

Britannia Industries

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR3,381 TP: INR3,900 (+15%) Buy

Result beats expectations; but near-term outlook challenging

- BRIT's 4QFY22 result was ahead of our forecasts led by higher-than-expected volume growth of 4% YoY. This was particularly notable given that a majority of the effective 10% price hike during 4Q was backed by grammage reduction.
- Favorable forward contracts, utilization of lower-cost inventory, and lower ad-spends have played a major role in cushioning margins.
- We are optimistic on the longer term prospects of BRIT even as near-term challenges on margins remain and group ICDs need to be closely tracked. BRIT's valuation at 39x FY24E is inexpensive for a business with ~50% ROE and healthy growth prospects. **Maintain BUY with a TP of INR3,900.**

Bloomberg	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USDb)	814.5 / 10.7
52-Week Range (INR)	4152 / 3050
1, 6, 12 Rel. Per (%)	12/0/-17
12M Avg Val (INR M)	1377

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	141.4	157.9	173.9
Sales Gr. (%)	7.6	11.7	10.1
EBITDA	22.0	23.7	29.2
Margins (%)	15.6	15.0	16.8
Adj. PAT	15.2	16.7	20.8
Adj. EPS (INR)	63.0	69.2	86.5
EPS Gr. (%)	-18.0	10.0	25.0
BV/Sh.(INR)	106.1	120.2	137.5

Ratios

RoE (%)	49.7	61.2	67.1
RoCE (%)	27.2	31.1	37.2
Payout (%)	89.7	80.0	80.0

Valuations

P/E (x)	53.7	48.8	39.1
P/BV (x)	31.9	28.1	24.6
EV/EBITDA (x)	37.2	34.6	27.8
Div. Yield (%)	1.7	1.6	2.0

Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	50.6	50.6	50.6
DII	7.9	11.5	11.2
FII	17.2	17.6	18.0
Others	24.4	20.3	20.3

FII Includes depository receipts

Sales in line; margins ahead of estimates

- BRIT's consolidated sales rose 13.4% YoY to INR35.5b** (in line) in 4QFY22. Consolidated EBITDA/PBT/Adj. PAT grew 8.8% YoY to INR5.5b (est. INR5b)/5.4% YoY to INR5.2b (est. INR4.7b)/5.1% YoY to INR3.8b (in-line), respectively.
- Volume growth in the base business was at ~4% in 4QFY22 (est. 1%).
- Consolidated gross margin contracted 240bp YoY to 38% (est. 37.5%). Lower staff cost (-50bp YoY) and lower other expenses (-120bp YoY) led to an EBITDA margin contraction of 60bp YoY to 15.5% (est. of 14.6%).
- FY22 sales grew 7.6% YoY while EBITDA/Adj. PAT declined 12.3%/18% YoY.
- Balance sheet and cash flow** – Average net working capital days in FY22 increased to 6 days from nil days in FY21 primarily on account of higher inventory days. CFO/FCF declined by 29.8%/53.3% YoY during FY22.
- The board of directors recommended a dividend of INR56.5 per share amounting to a payout of 90% for FY22.

Highlights from the management commentary

- Forward commitments had helped protect margins in 4QFY22.
- There was a 17% sequential increase in commodity costs. If RM price continues at current levels for the next 12 months, the company will need to take a further 10% price increase/grammage reduction in FY23E compared with a similar increase in FY22 as well.
- Management indicated that unlike expectations of a bumper crop, wheat production in India has been lower than expected. The crop quality is also poorer because of heat. Globally, both Russia and Ukraine are big players and the absence of harvest in these countries will continue to have implications on global wheat prices.
- BRIT's group ICDs were around INR7.4b. While these were below the peak of INR7.9b in Mar'21, there has been a sequential increase in each of the past three quarters from INR5.8b at end-3QFY22, INR5.05b in Sep'21 and INR 4.7b in Jun'21.

Result above estimates, valuation inexpensive – Reiterate BUY

- There is a slight increase of 3.6% and 4.1% in FY23E and FY24E EPS, respectively.

- While earnings growth slowed down to a 9.5% CAGR over the last three years ended FY22, the stock price has remained rangebound over this period making valuations less challenging. While BRIT is not among our top picks in the Staples space owing to its vulnerability to material cost volatility, the longer term opportunity is extremely attractive.
- The stock trades at an inexpensive valuation of 39x FY24E given: a) a strong track record of 11%/22% EPS CAGR in the preceding 5/10 years ended FY22, respectively, b) it is one of the best structural growth opportunities in the sector, and c) a best-of-breed RoE of ~50%. These valuations also offer a substantial discount to its historical three-/five-year averages of 48x/49x, respectively. Maintain BUY with a TP of INR3,900, targeting 45x FY24E EPS.

Consol. Quarterly Performance

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q				
Base business volume growth (%)	21.0	9.0	3.0	8.0	1.0	5.0	6.0	4.0	10.0	3.9	1.0	
Net Sales	34,207	34,191	31,656	31,308	34,035	36,074	35,750	35,505	1,31,361	1,41,363	34,604	2.6
YoY change (%)	26.7	12.1	6.1	9.2	-0.5	5.5	12.9	13.4	13.2	7.6	10.5	
Gross Profit	14,248	14,540	13,642	12,671	13,170	13,531	13,554	13,506	55,100	53,760	12,976	4.1
Margins (%)	41.7	42.5	43.1	40.5	38.7	37.5	37.9	38.0	41.9	38.0	37.5	
EBITDA	7,169	6,754	6,115	5,054	5,538	5,583	5,397	5,497	25,093	22,015	5,043	9.0
Margins (%)	21.0	19.8	19.3	16.1	16.3	15.5	15.1	15.5	19.1	15.6	14.6	
YoY growth (%)	81.7	37.2	21.8	11.3	-22.8	-17.3	-11.7	8.8	36.1	-12.3	-0.2	
Depreciation	480	485	486	528	491	502	504	509	1,979	2,005	522	
Interest	256	298	318	237	342	390	374	338	1,109	1,443	397	
Other Income	937	735	826	632	605	534	551	538	3,129	2,228	597	
PBT	7,370	6,706	6,137	4,921	5,310	5,226	5,071	5,188	25,134	20,795	4,721	9.9
Tax	1,944	1,750	1,611	1,326	1,442	1,410	1,362	1,410	6,630	5,624	903	
Rate (%)	26.4	26.1	26.2	26.9	27.2	27.0	26.9	27.2	26.4	27.0	19.1	
Adjusted PAT	5,427	4,956	4,526	3,595	3,868	3,816	3,709	3,779	18,504	15,172	3,819	(1.0)
YoY change (%)	105.4	22.7	22.5	-3.5	-28.7	-23.0	-18.1	5.1	31.2	-18.0	6.2	

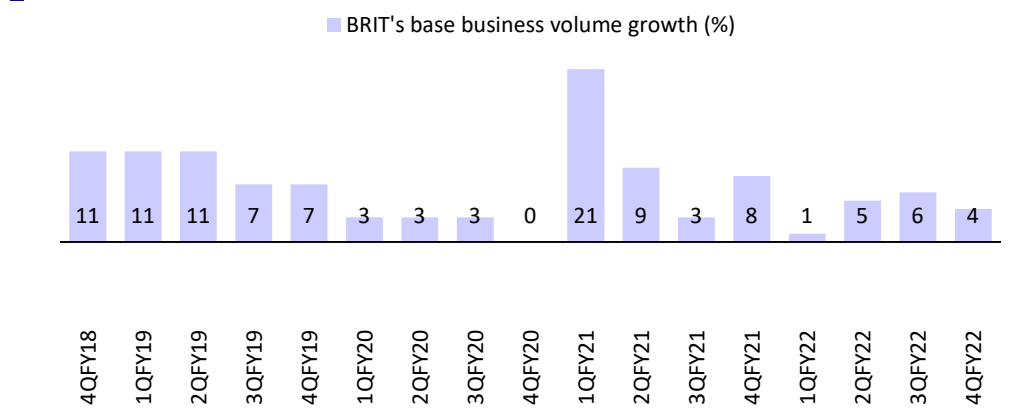
Key Performance Indicators

Y/E March	FY21				FY22				FY21	FY22
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
2Y average growth %										
Volumes	12.0	6.0	3.0	4.0	11.0	7.0	4.5	6.0	6.1	7.0
Sales	16.4	9.2	5.5	5.8	13.1	8.8	9.5	11.3	9.1	10.4
EBITDA	41.5	22.8	16.5	7.7	29.5	9.9	5.0	10.0	21.2	11.9
PAT	53.9	28.0	22.7	11.5	38.3	-0.1	2.2	0.8	26.6	6.6
% sales										
COGS	58.3	57.5	56.9	59.5	61.3	62.5	62.1	62.0	58.1	62.0
Staff cost	4.0	3.9	4.2	4.0	4.1	4.3	3.6	3.4	4.0	3.8
Others	16.7	18.8	19.6	20.4	18.3	17.8	19.2	19.1	18.8	18.6
Depreciation	1.4	1.4	1.5	1.7	1.4	1.4	1.4	1.4	1.5	1.4
YoY change %										
COGS	24.0	7.7	2.1	7.7	4.5	14.7	23.2	18.0	10.1	14.9
Staff cost	13.6	8.8	8.4	2.7	1.7	14.2	-2.9	-2.2	8.4	2.8
Others	-0.9	5.8	4.4	13.3	9.3	-0.5	10.8	6.6	5.6	6.4
Other income	38.9	7.9	26.7	-19.6	-35.5	-27.3	-33.2	-14.8	12.0	-28.8
EBIT	91.2	40.1	23.6	11.5	-24.6	-18.9	-13.1	10.2	39.4	-13.4

E: MOFSL Estimates

Key exhibits

Exhibit 1: Volumes from BRIT's base business up 4% YoY in 4QFY22



Source: Company, MOFSL

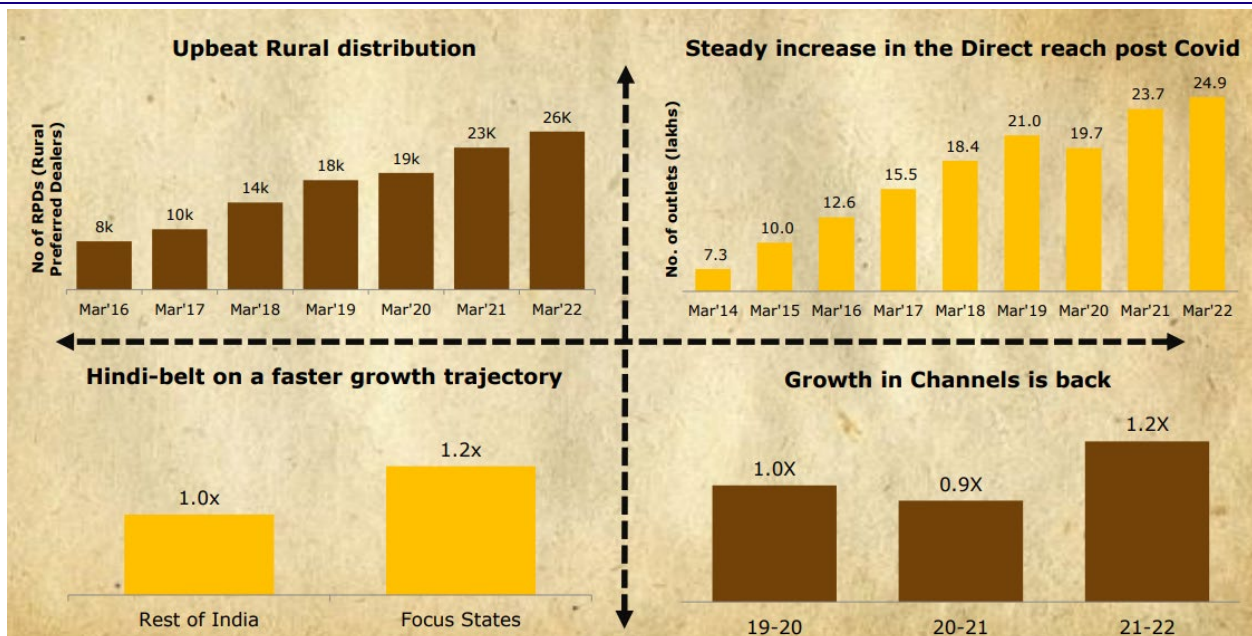
Standalone performance

- BRIT's 4QFY22 standalone sales/EBITDA/PAT rose 13%/7%/17% YoY, respectively. EBITDA margin contracted 100bp YoY to 15.6%.

Imputed subsidiary performance

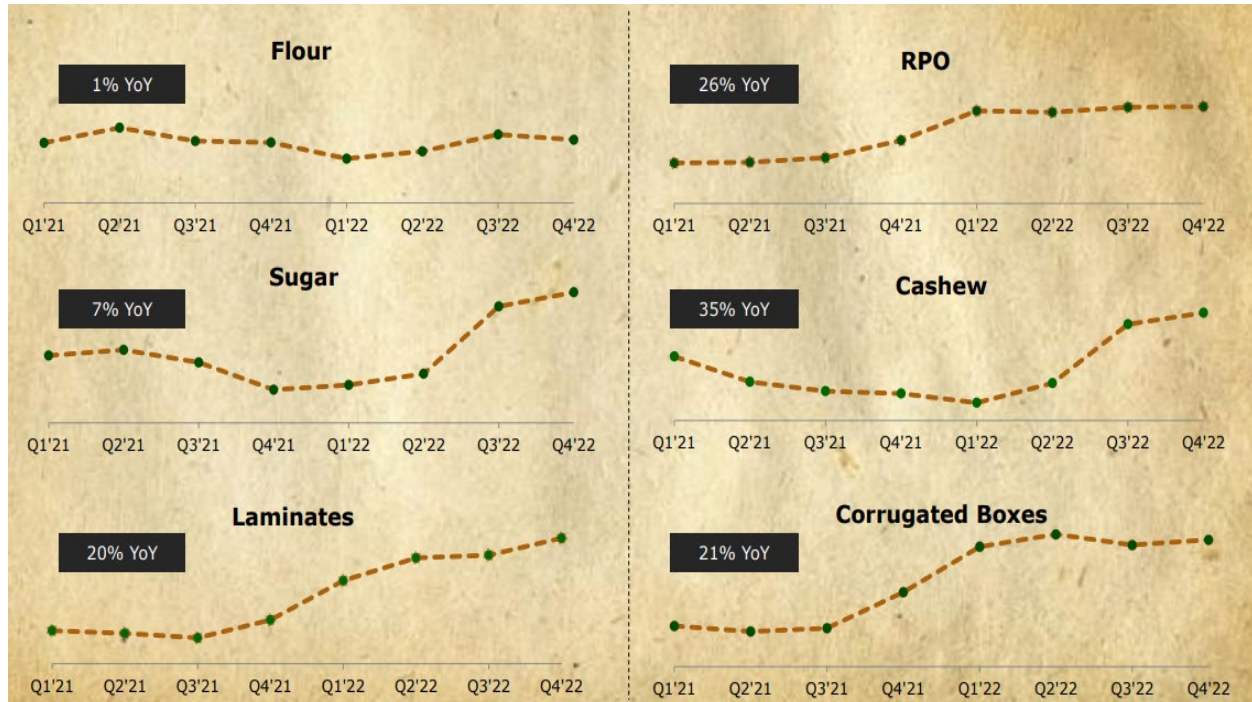
- BRIT's 4QFY22 imputed subsidiary sales/EBITDA grew 20.2% YoY to INR2.1b/ 57.3% YoY to INR276m, respectively, and it reported a loss of INR355m (v/s profit of INR66m in 4QFY21).

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



Key takeaways from the management interaction

Market share gain and distribution

- 10th year of market share gain, broadening gap over Parle in FY22 as well. Smaller regional players are also losing share in an inflationary environment.
- BRIT's urban biscuits market share was around 39% while rural share was around 27-28%.
- BRIT has gained market share of 80bp in the last two years.
- BRIT's mid-single digit volume growth was against a flat industry volume for 4QFY22.
- Hindi Belt is growing 20% faster than rest of India. Smaller Hindi-Belt states need more attention. Uttar Pradesh is 50% of Hindi-Belt sales and is doing well. There is some slip in momentum in Chhattisgarh and Rajasthan while MP is doing fine but not as expected.
- The company has direct reach to 2.5m outlets.
- Management highlighted that low-unit packs strategy will have to continue in India. About 50-55% of the total mix constituted the INR5-10 packs.
- While industry has migrated in the last 15 years from INR2 to INR5/INR10 packs, there is no indication yet of a likelihood of migration from INR5 pack.

RM inflation and response

- Forward commitments had helped protect margins in 4QFY22. However, there is a 17% YoY increase in commodity costs with no signs of abating.
- Management continues to take judicious price increases and grammage cuts. The latter is likely to play a bigger part.
- If RM price continues at current levels for the next 12 months, the company will need to take a further 10% price increase/grammage reduction in FY23E compared with a similar increase in FY22 as well.

- Management indicated that unlike expectations of a bumper crop, wheat production in India has been lower than expected. The crop quality is also poorer because of heat. Globally, both Russia and Ukraine are big players and the absence of harvest in these countries will continue to have implications on global wheat prices.
- Palm oil is a worry but BRIT is covered on this for the time being.
- Management made adjustments in non-material and fixed costs.
- There were 5x higher cost savings in FY22 than in FY14. It will be even more focused in FY23 to offset material cost pressures.
- Alternate energy (target 60%), better sourcing, backward integration, lower distance travelled, packaging material optimization, and reducing market returns are the key focus areas.

Key new brand performance/ relaunches

- Winkin Cow is now an INR1b brand. Launched two new variants
- Crossed INR5b sales in dairy
- Finally BRIT cracked the code on Croissants and so re-launching it gradually across regions – starting with South and then rolling across the country in the next few months
- NPD contribution was around 4.5%
- Potazos and Milk Bikis performances have also been strong. Organized trade has seen a very good scale up for Potazos
- Have launched Bisk Café, an accompanying product to Coffee.

Group ICDs

- BRIT's group ICDs were around INR7.4b. While these were below the peak of INR7.9b in Mar'21, there has been a sequential increase in each of the past three quarters from INR5.8b at end-3QFY22, INR5.05b in Sep'21 and INR 4.7b in Jun'21.

Other

- Management plans for new UP Plant, TN Plant, and expansion of a couple of existing plants in FY23E. Total capex will be around INR6.5b in FY23E.

Result ahead of estimates, 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 than 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

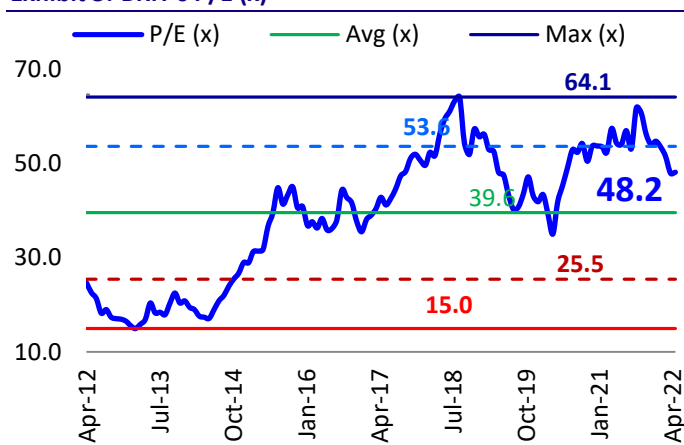
- There is a slight increase of 3.6% and 4.1% in FY23E and FY24E EPS, respectively.
- While earnings growth slowed down to a 9.5% CAGR over the last three years ended FY22, the stock price has remained rangebound over this period making valuations less challenging. While BRIT is not among our top picks in the Staples space owing to its vulnerability to material cost volatility, the longer term opportunity is extremely attractive.
- The stock trades at an inexpensive valuation of 39x FY24E given: a) a strong track record of 11%/22% EPS CAGR in the preceding 5/10 years ended FY22, respectively, b) it is one of the best structural growth opportunities in the sector, and c) a best-of-breed RoE of ~50%. These valuations also offer a substantial discount to its historical three-/five-year averages of 48x/49x, respectively. Maintain **BUY** with a TP of INR3,900, targeting 45x FY24E EPS.

Exhibit 4: We increase our FY23E/FY24E EPS by 3.6%/4.1%, respectively

(INR b)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	157.9	173.9	157.5	173.5	0.3	0.2
EBITDA	23.7	29.2	22.8	28.1	3.9	4.0
Adjusted PAT	16.7	20.8	16.1	20.0	3.6	4.1

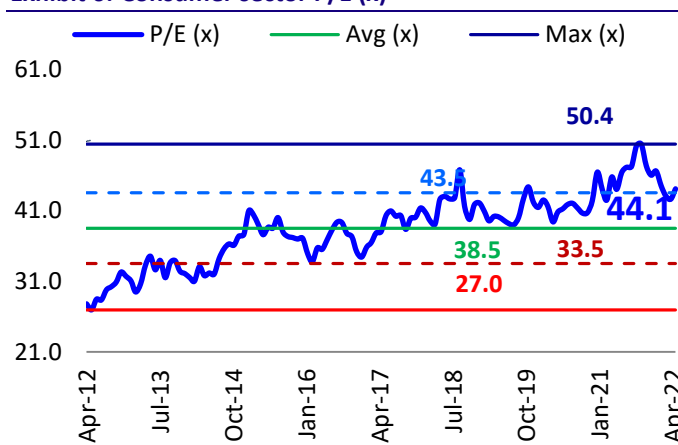
Source: Company, MOFSL

Exhibit 5: BRIT's P/E (x)



Source: Company, MOFSL

Exhibit 6: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)	
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	
Net Revenues	99.1	110.5	116.0	131.4	141.4	157.9	173.9	
Change (%)	9.5	11.5	4.9	13.2	7.6	11.7	10.1	
Gross Profit	38.1	44.9	46.7	55.1	53.8	59.5	70.3	
Margin (%)	38.4	40.6	40.3	41.9	38.0	37.7	40.4	
Other Expenditure	18.9	22.6	23.5	30.0	31.7	28.9	33.6	
EBITDA	15.0	17.3	18.4	25.1	22.0	23.7	29.2	
Change (%)	17.5	15.4	6.3	36.1	-12.3	7.6	23.2	
Margin (%)	15.1	15.7	15.9	19.1	15.6	15.0	16.8	
Depreciation	1.4	1.6	1.8	2.0	2.0	2.4	2.6	
Int. and Fin. Charges	0.1	0.1	0.8	1.1	1.4	1.7	1.8	
Financial Other Income	1.7	2.1	2.8	3.1	2.2	2.6	3.1	
PBT	15.2	17.7	18.6	25.1	20.8	22.3	27.9	
Tax	5.1	6.0	4.5	6.6	6.1	5.6	7.0	
Deferred Tax	0.0	0.1	0.0	0.1	-0.5	0.0	0.0	
Tax Rate (%)	33.9	34.6	24.2	26.4	27.0	25.2	25.2	
PAT	10.0	11.6	14.1	18.5	15.2	16.7	20.8	
Change (%)	13.6	15.2	21.9	31.2	-18.0	9.9	25.0	
Margin (%)	10.1	10.5	12.2	14.1	10.7	10.6	12.0	
Non-rec. (Exp.)/Income	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	
Reported PAT	10.0	11.6	13.9	18.5	15.2	16.7	20.8	

Balance Sheet							(INR b)	
Y/E March	2018	2019	2020	2021	2022	2023E	2024E	
Share Capital	0.2	0.2	0.2	0.2	0.2	0.2	0.2	
Reserves	33.8	42.3	43.8	35.2	25.3	28.7	32.9	
Networth	34.1	42.5	44.0	35.5	25.6	29.0	33.1	
Minority Interest	0.1	0.3	0.4	0.4	0.3	0.3	0.3	
Loans	2.0	1.6	15.4	20.9	24.7	22.9	21.3	
Capital Employed	36.2	44.4	59.8	56.7	50.5	52.1	54.7	
Gross Block	15.6	20.6	24.8	25.8	27.3	34.0	37.5	
Less: Accum. Depn.	-3.4	-5.0	-7.4	-9.3	-11.3	-13.7	-16.3	
Net Fixed Assets	12.2	15.6	17.4	16.4	16.0	20.3	21.2	
Goodwill on consolidation	1.3	1.3	1.4	1.4	1.4	1.4	1.4	
Capital WIP	2.0	1.0	0.4	1.2	5.4	5.4	2.0	
Investments	10.8	14.8	28.9	27.9	17.8	17.8	18.6	
Current	8.9	9.2	14.1	13.9	8.3	8.3	9.2	
Non-current	1.9	5.6	14.8	14.0	9.4	9.4	9.4	
Deferred Liability	-0.2	-0.1	-0.1	0.0	-0.5	-0.5	-0.5	
Currents Assets	25.4	29.6	30.1	33.1	34.1	33.7	39.9	
Inventory	6.5	7.8	7.4	10.9	13.7	10.9	12.0	
Account Receivables	3.0	3.9	3.2	2.6	3.3	5.0	5.4	
Cash and Bank Balance	1.9	1.1	1.2	2.1	1.8	1.2	5.7	
Others	13.9	16.8	18.3	17.5	15.3	16.6	16.9	
Curr. Liab. & Prov.	15.7	18.0	18.5	23.3	24.6	26.9	28.9	
Account Payables	9.9	11.4	11.2	13.1	12.9	16.6	17.7	
Other Liabilities	5.7	6.6	7.4	10.1	11.8	10.3	11.2	
Net Current Assets	9.7	11.7	11.6	9.8	9.5	6.8	11.0	
Net Assets	36.2	44.4	59.8	56.7	50.5	52.1	54.7	

E: MOFSL Estimates

Financials and valuations

Ratios							
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Basic (INR)							
EPS	41.8	48.1	58.6	76.8	63.0	69.2	86.5
BV/Share	141.9	177.0	183.1	147.3	106.1	120.2	137.5
DPS	12.5	15.0	35.0	62.0	56.5	55.4	69.2
Payout (%)	29.9	31.2	59.7	80.7	89.7	80.0	80.0
Valuation (x)							
P/E	80.9	70.3	57.7	44.0	53.7	48.8	39.1
EV/Sales	8.1	7.2	6.9	6.1	5.8	5.2	4.7
EV/EBITDA	53.4	46.0	43.3	32.1	37.2	34.6	27.8
P/BV	23.8	19.1	18.5	23.0	31.9	28.1	24.6
Dividend Yield	0.4	0.4	1.0	1.8	1.7	1.6	2.0
Return Ratios (%)							
RoE	32.9	30.2	32.6	46.5	49.7	61.2	67.1
RoCE	27.9	25.5	24.1	29.2	27.2	31.1	37.2
RoIC	41.5	41.9	44.3	62.2	57.2	59.7	70.6
Working Capital Ratios							
Debtor (Days)	11	13	10	7	9	12	11
Asset Turnover (x)	2.7	2.5	1.9	2.3	2.8	3.0	3.2
Leverage Ratio							
Debt/Equity (x)	0.1	0.0	0.3	0.6	1.0	0.8	0.6

Cash Flow Statement						(INR b)	
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
OP Profit	15.2	17.7	18.4	25.1	20.8	22.3	27.9
Dep	1.4	1.6	1.8	2.0	2.0	2.4	2.6
Financial Other Income	-0.5	-0.5	-0.7	-0.5	-0.3	-2.6	-3.1
Net Interest Paid	1.0	1.3	1.0	1.2	0.4	1.7	1.8
Direct Taxes Paid	5.0	6.0	5.0	6.3	5.9	5.6	7.0
Inc in WC	-2.3	0.0	-1.3	0.6	3.3	-2.0	-0.3
CF from Operations	12.5	11.6	14.8	18.5	13.0	16.7	18.9
(Inc)/Dec in FA	-4.2	-4.0	-2.4	-2.4	-5.5	-6.7	-0.1
Free Cash Flow	8.3	7.6	12.4	16.1	7.5	10.0	18.8
(Pur.)/Sale of Investments	-5.4	-3.3	-13.3	1.8	10.5	0.0	-0.8
Other Non Rec Exp	0.1	-1.5	0.4	5.4	4.2	6.0	6.6
CF from Investments	-9.5	-8.8	-15.3	4.8	9.2	-0.7	5.6
Issue of Shares	0.2	0.3	7.4	1.0	7.0	0.0	0.0
Inc in Debt	0.0	-0.4	-2.3	5.7	-3.7	-1.8	-1.6
Dividend Paid	3.2	3.5	4.3	28.2	24.8	13.3	16.7
Other Item	-0.7	-0.1	0.2	0.9	0.8	1.7	1.8
CF from Fin. Activity	-2.3	-3.5	0.6	-22.4	-22.4	-16.8	-20.0
Inc/Dec of Cash	0.7	-0.8	0.1	0.9	-0.3	-0.7	4.5
Add: Beginning Balance	1.2	1.9	1.1	1.2	2.1	1.8	1.2
Closing Balance	1.9	1.1	1.2	2.1	1.8	1.2	5.7

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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