

Britannia Industries

Estimate change



TP change



Rating change



CMP: INR4,142

TP: INR4,210 (+2%)

Neutral

Beat on all fronts; material cost pressures persist

- BRIT performed significantly better than expected in 2QFY23. Despite an effective price increase of over 18% YoY, volumes were up by ~4%.
- High velocity consumption categories like Biscuits usually witness a lower offtake during periods of high CPI inflation, as discretionary consumption is sacrificed, but this was not the case on this occasion. Three-year sales CAGR remained in double-digits.
- All three critical raw materials (i.e. wheat, sugar, and milk) are witnessing inflation, which will cap its margin outperformance. We maintain our Neutral rating on the stock.

Bloomberg	BRIT IN
Equity Shares (m)	240
M.Cap.(INRb)/(USD\$)	997.7 / 12.2
52-Week Range (INR)	4190 / 3050
1, 6, 12 Rel. Per (%)	4/14/12
12M Avg Val (INR M)	1246

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	141.4	166.6	179.4
Sales Gr. (%)	7.6	17.8	7.7
EBITDA	22.0	26.3	29.7
Margins (%)	15.6	15.8	16.5
Adj. PAT	15.2	18.2	21.0
Adj. EPS (INR)	63.0	75.5	87.0
EPS Gr. (%)	-18.0	19.8	15.3
BV/Sh.(INR)	106.2	103.1	120.5

Ratios

RoE (%)	49.7	72.1	77.8
RoCE (%)	27.2	36.7	40.6
Payout (%)	89.7	80.0	80.0

Valuations

P/E (x)	65.8	54.9	47.6
P/BV (x)	39.0	40.2	34.4
EV/EBITDA (x)	45.6	37.9	33.5
Div. Yield (%)	1.4	1.5	1.7

Shareholding pattern (%)

As On	Sep-22	Jun-22	Sep-21
Promoter	50.6	50.6	50.6
DII	16.3	8.7	11.5
FII	17.2	16.7	17.7
Others	16.0	24.1	20.3

FII Includes depository receipts

Better than expected performance

- Consolidated sales rose 21.4% YoY to INR43.8b** (est. INR40.4b) in 2QFY23. Consolidated EBITDA/PBT/adjusted PAT grew 27.5%/26.1%/28.5% YoY to INR7.1b/INR6.6b/INR4.9b (est. INR5.9b/INR5.5b/INR4.1b).
- Volumes in the base business rose by ~4% YoY in 2QFY23 (in-line).
- Consolidated gross margin expanded by 140bp YoY and 200bp QoQ to 38.9%** (est. 37.5%). Lower staff cost (-50bp YoY) and higher other expenses (+120bp YoY) restricted EBITDA margin expansion to 80bp YoY at 16.3% (est. 14.5%).
- Sales/EBITDA/adjusted PAT rose 15.3%/9%/7% to INR80.8b/INR12.1b/INR8.3b in 1HFY23.
- On a standalone basis**, sales/EBITDA/PAT rose 22.4%/29.5%/34.1% YoY in 2QFY23 to INR41.9b/INR6.9b/INR4.9b.

Highlights from the management interaction

- BRIT has been gaining market share for the past 38 quarters.
- Commodity cost inflation grew by 3% sequentially. Cumulative commodity inflation is up 32% over the past seven quarters. This has affected profitability by 23%. However, profitability was aided by ~3% from cost efficiency programs and price hikes of 21-22.5%.
- BRIT raised prices much ahead of that of the market. Prices are up 18% YoY and 7% QoQ. This has affected volumes.
- The management expects wheat prices to remain firm in 3QFY23. Milk prices continue to be on the boil and this has impacted the Dairy business. It is seeing a little upside in sugar as well.

Valuation and view

- As a result of the significant beat in its 2QFY23 EPS over our expectation; relative resilience in volumes, amid a steep price increase; as well as a high CPI inflation, our EPS forecast for FY23/FY24 have risen by 11%/8%.

- Material cost pressures, however, show no signs of abating, with ad spends likely to increase going forward. Our forecasts already factor in the highest ever annual EBITDA margin going forward (barring the unusually high margin during the COVID-led restrictions, which, as per the management, is unlikely to be replicated).
- BRIT's valuation at 47.6x FY24E P/E appears rich. While we like the long-term opportunity for BRIT in the Packaged Food space, its impressive expansion in direct distribution, high RoE, and current valuation fully captures any potential upside from a one-year perspective. The stock is considerably expensive when compared to peers like DABUR, GCPL, and MRCO, which trade at 35-43x FY24E P/E. We maintain our Neutral rating and our TP of INR4,210 (45x Sep'24E EPS).

Consolidated quarterly performance

(INR b)

Y/E March	FY22				FY23				FY22	FY23E	FY23	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Base business volume growth (%)	1.0	5.0	6.0	4.0	-2.0	4.0	3.0	2.0	3.9	1.8	3.0	
Net Sales	34.0	36.1	35.7	35.5	37.0	43.8	43.6	42.2	141.4	166.6	40.4	8.4
Change (YoY %)	-0.5	5.5	12.9	13.4	8.7	21.4	22.0	18.8	7.6	17.8	12.0	
Gross Profit	13.2	13.5	13.6	13.5	13.6	17.1	17.0	16.7	53.8	64.4	15.2	12.5
Margin (%)	38.7	37.5	37.9	38.0	36.9	38.9	39.0	39.5	38.0	38.6	37.5	
EBITDA	5.5	5.6	5.4	5.5	5.0	7.1	7.2	7.0	22.0	26.3	5.9	21.6
Margin (%)	16.3	15.5	15.1	15.5	13.5	16.3	16.5	16.5	15.6	15.8	14.5	
Growth (YoY %)	-22.8	-17.3	-11.7	8.8	-9.6	27.5	33.6	26.8	-12.3	19.5	4.8	
Depreciation	0.5	0.5	0.5	0.5	0.5	0.5	0.6	0.6	2.0	2.2	0.6	
Interest	0.3	0.4	0.4	0.3	0.4	0.5	0.6	0.6	1.4	2.1	0.4	
Other Income	0.6	0.5	0.6	0.5	0.6	0.5	0.6	0.6	2.2	2.3	0.6	
PBT	5.3	5.2	5.1	5.2	4.6	6.6	6.7	6.4	20.8	24.3	5.5	20.3
Tax	1.4	1.4	1.4	1.4	1.3	1.7	1.6	1.5	5.6	6.1	1.3	
Rate (%)	27.2	27.0	26.9	27.2	27.8	25.6	24.5	23.5	27.0	25.2	24.5	
Adjusted PAT	3.9	3.8	3.7	3.8	3.3	4.9	5.0	4.9	15.2	18.2	4.1	18.5
Change (YoY %)	-28.7	-23.0	-18.1	5.1	-13.5	28.5	35.9	29.7	-18.0	19.8	8.4	

E: MOFSL estimates

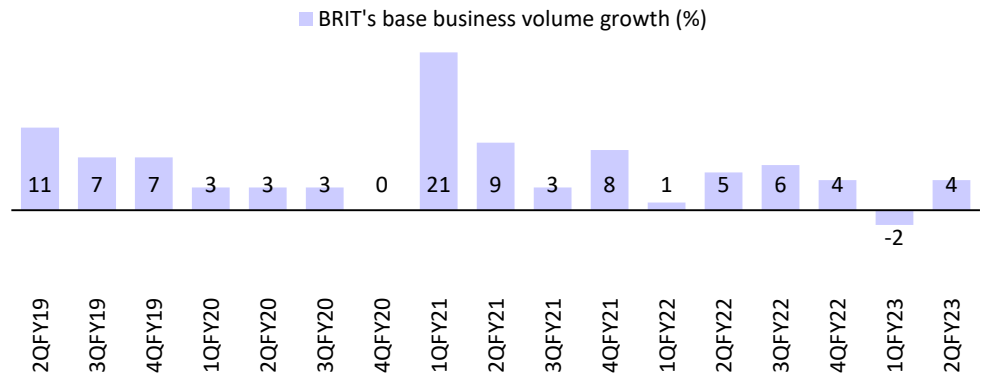
Key performance indicators

Y/E March	FY22				FY23	
	1Q	2Q	3Q	4Q	1Q	2Q
Average growth in the last two-years (%)						
Volumes	11.0	7.0	4.5	6.0	-0.5	4.5
Sales	13.1	8.8	9.5	11.3	4.1	13.5
EBITDA	29.5	9.9	5.0	10.0	-16.2	5.1
PAT	38.3	-0.1	2.2	0.8	-21.1	2.8
As a percentage of sales						
COGS	61.3	62.5	62.1	62.0	63.1	61.1
Staff cost	4.1	4.3	3.6	3.4	4.0	3.7
Others	18.3	17.8	19.2	19.1	19.4	19.0
Depreciation	1.4	1.4	1.4	1.4	1.4	1.2
Change (YoY %)						
COGS	4.5	14.7	23.2	18.0	12.0	18.6
Staff cost	1.7	14.2	-2.9	-2.2	5.5	5.8
Others	9.3	-0.5	10.8	6.6	14.9	29.6
Other income	-35.5	-27.3	-33.2	-14.8	-8.2	-0.3
EBIT	-24.6	-18.9	-13.1	10.2	-10.9	29.9

E: MOFSL estimates

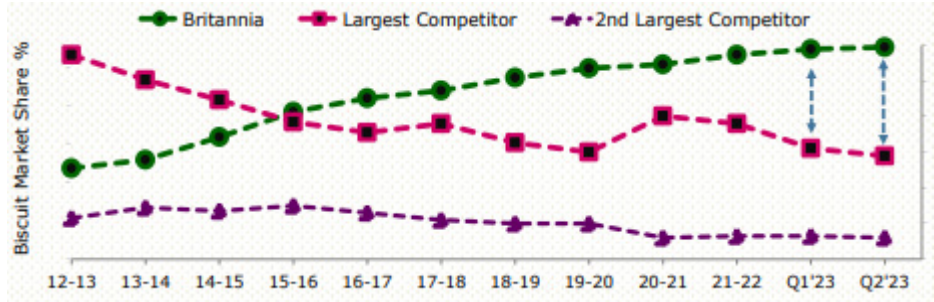
Key exhibits

Exhibit 1: Volumes from BRIT's base business up 4% YoY in 2QFY23



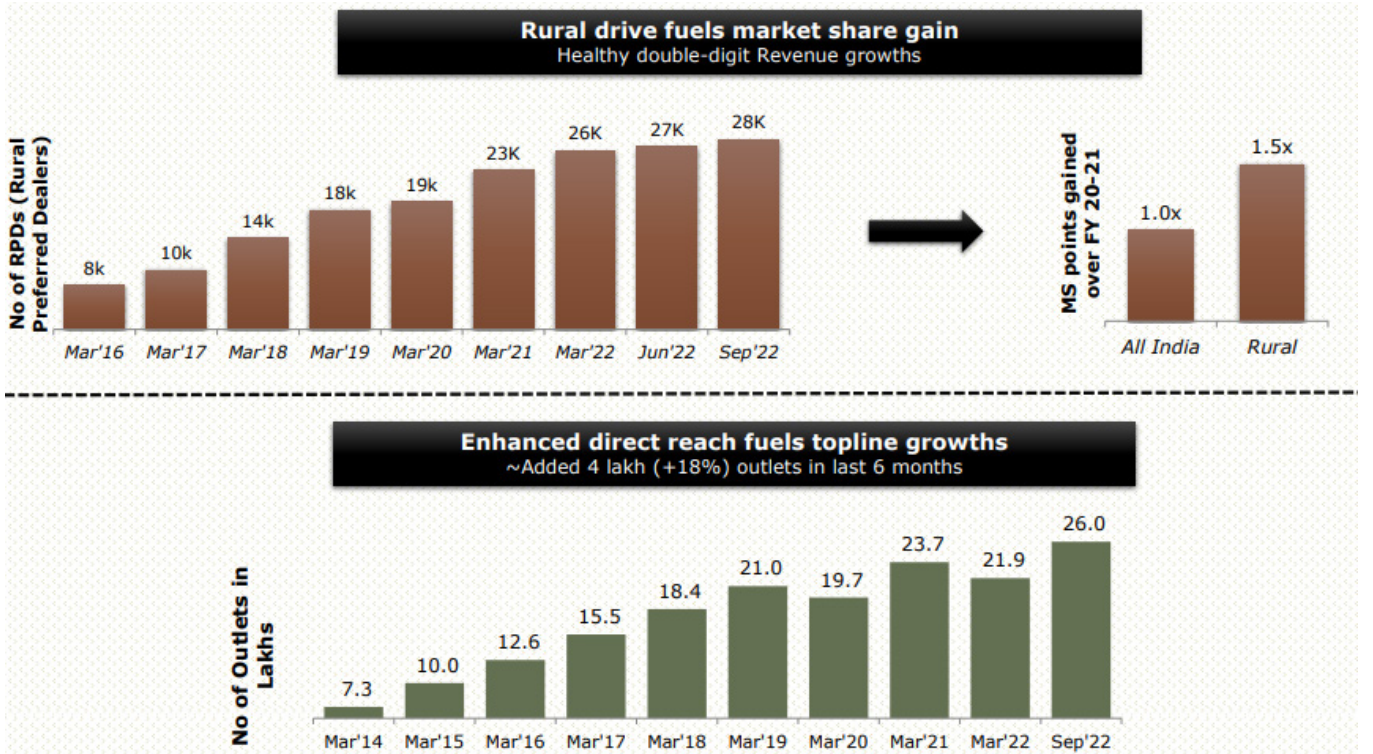
Source: Company, MOFSL

Exhibit 2: BRIT strengthens its market share in the past 38 quarters



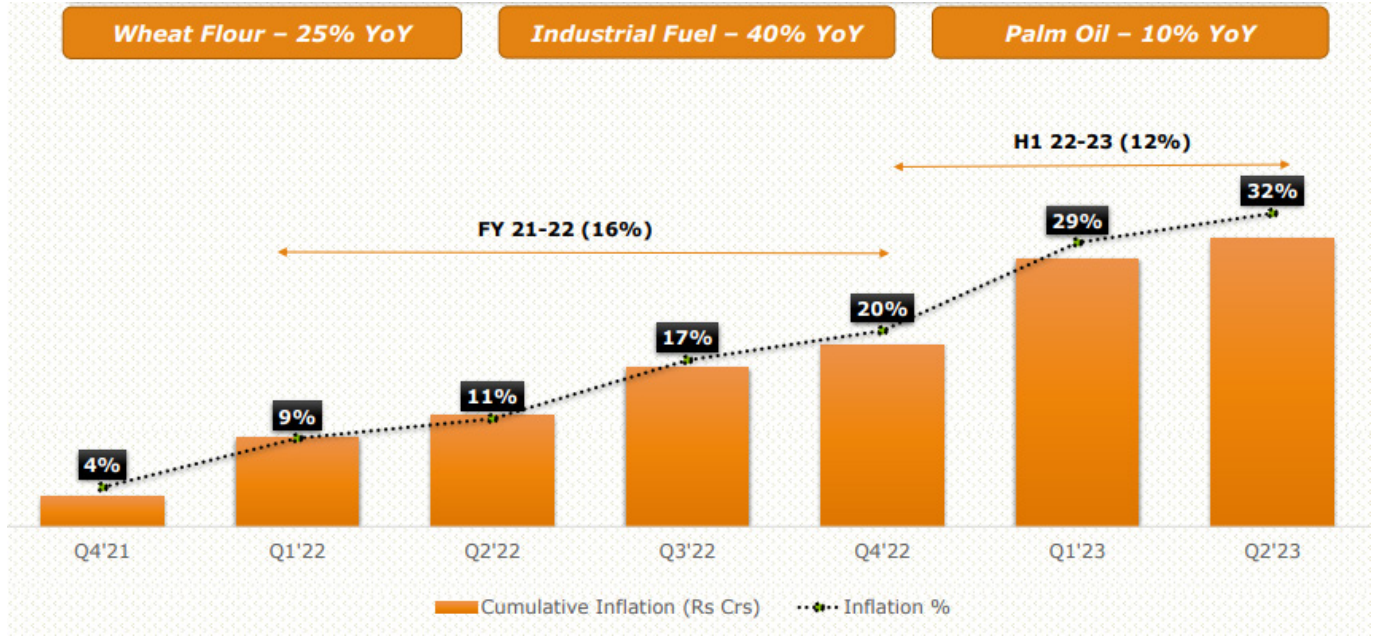
Source: Company

Exhibit 3: Strengthening rural distribution bolsters BRIT's rural market share



Source: Company

Exhibit 4: Cumulative inflation at 32% in the past seven quarters



Source: Company

Exhibit 5: ESG initiatives by BRIT

BIL'S DJSI Score 22-23 is 52: In the 91st percentile of Companies in the Sector

Score enhancement on the back of sustained and co-ordinated initiatives cross-Company

Key year round and long-terms programs governed by Excom

Growth	Resource: Management	Resource: Sustainability	People
<p>Healthier Products</p> <ul style="list-style-type: none"> • % Sugar Reduction • % Sodium Reduction <p>Governance</p> <p>Corporate Governance</p> <ul style="list-style-type: none"> • Develop Policy Framework • CDP Readiness 	<p>Efficiency</p> <ul style="list-style-type: none"> • % Renewable energy • Distance to Market • Power /ton • Fuel/ton • Water Consumption/ton • Water Offset <p>Waste</p> <ul style="list-style-type: none"> • Food waste reduction 	<p>Packaging</p> <ul style="list-style-type: none"> • Easily recyclable, reusable or compostable • Reduction of Trays • %recycle content in polybags • EPR Quantity <p>Sustainable Sourcing</p> <ul style="list-style-type: none"> • Milk Collection /day • % of key materials sourced through water scarcity area • Sustainable palm oil sourcing 	<p>Diversity on shop floor</p> <ul style="list-style-type: none"> • % women workforce in manufacturing <p>Community Nutrition</p> <ul style="list-style-type: none"> • No of Beneficiaries-children, pregnant women and lactating mothers <p>Employee Engagement</p> <ul style="list-style-type: none"> • Top quartile of FMCG in engagement <p>TRAFR</p> <ul style="list-style-type: none"> • % reduction in incidents

Key Focus Areas for 2022-25: Supplier participation in ESG and assessment | Expanding scope to outsourced manufacturing & distribution | Diversity and Inclusion

Source: Company



Key takeaways from the management interaction

Operating environment

- BRIT has been gaining market share for the past 38 quarters.
- It is not experiencing any slowdown in rural India.

Input costs, pricing, and margin

- Consumer food price inflation stood at 8% in 1Q and around similar levels in 2QFY23.
- Commodity cost inflation grew by 3% sequentially. Cumulative commodity inflation is up 32% over the past seven quarters. This has affected profitability by 23%. However, profitability was aided by ~3% from cost efficiency programs and price hikes of 21-22.5%. BRIT raised prices much ahead of that of the market. Prices are up 18% YoY and 7% QoQ. This has affected volumes.
- Wheat prices fell globally. However, the decrease has not occurred in India. The acreage under wheat is 12% lower as compared to last year. The management expects wheat prices to remain firm in 3QFY23.
- Milk prices continue to be on the boil, and this has impacted the Dairy business. It is seeing a little upside in sugar as well.
- Wheat, palm oil, and sugar constitute 65%. Wheat is typically procured in harvest season, i.e. April and June.

Distribution expansion and channel salience

- The number of rural-preferred distributors stood at 28k. They are appointed in smaller areas and cover 40-100 outlets in that area.
- Its market share in rural India is 1.5x compared to that in urban areas.
- Its direct reach outlets currently stand at 2.6m.

Launches and adjacencies

- Overall NPD contribution stood ~5%. As per the company's internal measurement, it stood at 3.5%.
- Revenue from Biscuits grew by ~3x QoQ.
- Revenue from 50-50 Golmal grew by 85% QoQ.
- Treat and Croissant have been launched nationally. It is seeing amazing results in Croissant (up 70% QoQ).
- Wafers are seeing reasonable progress. BRIT launched cheese Wafers in South India in 2QFY23.
- Marble Cake has delivered good growth in revenue and profitability in the Cakes business.
- Dairy: Growth is reasonable. The management is working on a strategy for this segment. Pressure in Dairy is not about revenue, but on profitability due to higher milk prices.
- Milkshakes, Croissants, and Wafers will be over INR1b brands. The management is expecting an exit rate of INR1.5b in Croissants.

Other points

- BRIT clocked the lowest market returns in 2QFY23.
- ESG – Its DJSI score rose to 52 from 37/11 in FY22/FY21.

- Group ICDs – It currently stands ~INR5.9b from ~INR7.4b in Mar'22.
- Dairy factory: It will start to commercialize some of its facilities over Dec'22.
- Debt rose by ~INR10b, taken majorly for the Ranjanaon expansion and two new factories coming up in Tamil Nadu and Uttar Pradesh. Borrowing cost stood at a blended rate of 5.8% and treasury yields are 2.5-3% higher (8.5%).

Valuation and view

What happened in the last decade?

- The last decade that ended in FY20 was a phenomenal one for BRIT, given its: a) huge market share gains, b) strengthening of its distribution reach (particularly its direct reach), and c) better product development v/s its peers.
- The distribution advantage is particularly important for players in the Foods space as the velocity of food consumption is much higher than Personal Care products. With the stated goal of being a total Foods player, BRIT's utilization will play a crucial role in its expansion into other sub-categories of Foods.
- Its financial performance over the last decade has been splendid, with BRIT reporting ~12% sales CAGR, and an EBITDA/PAT CAGR 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%.

Our view on the stock

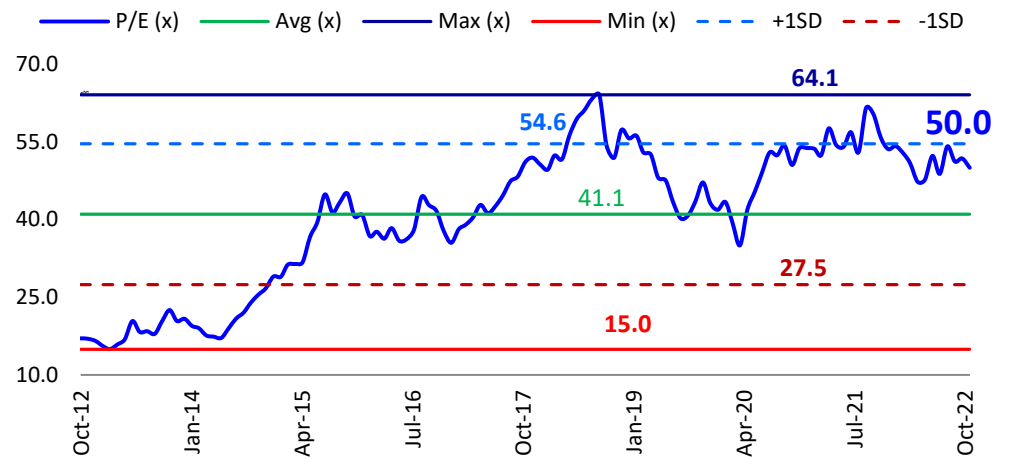
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- BRIT's valuation at 47.6x FY24E P/E appears rich. While we like the long-term opportunity for BRIT in the Packaged Food space, its impressive expansion in direct distribution, high RoE, and current valuation fully captures any potential upside from a one-year perspective. The stock is considerably expensive when compared to peers like DABUR, GCPL, and MRCO, which trade at 35-43x FY24E P/E. We maintain our Neutral rating and our TP of INR4,210 (45x Sep'24E EPS).

Exhibit 6: Raise our FY23/FY24 EPS estimate by 11.4%/7.8%

(INR b)	New estimate		Old estimate		Change (%)	
	FY23	FY24	FY23	FY24	FY23E	FY24E
Net Sales	166.6	179.4	157.7	170.1	5.7	5.5
EBITDA	26.3	29.7	23.3	27.6	12.9	7.3
Adjusted PAT	18.2	21.0	16.3	19.4	11.4	7.8

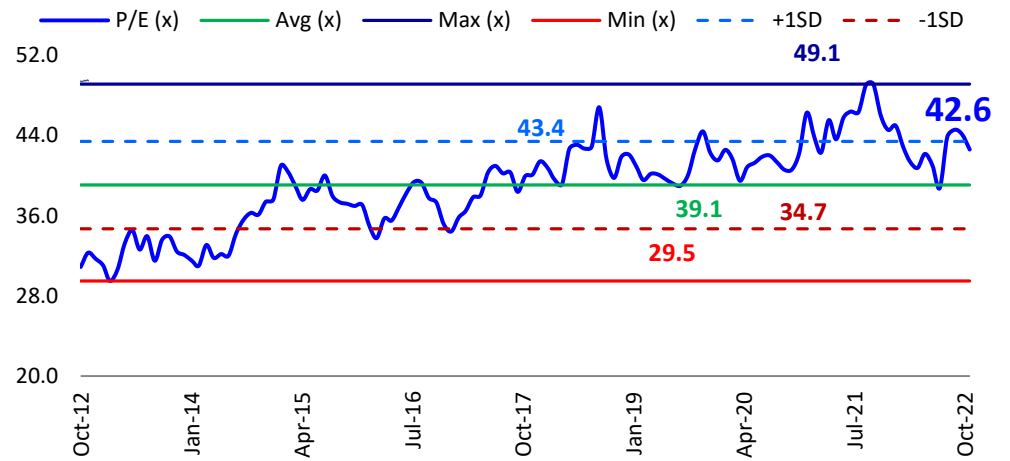
Source: Company, MOFSL

Exhibit 7: P/E ratio (x) for BRIT



Source: Company, MOFSL

Exhibit 8: P/E ratio (x) for the Consumer sector



Source: Company, MOFSL

Financials and valuations

Income Statement							(INR b)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	
Net Revenue	99.1	110.5	116.0	131.4	141.4	166.6	179.4	
Change (%)	9.5	11.5	4.9	13.2	7.6	17.8	7.7	
Gross Profit	38.1	44.9	46.7	55.1	53.8	64.4	73.5	
Margin (%)	38.4	40.6	40.3	41.9	38.0	38.6	40.9	
Other Expenditure	18.9	22.6	23.5	25.5	27.6	30.8	36.0	
EBITDA	15.0	17.3	18.4	25.1	22.0	26.3	29.7	
Change (%)	17.5	15.4	6.3	36.1	-12.3	19.5	12.7	
Margin (%)	15.1	15.7	15.9	19.1	15.6	15.8	16.5	
Depreciation	1.4	1.6	1.8	2.0	2.0	2.2	2.9	
Int. and Fin. Charges	0.1	0.1	0.8	1.1	1.4	2.1	1.8	
Financial Other Income	1.7	2.1	2.8	3.1	2.2	2.3	3.0	
PBT	15.2	17.7	18.6	25.1	20.8	24.3	28.0	
Tax	5.1	6.0	4.5	6.6	6.1	6.1	7.1	
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	18.2	21.0	
Change (%)	13.6	15.2	21.9	31.2	-18.0	19.8	15.3	
Margin (%)	10.1	10.5	12.2	14.1	10.7	10.9	11.7	
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	18.2	21.0	
Balance Sheet							(INR b)	
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	
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	24.6	28.8	
Net worth	34.1	42.5	44.0	35.5	25.6	24.8	29.0	
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	48.0	50.6	
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	-14.1	-17.0	
Net Fixed Assets	12.2	15.6	17.4	16.6	16.1	20.7	22.3	
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	34.0	38.0	
Inventory	6.5	7.8	7.4	10.9	13.7	11.5	12.4	
Account Receivables	3.0	3.9	3.2	2.6	3.3	5.2	5.6	
Cash and Bank Balance	1.9	1.1	1.2	2.1	1.8	5.4	8.0	
Others	13.9	16.8	18.3	17.5	15.3	11.8	12.1	
Curr. Liab. and Prov.	15.7	18.0	18.5	23.1	24.6	30.2	32.3	
Account Payables	9.9	11.4	11.2	13.1	12.9	17.3	18.3	
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	3.8	5.7	
Net Assets	36.2	44.4	59.8	56.9	50.5	48.0	50.6	

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS	41.8	48.1	58.6	76.8	63.0	75.5	87.0
BV/Share	141.9	177.0	183.1	147.3	106.2	103.1	120.5
DPS	12.5	15.0	35.0	62.0	56.5	60.4	69.6
Payout (%)	29.9	31.2	59.7	80.7	89.7	80.0	80.0
Valuation (x)							
P/E ratio	99.1	86.1	70.7	54.0	65.8	54.9	47.7
EV/Sales ratio	9.9	8.9	8.5	7.5	7.1	6.0	5.5
EV/EBITDA ratio	65.6	56.6	53.3	39.4	45.6	38.0	33.5
P/BV ratio	29.2	23.4	22.6	28.2	39.0	40.2	34.4
Dividend Yield	0.3	0.4	0.8	1.5	1.4	1.5	1.7
Return Ratios (%)							
RoE	32.9	30.2	32.6	46.5	49.7	72.1	77.8
RoCE	27.9	25.5	24.1	29.2	27.2	36.7	40.6
RoIC	41.5	41.9	44.3	61.9	56.7	77.4	93.3
Working Capital Ratios							
Debtor (Days)	11	13	10	7	9	11	11
Asset Turnover ratio (x)	2.7	2.5	1.9	2.3	2.8	3.5	3.5
Leverage Ratio							
Debt/Equity ratio (x)	0.1	0.0	0.3	0.6	1.0	0.9	0.7

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
(INR b)							
OP Profit	15.2	17.7	18.4	25.1	20.8	24.3	28.0
Dep	1.4	1.6	1.8	2.0	2.0	2.2	2.9
Financial Other Income	-0.5	-0.5	-0.7	-0.5	-0.3	-2.3	-3.0
Net Interest Paid	1.0	1.3	1.0	1.2	0.4	2.1	1.8
Direct Taxes Paid	5.0	6.0	5.0	6.3	5.9	6.1	7.1
Inc. in WC	-2.3	0.0	-1.3	0.3	3.3	-9.3	-0.6
CF from Operations	12.5	11.6	14.8	18.8	13.0	25.2	19.7
(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	19.9	16.7
(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	2.1	6.6
CF from Investments	-9.5	-8.8	-15.3	4.6	9.2	-3.2	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
Dividends Paid	3.2	3.5	4.3	28.2	24.8	14.5	16.8
Other Item	-0.7	-0.1	0.2	0.9	1.2	2.1	1.8
CF from Fin. Activity	-2.3	-3.5	0.6	-22.4	-22.5	-18.4	-20.1
Inc./Dec. in Cash	0.7	-0.8	0.1	0.9	-0.3	3.6	2.5
Add: Beginning Balance	1.2	1.9	1.1	1.2	2.1	1.8	5.4
Closing Balance	1.9	1.1	1.2	2.1	1.8	5.4	8.0

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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