# Britannia Industries Limited

## Mix quarter; Focus remains on achieving growth ahead of the industry

| Consumer Goods | Sharekhan code: BRITANNIA | Result 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. 3,540** | |
| Price Target: **Rs. 4,200** | ↔ |

↑ Upgrade ↔ Maintain ↓ Downgrade

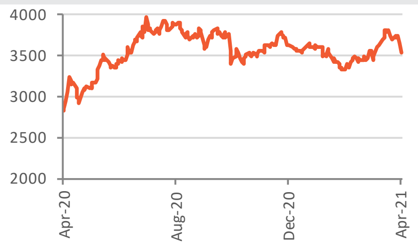
**Company details**

| | |
|---|---|
| Market cap: | Rs. 85,267 cr |
| 52-week high/low: | Rs. 4,015 / 2,869 |
| NSE volume: (No of shares) | 7.1 lakh |
| BSE code: | 500825 |
| NSE code: | BRITANNIA |
| Free float: (No of shares) | 11.9 cr |

**Shareholding (%)**

| | |
|---|---|
| Promoters | 50.6 |
| FII | 20.3 |
| DII | 11.2 |
| Others | 18.0 |

**Price chart**




**Price performance**

| (%) | 1m | 3m | 6m | 12m |
|---|---|---|---|---|
| Absolute | -2.1 | -1.9 | -1.0 | 10.8 |
| Relative to Sensex | 0.2 | -5.1 | -21.7 | -43.8 |

*Sharekhan Research, Bloomberg*

### Summary

- Britannia Industries Limited (Britannia) registered a mix-bagged performance in Q4FY2021, with revenue growth of 8.2% (volume growth of 8%), while OPM expanded by just 30 bps to 16.1% (less than street expectation) due to higher ad spends; PAT declined by 3%.
- In the second wave of COVID-19 surge, the company was well prepared with production and distribution of products. Demand environment is stable, but the company is monitoring the same on week-to-week basis.
- The company is targeting to achieve low double-digit volume growth, driven by market share gains and distribution expansion in the back drop of normal economic environment. OPM is expected to remain high because of efficiencies through cost-saving initiatives.
- We broadly maintain our earnings estimates for FY2022/FY2023. The stock has corrected by 7% in the past three months and is trading at 36x its FY2023E earnings. We maintain our Buy on the stock with an unchanged PT of Rs. 4,200.

**Britannia's Q4FY2021 results were mixed. Revenue grew by high single digit, while OPM expanded moderately by 30 bps to 16.1%. PAT declined by 3% (due to higher tax incidence). The company's revenue for the quarter grew by 9% y-o-y to Rs. 3,130.8 crore (largely in-line with our expectation of Rs. 3,100.1 crore). Domestic volume growth stood at 8%, slightly better than our as well street expectation of 6%. Focus states continue to perform well and growth was ahead of rest of India. Q4 was disappointing for adjacencies (part of subsidiaries) such as bread and cheese with muted revenue growth of 2% and OPM at 9.9% (compared to 13.7% in Q4FY2020). The company is well prepared in terms of production and distribution of products in the second surge of COVID-19 cases compared to the first wave. Although demand is better and resilient, the company is not expecting pantry loading-like scenario building up as consumers have opted for systematic buying due to availability of products. Once the COVID-19 scare reduces and the economy gets into its normal shape, the company targets industry growth of 8%-9% and expects to achieve volume growth of low double digit (ahead of industry growth). This will be done through market share gains, distribution expansion (especially in rural markets), 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. Capacity utilisation is currently 90% and the company is planning to add new facilities in states such as Uttar Pradesh, Tamil Nadu, Orissa, and Bihar to expand capacity and reduce the distance between key markets (third party manufacturing has reduced to 35%). The company is targeting capex of around Rs. 700 crore-800crore for this capex plan over the next three to four years (overall capex including phase wise expansion in Ranjangaon facility is more than Rs2000 crore spread over four years). On the international front, the company is getting into contract manufacturing tie-up to set up production facilities in countries such as Uganda and Egypt to supply in domestic and neighbouring markets. At optimum utilisation, both facilities are capable to contribute around Rs. 170 crore-180 crore revenue. Raw-material inflation currently stands at 3% due to spike in palm oil, packaging cost, and dairy prices. The company is likely to pass on to consumers through relevant price hikes in the coming months. 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 expects OPM to remain high compared to FY2020 levels and will consistently improve in coming years.**

### Key positives

- Domestic volume growth stood at 8%, better than street expectation of 6%.
- Rural distribution and direct reach have reached above pre-COVID levels at 23,500 rural dealers and 23.7 lakh outlets, respectively.
- Focus states are growing 25% more than rest of India.

### Key negatives

- OPM expansion of 30 bps to 16.1% was lower than our and street expectation.
- Adjacencies registered muted performance during the quarter.

### Our Call

**View: Retain Buy with an unchanged PT of Rs. 4,200:** We have broadly maintained our earnings estimates for FY2022 and FY2023. 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 revenue of adjacent categories and efficiencies would help Britannia to achieve double-digit earnings growth over FY2021-FY2023E. The stock is currently trading at 36x 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 PT 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 to 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 | 19.2 | 19.6 |
| Adjusted PAT | 1,156 | 1,410 | 1,850 | 2,064 | 2,354 |
| *% YoY growth* | *15.2* | *21.9* | *31.2* | *11.5* | *14.1* |
| Adjusted EPS (Rs.) | 48.1 | 58.6 | 76.8 | 85.7 | 97.7 |
| P/E (x) | 73.6 | 60.4 | 46.1 | 41.3 | 36.2 |
| P/B (x) | 20.0 | 19.3 | 24.0 | 19.4 | 15.4 |
| EV/EBIDTA (x) | 49.3 | 47.1 | 34.9 | 30.4 | 26.3 |
| RoNW (%) | 30.2 | 32.6 | 46.5 | 51.9 | 47.3 |
| RoCE (%) | 28.0 | 26.7 | 31.3 | 35.2 | 36.3 |

*Source: Company; Sharekhan estimates*

**Consolidated revenue grew by 9.2%; OPM expanded by just 30 bps:**

Britannia's (consolidated)revenue (including other operating income) grew by 9.2% y-o-y to Rs. 3130.8 crore, largely in-line with our expectation of Rs. 3100.1 crore and street expectation of Rs. 3119.0 crore. Domestic volume growth stood at 8%, which was much better than our and street expectation of 6%. Adjacencies (part of subsidiaries) such as breads and cheese performance was soft, with moderate revenue growth of 2% and OPM of 9.9% (versus 13.7% in Q4FY2020). Gross margin improved by 80 bps to 40.5%, driven by benign input prices (including milk prices). Operating profit margin (OPM) improved by just 30 bps to 16.1%, lower than our expectation of 17.3% and better than street expectation of 18.3%. Operating profit grew by 11.3% y-o-y to Rs. 505.4 crore. Reported PAT declined by 3.6% y-o-y to Rs. 359.5 crore, lower than our expectation of Rs. 396.7 crore and street expectation of Rs. 428.6 crore.

**Key conference call highlights**

- Britannia's direct distribution reach, which fell to 19.7 lakh outlets in March 2020, improved to 23.7 lakh outlets in March 2021. The number of rural-preferred dealers rose to 23,500 in March, slightly better than 23,000 in December 2020 from 19,000 in March 2020. The company has maintained its thrust on scaling up its direct and rural distribution in the coming years.
- Focus states continue to grow faster by 25% over the rest of India. E-commerce sales have grown by 4.1x over FY2020 levels. The company expects e-commerce to be one of the key trade channels in the coming years.
- The company is focusing on making Milk Bikis, a pan-India brand in the mass segment. It is currently well penetrated in southern states such as Tamil Nadu and Kerala and some of the other states. The product has a market share of 26% in Rs. 1,260 crore milk category and 4% market share in Milk + Glucose category. The company expects good acceptance to the recent relaunch of the product with 100% atta. It is planning to improve product penetration in the Hindi-speaking belt through various promotional and endorsement activities. The product has premium pricing over Glucose biscuits and gross margin 2.5x glucose. The company is targeting to achieve around 8% market share in Milk + Glucose category in the medium term.
- 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 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.
- Raw-material inflation stood at 3%, mainly on account of increased key inputs such as palm oil, dairy prices, and packaging cost. The company expects to pass it on to consumers through relevant price hikes.
- Advertisement and sales promotion expenses stood 1.5% (as percentage of sales) lower in FY2021 compared to FY2020. Ad spends stood closer to the previous as spends in Q3, while they increased on a y-o-y basis in Q4. The company will continue to support its brands and new launches with adequate media and brand-building activities.
- Inter-corporate deposit to group companies continues to remain in the same range compared to FY2020 at around Rs. 500 crore-520 crore.

**Results (Consolidated)** Rs cr

| Particulars | Q4FY21 | Q4FY20 | Y-o-Y (%) | Q3FY21 | Q-o-Q (%) |
|---|---|---|---|---|---|
| Net Sales | 3038.1 | 2807.8 | 8.2 | 3106.1 | -2.2 |
| Other operating income | 92.6 | 59.9 | 54.6 | 59.5 | 55.6 |
| Net revenue | 3130.8 | 2867.7 | 9.2 | 3165.6 | -1.1 |
| Raw materials | 1863.6 | 1730.0 | 7.7 | 1801.4 | 3.5 |
| Employee costs | 124.2 | 120.9 | 2.7 | 131.8 | -5.7 |
| Other expenditure | 637.5 | 562.5 | 13.3 | 620.9 | 2.7 |
| Total expenditure | 2625.4 | 2413.4 | 8.8 | 2554.1 | 2.8 |
| Operating profit | 505.4 | 454.3 | 11.3 | 611.5 | -17.4 |
| Other income | 63.2 | 78.6 | -19.6 | 82.6 | -23.5 |
| Interest expenses | 23.7 | 27.0 | -12.2 | 31.8 | -25.5 |
| Depreciation | 52.8 | 48.5 | 9.0 | 48.6 | 8.7 |
| Profit Before Tax | 492.1 | 457.4 | 7.6 | 613.7 | -19.8 |
| Tax | 132.6 | 84.9 | 56.1 | 161.1 | -17.7 |
| Reported PAT | 359.5 | 372.9 | -3.6 | 452.6 | -20.6 |
| Adjusted EPS (Rs.) | 29.9 | 31.0 | -3.5 | 18.8 | 58.8 |
| | | | **bps** | | **bps** |
| GPM (%) | 40.5 | 39.7 | 80 | 43.1 | -262 |
| OPM (%) | 16.1 | 15.8 | 30 | 19.3 | -317 |

*Source: Company; Sharekhan Research*

**Results (standalone)** Rs cr

| Particulars | Q4FY21 | Q4FY20 | Y-o-Y (%) | Q3FY21 | Q-o-Q (%) |
|---|---|---|---|---|---|
| Net revenue | 2952.6 | 2691.9 | 9.7 | 2978.7 | -0.9 |
| Raw materials | 1788.2 | 1659.0 | 7.8 | 1741.0 | 2.7 |
| Employee costs | 93.0 | 89.7 | 3.7 | 101.1 | -8.1 |
| Other expenditure | 583.7 | 513.0 | 13.8 | 565.9 | 3.2 |
| Total expenditure | 2464.8 | 2261.7 | 9.0 | 2408.0 | 2.4 |
| Operating profit | 487.8 | 430.3 | 13.4 | 570.7 | -14.5 |
| Other income | 56.5 | 75.2 | -24.9 | 77.8 | -27.3 |
| Interest expenses | 20.5 | 20.7 | -0.8 | 28.7 | -28.5 |
| Depreciation | 45.2 | 39.3 | 14.9 | 40.9 | 10.4 |
| Profit Before Tax | 478.7 | 445.5 | 7.5 | 578.9 | -17.3 |
| Tax | 125.2 | 64.3 | 94.7 | 150.5 | -16.8 |
| Reported PAT | 353.5 | 381.2 | -7.3 | 428.4 | -17.5 |
| Adjusted EPS (Rs.) | 29.4 | 31.7 | -7.3 | 17.8 | 65.0 |
| | | | **bps** | | **bps** |
| GPM (%) | 39.4 | 38.4 | 107 | 41.6 | -211 |
| OPM (%) | 16.5 | 16.0 | 54 | 19.2 | -264 |

*Source: Company; Sharekhan Research*

## Outlook and Valuation

### Sector outlook - Long term growth prospects intact

We believe the shift in demand for branded products, rural demand staying ahead of urban demand, gradual recovery in out-of-home categories, and new product launches remain key catalysts for revenue growth in the near to medium term. In the current environment, with rising COVID-19 cases and localised lockdown, demand for packaged food products is expected to increase. Consumer goods companies have adequately stocked up products at warehouse levels and with the dealers/distributors to avoid any supply disruption. Raw-material prices have been rising in the recent past and sustenance of this trend will pressurise gross margins in FY2022. The ability of consumer goods companies to pass on input price increase, sustained benefits of cost-saving initiatives, and judicious media spends would determine the level the profitability growth in the coming quarters. The structural growth story of the domestic consumer goods market is intact with lower per capita consumption of products as compared to other countries, lower penetration in rural markets, opportunities to launch new differentiated products, and gaining market share from smaller players.

### Company outlook - Focus on achieving double-digit volume growth

Britannia's revenue and PAT grew by 13% and 31%, respectively, in FY2021. Product innovation, recovery in 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. The company is targeting to achieve low double-digit volume growth in a stable demand environment. Raw-material inflation currently stands at 3% due to spike in palm oil, packaging cost, and dairy prices. The company is likely to pass on the cost to consumers through relevant price hikes in the coming months. 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 expects OPM to remain high compared to FY2020 levels and will consistently improve in the coming years.

### Valuation - Retain Buy with an unchanged PT of Rs. 4,200

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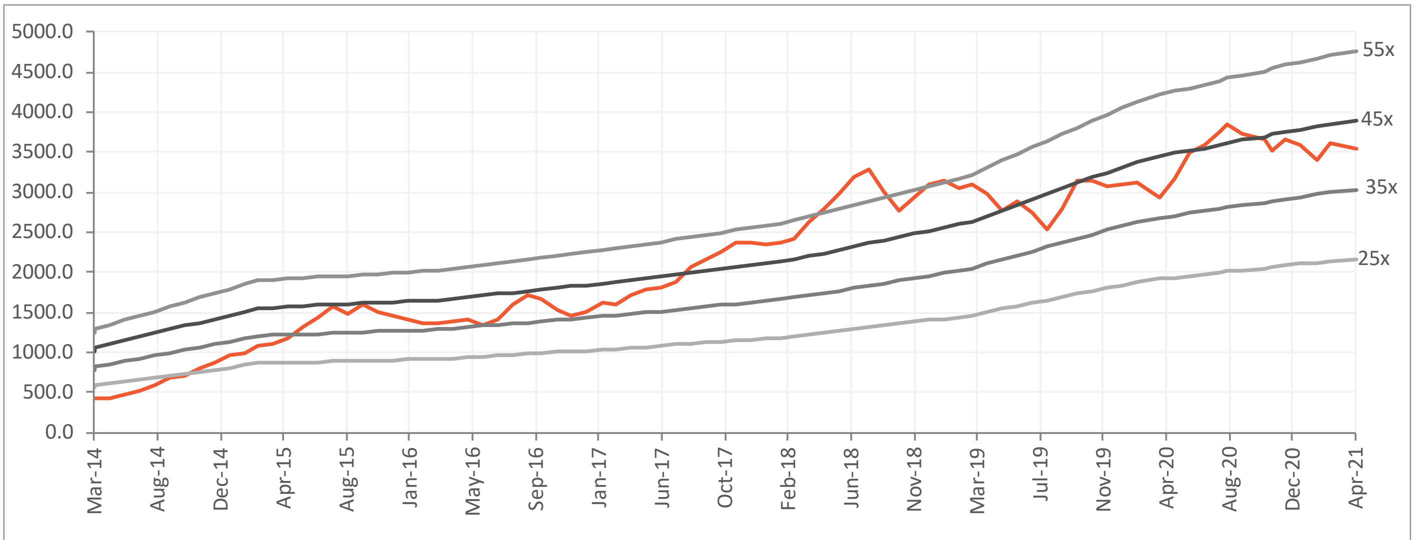
**One-year forward P/E (x) band**




*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 | 77.7 | 64.4 | 54.7 | 50.0 | 43.7 | 37.9 | 136.4 | 139.7 | 142.5 |
| Britannia | 46.1 | 41.3 | 36.2 | 34.9 | 30.4 | 26.3 | 31.3 | 35.2 | 36.3 |

*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. The company 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% to 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 19.2% 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 | 1.0 |
| 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*

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