

BSE SENSEX 49,201 S&P CNX 14,684



Bloomberg	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USD\$b)	898.3 / 12.2
52-Week Range (INR)	4015 / 2640
1, 6, 12 Rel. Per (%)	9/-25/-33
12M Avg Val (INR M)	2945

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	25.9	25.6	29.3
Margin (%)	15.9	19.7	18.0	18.0
PAT	14.1	19.6	19.1	22.0
EPS (INR)	58.6	81.7	79.4	91.5
EPS Gr. (%)	21.8	39.3	-2.8	15.2
BV/Sh.(INR)	183.1	185.3	201.2	219.5

Ratios

RoE (%)	32.6	44.4	41.1	43.5
RoCE (%)	24.1	29.8	27.6	29.9
Payout (%)	59.7	80.0	80.0	80.0

Valuations

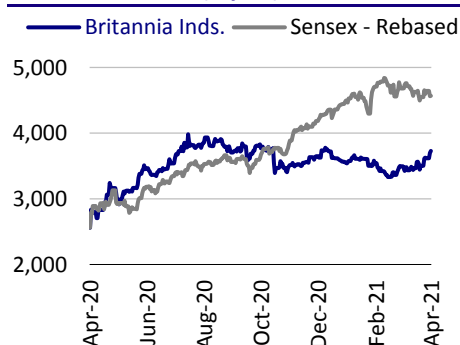
P/E (x)	63.6	45.6	46.9	40.7
P/BV (x)	20.4	20.1	18.5	17.0
EV/EBITDA (x)	47.9	34.0	34.3	29.8
Div. Yield (%)	0.9	1.8	1.7	2.0

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: INR3,729 TP: INR4,575 (+23%) Buy

Narrative improving, increasing scope for upside

While Britannia (BRIT) has been the best performing stock in our Coverage Universe since our 'upgrade to Buy' stance on 24th Feb, we believe it offers attractive investment prospects from both a long- and near-term perspective.

- Strong structural opportunity:** BRIT's opportunity for growth is significant, with the overall Biscuits category estimated to grow in the mid-single digits. Furthermore, the opportunity in terms of market share gains is even greater – BRIT's market share is only in the mid-30s despite the company being the largest player in the Biscuits space. The broad Packaged Foods market (estimated at USD40–50b) presents the strongest structural opportunity in India's consumption space. BRIT's FY21E revenue of ~USD1.8b is a fraction of this addressable market.
- Impressive direct reach expansion in FY21 continues to deliver market share gains:** In addition to in-home consumption led demand growth and likely ~40% EPS growth in FY21, BRIT results in 9MFY21 notably reported (a) continued market share gains (sustained for 37 quarters now) – even in a strong rural consumption environment (Parle has historically fared better owing to a higher rural salience at over 50% of sales v/s BRIT's 30%); and (b) a continued rapid increase in distribution (especially direct distribution) to 2.3m outlets – the second best after HUVR in our Coverage Universe.
- Recent traction in non-biscuit segments encouraging:** As highlighted in the [FY20 Annual Report analysis note](#), the company has also shown signs of a scale-up in the non-biscuit portfolio to ~2% of sales – led by Cream Wafers and Milkshakes. Its entry into Salty Snacks (albeit restricted to Andhra Pradesh initially) also offers promise. While these segments may take a back seat due to the COVID-led impact on discretionary demand, the opportunity remains immense from a medium- to long-term perspective.
- Second COVID wave could lead to stronger FY22 earnings:** In-home consumption may make a strong return amid the second wave of COVID. We are not changing our forecasts yet – given the early stages of lockdown and measures currently being implemented in only one state. Nonetheless, there is a scope for both topline and earnings growth for FY22 as a strong push for these products could result in much lower trade discounts – as was the case last year.
- Benign commodity cost trend continues:** Commodity costs remain soft, which is important for a low gross margin business such as that of BRIT (~40% gross margins historically and 42.4% in FY21E).

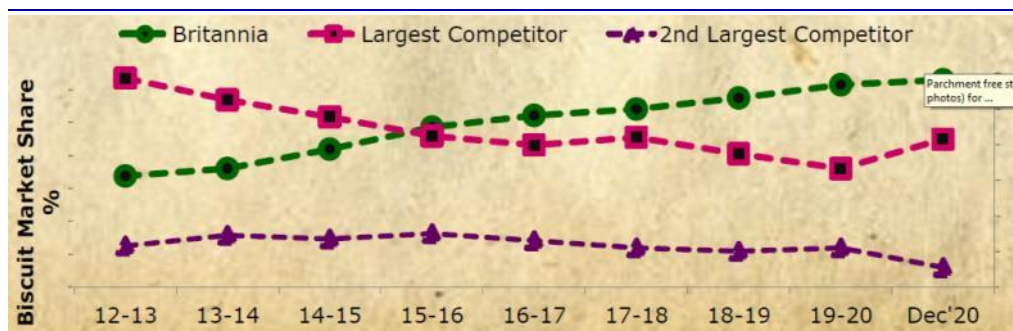
- **Base less challenging after 1QFY22:** As highlighted in our [upgrade note](#), the challenge for BRIT from a base perspective would only come largely in 1QFY22 with the base becoming far less challenging in subsequent quarters.
- **Strong structural outlook, improving near-term narrative, inexpensive valuations:** Despite (1) ~40% EPS growth likely in FY21, (2) a strong track record of ~20%/27% EPS growth in the preceding 5/10 years ended FY20, (3) an improving outlook for FY22, (4) the best-of-breed structural growth opportunities, and (5) ROE of over 40%, the stock trades at 40.7x FY23E; this is at a substantial discount to its historical three- and five-year averages of 46–48x. Maintain **BUY**, with revised TP of INR 4,575 (INR4120 earlier), targeting 50x FY23 EPS.

Exhibit 1: Since our upgrade in Feb'21, BRIT has returned 11.8% v/s avg return of 1.9% for our Coverage Universe

INR	Price on 23 Feb'21	CMP	Change (%)
Consumer			
Britannia Industries	3,338	3,731	11.8%
Hindustan Unilever	2,179	2,408	10.5%
Asian Paints	2,372	2,612	10.1%
Dabur India	500	547	9.4%
Pidilite Industries	1,726	1,874	8.6%
Emami	470	506	7.6%
Godrej Consumer	680	728	7.0%
Nestle India	16,170	17,082	5.6%
ITC	209	213	2.0%
Page Industries	29,042	29,524	1.7%
Colgate-Palmolive (India)	1,555	1,569	0.9%
United Spirits	550	541	-1.7%
P&G Hygiene & Health Care	12,977	12,620	-2.8%
Jyothy Labs	146	142	-2.9%
Marico	422	403	-4.5%
United Breweries	1,181	1,110	-6.0%
Retail			
Titan Company	1,424	1,526	7.1%
Jubilant Food.	3,204	2,797	-12.7%
Westlife Development	497	422	-15.1%
Staples average			4.3%
Discretionary average			-0.7%
Coverage average			1.9%

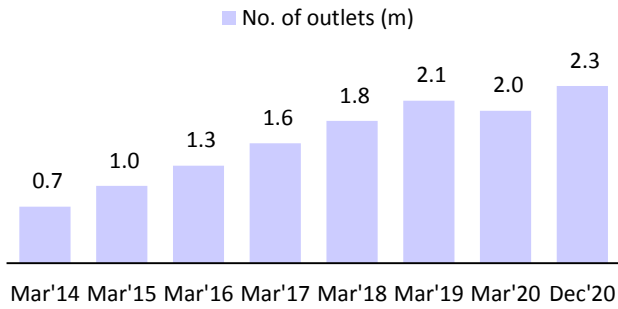
Source: MOFSL

Exhibit 2: BRIT has consistently surpassed competition, including in 9MFY21, and gained market share over Parle and ITC



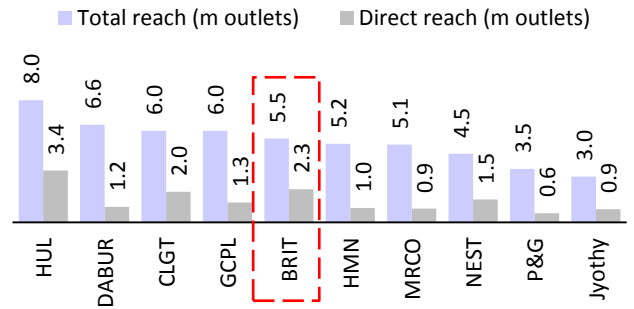
Source: Company, MOFSL

Exhibit 3: Even in disruptive period, BRIT's direct reach growing steadily – critical success factor for Food companies



Source: Company, MOFSL

Exhibit 4: BRIT's direct reach second best after HUVR's in FMCG space



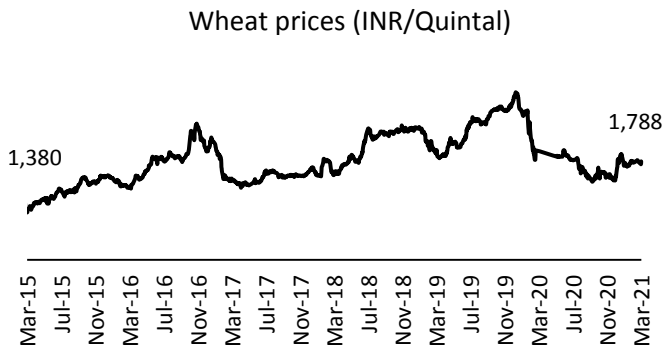
Source: Company, MOFSL

Exhibit 5: BRIT has made impressive strides in terms of revenue in hinterland states since FY17



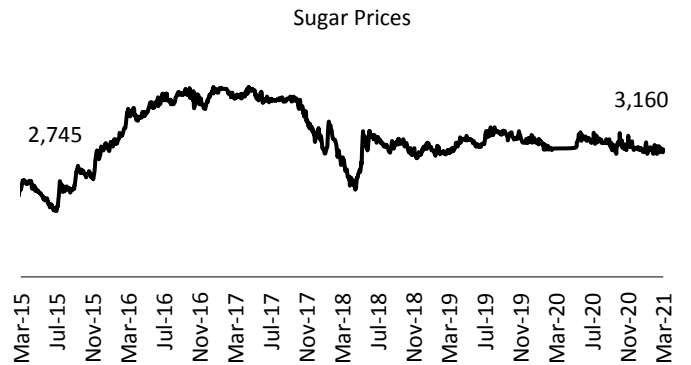
Source: Company, MOFSL

Exhibit 6: Wheat prices down 16.2% YoY, but up 6.6% QoQ



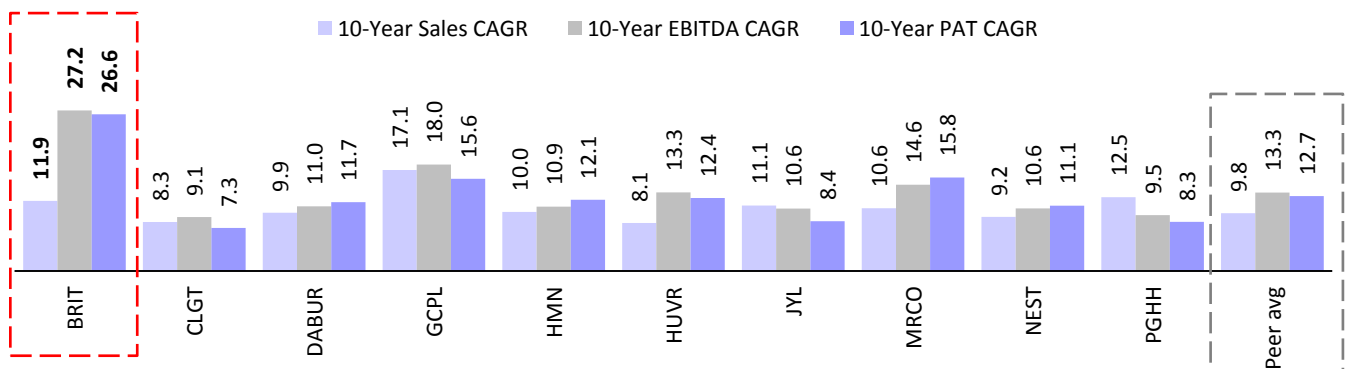
Source: Bloomberg, MOFSL

Exhibit 7: Sugar prices down 2.2% YoY / 1.2% QoQ



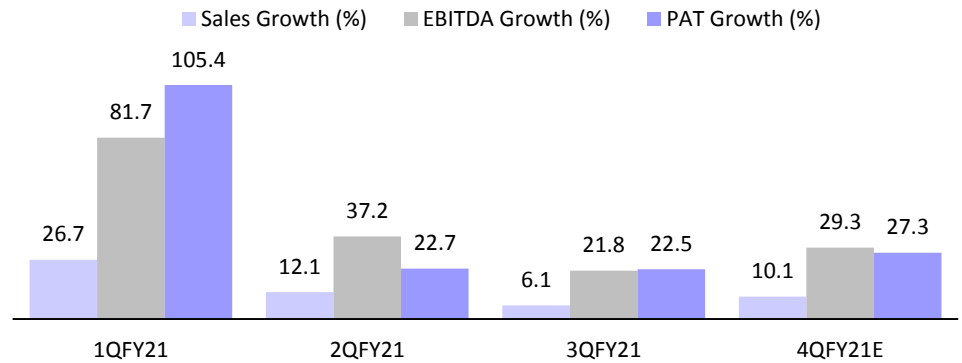
Source: Bloomberg, MOFSL

Exhibit 8: BRIT has one of the best sales and profit performances in our universe of staple companies – 10-year sales/EBITDA/PAT CAGR of 11.9%/27.2%/26.6% ended FY20



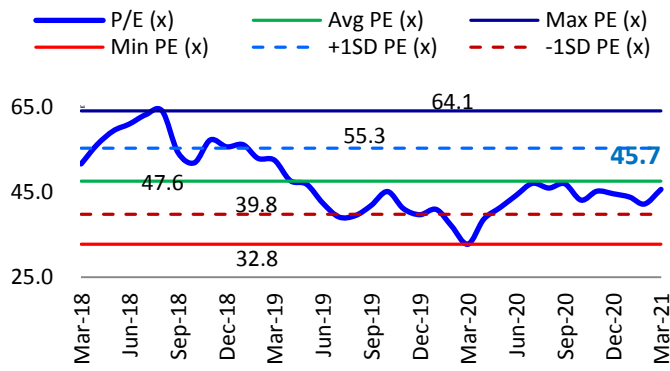
Source: Company, MOFSL

Exhibit 9: High-base effect less challenging from 2QFY22E



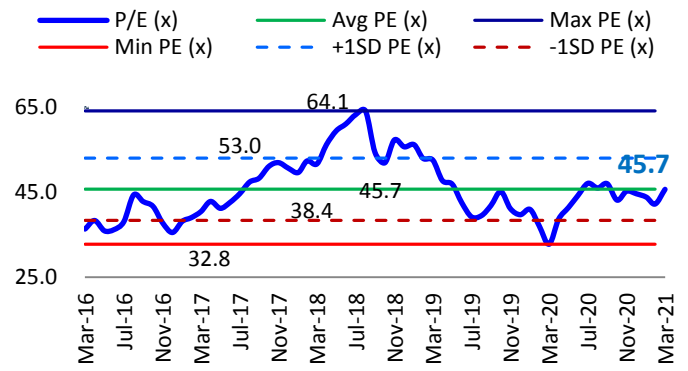
Source: Company, MOFSL

Exhibit 10: Currently trading at discount to 3-year avg P/E...



Source: Company, MOFSL

Exhibit 11: ...and its 5-year avg P/E



Source: Company, MOFSL

Financials and valuations

Income Statement								(INR b)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Revenues	84.0	90.5	99.1	110.5	116.0	131.6	142.1	163.1
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
Gross Profit	33.8	34.7	38.1	44.9	46.7	55.8	58.3	66.8
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	5.3	6.0	7.1
% of Sales	5.3	4.3	4.1	4.5	4.1	4.0	4.2	4.3
Other Expenditure	17.2	18.0	18.9	22.6	23.5	24.6	26.7	30.4
EBITDA	12.1	12.8	15.0	17.3	18.4	25.9	25.6	29.3
Change (%)	40.6	5.2	17.5	15.4	6.3	40.6	-1.3	14.7
Margin (%)	14.5	14.1	15.1	15.7	15.9	19.7	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
PBT	12.2	13.0	15.2	17.7	18.6	26.3	25.5	29.4
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
PAT	8.2	8.8	10.0	11.6	14.1	19.6	19.1	22.0
Change (%)	43.6	7.3	13.6	15.2	21.9	39.3	-2.8	15.2
Margin (%)	9.8	9.8	10.1	10.5	12.2	14.9	13.4	13.5
Non-rec. (Exp.)/Income	0.0	0.0	0.0	0.0	-0.2	0.0	0.0	0.0
Reported PAT	8.2	8.8	10.0	11.6	13.9	19.6	19.1	22.0

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	48.1	52.5
Networth	20.9	27.0	34.1	42.5	44.0	44.6	48.4	52.8
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
Capital Employed	22.3	28.2	36.2	44.4	59.8	60.7	64.5	68.1
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
Net Fixed Assets	8.3	10.3	12.2	15.6	17.4	18.2	19.8	20.0
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
Currents Assets	16.2	24.1	25.4	29.6	30.1	31.0	33.0	36.2
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
Curr. Liab. & Prov.	12.7	12.9	15.7	18.0	18.5	21.0	23.0	25.9
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
Net Current Assets	3.5	11.2	9.7	11.7	11.6	10.1	10.0	10.3
Net Assets	22.3	28.2	36.2	44.4	59.8	60.7	64.5	68.1

E: MOFSL Estimates

Financials and valuations

Ratios								
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Basic (INR)								
EPS	34.3	36.8	41.8	48.1	58.6	81.7	79.4	91.5
BV/Share	87.2	112.4	141.9	177.0	183.1	185.3	201.2	219.5
DPS	10.0	11.0	12.5	15.0	35.0	65.4	63.5	73.2
Payout (%)	29.1	29.9	29.9	31.2	59.7	80.0	80.0	80.0
Valuation (x)								
P/E	108.6	101.2	89.2	77.5	63.6	45.6	46.9	40.7
EV/Sales	10.6	9.8	8.9	8.0	7.6	6.7	6.2	5.4
EV/EBITDA	73.1	69.7	58.9	50.9	47.9	34.0	34.3	29.8
P/BV	42.8	33.2	26.3	21.1	20.4	20.1	18.5	17.0
Dividend Yield	0.3	0.3	0.3	0.4	0.9	1.8	1.7	2.0
Return Ratios (%)								
RoE	49.5	36.9	32.9	30.2	32.6	44.4	41.1	43.5
RoCE	41.1	31.1	27.9	25.5	24.1	29.8	27.6	29.9
RoIC	80.0	45.6	41.5	41.9	44.3	62.7	60.6	68.7
Working Capital Ratios								
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
Leverage Ratio								
Debt/Equity (x)	0.1	0.0	0.1	0.0	0.3	0.4	0.3	0.3

Cash Flow Statement								(INR b)
Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
OP Profit	12.2	13.0	15.2	17.7	18.4	26.3	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
CF from Operations	9.6	4.4	12.5	11.6	14.8	19.0	17.1	19.8
(Inc)/Dec in FA	-2.5	-3.5	-4.2	-4.0	-2.4	-2.8	-4.0	-3.0
Free Cash Flow	7.1	0.9	8.3	7.6	12.4	16.2	13.1	16.8
(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
CF from Investments	-8.5	-1.1	-9.5	-8.8	-15.3	-2.3	-0.1	0.9
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	15.7	15.3	17.6
Other Item	0.2	0.1	-0.7	-0.1	0.2	1.2	1.3	1.4
CF from Fin. Activity	-2.5	-3.0	-2.3	-3.5	0.6	-16.2	-16.6	-19.8
Inc/Dec of Cash	-1.4	0.3	0.7	-0.8	0.1	0.5	0.4	0.8
Add: Beginning Balance	2.3	0.9	1.2	1.9	1.1	1.2	1.7	2.2
Closing Balance	0.9	1.2	1.9	1.1	1.2	1.7	2.2	3.0

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

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