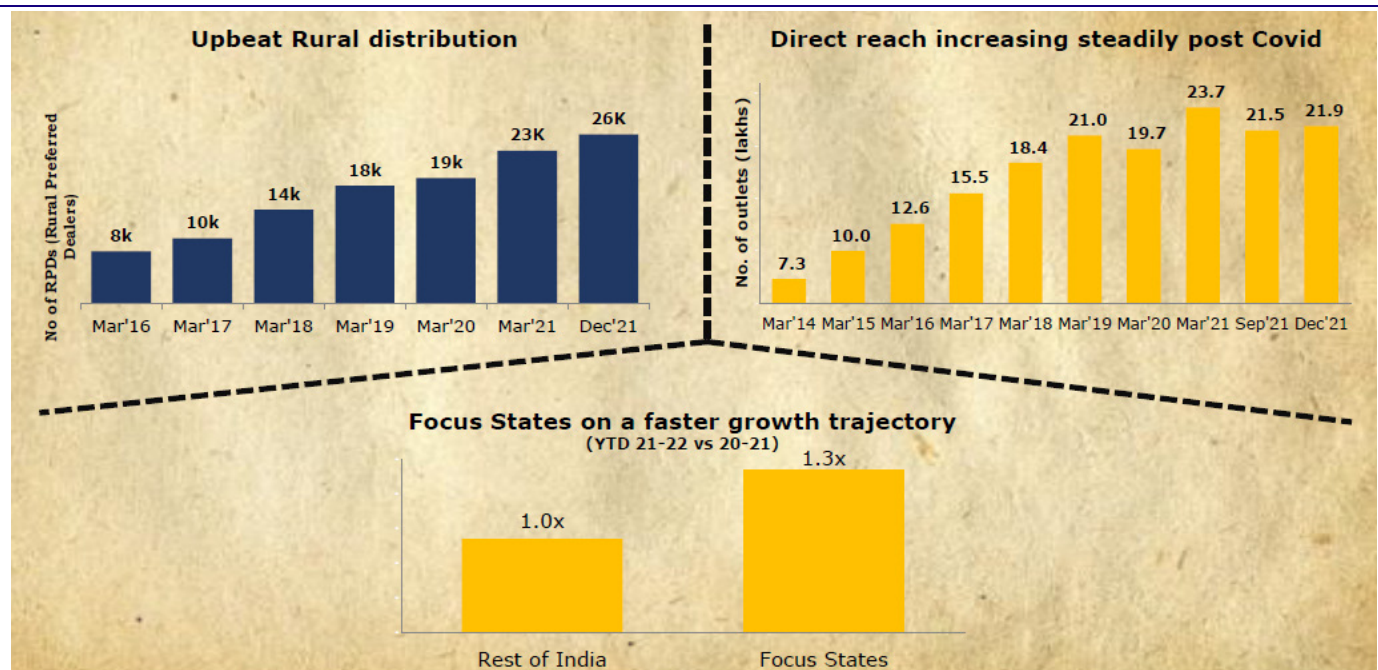
Standalone performance

- Standalone sales rose 13.3% YoY while EBITDA/Adj. PAT declined 10.2%/16.8% YoY, respectively. EBITDA margin contracted 400bp YoY to 15.2%.

Imputed subsidiary performance

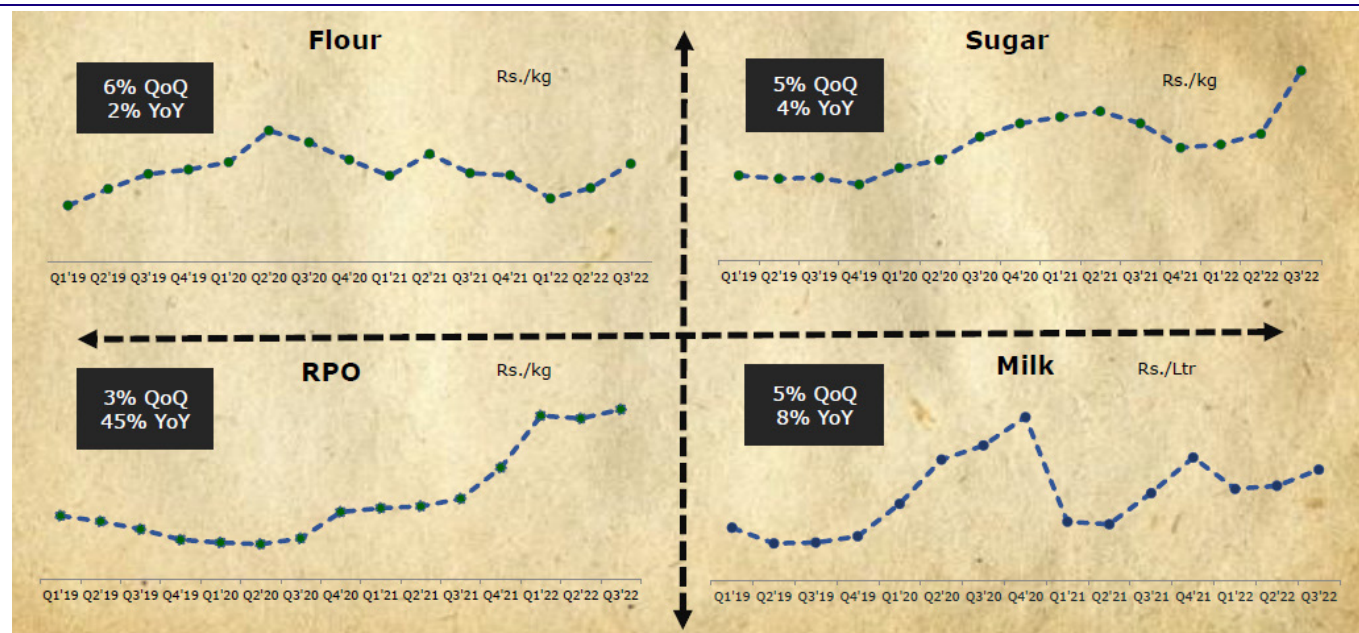
- Imputed subsidiary sales grew 7.7% YoY to INR2b while EBITDA/Adj. PAT declined 33.2%/46.6% YoY to INR273m/INR146m, respectively.

Exhibit 2: Strengthening rural distribution bolstered BRIT's rural market share



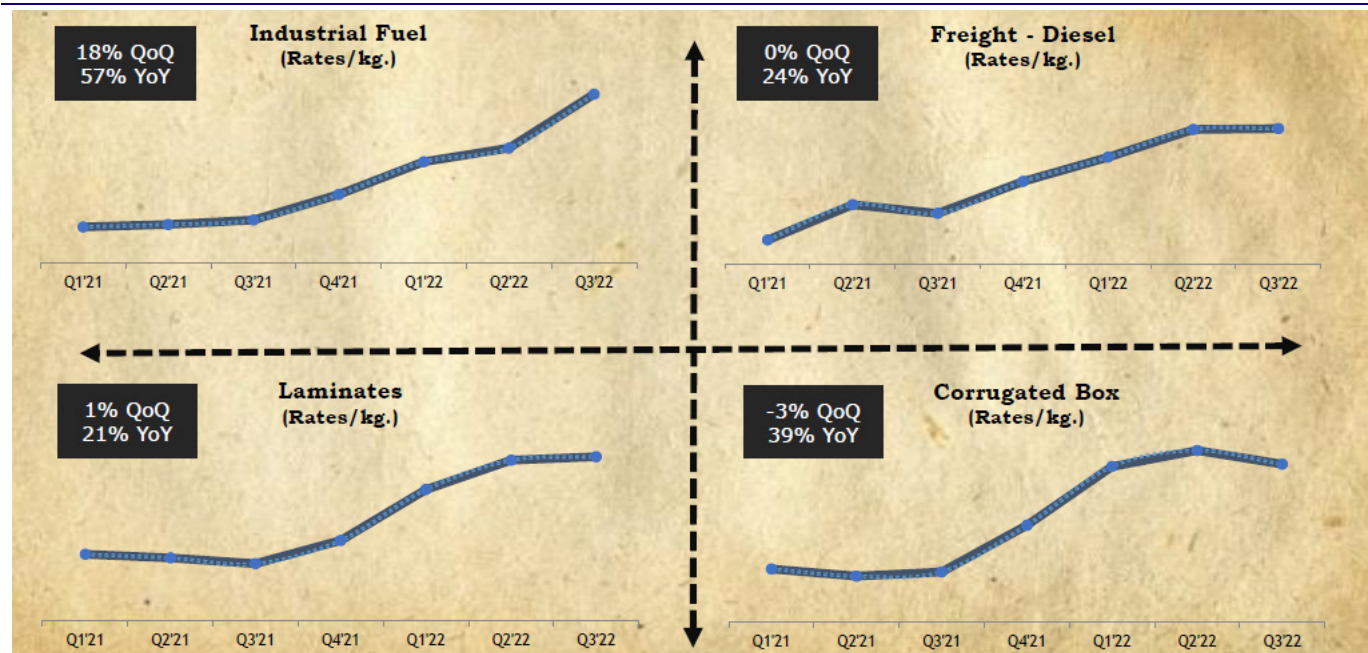
Source: Company presentation

Exhibit 3: High inflationary pressure in key commodities continued...



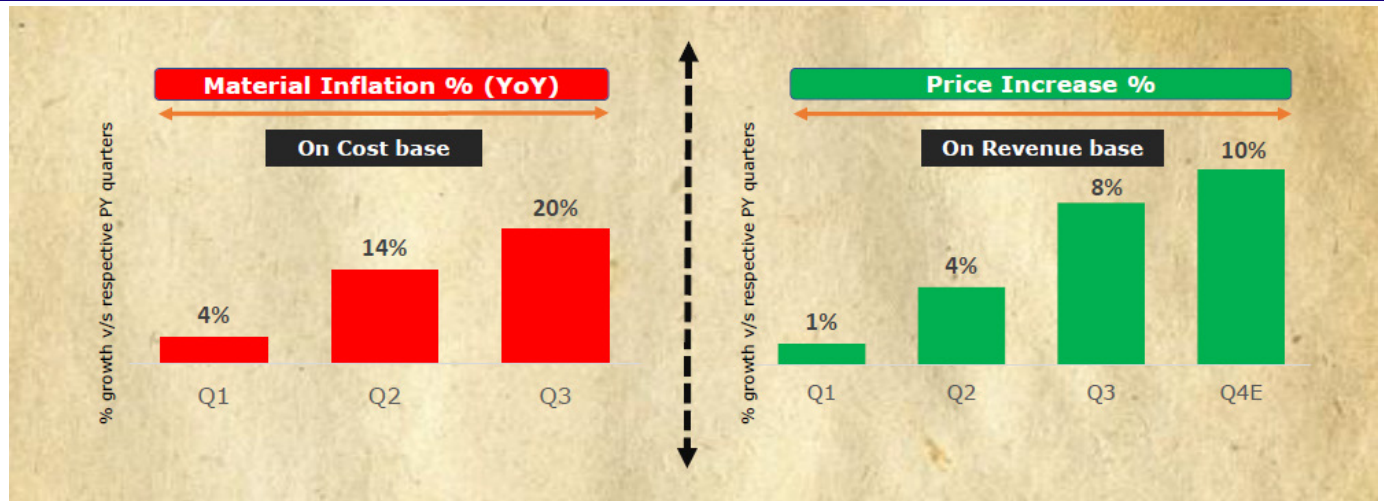
Source: Company presentation

Exhibit 4: ..along with rising other input costs, resulting in considerable pressure on gross margin



Source: Company presentation

Exhibit 5: Sharp RM inflation has necessitated price hikes



Source: Company presentation



Key takeaways from the management interaction

Rural growth is excellent

- BRIT's own rural growth was 2x that of urban growth despite rural slowdown as mentioned by FMCG peers. This was led by its continued distribution expansion in rural areas.
- Rural dealerships stood at 26,000 in Dec'21 v/s 23,000 and 19,000 in Mar'21 and Mar'20, respectively.
- There has been a temporary drop in direct reach from 2.4m outlets in Mar'21 to 2.2m outlets in Dec'21. Management sees a potential for direct reach up to 3m.
- Focus states are growing at 1.3x national average.
- BRIT registered high single-digit domestic volume growth in 3QFY22. Total consolidated volume growth was ~5%.

Market share gain

- BRIT continued to gain market share. It has widened share versus Parle in both 9MFY22 and 3QFY22.

RM inflation and response

- Wheat and sugar prices are rising internationally.
- For BRIT, wheat has seen inflation of 6% QoQ and 2% YoY. Sugar rose 5% QoQ and 4% YoY.
- BRIT's overall RM basket was up 4% QoQ and 20% YoY in 3QFY22 driven by high inflation in palm oil and packaging costs.
- BRIT has taken price increases of 8% YTD of which 4-5% have been in the form of grammage cuts. This has helped address RM cost pressure until 2QFY22, when inflation was 14% YoY.
- The company has taken 1.5% price increases so far in 4QFY22.
- The company will evaluate actions to address the higher-than-expected RM inflation in 3QFY22 along with further 1.5% inflation so far in 4QFY22. While it has planned 2% price increases in 4QFY22, BRIT will need 4% increase to offset the entire RM inflation.

- BRIT may see flattish sequential margin in 4QFY22 with improved margin from 1QFY23 onwards. Volume growth is good and the management does not want to upset the balance for now.
- The channel mix impact is still affecting margin, which will normalize gradually.

Key new brand performance/ relaunches

- Newly launched Potazos (bridge between snacks and biscuits) have now reached annual sales run rate of INR 700m. It is witnessing further growth MoM. It has better value-for-money than mainstream salty snacks majors as there is less air in the bag. Potazos is accretive to the overall margin of BRIT.
- BRIT is looking at more products in salted snacks including extruded snacks.
- Milk Bikis has become a national brand now and has been a key driver of sales and volume growth recently.
- Tiger Crunch is an INR3b brand now.
- BRIT also launched multiple flavor packs of GoodDay and relaunched the brand.
- Adjacencies are performing well:
 - Bread and Rusks are doing well on margins and growth.
 - Cakes recovery is slower.
 - Dairy and drinks are doing well now.
 - Croissants have seen strong growth in the markets where the product has been launched. BRIT has reworked the product recently to improve product quality. National launch in major cities is likely in 1QFY23.

Group ICDs

- **Group ICDs stood at ~INR 5.8b in Dec'21.** While these were well below the INR7.9b level in Mar'22, there has been a sequential increase in each of the past two quarters from INR5.05b in Sep'21 and INR 4.7b in Jun'21.

Result in line; valuation inexpensive – Reiterate BUY

What happened in the last decade?

- The last decade that ended in FY20 was a phenomenal one for BRIT due to: (a) huge market share gains, (b) a strengthening distribution reach (particularly direct reach), and (c) better product development v/s peers.
- The distribution advantage is particularly important for Foods players such as BRIT 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 would play a crucial role in its expansion to other Foods sub-categories.
- Its financial performance over the last decade has been splendid, with BRIT reporting a ~12% sales CAGR, and EBITDA and PAT CAGRs of ~27% each. This is easily among the best of breed for the decade v/s other Consumer peers. Its financial performance over the past five years (ended FY20) has also been healthy – it has reported a sales/EBITDA/PAT CAGR of ~8%/~16%/~20%, respectively.

Our view on the stock

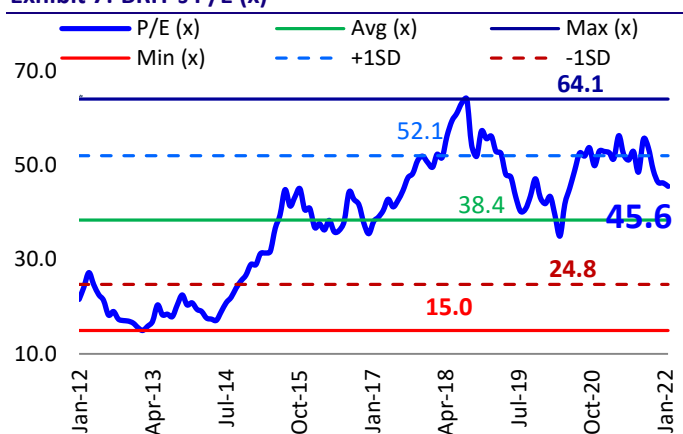
- While BRIT's in-line result meant no material change in FY22 EPS, the ongoing commodity cost inflation has led to 6-8% cuts in our FY23E and FY24E EPS.
- The base on margins is likely to be less challenging in subsequent quarters, and the longer term opportunity is extremely attractive.
- The stock trades at an inexpensive valuation of 38.1x FY24E given: a) a strong track record of ~18%/30% EPS CAGR in the preceding 5/10 years ended FY21, b) one of the best structural growth opportunities in the sector, and c) a best-of-breed RoE of over 35%. These valuations are at a substantial discount to its historical three-/five-year average of 48x/49x, respectively. Maintain **BUY** with a TP of INR4,180, targeting 45x FY24E EPS.

Exhibit 6: We reduce our FY23E/FY24E EPS by 7.5%/6.3%

(INR b)	New			Old			Change (%)		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Sales	140.5	159.9	181.9	139.7	159.0	180.9	0.5	0.5	0.6
EBITDA	21.7	25.8	31.2	22.3	27.6	32.9	-2.7	-6.4	-5.0
Adjusted PAT	15.3	18.4	22.4	15.5	19.9	23.9	-1.1	-7.5	-6.3

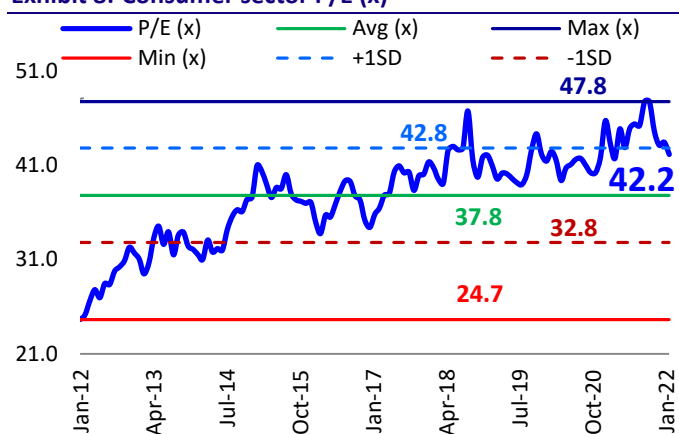
Source: Company, MOFSL

Exhibit 7: BRIT's P/E (x)



Source: Company, MOFSL

Exhibit 8: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Net Revenues	90.5	99.1	110.5	116.0	131.4	140.5	159.9	181.9
Change (%)	7.8	9.5	11.5	4.9	13.2	6.9	13.8	13.7
Gross Profit	34.7	38.1	44.9	46.7	55.1	53.4	63.1	73.7
Margin (%)	38.3	38.4	40.6	40.3	41.9	38.0	39.5	40.5
Other Expenditure	18.0	18.9	22.6	23.5	30.0	25.7	30.3	34.6
EBITDA	12.8	15.0	17.3	18.4	25.1	21.7	25.8	31.2
Change (%)	5.2	17.5	15.4	6.3	36.1	-13.4	18.9	20.9
Margin (%)	14.1	15.1	15.7	15.9	19.1	15.5	16.2	17.2
Depreciation	1.2	1.4	1.6	1.8	2.0	2.0	2.3	2.6
Int. and Fin. Charges	0.1	0.1	0.1	0.8	1.1	1.5	1.7	1.8
Financial Other Income	1.5	1.7	2.1	2.8	3.1	2.3	2.7	3.1
PBT	13.0	15.2	17.7	18.6	25.1	20.5	24.6	29.9
Tax	4.0	5.1	6.0	4.5	6.6	5.2	6.2	7.5
Deferred Tax	0.2	0.0	0.1	0.0	0.1	0.0	0.0	0.0
Tax Rate (%)	32.2	33.9	34.6	24.2	26.4	25.2	25.2	25.2
PAT	8.8	10.0	11.6	14.1	18.5	15.3	18.4	22.4
Change (%)	7.3	13.6	15.2	21.9	31.2	-17.1	19.7	21.9
Margin (%)	9.8	10.1	10.5	12.2	14.1	10.9	11.5	12.3
Non-rec. (Exp.)/Income	0.0	0.0	0.0	-0.2	0.0	0.0	0.0	0.0
Reported PAT	8.8	10.0	11.6	13.9	18.5	15.3	18.4	22.4

Balance Sheet								(INR b)
Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Share Capital	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Reserves	26.7	33.8	42.3	43.8	35.2	47.2	50.8	55.3
Net worth	27.0	34.1	42.5	44.0	35.5	47.4	51.1	55.6
Minority Interest	0.0	0.1	0.3	0.4	0.4	0.0	0.0	0.0
Loans	1.2	2.0	1.6	15.4	20.9	20.9	19.5	18.3
Capital Employed	28.2	36.2	44.4	59.8	56.7	68.3	70.6	73.9
Gross Block	12.3	15.6	20.6	24.8	25.8	27.3	32.3	35.8
Less: Accum. Depn.	-2.0	-3.4	-5.0	-7.4	-9.3	-11.4	-13.7	-16.3
Net Fixed Assets	10.3	12.2	15.6	17.4	16.4	15.9	18.6	19.5
Goodwill on consolidation	1.3	1.3	1.3	1.4	1.4	1.4	1.4	1.4
Capital WIP	0.3	2.0	1.0	0.4	1.2	1.2	1.2	1.2
Investments	4.9	10.8	14.8	28.9	27.9	37.9	39.8	41.6
Current	3.6	8.9	9.2	14.1	13.9	21.1	22.2	23.1
Non-current	1.3	1.9	5.6	14.8	14.0	16.8	17.6	18.5
Deferred Liability	-0.2	-0.2	-0.1	-0.1	0.0	0.0	0.0	0.0
Currents Assets	24.1	25.4	29.6	30.1	33.1	37.7	38.3	42.0
Inventory	6.6	6.5	7.8	7.4	10.9	9.6	11.0	12.5
Account Receivables	1.8	3.0	3.9	3.2	2.6	4.4	5.0	5.6
Cash and Bank Balance	1.2	1.9	1.1	1.2	2.1	7.3	5.7	7.0
Others	14.5	13.9	16.8	18.3	17.5	16.3	16.6	16.9
Curr. Liab. & Prov.	12.9	15.7	18.0	18.5	23.3	25.8	28.6	31.7
Account Payables	7.6	9.9	11.4	11.2	13.1	14.6	16.5	18.4
Other Liabilities	5.3	5.7	6.6	7.4	10.1	11.2	12.2	13.3
Net Current Assets	11.2	9.7	11.7	11.6	9.8	12.0	9.7	10.3
Net Assets	28.2	36.2	44.4	59.8	56.7	68.3	70.6	73.9

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020	2021	2022E	2023E	2024E
Basic (INR)								
EPS	36.8	41.8	48.1	58.6	76.8	63.7	76.3	93.0
BV/Share	112.4	141.9	177.0	183.1	147.3	196.8	212.0	230.6
DPS	11.0	12.5	15.0	35.0	61.4	51.0	61.0	74.4
Payout (%)	29.9	29.9	31.2	59.7	80.0	80.0	80.0	80.0
Valuation (x)								
P/E	96.1	84.7	73.6	60.4	46.1	55.6	46.4	38.1
EV/Sales	9.3	8.5	7.6	7.2	6.4	5.9	5.2	4.5
EV/EBITDA	66.1	55.9	48.3	45.4	33.6	38.1	32.0	26.3
P/BV	31.5	25.0	20.0	19.3	24.1	18.0	16.7	15.4
Dividend Yield	0.3	0.4	0.4	1.0	1.7	1.4	1.7	2.1
Return Ratios (%)								
RoE	36.9	32.9	30.2	32.6	46.5	37.0	37.3	42.0
RoCE	31.1	27.9	25.5	24.1	29.2	23.6	25.4	29.7
RoIC	45.6	41.5	41.9	44.3	62.2	62.3	76.8	89.1
Working Capital Ratios								
Debtor (Days)	7	11	13	10	7	12	11	11
Asset Turnover (x)	3.2	2.7	2.5	1.9	2.3	2.1	2.3	2.5
Leverage Ratio								
Debt/Equity (x)	0.0	0.1	0.0	0.3	0.6	0.4	0.4	0.3

Cash Flow Statement

Y/E March	2017	2018	2019	2020	2021	(INR b) 2022E	(INR b) 2023E	(INR b) 2024E
OP Profit	13.0	15.2	17.7	18.4	25.1	20.5	24.6	29.9
Dep	1.2	1.4	1.6	1.8	2.0	2.0	2.3	2.6
Financial Other Income	-0.5	-0.5	-0.5	-0.7	-0.5	-2.3	-2.7	-3.1
Net Interest Paid	0.8	1.0	1.3	1.0	1.2	1.5	1.7	1.8
Direct Taxes Paid	4.0	5.0	6.0	5.0	6.3	5.2	6.2	7.5
Inc in WC	4.5	-2.3	0.0	-1.3	0.6	-3.0	-0.7	-0.6
CF from Operations	4.4	12.5	11.6	14.8	18.5	16.6	17.0	20.7
(Inc)/Dec in FA	-3.5	-4.2	-4.0	-2.4	-2.4	-1.5	-5.0	-3.5
Free Cash Flow	0.9	8.3	7.6	12.4	16.1	15.1	12.0	17.2
(Pur.)/Sale of Investments	3.6	-5.4	-3.3	-13.3	1.8	-9.9	-1.9	-1.8
Other Non Rec Exp	-1.2	0.1	-1.5	0.4	5.4	13.8	6.1	6.7
CF from Investments	-1.1	-9.5	-8.8	-15.3	4.8	2.4	-0.8	1.4
Issue of Shares	0.1	0.2	0.3	7.4	1.0	0.0	0.0	0.0
Inc in Debt	0.0	0.0	-0.4	-2.3	5.7	0.0	-1.3	-1.2
Dividend Paid	2.9	3.2	3.5	4.3	28.2	12.3	14.7	17.9
Other Item	0.1	-0.7	-0.1	0.2	0.9	1.5	1.7	1.8
CF from Fin. Activity	-3.0	-2.3	-3.5	0.6	-22.4	-13.8	-17.7	-20.9
Inc/Dec of Cash	0.3	0.7	-0.8	0.1	0.9	5.2	-1.6	1.3
Add: Beginning Balance	0.9	1.2	1.9	1.1	1.2	2.1	7.3	5.7
Closing Balance	1.2	1.9	1.1	1.2	2.1	7.3	5.7	7.0

E: MOFSL Estimates

NOTES

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
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