

Product innovation to sustain profitability and gain market share.

CMP: INR 3,381

Rating: Hold

Target Price: INR 3,671

Stock Info

BSE	500825
NSE	BRITANNIA
Bloomberg	BRIT:IN
Reuters	BRIT.BO
Sector	Packaged Foods
Face Value (INR)	1
Equity Capital (INR cr)	24.1
Mkt Cap (INR cr)	81,446
52w H/L (INR)	4,152/ 3,050
Avg Yearly Volume (in 000')	365

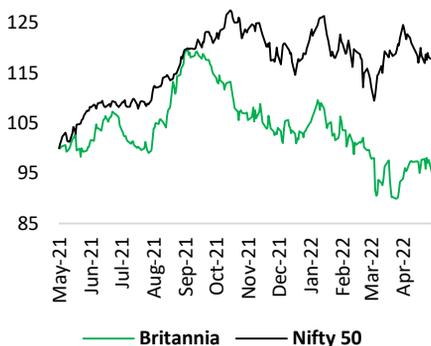
Shareholding Pattern %

(As on March, 2022)

Promoters	50.6
FII	17.2
DII	5.1
Public & Others	27.1

Stock Performance (%)	1m	3m	12m
Britannia	1.3	(9.7)	(5.2)
Nifty 50	(5.3)	(2.4)	17.9

Britannia Vs Nifty 50



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- The overall performance of the company was largely in line with expectations with the growth being dulled but positive. This is due to the inflationary pressures faced by the company. Material costs are at an all-time high, and a price hike was passed on mostly through grammage cuts. Volume growth was on the softer side- mid single digits, at 4-5%.
- Britannia's Q4FY22 Revenue grew by 15.48% YoY to INR 3,508 Cr (-0.63% QoQ). This beat our quarterly revenue estimate of INR 3,433 Cr by 2.19%.
- Q4FY22 Gross Margin contracted by 136bps YoY 37.3% (16bps QoQ).
- Q4FY22 EBITDA grew by 6.14% YoY to INR 604 Cr (1.46% QoQ). EBITDA Margin contracted by 151bps YoY to 17.2% (35bps QoQ). This beat our quarterly EBITDA estimate of INR 557 Cr by 8.35%, and also beat our EBITDA Margin estimate of 16.21%.
- Q4FY22 Consolidated PAT grew 4.84% YoY to INR 381 Cr (3.03% QoQ). PAT Margin contracted by 110bps YoY to 10.86% (39bps QoQ). This beat our quarterly PAT estimate of INR 342 Cr by 11.44%.

Q4FY22 Conference Call Highlights:

Adjacent businesses perform well: Adjacencies like Dairy, Cakes, Rusks, Croissants, and the Nepal business continue to maintain a strong foothold throughout the year. Dairy crossed the INR 500 Cr mark in FY22 owed largely to the success of Winkin Cow, and is poised to become an INR 2,000 Cr business in the next 5 years.

Modern trade returns: The growth of organized trade channels has remained robust at 1.2x over FY20, and ecommerce has ecommerce has 2x revenues over last year.

New greenfield units : Britannia is setting up 3 new greenfield units in Uttar Pradesh, Tamil Nadu & Bihar. A Capex of INR 650-700 Cr will take place in FY23 for the same. The dairy plant in Ranjangaon will be set for commercialization in the next 2-3 months.

Cost saving initiatives continue to remain successful: The cost saving initiatives have resulted in 5x cost savings from FY14. Britannia has managed to successfully optimize its processes across the supply chain, material sourcing, and many other operations.

Valuation & Outlook: We assign a TP of INR 3,671 to the stock, valued at a P/E multiple of 49x on the FY24E EPS of INR 73.8. The company has clocked in stable revenue growth and profits despite the harsh inflationary situation; through judicious pricing action and cost optimization measures. It has also gained market shares from its competitors and continues to win in the glucose biscuit segment. A diver for future growth will be the adjacent businesses which have been clocking in impressive double digit growth. At current levels we recommend that investors **Hold the stock.**

INR Cr	FY21	FY22	FY23E	FY24E
Revenues	13,136	14,136	15,569	16,893
yoy growth (%)	13.2	7.6	10.1	8.5
Operating profit	2,509	2,202	2,378	2,621
OPM (%)	19.1	15.6	15.3	15.5
Pre-exceptional PAT	1,851	1,516	1,610	1,778
yoy growth (%)	31.2	-18.1	6.2	10.4
EPS (Rs)	76.8	62.9	66.9	73.8
P/E (x)	44.0	53.7	50.6	45.8
Price/Book (x)	23.0	31.8	31.3	28.2
EV/EBITDA (x)	33.4	38.3	35.6	32.4
Debt/Equity (x)	0.7	1.2	1.3	1.4
RoE (%)	46.6	49.7	62.4	64.8
RoCE (%)	42.4	38.3	40.1	39.7

Source: Company & Arihant Research

Quarterly Result

INR Cr (Consolidated)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y
Net Revenue	3508	3531	3038	-0.63%	15.48%
Other Operating Income	42	44	93	-4.92%	-54.55%
Raw Material Costs	2200	2220	1864	-0.89%	18.04%
Gross Profit	1,308	1,311	1,175	-0.20%	11.41%
Gross Margin	37.30%	37.13%	38.66%	16bps	-136bps
Employee costs	121	128	124	-5.07%	-2.24%
Other Expenses	679	688	638	-1.20%	6.58%
Other Non Operating Income	54	55	63	-2.36%	-14.81%
EBITDA	604	595	569	1.46%	6.14%
<i>EBITDA margin %</i>	<i>17.20%</i>	<i>16.85%</i>	<i>18.71%</i>	<i>35bps</i>	<i>-151bps</i>
Depreciation	51	50	53	1.09%	-3.58%
EBIT	553	544	516	1.49%	7.14%
Finance costs	34	37	24	-9.71%	42%
Exceptional Items	-	-1	-	-100.00%	-
Share of Profit/Loss from associates	0	-1	1	-111.27%	-86%
PBT	519	505	493	2.67%	5.33%
Tax Expense	141	136	133	3.48%	6%
Effective tax rate %	27%	27%	27%	21bps	25bps
PAT	378	369	360	2.38%	4.97%
Add: Other Comprehensive Income	3	1	3	321.05%	-78.10%
Consolidated PAT	381	370	364	3.03%	4.84%
<i>PAT margin %</i>	<i>10.86%</i>	<i>10.48%</i>	<i>11.97%</i>	<i>39bps</i>	<i>-110bps</i>
EPS (INR)	15.77	15.41	15.13	2.34%	4.23%

Source: Company & Arianth Research

Q4FY22 Conference Call Highlights

Slowdown in small Hindi states: Small Hindi states like Chhattisgarh, MP, Rajasthan are trying to get back to speed. Weaker brand strength in these small states, coupled with the pandemic led to slowdown in them. UP is the largest state, contributing to ~50% of Hindi state demand. The demand in larger Hindi states as since improved in FY22.

Price hikes and gramage cuts: An additional 7-10% price hike is expected to be taken in FY23 over and above the 10% price hike in FY22. 65% of the price hike in FY22 was through grammage cuts. Grammage cuts might increase in FY23.

Macro scenario:

- Wheat production in India was lower than expected because of the heatwave. Russia and Ukraine produced about 100mn tons of wheat which might not get harvested due to the war. Palm oil prices also face pressure as Indonesia has claimed to stop exports. As a result, ships with 3 lakh tons of oil were stopped from leaving Indonesia.
- This whole situation might take time to clear up, but the company is covered till things improve. They will continue to stay on their toes, and take calls on MoM basis, and try not to impact the consumer.

Share gains: More share gains are coming from smaller, unorganized players and the second largest player in the industry after Britannia. Britannia's market share gains for the year were ~80bps. Industry growth in the next year is expected to be flattish or negative.

The strength of adjacencies:

- Good volume and reasonable brand on big adjacencies like cake and rusk give them the potential to become a INR 2,000 Cr+ brands, much like dairy. The company also has hope in dairy as they do a lot in value added space, and have recently crossed the INR 500 Cr mark for the business.
- Croissants also have a good future planned due to the entry barriers, as it is a new category. They are still taking customer inputs for the same and are evaluating partnerships where required.
- Salty snacks involve a lot of market understanding Britannia is being very careful and reading into consumer responses in test markets.

LUP: LUPs contribute to about 50-55% of revenues (INR5 & 10 packs) and are essential to grow in the Indian Market.

Ranjangaon Plant: The plant is doing well and should commercialize in next 2-3 months. New lines have been added like: yogurt, milk powder, and drinks. The processed cheese line will need till December- January. It should be up and running after then. Right now they are working on increasing milk collection, as the plant will be run on full efficiency. It also has a few interesting partnerships in line for the business.

Q4FY22 Conference Call Highlights

FY22 Highlights:

- Despite the challenging inflationary environment, the company has managed to drive revenue growth and sustain profitability.
- FY22 Revenue grew 8% on a 12-month basis, and 22% on a 24-month basis. Operating profits de-grew 13% on a 12-month basis and grew 21% on a 24-month basis.
- Q4FY22 Revenue grew 15% on a 12-month basis, and 25% on a 24-month basis. Operating profits grew 10% on a 12-month basis and grew 23% on a 24-month basis.
- The gap between the company and the next largest competitors has broadened- marking this the 10th year of continuous market share growth.
- Rural distribution has since improved, with the number of dealers going up to 26,000.
- The direct reach channels have gone up to about 25 Lakh outlets.
- The Hindi belt has been displaying impressive trajectory with growth being 1.2x the rest of India.
- Marketing initiatives have driven growth across rising brands like Good Day, Winkin Cow, and Choco Chips. Winkin Cow is now an INR 100 Cr brand, and they have since re-launched the Dahi brand, and given a protein promise on cheese.
- The cost leadership program has done well- allowing for a 5x cost saving vs FY14. This is due to process automations across the supply chain to improve productivity by reducing distance to the market, reducing wastages, and finding sources of energy. Material sourcing has also been optimized by creating sourcing strategies to get best bang for their buck, backward integration, reverse auctions, and optimization of packaging specs- given that material costs have gone through the roof.
- New innovations have taken place during Q4FY22: Good day harmony, 50-50 Golmaal and Jeera Marie as regional offerings in the east and in Tamil Nadu in collaboration with the consumer. They have warranted good initial responses and could become blockbusters in the south, new additions to Winkin Cow were made, and they relaunched croissant in south region recently which has been doing quite well, also coconut wafers were newly introduced to the market 1 month ago.
- Adjacent businesses grew well and saw real excitement. They were structured very well, as the company has a solid team to handle all verticals, and are also managing partnerships well. The Bakery segment had a high 2-digit growth backed up by consistent margin delivery in bread and rusk. Croissant which are starting to relaunch on a good note in the south, will be launched cross country in the next couple of months. Dairy has a robust 2-digit growth with Winkin Cows success. The International business had some challenges in the middle east due to distributor challenges in UAE. Nepal has its own unit, and has now joined the INR 100 Cr club.
- All major commodities faced an inflation of 17% QoQ and 14% YoY. Four 1% YoY; RPO 26% YoY; Sugar 7% YoY; Cashew 35% YoY; Laminates 20% YoY; Corrugated boxes 21% YoY. Some of this was mitigated through hedging techniques like taking forward positions
- The response to inflationary pressure was to take judicious price increase, and increase value for customers through controlled discretionary spends and a cost efficiency program.
- New product contribution to revenues this year was 4.5%, and is expected to be higher going forward owing to the growth of the dairy business.

Drivers for volume growth in FY22: A mix of categories and brands were what drove volume growth- selling A lot of tiger crunch and doing profit in value segments with this brand (tiger crunch grew 30-35%). Milk Bikis has also been doing well in the south. Winkin Cow and other milk brands have also been good performers.

New product innovation and their expansion across geographies:

- Potazos and Milk Bikis are going strong, and have expanded to other markets, gaining a good response especially across Hindi states. This category is new with a novel format that continues to grow and expand. Growth in organized trade has led to a good ramp up for Potazos. The company is also building in differentiated crackers segment. They have launched a new product- Biscafe- a coffee cracker meant as an accompaniment for coffee as the Indian market mainly has tea accompaniments.
- Headspace for growth in Hindi markets is huge despite the recent plateau. The big opportunities exist in the value added glucose biscuit category

Premium Biscuits and equalizing market shares:

- Market shares in urban markets are 39% and are about 27-28% in rural markets. To equalize the two, glucose biscuits play a very important role.
- Britannia has premiumized the biscuit market with LUPs of Good Day, Milk Bikis, etc.
- Britannia uses an arsenal of brands and price points to be used to gain market shares, especially in the value segment of glucose biscuits.
- Tiger crunch hasn't been fully capitalized on as it has been doing very well in the value space in its own 4 states so far, like how Milk Bikis have performed well while staying centralized in the south. Both these brands have potential outside their main geographies.
- Glucose is currently 18% of the biscuit market.

Consolidated Financial Highlights

Income Statement (INR Cr)	FY21	FY22	FY23E	FY24E
Revenue	13,136	14,136	15,569	16,893
Operating profit	2,509	2,202	2,378	2,621
Depreciation	(198)	(201)	(289)	(315)
Interest expense	(111)	(144)	(162)	(188)
Other income	313	223	227	260
Extraordinary income	-1	-1	0	0
Profit before tax	2,513	2,079	2,153	2,378
Taxes	(663)	(562)	(543)	(599)
Minorities and other	1	-0	-0	-0
Reported Net profit	1,851	1,516	1,610	1,778

Balance Sheet (INR Cr)	FY21	FY22	FY23E	FY24E
Equity capital	24	24	24	24
Reserves	3,524	2,534	2,579	2,863
Net worth	3,548	2,558	2,603	2,887
Minority interest	36	28	28	28
Debt	2,499	2,958	3,408	3,958
Deferred tax liabilities (net)	3	-21	3	3
Total liabilities	6,086	5,522	6,041	6,876
Fixed assets	1,634	1,584	2,258	2,273
Capital Work In Progress	117	536	181	197
Investments	3,245	2,236	2,270	2,596
Goodwill	136	140	140	140
Net working capital	743	842	1,078	1,171
Inventories	1,091	1,367	1,246	1,348
Sundry debtors	257	332	303	328
Loans & Advances	1,000	798	1,401	1,520
Other current assets	236	241	259	282
Sundry creditors	(1,313)	(1,285)	(1,649)	(1,784)
Other current liabilities & Prov	(528)	(612)	(483)	(524)
Cash	211	185	115	499
Total assets	6,086	5,522	6,041	6,876

Cash Flow Statement (INR Cr)	FY21	FY22	FY23E	FY24E
Profit before tax	2,513	2,079	2,153	2,378
Depreciation	198	201	289	315
Tax paid	(663)	(562)	(543)	(599)
Working capital Δ	353	(98)	(236)	(93)
Goodwill	3	(4)	-	-
Operating cashflow	2,404	1,615	1,663	2,001
Capital expenditure	(193)	(569)	(608)	(347)
Free cash flow	2,211	1,045	1,056	1,654
Equity raised	(1,212)	(1,144)	-	-
Investments	(76)	1,009	(34)	(326)
Debt financing/disposal	626	459	450	550
Dividends paid	(1,494)	(1,361)	(1,566)	(1,494)
Other items	33	(34)	24	(0)
Net Δ in cash	88	(26)	(70)	384
Opening Cash	123	211	185	115
Closing Cash	211	185	115	499

Source: Company & Arianth Research

Ratio Analysis	FY21	FY22	FY23E	FY24E
Growth matrix (%)				
Revenue growth	13.2	7.6	10.1	8.5
Op profit growth	36.1	(12.3)	8.0	10.3
EBIT growth	35.4	(15.3)	4.1	10.8
Net profit growth	31.2	(18.1)	6.2	10.4
Profitability ratios (%)				
OPM	19.1	15.6	15.3	15.5
EBIT margin	20.0	15.7	14.9	15.2
Net profit margin	14.1	10.7	10.3	10.5
RoCE	42.4	38.3	40.1	39.7
RoNW	46.6	49.7	62.4	64.8
RoA	28.3	22.8	24.6	25.1
Per share ratios				
EPS	76.8	62.9	66.9	73.8
Dividend per share	62.0	56.5	65.0	62.0
Cash EPS	85.0	71.3	78.8	86.9
Book value per share	147.3	106.2	108.0	119.9
Valuation ratios				
P/E	44.0	53.7	50.6	45.8
P/CEPS	39.8	47.5	42.9	38.9
P/B	23.0	31.8	31.3	28.2
EV/EBIDTA	33.4	38.3	35.6	32.4
Payout (%)				
Dividend payout	80.7	89.8	97.2	84.0
Tax payout	26.4	27.1	25.2	25.2
Liquidity ratios				
Debtor days	7	9	7	7
Inventory days	37	42	34	34
Creditor days	45	39	46	46
Leverage ratios				
Interest coverage	23.7	15.4	14.3	13.7
Net debt / equity	0.6	1.1	1.3	1.2
Net debt / op. profit	0.9	1.3	1.4	1.3

Source: Company & Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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