Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Britannia Industries

Time to take a bite

Consumer Goods	Sharekhan code: BRITANNIA	Company Update

Summary

- Britannia Industries' (Britannia's) underperformance versus broader indices (13% absolute return vs. Nifty return of 34% and Nifty consumption of 26%) in the past one year; leadership position in biscuits category and steady earning visibility make it a better pick in the consumer goods space.
- Market share gains in biscuits category, strong growth in Hindi-speaking belt, product innovation and a wider distribution network will be key growth drivers in the near to medium term. Strong traction in adjacencies will add to overall revenue growth in near future.
- Focus on cost-savings helped OPM improve to 16% in FY2020 from 9% in FY2014; going ahead efficiencies, cost saving measures and premiumisation would help OPM to improve to ~20% by FY2023E.
- Stock trades at 35x its FY2023E EPS, at a discount to some large consumer goods stocks. Current underperformance provides good entry point; we recommend Buy with an unchanged price target of Rs. 4,200.

Britannia Industries (Britannia) has underperformed broader indices in the last one year, clocking a 13% absolute return versus the Nifty's 34% and the Nifty Consumption index's 26%. The stock is currently trading at 35x its FY2023E EPS, which is at a stark discount to some large consumer goods stocks such HUL and Nestle India (which trade at ~40x and ~55x, respectively). Considering its strong track record (after the induction of Mr. Varun Berry as MD &CEO), leadership positioning in the biscuits category, strong return ratios and future growth prospects, we believe that Britannia is a better pick in the FMCG space with strong growth prospects and a favourable risk-reward ratio. Revenues grew at a CAGR of ~9% over FY2015-19 (and at a CAGR of 11% over FY2017-19) aided by a wider distribution reach, product innovation, market share gains and strong traction in the Hindi-speaking belt. Britannia's direct distribution reach expanded to 22.9 lakh outlets in December 2020 from 7.3 lakh outlets in March 2014 (rural distribution network expanded to 23,000 from 7,000 as of March 2015). While some levers will remain key revenue drivers going ahead, we believe growth in adjacencies (cake, rusk and dairy products) driven by innovation would add on to revenues in the coming years. Subsidiaries(including the Dairy and international businesses) revenues and operating profit grew by 27% and 33% in FY2020 (grew by 32% and 118% in 9MFY2021).Cost-saving initiatives such as reducing wastages, cutting distance to market and higher in-house production helped OPM improve to 16% in FY2020 from 9% in FY2014. Sustained cost-savings, scale-up of efficiencies in new facilities (higher capacity utilisation at Ranjangaon facility) and premiumisation would help OPM rise further to 20% by FY2023E. This will help the company's earnings to growth CAGR of 18.4% over FY2020-23E. The company has investedRs. 700crore in its phase I capital expenditure of Ranjangaon facility (total capex of Rs. 1,500crore by FY2024).

Our Call

View: Retain Buy with an unchanged PT of Rs. 4,200: With long-term growth strategies in place, we expect growth in Britannia's biscuit volumes to beat the category's growth in the coming years. This along with scale-up in revenues of adjacent categories and efficiencies would help Britannia to achieve revenue and earning CAGR growth of 12.5% and 18.4% over FY2020-23E. The stock is currently trading at 35x its FY2023E EPS, 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 our Buy recommendation on the stock with an unchanged price target of Rs. 4,200.

Key Risks

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	FY21E	FY22E	FY23E
Revenue	11,055	11,600	13,082	14,628	16,501
OPM (%)	15.7	15.9	19.2	19.4	19.8
Adjusted PAT	1,156	1,410	1,820	2,018	2,341
% YoY growth	15.2	21.9	29.1	10.9	16.0
Adjusted EPS (Rs.)	48.1	58.6	75.7	83.9	97.3
P/E (x)	70.9	58.1	45.0	40.6	35.0
P/B (x)	19.2	18.6	19.4	16.3	13.3
EV/EBIDTA (x)	47.4	45.4	33.2	29.0	25.2
RoNW (%)	30.2	32.6	42.2	43.6	41.7
RoCE (%)	28.0	26.7	30.6	32.5	33.0

Source: Company; Sharekhan estimates

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. 3,407**	
Price Target: **Rs. 4,200**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

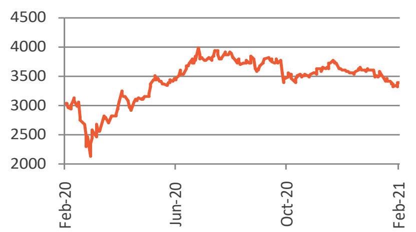
Company details

Market cap:	Rs. 82,064 cr
52-week high/low:	Rs. 4015/2101
NSE volume: (No of shares)	7.4 lakh
BSE code:	500825
NSE code:	BRITANNIA
Free float: (No of shares)	11.9 cr

Shareholding (%)

Promoters	50.6
FII	19.0
DII	10.7
Others	19.8

Price chart



Price performance

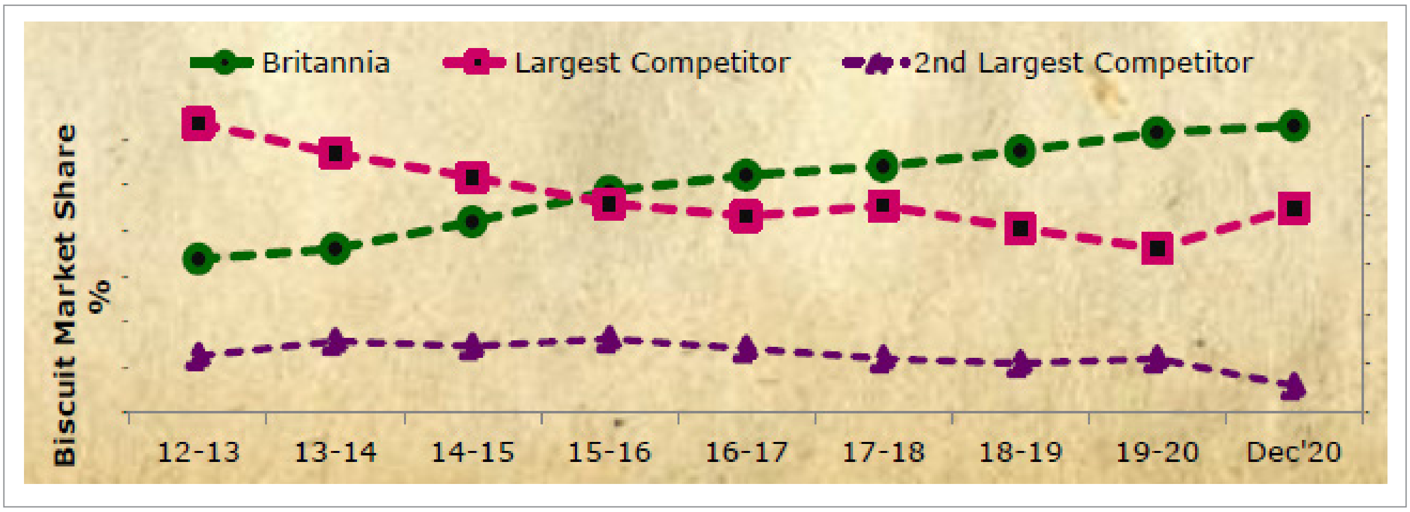
(%)	1m	3m	6m	12m
Absolute	-5.6	-4.2	-12.6	13.0
Relative to Sensex	-10.6	-18.3	-43.5	-13.8

Sharekhan Research, Bloomberg

Distribution, innovation and demand growth in Hindi belt aided market share gains

Scaling up the distribution network has been one of the key pillars of Britannia's growth strategy over the last 7 years. With a focus on remaining ahead of the competition Britannia re-launches its brands regularly, with a focus on visual distinctiveness, product superiority and novelty that elevates the brand proposition. The company's innovation strategy hinges on deriving inspiration from adjacent categories (like choco-bakery, cheese-bakery, crackers and snacks etc), reimagining health segment, exploring newer flavours and leveraging current and new technologies. In adjacencies, the company's strategy to invest in technology and recipes for offering differentiated products with superior quality. This helped Britannia to gain market share for six consecutive quarters.

Market share gains for six consecutive quarters

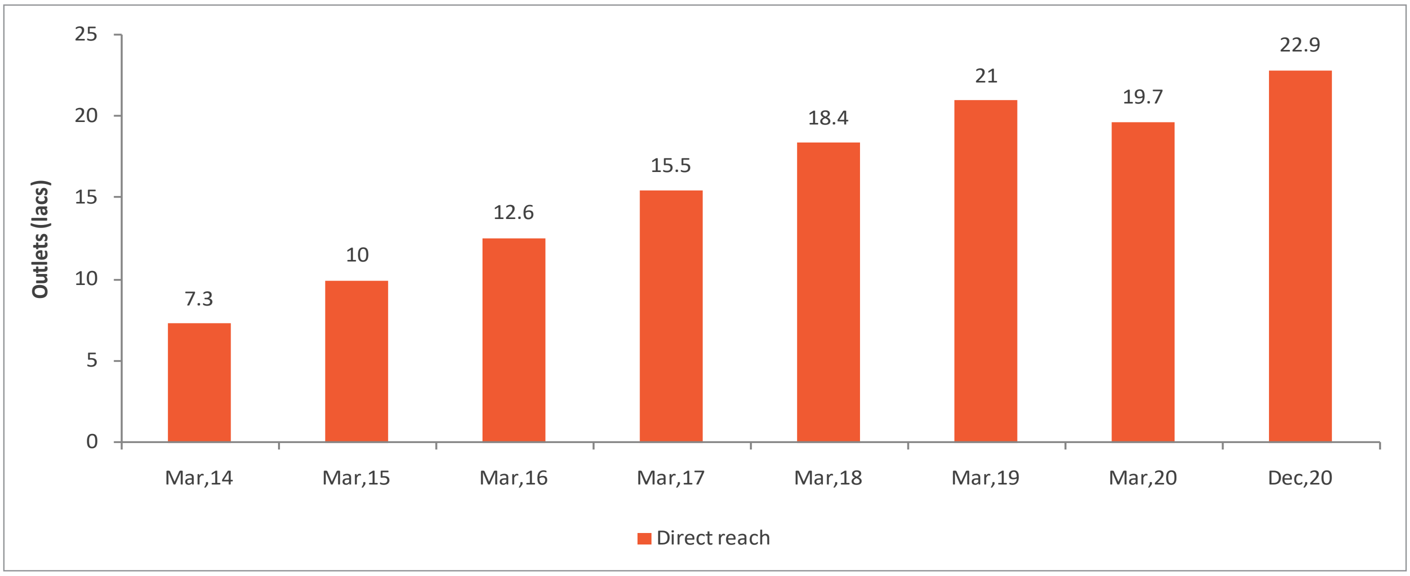


Source: Company

Direct distribution and rural distribution expanded by 3.3x

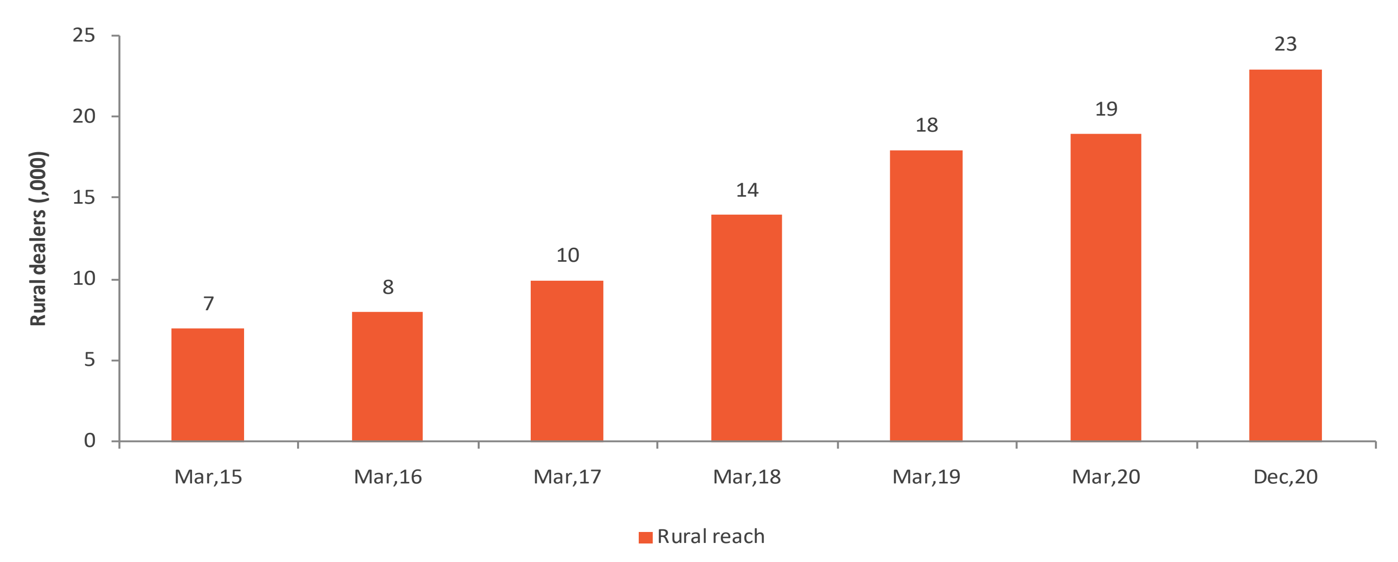
With direct reach of 22.9 lakh retail outlets, Britannia is the top player in terms of distribution compared to other biscuit players. Direct distribution grew by 3.3x from 7.3 lakh outlets in March 2014. Rural distribution has gone up to 23,000in December 2020 from 7,000as of March 2015.Rural geographies (that contribute to ~30% of total revenue) have been growing faster than the urban geographies due to higher demand. With higher growth in rural markets, sales of small packets were higher than the large packs. The company has maintained its thrust on further expanding its distribution reach in the coming years.

Direct reach increased to 22.9 lakhs outlets in Dec, 20



Source: Company

Rural distribution increased to 23,000

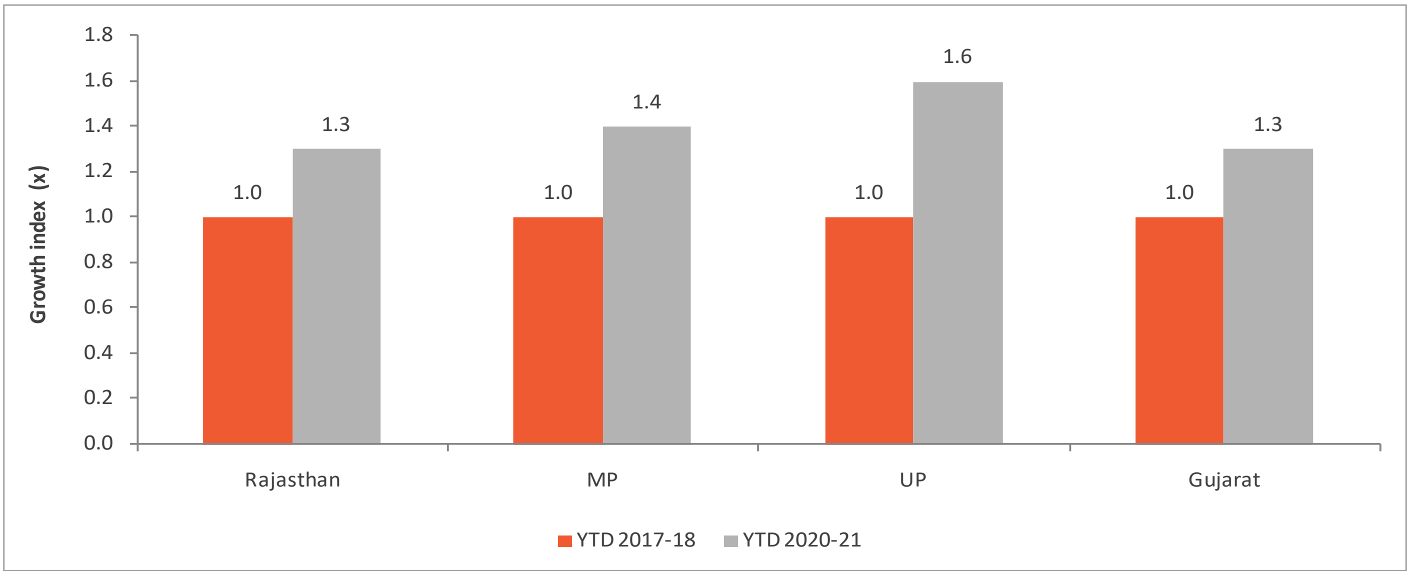


Source: Company

Strong growth in the Hindi speaking belt

Britannia has done an exponential job in Hindi-speaking states such as Gujarat, Rajasthan, Madhya Pradesh and Uttar Pradesh by introducing low-priced SKUs, localised media strategy, increasing production in some of these states and expanded the direct distribution reach. This aided the company to improve its market share in the Hindi-speaking belt to 15% from an average 10% few years back. Hindi speaking belt currently contributes ~35% of domestic revenues and has lot of scope to improve market share in the coming years.

Strong growth in the Hindi-speaking belt



Source: Company

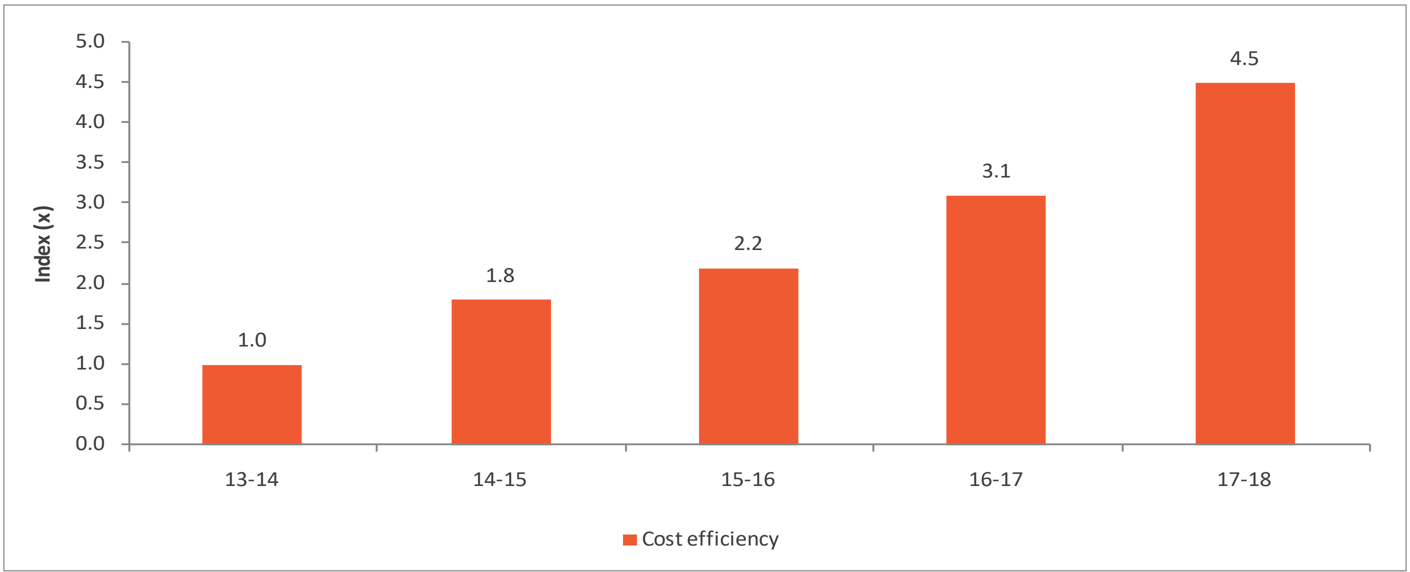
Innovation remains core of growth strategy

Britannia is leveraging its research & development (R&D) expertise and capabilities to innovate & renovate, provide world class products, improve packaging and reduce wastages. New products developed by the R&D team has enabled the company to remain competitive. The company has become the second-largest player in the wafers category. The category is growing by over 30% and has seen shelf space improving in the modern trade. Croissants are growing in double digits in the test markets. In adjacencies, the company has gained share in cake categories as new launches are gaining good response.

Efficiencies and cost saving measures aided the OPM expand significantly

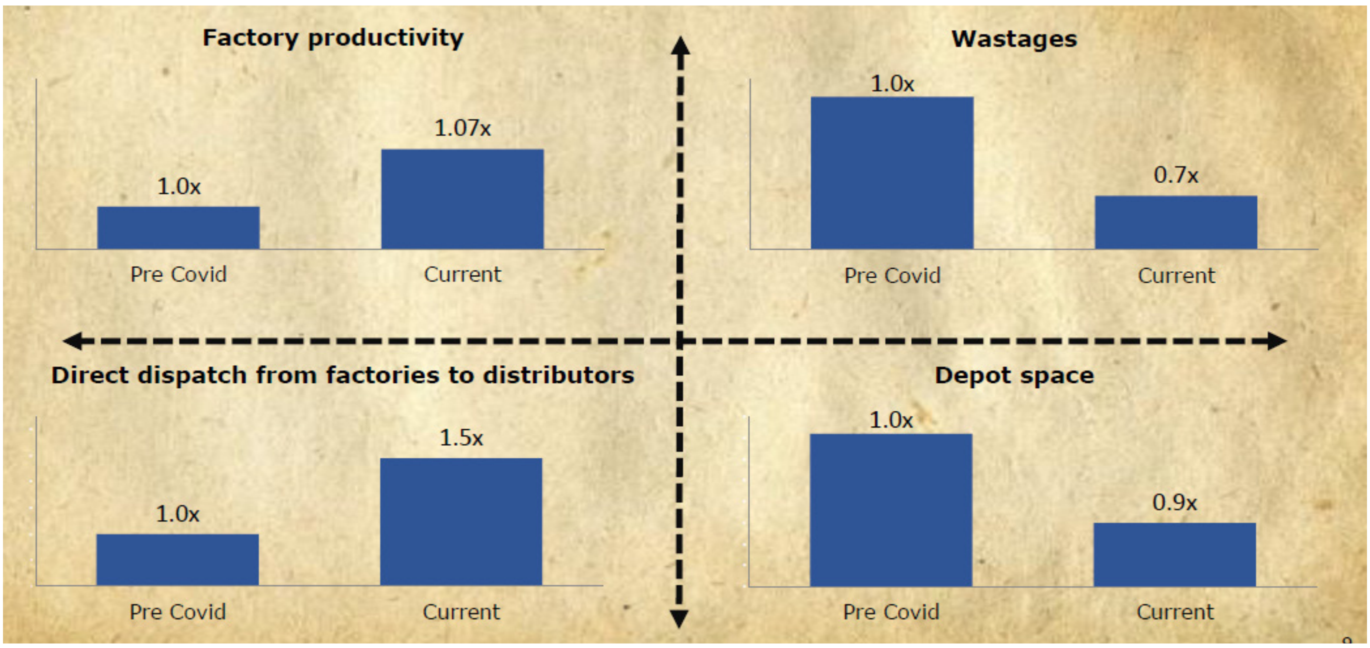
Cost saving initiatives such as reducing the wastages, reducing distance to market and higher in-house production aided OPM to improve to 16% in FY2020 from 9% in FY2014. Sustained cost saving measures, efficiency scale up in new facilities (increase in capacity utilisation at Ranjangaon facility) and premiumisation would help in scale-up in further increase in OPM to 20% by FY2023E.

Driving cost efficiency across value chain



Source: Company

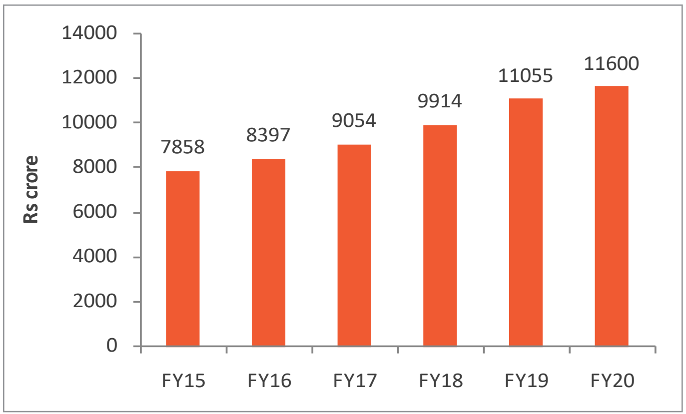
Sustained focus on efficiencies in post covid era



Source: Company

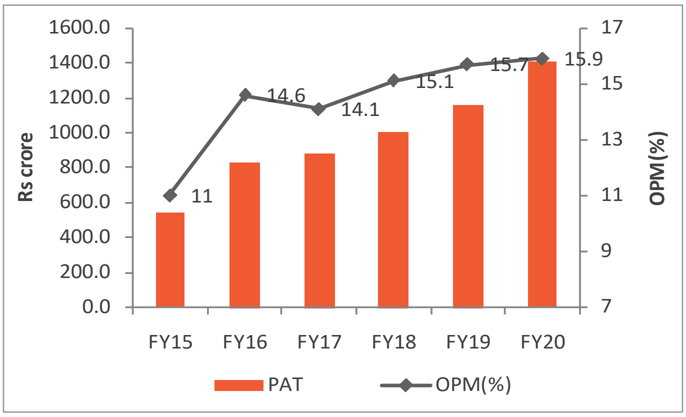
Financials in charts

Trend in revenues



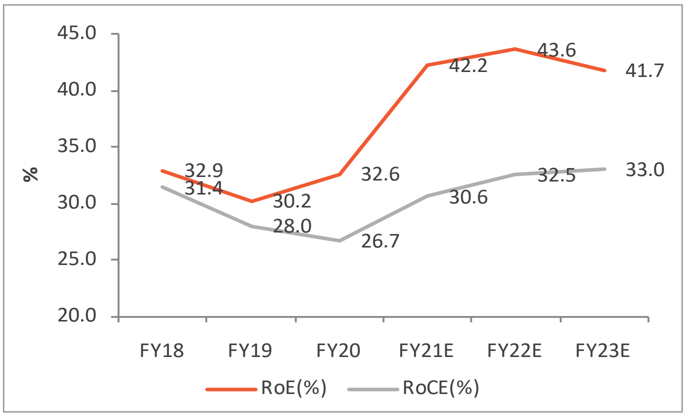
Source: Company, Sharekhan Research

Strong improvement in OPM led strong PAT growth



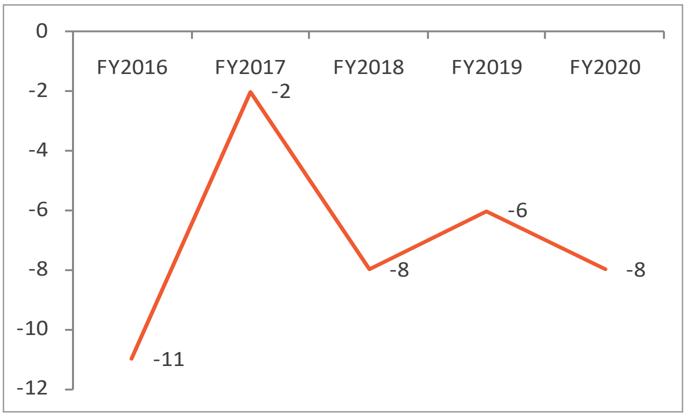
Source: Company, Sharekhan Research

Consistent improvement in return ratios



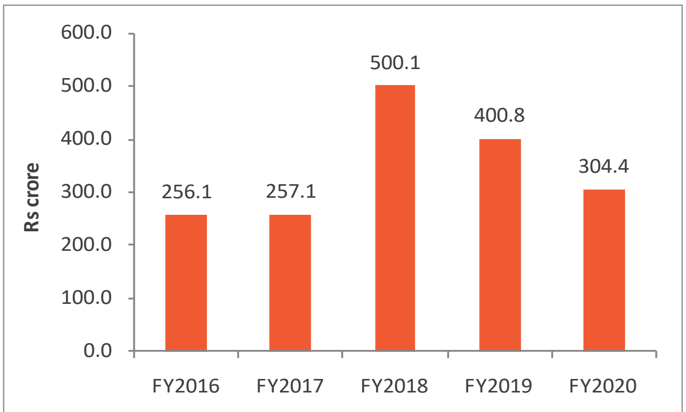
Source: Company, Sharekhan Research

Working capital (days) remains negative



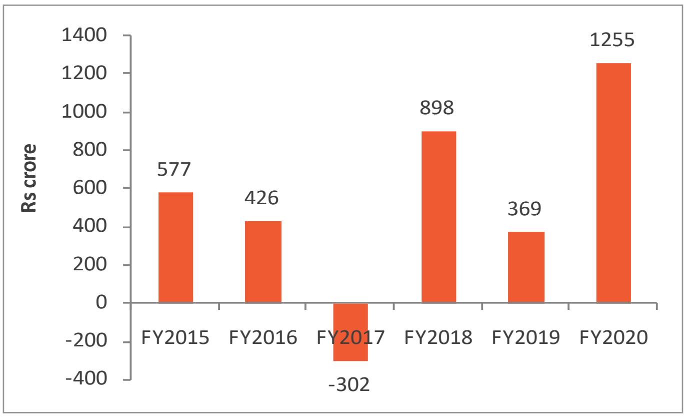
Source: Company, Sharekhan Research

Sustained capex to build up capacities



Source: Company, Sharekhan Research

Strong FCF despite higher capex programme



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Biscuits & bakery market to grow at 9% CAGR

The retail Indian biscuits and bakery market is valued at Rs. 45,000 crore and is expected to clock a CAGR of ~9% over the next five years. Biscuits and other snacking/bakery products such as rusks, wafers and tea cakes contribute almost Rs. 40,000 crore or 89% of the total market. The Indian biscuit market size is estimated to be Rs. 40,000 crore in 2020 representing ~5% of the global market. Indian market is expected to grow at a CAGR of 9% till 2025 and reach Rs. 62,000 crore. This growth will increase India's share in the global market to ~6% by 2025.Per capita yearly consumption of biscuit in India is only 2.5 kg, compared to more than 10 kg in USA and Western European countries and more than 4.25 kg in South-east Asian countries such as Singapore, Hong Kong, Thailand and Indonesia. Higher demand for branded products, upgrades to premium categories and improving penetration in the rural markets are some of the key growth levers for domestic biscuits industry.

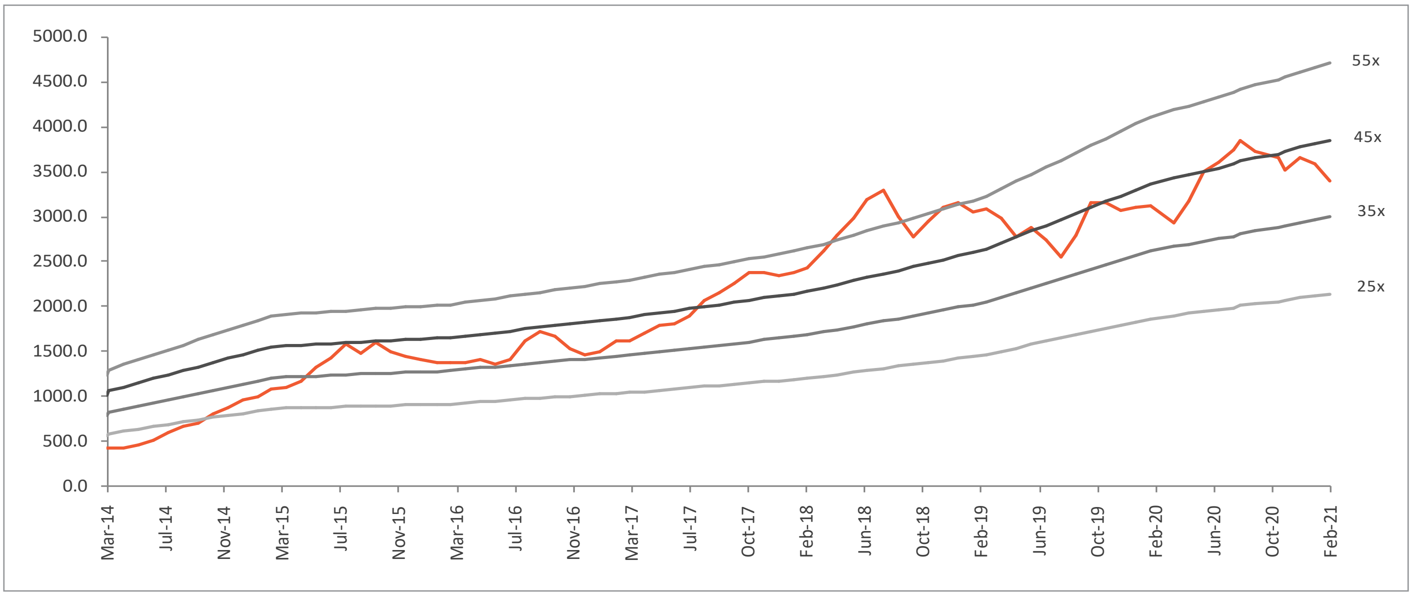
■ Company outlook - Focus on improving volume growth trajectory

Britannia's revenues grew by 14% driven by 11% volume growth in 9MFY2021. OPM stood at 20%. Product innovation, recovering in the alternate channels/urban markets, strong growth in adjacencies and market share gains in the Hindi speaking belt will be key revenue growth drivers in the near to medium term. Input costs rose by just 1% with a deflation in the flour and milk prices. However with palm oil prices increasing significantly and milk prices gradually rising, rise in raw material prices will be higher than Q3. The company will mitigate input cost inflation through cost efficiencies would like to maintain margins at the current levels.

■ Valuation - Recent underperformance provides good entry point

With long-term growth strategies in place, we expect growth in Britannia's biscuit volumes to beat the category's growth in the coming years. This along with scale-up in revenues of adjacent categories and efficiencies would help Britannia to achieve revenue and earning CAGR growth of 12.5% and 18.4% over FY2020-23E. The stock is currently trading at 35x its FY2023E EPS, 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 our Buy recommendation on the stock with an unchanged price target of Rs. 4,200.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Hindustan Unilever	59.0	45.7	40.1	43.4	35.1	30.5	37.1	28.3	30.7
Nestle India	74.6	60.7	53.2	48.0	41.8	36.5	57.8	61.2	59.6
Britannia	45.0	40.6	35.0	33.2	29.0	25.2	30.6	32.5	33.0

Source: Company, Sharekhan estimates
**Values for Nestle India are for CY2019, CY2020E and CY2021E*

About company

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

Investment theme

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

Key Risks

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

Additional Data

Key management personnel

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

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	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

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

For Private Circulation only

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

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

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

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

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

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

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

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