

Britannia Industries

Estimate change



TP change



Rating change



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Bloomberg	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USDb)	909.9 / 11.4
52-Week Range (INR)	4152 / 3050
1, 6, 12 Rel. Per (%)	-7/7/-2
12M Avg Val (INR M)	1310

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	141.4	156.1	168.0
Sales Gr. (%)	7.6	10.4	7.6
EBITDA	22.0	22.7	27.0
Margins (%)	15.6	14.5	16.1
Adj. PAT	15.2	15.9	18.9
Adj. EPS (INR)	63.0	65.8	78.6
EPS Gr. (%)	-18.0	4.6	19.4
BV/Sh.(INR)	106.2	101.2	116.9

Ratios

RoE (%)	49.7	63.5	72.1
RoCE (%)	27.2	30.9	37.0
Payout (%)	89.7	80.0	80.0

Valuations

P/E (x)	60.0	57.4	48.1
P/BV (x)	35.6	37.3	32.3
EV/EBITDA (x)	41.6	40.1	33.6
Div. Yield (%)	1.5	1.4	1.7

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	50.6	50.6	50.6
DII	8.7	7.9	11.2
FII	16.7	17.2	18.4
Others	24.1	24.4	19.9

FII Includes depository receipts

CMP: INR3,778 TP: INR3,670 (-3%) Downgrade to Neutral

Volumes and margins disappoint in 1QFY23...

...rich valuations lead to downgrade

- After displaying resilience in 4QFY22 volumes despite steep price hikes, BRIT's 1QFY23 result was disappointing with a low single-digit volume decline. With further price increases likely in 2QFY23 (cumulative 6-7% price hike in 1HFY23), the effective price hike will be ~20% YoY. This might delay the eventual volume recovery, especially in a price sensitive category like biscuits.
- BRIT's 1QFY23 EBITDA margin was also notably lower than expectations at 13.5% (a level last seen in 4QFY15). Even though we estimate FY24 EBITDA margin to recoup to 16%, BRIT's valuation is rich at 48.1x FY24E P/E given the tepid earnings CAGR of 11.7% over FY22-24E. We, therefore, **downgrade BRIT to Neutral** targeting 45x Jun'24E EPS, giving us a TP of INR3,670.

Sales in line; margins ahead of estimates

- BRIT's consolidated sales rose **8.7% YoY to INR37b** (in line) in 1QFY23. Consol. EBITDA/PBT/Adj. PAT decreased 9.6%/12.7%/13.1% YoY to INR5.0b/INR4.6b/INR3.3b (est. INR5.4b/INR5.0b/INR3.8b), respectively.
- Base business volume declined 2% YoY in 1QFY23 (est. +4%).
- Consolidated gross margin contracted 180bp YoY to 36.9%** (in line). Lower staff cost (-10bp YoY) and higher other expenses (+100bp YoY) led to an EBITDA margin contraction of 270bp YoY to 13.5% (est. of 14.3%).
- On a standalone basis**, sales were up 8.8% YoY in 1QFY23. EBITDA/PAT declined 10.3%/31% YoY, respectively. Standalone EBITDA margin contracted 280bp YoY to 13.3%.
- Imputed subsidiaries:** Sales/EBITDA grew 7.3%/2.6% YoY to INR1.8b/INR309m in 1QFY23. PAT was INR129m (v/s loss of INR763m in 1QFY22).

Highlights from the management commentary

- Volume decline was in low single-digit but the number of packets sold remained flat.
- Sequential inflation in wheat was steep (20% QoQ) and it was the largest contributor to BRIT's RM basket inflation. It has, however, moderated recently and the RM situation is likely to ease going forward.
- Total price hikes were a cumulative 20% over the last 12 months. Some price hikes were taken in 1QFY23 and further hikes will be taken during 2Q (6-7% price hikes cumulatively in 1HFY23).
- Currently adjacencies make up 20% of BRIT's revenue. But management expects this to move towards 40-45% of turnover in the next 4-5 years.
- Group ICDs stood at INR6.9b as of 30th Jun'22. They were at INR7.4b as of 31st Mar'22.

Valuation and view

- There is no material change to our FY23 EPS estimate however, a likely realization decline in FY24 after the over-20% YoY price hike (prudent for a price sensitive category) would translate into a muted sales growth even if volumes were to be healthy in FY24E. This leads us to cut our FY24 EPS estimate by 5% even as we expect EBITDA margin to revive to historical highs (barring an unusually high level in FY21 led by a combination of stupendous in-home demand, low A&P spends, and benign material costs).
- BRIT's valuation at 48.1x FY24E P/E appears rich given a tepid EPS CAGR of 11.7% over FY22-24E. While we like the longer-term opportunity for BRIT in the packaged food space, its impressive direct distribution expansion, and high ROEs, its current valuation fully captures any potential upside from a one-year perspective. The stock is also considerably expensive when compared with peers like DABUR, GCPL, and MRCO which trade at 37-41x FY24E P/E. We, therefore, **downgrade BRIT to Neutral** targeting 45x Jun'24 EPS, giving us a TP of INR3,670.

Consol. Quarterly Performance

(INR b)

Y/E March	FY22				FY23				FY22	FY23	FY22	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Base business volume growth (%)	1.0	5.0	6.0	4.0	-2.0	0.0	4.0	6.0	3.9	2.0	4.0	
Net Sales	34.0	36.1	35.7	35.5	37.0	40.4	39.3	39.4	141.4	156.1	37.6	(1.6)
YoY change (%)	-0.5	5.5	12.9	13.4	8.7	12.0	10.0	10.9	7.6	10.4	10.5	
Gross Profit	13.2	13.5	13.6	13.5	13.6	15.2	14.9	15.3	53.8	59.0	13.9	(1.9)
Margins (%)	38.7	37.5	37.9	38.0	36.9	37.5	38.0	38.7	38.0	37.8	37.0	
EBITDA	5.5	5.6	5.4	5.5	5.0	5.8	5.8	6.1	22.0	22.7	5.4	(6.7)
Margins (%)	16.3	15.5	15.1	15.5	13.5	14.2	14.7	15.6	15.6	14.5	14.3	
YoY growth (%)	-22.8	-17.3	-11.7	8.8	-9.6	3.0	7.3	11.5	-12.3	3.0	-3.1	
Depreciation	0.5	0.5	0.5	0.5	0.5	0.6	0.6	0.7	2.0	2.4	0.6	
Interest	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.4	1.4	1.7	0.4	
Other Income	0.6	0.5	0.6	0.5	0.6	0.6	0.7	0.8	2.2	2.6	0.6	
PBT	5.3	5.2	5.1	5.2	4.6	5.4	5.4	5.8	20.8	21.2	5.0	(8.0)
Tax	1.4	1.4	1.4	1.4	1.3	1.3	1.3	1.4	5.6	5.3	1.3	
Rate (%)	27.2	27.0	26.9	27.2	27.8	24.5	24.5	24.4	27.0	25.2	25.2	
Adjusted PAT	3.9	3.8	3.7	3.8	3.3	4.1	4.1	4.4	15.2	15.9	3.8	(11.2)
YoY change (%)	-28.7	-23.0	-18.1	5.1	-13.5	6.5	9.5	16.3	-18.0	4.6	-2.6	

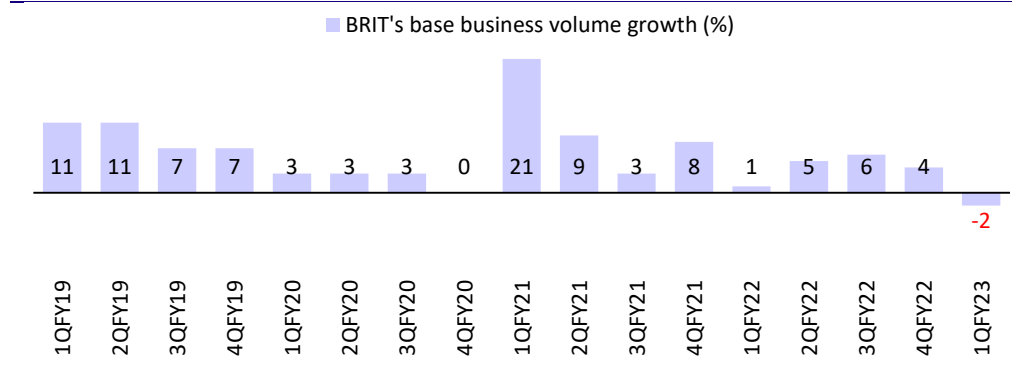
E: MOFSL estimates

Key Performance Indicators

Y/E March	FY22				FY23
	1Q	2Q	3Q	4Q	1Q
2Y average growth %					
Volumes	11.0	7.0	4.5	6.0	-0.5
Sales	13.1	8.8	9.5	11.3	4.1
EBITDA	29.5	9.9	5.0	10.0	-16.2
PAT	38.3	-0.1	2.2	0.8	-21.1
% sales					
COGS	61.3	62.5	62.1	62.0	57.9
Staff cost	4.1	4.3	3.6	3.4	4.0
Others	18.3	17.8	19.2	19.1	17.8
Depreciation	1.4	1.4	1.4	1.4	1.4
YoY change %					
COGS	4.5	14.7	23.2	18.0	12.0
Staff cost	1.7	14.2	-2.9	-2.2	5.5
Others	9.3	-0.5	10.8	6.6	14.9
Other income	-35.5	-27.3	-33.2	-14.8	-8.2
EBIT	-24.6	-18.9	-13.1	10.2	-10.9

Key exhibits

Exhibit 1: Volumes from BRIT's base business down 2% YoY in 1QFY23



Source: Company, MOFSL

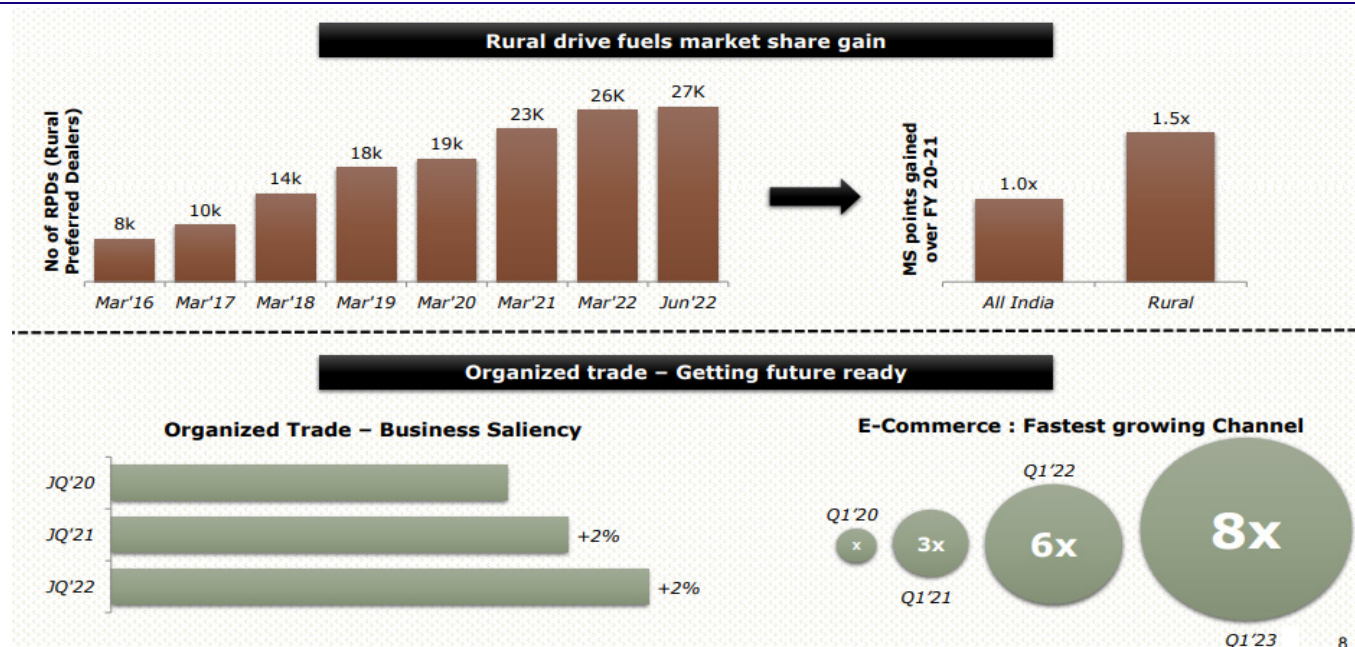
Standalone performance

- **BRIT's 1QFY23 standalone** sales were up by 8.8% YoY in 1QFY23. EBITDA/PAT declined 10.3%/31% YoY. EBITDA margin contracted 280bp YoY to 13.3%.

Imputed subsidiary performance

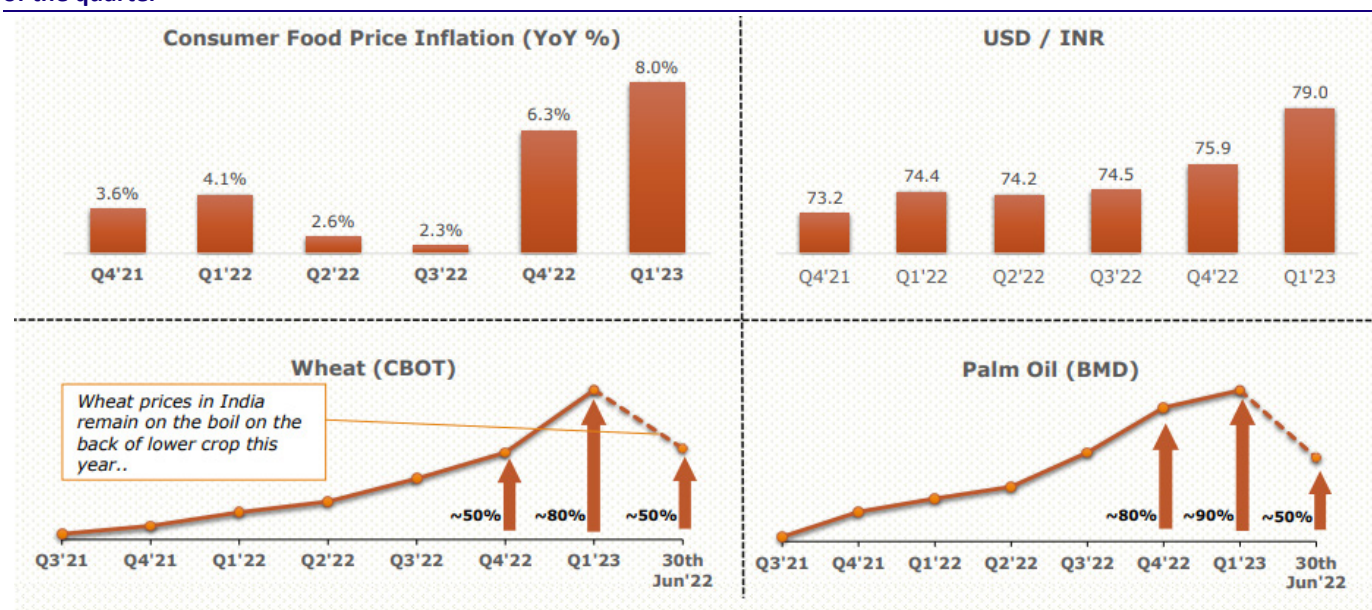
- **BRIT's 1QFY23 imputed subsidiary** sales/EBITDA grew 7.3%/2.6% YoY to INR1.8b/ INR309m in 1QFY23. PAT was INR129m (v/s loss of INR763m in 1QFY22).

Exhibit 2: Strengthening rural distribution bolstered BRIT's rural market share



Source: Company presentation

Exhibit 3: While commodities witnessed steep inflation in 1QFY23, there were signs of inflation moderating towards the end of the quarter



Source: Company presentation



Key takeaways from the management interaction

Operating environment

- The economic environment was challenging during 1QFY23.
- BRIT has managed to gain market share for 36 quarters continuously.
- Rural has been doing well for BRIT on the back of distribution expansion.
- Volume decline has been low single-digit but the number of packets sold has remained flat.
- Premium categories are growing faster than mass market categories.
- The mix of small packs to large packs has not changed meaningfully.
- Milk Bikkis crossed the INR10b mark in FY22 and is poised to cross the INR10b mark in FY23 again.

Input costs, pricing and margins

- Consumer food price inflation at in 1QFY23 was 8%.
- The bakery business faced the brunt of inflation during the quarter. Wheat has seen 80% YoY inflation while palm oil is 90% inflation in 1QFY23. Fuel and packaging are also witnessing inflation.
- Sequential inflation in wheat has been steeper (20% QoQ) than palm oil and is the largest part contributing to BRIT's RM basket inflation. It has moderated recently however, and the situation is expected to ease going forward.
- Overall inflation was INR1.8b sequentially in the bakery business.
- BRIT continues to take price hikes and continued its cost optimization programs. Total price hikes have been a cumulative 20% over the last 12 months. Some price hikes were taken in 1Q and further price hikes will be taken during 2Q (6-7% price hikes cumulatively).
- Price hikes will cover a majority of inflation by 2QFY23. BRIT was able to take price hikes before the market owing to its leadership position.

- Management believes RM costs have peaked in 1Q and margins should improve going forward.

Distribution expansion and channel salience

- Rural has been doing well for BRIT on the back of distribution expansion. It now has 27k rural preferred dealers.
- GT is the most profitable channel for BRIT and driving GT expansion is crucial for profitability.
- Market share growth in rural has been 1.5x of all India gain.
- Organized trade has continued to move upwards by 400bp since 1QFY20.
- Ecom salience is now 2.5% of total revenues.
- BRIT's share in Ecom and MT is higher than the GT channel.

New launches and adjacencies

- Croissant has been launched nationally in three flavors and the initial consumer reaction has been good. Doubled in the markets YoY of Kolkata and Chennai where it was already present.
- Launched cheese wafers in the South.
- BRIT was not present in the INR5 segment for cakes but has now launched an INR5 cupcake in the East and Central region which is doing well.
- Marble cake launch (limited launch for now but will be scaled up for the entire country).
- Double digit volume and value growth in cakes.
- Winkin Cow (milkshakes) has grown at 140% YoY on the back of good summer sales.
- The current annual run-rate is over INR1b in Croissants and wafers.
- BRIT is the market leaders in Croissants on an all India basis (INR1b category size).
- Will take a few years to achieve leadership position in wafer which is a INR5b category. The market leader has 20% share and this is a fragmented category with many regional smaller players.
- Started investing in fixed assets for wafers which was previously done via third-party vendors.
- The dairy business grew 40% YoY in 1QFY23.
- Currently adjacencies make up 20% of BRIT's revenue. But management expects this to move towards 40-45% of turnover in 4-5 years.

Cost efficiencies

- Reduced distance to market by 4% in 1QFY23 by creating flexible manufacturing capabilities in most of BRIT's plants.
- Truck utilization has improved by 3%.
- Reduced market returns by 15% due to process changes brought at an organizational level.
- RE accounts for 40% of the power consumption of the company and it comes at a 30% lower cost than traditional power sources. Reduction in power costs has been 6%.

Other points

- Group ICDs were INR6.9b as of 30th Jun'22. They were INR7.4b as on 31st Mar'22.
- 40% of BRIT's production happens via contract manufacturing.
- **Capex:** The new plants at UP and TN are expected to cost INR3b each while the plant in Bihar will cost slightly lower. The cost of expansion at BRIT's Odhisha facility will be relatively small. The commitment for the Ranjangaon plant was INR15b and the incurred cost so far has been INR12-13b so far.

Volumes and margins disappoint; fair valuations lead to downgrade

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.

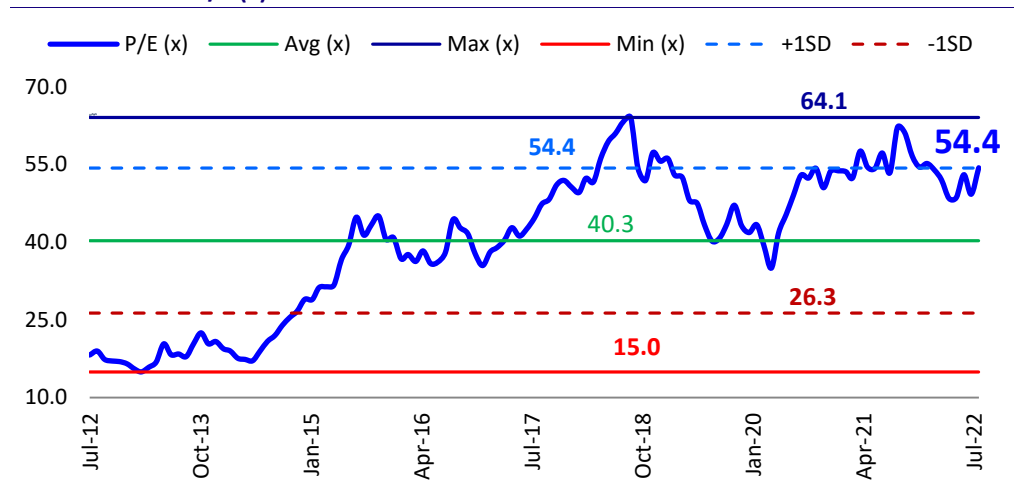
Our view on the stock

- There is no material change to our FY23 EPS estimate however, a likely realization decline in FY24 after the over-20% YoY price hike (prudent for a price sensitive category) would translate into a muted sales growth even if volumes were to be healthy in FY24E. This leads us to cut our FY24 EPS estimate by 5% even as we expect EBITDA margin to revive to historical highs (barring an unusually high level in FY21 led by a combination of stupendous in-home demand, low A&P spends, and benign material costs).
- BRIT's valuation at 48.1x FY24E P/E appears rich given a tepid EPS CAGR of 11.7% over FY22-24E. While we like the longer-term opportunity for BRIT in the packaged food space, its impressive direct distribution expansion, and high ROEs, its current valuation fully captures any potential upside from a one-year perspective. The stock is also considerably expensive when compared with peers like DABUR, GCPL, and MRCO which trade at 37-41x FY24E P/E. We, therefore, **downgrade BRIT to Neutral** targeting 45x Jun'24 EPS, giving us a TP of INR3,670.

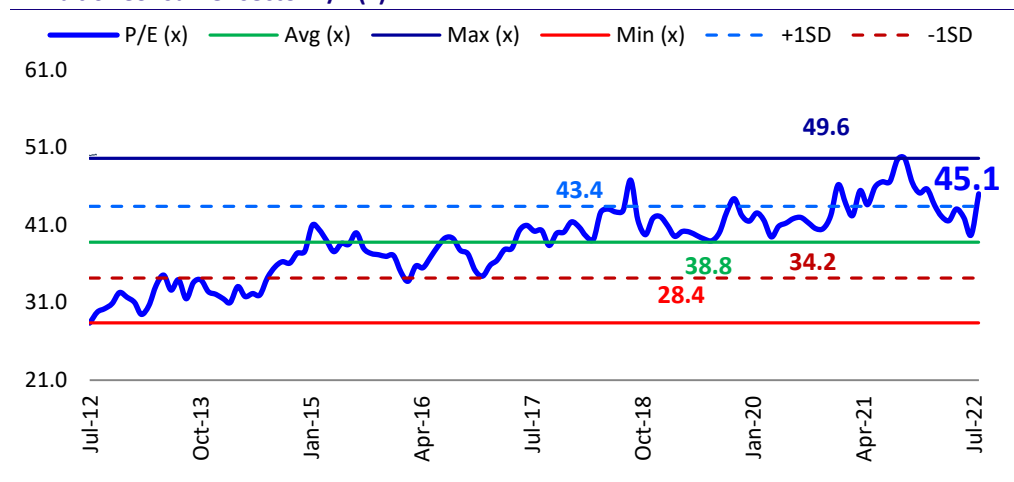
Exhibit 4: We decrease our FY23E/FY24E EPS by 0.4%/5.2%, respectively

(INR b)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	156.1	168.0	157.9	173.8	-1.1	-3.4
EBITDA	22.7	27.0	22.8	28.1	-0.3	-4.2
Adjusted PAT	15.9	18.9	15.9	20.0	-0.4	-5.2

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	156.1	168.0
Change (%)	9.5	11.5	4.9	13.2	7.6	10.4	7.6
Gross Profit	38.1	44.9	46.7	55.1	53.8	59.0	67.7
Margin (%)	38.4	40.6	40.3	41.9	38.0	37.8	40.3
Other Expenditure	18.9	22.6	23.5	25.5	27.6	29.4	33.4
EBITDA	15.0	17.3	18.4	25.1	22.0	22.7	27.0
Change (%)	17.5	15.4	6.3	36.1	-12.3	3.0	18.9
Margin (%)	15.1	15.7	15.9	19.1	15.6	14.5	16.1
Depreciation	1.4	1.6	1.8	2.0	2.0	2.4	2.9
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	3.0
PBT	15.2	17.7	18.6	25.1	20.8	21.2	25.3
Tax	5.1	6.0	4.5	6.6	6.1	5.3	6.4
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	15.9	18.9
Change (%)	13.6	15.2	21.9	31.2	-18.0	4.6	19.4
Margin (%)	10.1	10.5	12.2	14.1	10.7	10.2	11.3
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	15.9	18.9

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	24.1	27.9
Networth	34.1	42.5	44.0	35.5	25.6	24.4	28.2
Minority Interest	0.1	0.3	0.4	0.4	0.3	0.3	0.3
Loans	2.0	1.6	15.4	21.0	24.7	22.9	21.3
Capital Employed	36.2	44.4	59.8	56.9	50.5	47.5	49.7
Gross Block	15.6	20.6	24.8	26.2	28.1	34.8	39.3
Less: Accum. Depn.	-3.4	-5.0	-7.4	-9.6	-12.0	-14.4	-17.3
Net Fixed Assets	12.2	15.6	17.4	16.6	16.1	20.4	22.0
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	4.0	2.5
Investments	10.8	14.8	28.9	27.8	17.6	17.6	18.2
Current	8.9	9.2	14.1	15.3	6.2	6.2	6.8
Non-current	1.9	5.6	14.8	12.6	11.4	11.4	11.4
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	32.9	36.3
Inventory	6.5	7.8	7.4	10.9	13.7	10.8	11.6
Account Receivables	3.0	3.9	3.2	2.6	3.3	5.0	5.2
Cash and Bank Balance	1.9	1.1	1.2	2.1	1.8	5.5	7.5
Others	13.9	16.8	18.3	17.5	15.3	11.7	12.0
Curr. Liab. & Prov.	15.7	18.0	18.5	23.1	24.6	29.3	31.2
Account Payables	9.9	11.4	11.2	13.1	12.9	16.5	17.3
Other Liabilities	5.7	6.6	7.4	10.0	11.8	12.8	14.0
Net Current Assets	9.7	11.7	11.6	10.0	9.5	3.6	5.1
Net Assets	36.2	44.4	59.8	56.9	50.5	47.5	49.7

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	65.8	78.6
BV/Share	141.9	177.0	183.1	147.3	106.2	101.2	116.9
DPS	12.5	15.0	35.0	62.0	56.5	52.7	62.9
Payout (%)	29.9	31.2	59.7	80.7	89.7	80.0	80.0
Valuation (x)							
P/E	90.3	78.5	64.4	49.2	60.0	57.4	48.1
EV/Sales	9.0	8.1	7.7	6.9	6.5	5.8	5.4
EV/EBITDA	59.7	51.5	48.5	35.9	41.6	40.1	33.6
P/BV	26.6	21.3	20.6	25.7	35.6	37.3	32.3
Dividend Yield	0.3	0.4	0.9	1.6	1.5	1.4	1.7
Return Ratios (%)							
RoE	32.9	30.2	32.6	46.5	49.7	63.5	72.1
RoCE	27.9	25.5	24.1	29.2	27.2	30.9	37.0
RoIC	41.5	41.9	44.3	61.9	56.7	65.6	85.7
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	3.3	3.4
Leverage Ratio							
Debt/Equity (x)	0.1	0.0	0.3	0.6	1.0	0.9	0.8

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	21.2	25.3
Dep	1.4	1.6	1.8	2.0	2.0	2.4	2.9
Financial Other Income	-0.5	-0.5	-0.7	-0.5	-0.3	-2.6	-3.0
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	5.3	6.4
Inc in WC	-2.3	0.0	-1.3	0.3	3.3	-9.5	-0.6
CF from Operations	12.5	11.6	14.8	18.8	13.0	23.5	17.6
(Inc)/Dec in FA	-4.2	-4.0	-2.4	-2.4	-5.5	-5.3	-3.0
Free Cash Flow	8.3	7.6	12.4	16.4	7.5	18.1	14.6
(Pur.)/Sale of Investments	-5.4	-3.3	-13.3	1.8	10.5	0.0	-0.6
Other Non Rec Exp	0.1	-1.5	0.4	5.1	4.2	1.6	6.5
CF from Investments	-9.5	-8.8	-15.3	4.6	9.2	-3.7	2.9
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	-3.4	-1.8	-1.6
Dividend Paid	3.2	3.5	4.3	28.2	24.8	12.7	15.2
Other Item	-0.7	-0.1	0.2	0.9	1.2	1.7	1.8
CF from Fin. Activity	-2.3	-3.5	0.6	-22.4	-22.5	-16.1	-18.5
Inc/Dec of Cash	0.7	-0.8	0.1	0.9	-0.3	3.6	2.0
Add: Beginning Balance	1.2	1.9	1.1	1.2	2.1	1.8	5.5
Closing Balance	1.9	1.1	1.2	2.1	1.8	5.5	7.5

E: MOFSL Estimates

NOTES

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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