

November 7, 2022

## Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	4,142		4,026	
Sales (Rs. m)	1,81,648	2,02,785	1,75,256	1,95,647
% Chng.	3.6	3.6		
EBITDA (Rs. m)	30,334	34,613	29,470	33,646
% Chng.	2.9	2.9		
EPS (Rs.)	85.0	99.1	84.9	98.1
% Chng.	0.2	1.0		

### Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	1,41,363	1,62,664	1,81,648	2,02,785
EBITDA (Rs. m)	22,015	24,132	30,334	34,613
Margin (%)	15.6	14.8	16.7	17.1
PAT (Rs. m)	15,170	16,672	20,483	23,861
EPS (Rs.)	63.0	69.2	85.0	99.1
Gr. (%)	(18.1)	9.9	22.9	16.5
DPS (Rs.)	74.5	56.5	57.0	70.0
Yield (%)	2.0	1.5	1.5	1.8
RoE (%)	49.7	63.5	67.4	63.7
RoCE (%)	37.5	40.8	45.8	50.8
EV/Sales (x)	6.6	5.7	5.0	4.5
EV/EBITDA (x)	42.3	38.5	30.2	26.2
PE (x)	60.4	55.0	44.7	38.4
P/BV (x)	35.8	34.0	27.1	22.3

### Key Data

BRIT.BO | BRIT IN

52-W High / Low	Rs.3,949 / Rs.3,050
Sensex / Nifty	60,950 / 18,117
Market Cap	Rs.916bn/ \$ 11,115m
Shares Outstanding	241m
3M Avg. Daily Value	Rs.1237.09m

### Shareholding Pattern (%)

Promoter's	50.55
Foreign	17.18
Domestic Institution	16.25
Public & Others	16.02
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(0.4)	12.4	4.2
Relative	(5.1)	2.6	2.6

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# Britannia Industries (BRIT IN)

Rating: HOLD | CMP: Rs3,804 | TP: Rs4,142

## Commodity prices remain a concern

### Quick Pointers:

- Volumes grow 4%, price hike of 7% taken QoQ.
- Rural market share continues to grow 1.5x of all-India on distribution gains

**We increase our FY23/FY24/FY25 EPS estimates by 4.4%/0.2%/1.0% on account of calibrated price increases (ahead of peers) and scale up of new launches. 2Q volumes were largely in-line with our expectations supported by increase in rural distribution & channel filling of new launches. Input costs remain a key concern for the company with wheat/milk prices expected to remain elevated in the near term. Commodities such as Palm oil prices (down 50% from peak) and SMP (down 27% from peak) offer some respite in this regard. Wheat prices are expected to remain firm (up 9% QoQ) till next harvest season in 1Q24. We expect margins to stay at current mid-teen levels as overall RM basket looks stable in the near term. We believe volume growth outlook looks positive for 2H23 given increase in direct rural reach (410k additions in 1H23) & success of new launches (Potazos, Milk Bikis - Atta, Good Day Harmony, Cheese Wafers and pan India launch of Croissant, Biscofe).**

**BRIT continues to build long term growth drivers with 1) 28k rural preferred dealers (26k in 4Q22) 2) rising share of MT sales with improved mix 3) higher growth in focus states 4) target of 3% cost efficiency gains (FY23) in manufacturing, distribution and procurement 5) sustained innovation program with products like Biscofé, Goodday Harmony, Cheese wafer, Nutrichoice herbs, Jeera Marie, Marble Cake and Croissants in Bakery segment and 6) commercial production of Ranjangaon Dairy unit as well as new facilities coming up in Tamil Nadu & Uttar Pradesh. We estimate 12.8%16.3% sales and PAT CAGR over FY22-25. We roll over to 45x Sept24EPS thereby arriving at a target price of Rs4,142 (Rs 4,026 earlier). We expect back ended returns given sharp run up in stock price. We maintain our HOLD rating on the stock.**

**Concall Takeaways:** 1) Volume growth of 4% was helped by increase in rural distribution. 2) Marketshare in UP at ~18% which has a huge scope for improvement. 3) Share gain in rural India is 1.5x vs Pan India owing to expansion in distribution network. 4) Wheat prices continue to remain firm due to 12% lower crop production. Palm oil prices have stabilized while dairy prices continue to rise. 5) Company has passed on 22.5% price hikes vs 32% inflation (seen over last 7 quarters) while achieving cost efficiencies of 3%. 6) Price increases of 7% taken in 2Q ahead of peers. 7) Innovations continue to do well with NPD contribution at 5%. Products such as Milkshakes have crossed sales of Rs1bn while Croissants/Wafers are headed towards the same. 8) Croissant exit sales at Rs1.5bn 9) Dairy business remains impacted due to higher milk prices which has impacted profitability. 10) RM basket expected to remain stable in 2H23. 11) Capex plans to be supported with new facilities setup in Tamil Nadu & UP. 12) ICD have reduced from Rs 7.4bn (FY22) to Rs5.9bn (1H23).

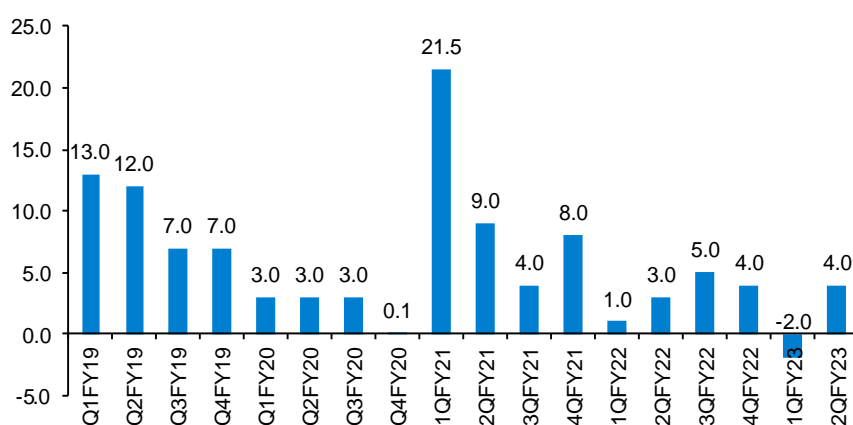
**Mid-single digit volume growth:** Consolidated Revenues grew by 21.4% YoY to Rs43.8bn (PLe: Rs42.4bn). Gross margins expanded by 142bps YoY/205bps QoQ to 38.9% (PLe: 37.7%). EBITDA grew by 27.5% YoY to Rs7.1bn (PLe: Rs6.2bn); Margins expanded by 77bps YoY/272bps QoQ to 16.3% (PLe:14.7%). PBT grew by 26.1% YoY to Rs 6.6bn (PLe: Rs 5.9bn). Adjusted PAT grew by 28.5% YoY to Rs4.9bn (PLe: Rs4.3bn). Imputed Subsidiary Sales grew by 3.6% YoY to Rs1.9bn; PAT loss of Rs1675mn vs profit of Rs143mn last year. Standalone Revenues grew by 22.4% YoY to Rs41.9bn. EBITDA grew by 29.5% YoY to Rs6.9bn with margin expansion of 90bps YoY/306bps QoQ to 16.4%. PAT grew by 34.1% YoY to Rs 4.9bn.

**Exhibit 1: 2QFY23 Consolidated Results: Sales up 21.4%, Margins expanded by 77bps/272bps YoY/QoQ**

Y/e March (Rs m)	2QFY23	2QFY22	YoY gr. (%)	1QFY23	1HFY23	1HFY22	YoY gr. (%)
<b>Net Sales</b>	43,796	36,074	21.4	37,010	80,806	70,108	15.3
Gross Profit	17,050	13,531	26.0	13,648	30,699	26,700	15.0
<i>Margins (%)</i>	<i>38.9</i>	<i>37.5</i>	<i>1.4</i>	<i>36.9</i>	<i>38.0</i>	<i>38.1</i>	<i>-0.1</i>
Other Expenses	9,933	7,947	25.0	8,641	18,574	15,579	19.2
<i>% of Sales</i>	<i>22.7</i>	<i>22.0</i>	<i>0.7</i>	<i>23.3</i>	<i>23.0</i>	<i>22.2</i>	<i>0.8</i>
<b>EBITDA</b>	7,117	5,583	27.5	5,007	12,124	11,121	9.0
<i>Margins (%)</i>	<i>16.3</i>	<i>15.5</i>	<i>0.8</i>	<i>13.5</i>	<i>15.0</i>	<i>15.9</i>	<i>-0.9</i>
Depreciation	517	502	3.0	510	1,026	992	3.4
Interest	541	390	39.0	420	961	732	31.4
Other Income	532	534	(0.3)	555	1,087	1,139	(4.5)
<b>PBT</b>	6,591	5,226	26.1	4,633	11,225	10,536	6.5
Tax	1,686	1,410	19.6	1,274	2,960	2,852	3.8
<i>Tax Rate (%)</i>	<i>25.6</i>	<i>27.0</i>	<i>-1.4</i>	<i>27.5</i>	<i>26.4</i>	<i>27.1</i>	<i>-0.7</i>
<b>Adjusted PAT</b>	4,905	3,816	28.5	3,359	8,264	7,684	7.5

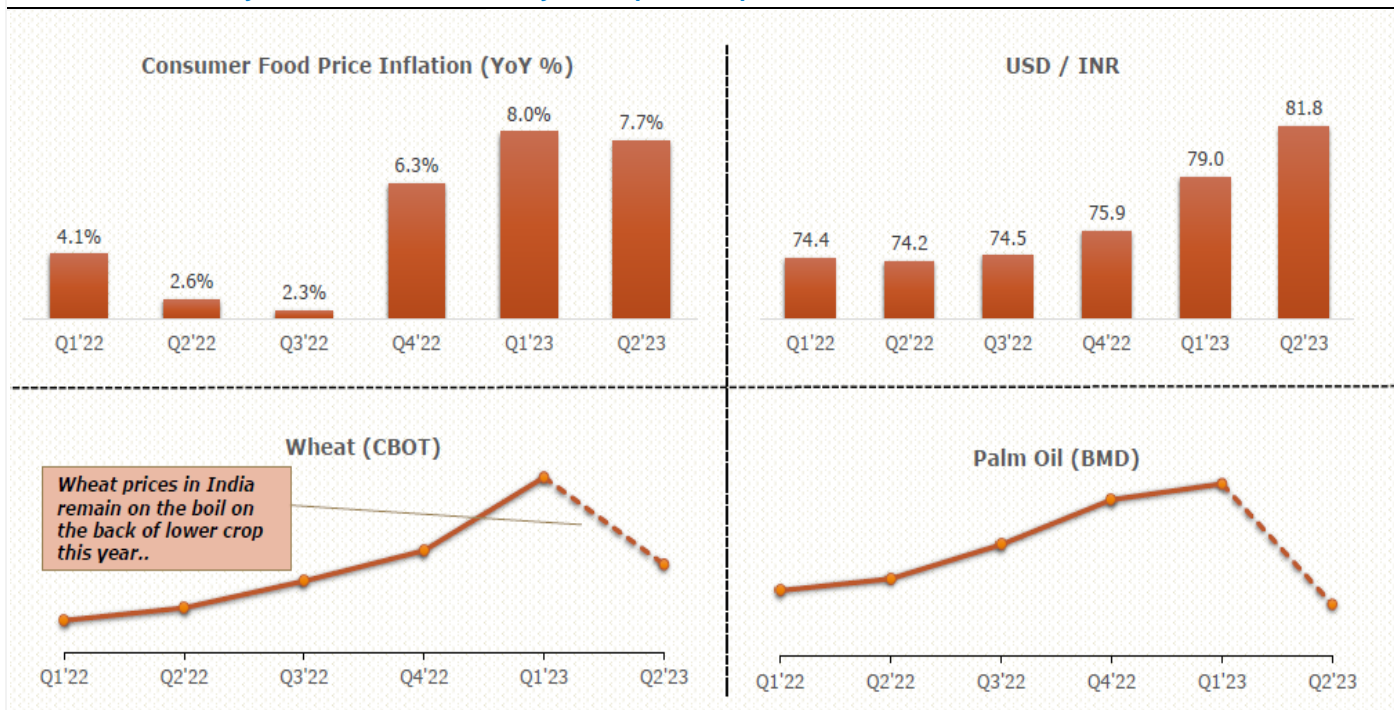
Source: Company, PL

**Exhibit 2: Volumes grow 4% YoY; grows 5.3% on 3-year CAGR**



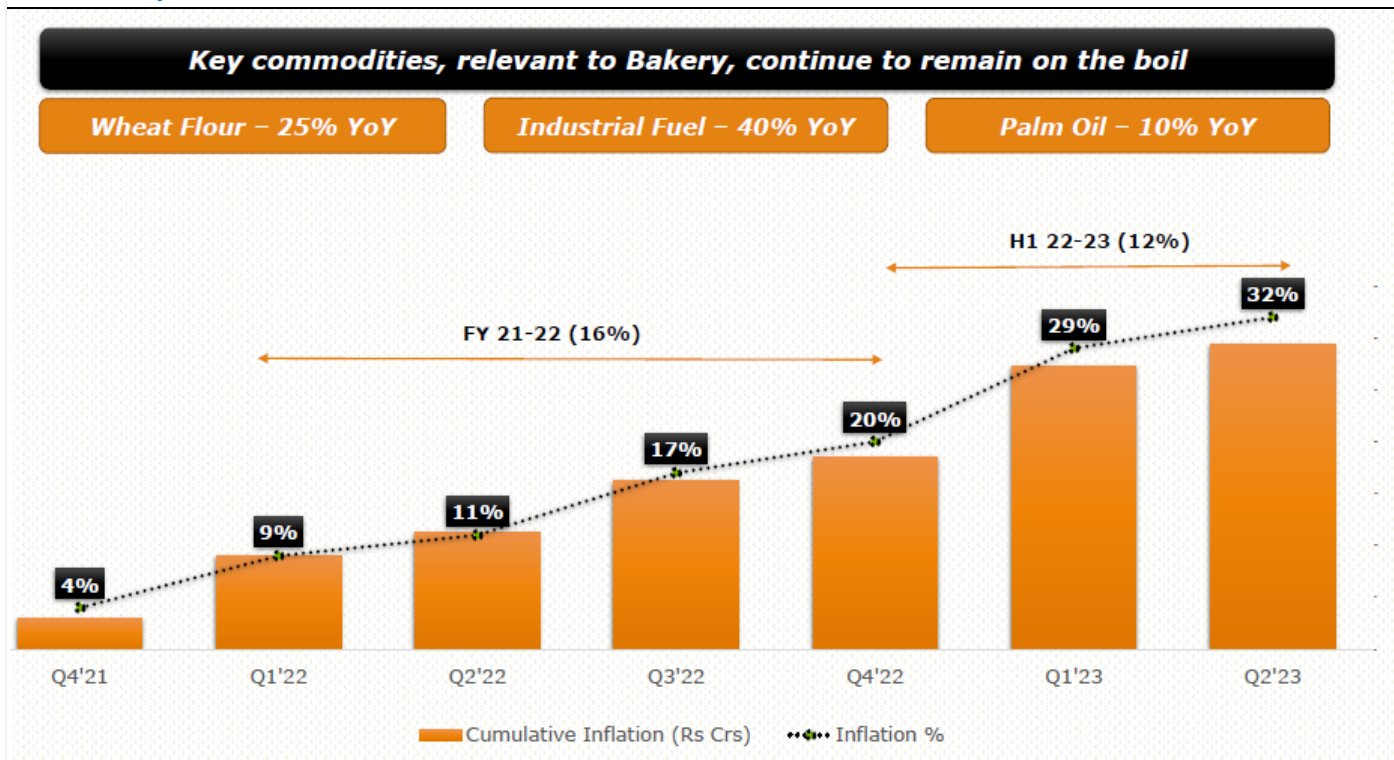
Source: Company, PL

Exhibit 3: Commodity inflation remained steady in 2Q; prices expected to remain firm in near term



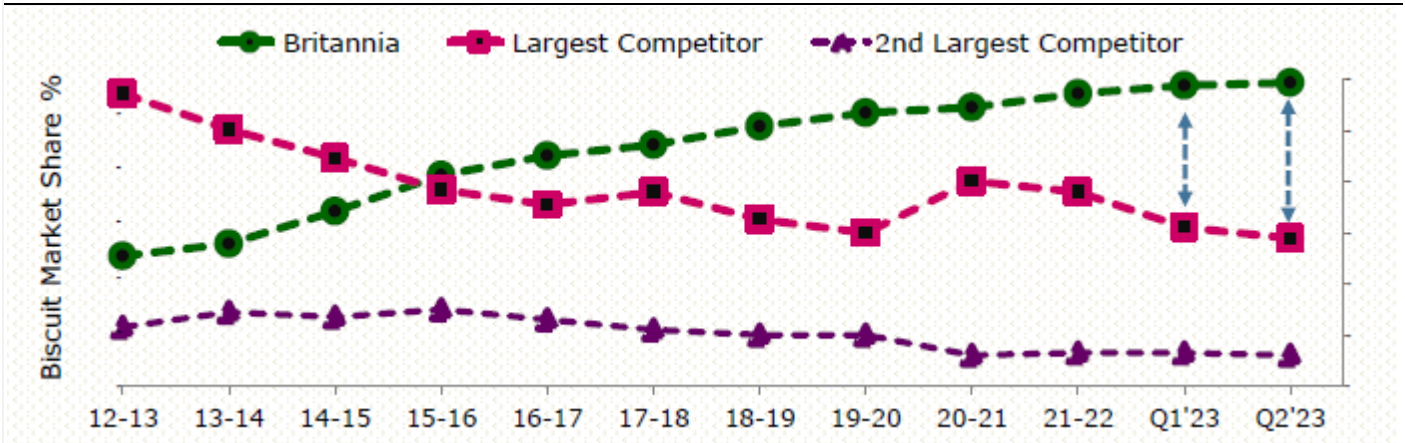
Source: Company, PL

Exhibit 4: Key commodities continued to remain elevated YoY



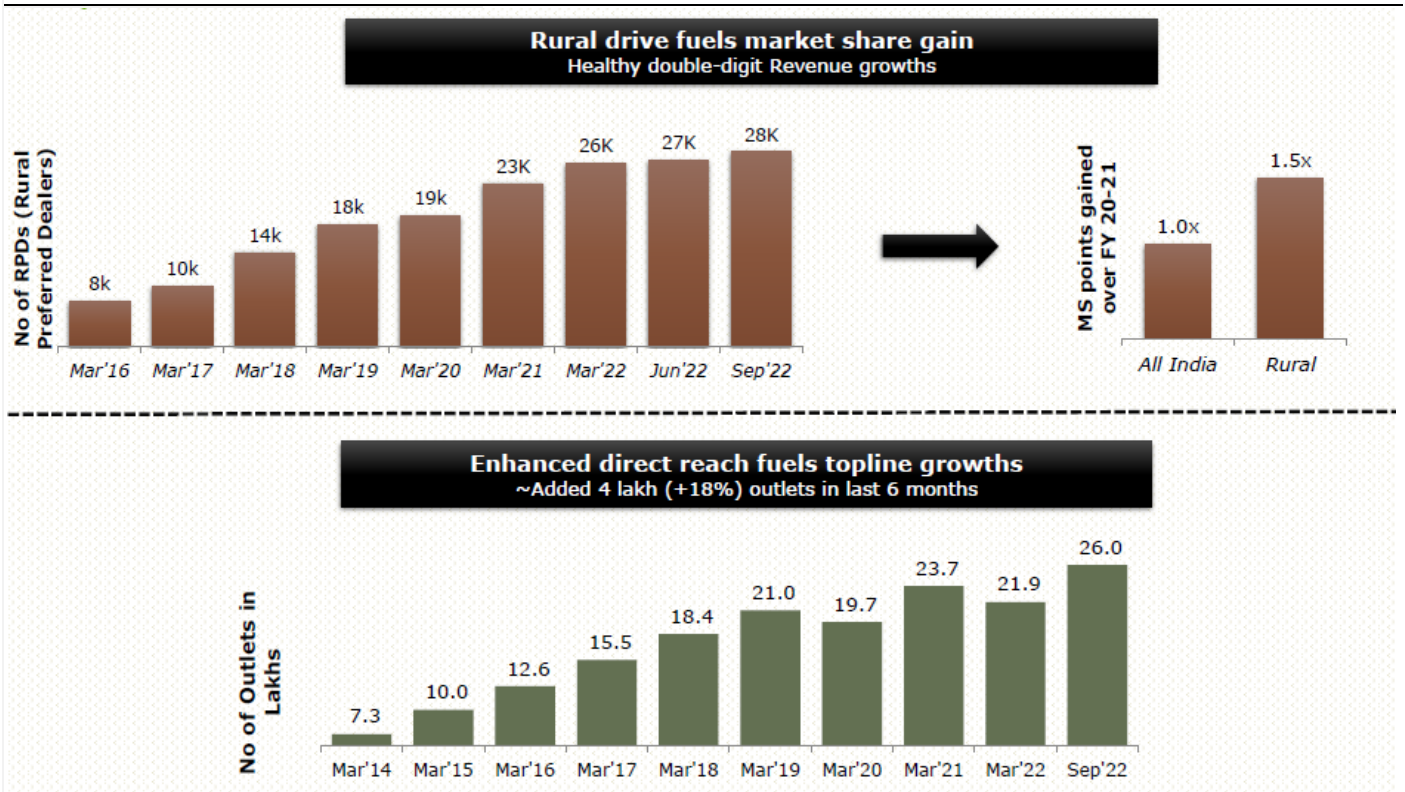
Source: Company, PL

Exhibit 5: BRIT continues to gain market share



Source: Company, PL

Exhibit 6: Rural preferred dealers increased by 2k in 1H23



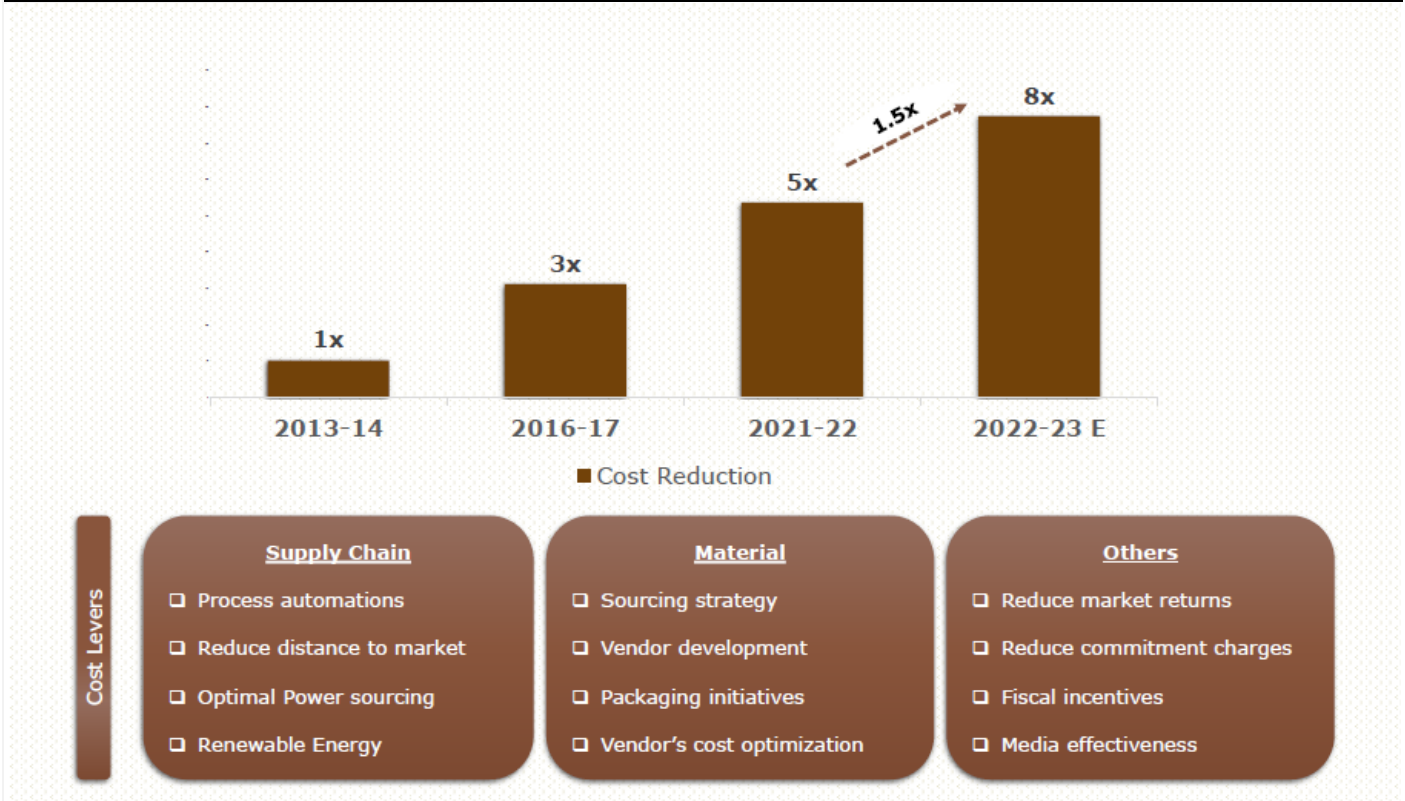
Source: Company, PL

Exhibit 7: Innovations witness exponential growth (on low base)



Source: Company, PL

Exhibit 8: Driving sharper costs reductions across all areas



Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>1,41,363</b>	<b>1,62,664</b>	<b>1,81,648</b>	<b>2,02,785</b>
YoY gr. (%)	7.6	15.1	11.7	11.6
Cost of Goods Sold	87,603	1,00,887	1,09,561	1,21,679
Gross Profit	53,760	61,777	72,087	81,106
Margin (%)	38.0	38.0	39.7	40.0
Employee Cost	5,423	6,181	7,084	7,909
Other Expenses	557	569	618	669
<b>EBITDA</b>	<b>22,015</b>	<b>24,132</b>	<b>30,334</b>	<b>34,613</b>
YoY gr. (%)	(12.3)	9.6	25.7	14.1
Margin (%)	15.6	14.8	16.7	17.1
Depreciation and Amortization	2,005	2,202	2,501	2,713
<b>EBIT</b>	<b>20,010</b>	<b>21,931</b>	<b>27,833</b>	<b>31,899</b>
Margin (%)	14.2	13.5	15.3	15.7
Net Interest	1,443	1,981	2,332	2,084
Other Income	2,228	2,956	2,275	2,552
<b>Profit Before Tax</b>	<b>20,795</b>	<b>22,906</b>	<b>27,777</b>	<b>32,367</b>
Margin (%)	14.7	14.1	15.3	16.0
Total Tax	5,624	6,233	7,294	8,506
Effective tax rate (%)	27.0	27.2	26.3	26.3
<b>Profit after tax</b>	<b>15,172</b>	<b>16,672</b>	<b>20,483</b>	<b>23,861</b>
Minority interest	-	-	-	-
Share Profit from Associate	(2)	-	-	-
<b>Adjusted PAT</b>	<b>15,170</b>	<b>16,672</b>	<b>20,483</b>	<b>23,861</b>
YoY gr. (%)	(18.1)	9.9	22.9	16.5
Margin (%)	10.7	10.2	11.3	11.8
Extra Ord. Income / (Exp)	(10)	-	-	-
<b>Reported PAT</b>	<b>15,160</b>	<b>16,672</b>	<b>20,483</b>	<b>23,861</b>
YoY gr. (%)	(18.1)	10.0	22.9	16.5
Margin (%)	10.7	10.2	11.3	11.8
Other Comprehensive Income	63	-	-	-
Total Comprehensive Income	15,223	16,672	20,483	23,861
<b>Equity Shares O/s (m)</b>	<b>241</b>	<b>241</b>	<b>241</b>	<b>241</b>
<b>EPS (Rs)</b>	<b>63.0</b>	<b>69.2</b>	<b>85.0</b>	<b>99.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>29,483</b>	<b>36,146</b>	<b>39,314</b>	<b>42,488</b>
Tangibles	27,670	34,273	37,381	40,495
Intangibles	1,813	1,873	1,933	1,993
<b>Acc: Dep / Amortization</b>	<b>11,951</b>	<b>14,152</b>	<b>16,654</b>	<b>19,367</b>
Tangibles	11,690	13,871	16,364	19,068
Intangibles	261	281	290	299
<b>Net fixed assets</b>	<b>17,532</b>	<b>21,993</b>	<b>22,660</b>	<b>23,120</b>
Tangibles	15,980	20,401	21,017	21,426
Intangibles	1,552	1,592	1,643	1,694
Capital Work In Progress	5,357	757	257	357
Goodwill	-	-	-	-
Non-Current Investments	10,604	10,634	10,666	10,701
Net Deferred tax assets	509	534	561	589
Other Non-Current Assets	1,441	1,596	1,751	1,922
<b>Current Assets</b>				
Investments	8,337	4,880	12,715	12,167
Inventories	13,675	15,479	12,607	14,001
Trade receivables	3,319	3,299	3,685	4,115
Cash & Bank Balance	1,849	14,003	17,930	16,339
Other Current Assets	1,263	1,464	1,635	1,825
<b>Total Assets</b>	<b>75,155</b>	<b>85,368</b>	<b>95,270</b>	<b>96,182</b>
<b>Equity</b>				
Equity Share Capital	241	241	241	241
Other Equity	25,340	26,706	33,627	40,794
<b>Total Network</b>	<b>25,581</b>	<b>26,947</b>	<b>33,868</b>	<b>41,035</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	7,070	17,098	17,098	7,113
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	17,586	13,242	13,242	13,242
Trade payables	12,852	15,653	17,591	20,180
Other current liabilities	11,120	11,324	12,294	13,352
<b>Total Equity &amp; Liabilities</b>	<b>75,155</b>	<b>85,368</b>	<b>95,270</b>	<b>96,182</b>

Source: Company Data, PL Research

## Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	20,795	22,906	27,777	32,367
Add. Depreciation	2,320	2,202	2,501	2,713
Add. Interest	1,443	1,981	2,332	2,084
Less Financial Other Income	2,228	2,956	2,275	2,552
Add. Other	(2,597)	(3,099)	(2,416)	(2,706)
Op. profit before WC changes	21,961	23,990	30,194	34,459
Net Changes-WC	85	1,560	5,149	1,392
Direct tax	(5,624)	(6,233)	(7,294)	(8,506)
<b>Net cash from Op. activities</b>	<b>16,423</b>	<b>19,317</b>	<b>28,049</b>	<b>27,344</b>
Capital expenditures	(6,113)	(2,063)	(2,668)	(3,274)
Interest / Dividend Income	2,228	2,956	2,275	2,552
Others	10,183	3,457	(7,835)	548
<b>Net Cash from Inv. activities</b>	<b>6,299</b>	<b>4,350</b>	<b>(8,228)</b>	<b>(173)</b>
Issue of share cap. / premium	3,241	2,729	49	(2,962)
Debt changes	3,612	5,684	-	(9,985)
Dividend paid	(28,397)	(17,945)	(13,611)	(13,731)
Interest paid	(1,443)	(1,981)	(2,332)	(2,084)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(22,986)</b>	<b>(11,513)</b>	<b>(15,893)</b>	<b>(28,762)</b>
<b>Net change in cash</b>	<b>(265)</b>	<b>12,154</b>	<b>3,927</b>	<b>(1,591)</b>
Free Cash Flow	10,310	17,254	25,381	24,071

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

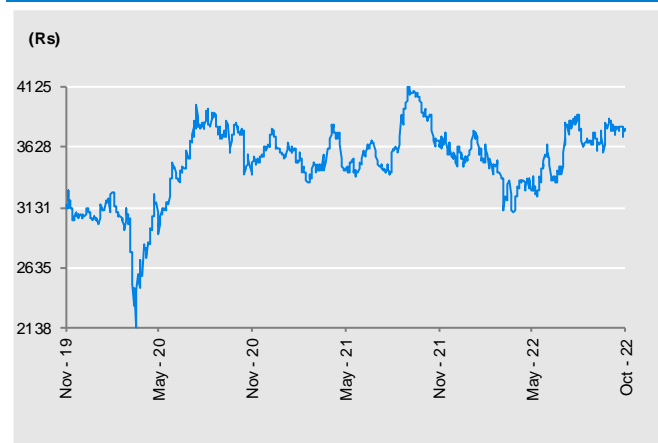
Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>35,750</b>	<b>35,505</b>	<b>37,010</b>	<b>43,796</b>
YoY gr. (%)	12.9	13.4	8.7	21.4
Raw Material Expenses	22,196	21,999	23,361	26,746
Gross Profit	13,554	13,506	13,648	17,050
Margin (%)	37.9	38.0	36.9	38.9
<b>EBITDA</b>	<b>5,397</b>	<b>5,497</b>	<b>5,007</b>	<b>7,117</b>
YoY gr. (%)	(11.7)	8.8	(9.6)	27.5
Margin (%)	15.1	15.5	13.5	16.3
Depreciation / Depletion	504	509	510	517
<b>EBIT</b>	<b>4,893</b>	<b>4,988</b>	<b>4,498</b>	<b>6,600</b>
Margin (%)	13.7	14.0	12.2	15.1
Net Interest	374	338	420	541
Other Income	551	538	555	532
<b>Profit before Tax</b>	<b>5,071</b>	<b>5,188</b>	<b>4,633</b>	<b>6,591</b>
Margin (%)	14.2	14.6	12.5	15.1
Total Tax	1,362	1,410	1,274	1,686
Effective tax rate (%)	26.9	27.2	27.5	25.6
<b>Profit after Tax</b>	<b>3,709</b>	<b>3,779</b>	<b>3,359</b>	<b>4,905</b>
Minority interest	-	-	-	-
Share Profit from Associates	(7)	-	(2)	1
<b>Adjusted PAT</b>	<b>3,702</b>	<b>3,779</b>	<b>3,357</b>	<b>4,906</b>
YoY gr. (%)	(18.2)	5.1	(13.2)	28.5
Margin (%)	10.4	10.6	9.1	11.2
Extra Ord. Income / (Exp)	(17)	1	76	52
<b>Reported PAT</b>	<b>3,684</b>	<b>3,780</b>	<b>3,434</b>	<b>4,958</b>
YoY gr. (%)	(18.4)	4.0	(11.9)	30.0
Margin (%)	10.3	10.6	9.3	11.3
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>3,684</b>	<b>3,780</b>	<b>3,434</b>	<b>4,958</b>
Avg. Shares O/s (m)	241	241	241	241
<b>EPS (Rs)</b>	<b>15.4</b>	<b>15.7</b>	<b>14.0</b>	<b>20.4</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	63.0	69.2	85.0	99.1
CEPS	71.3	78.3	95.4	110.3
BVPS	106.2	111.9	140.6	170.3
FCF	42.8	71.6	105.4	99.9
DPS	74.5	56.5	57.0	70.0
<b>Return Ratio(%)</b>				
RoCE	37.5	40.8	45.8	50.8
ROIC	30.8	33.0	43.1	47.1
RoE	49.7	63.5	67.4	63.7
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.6	0.4	0.0	(0.2)
Net Working Capital (Days)	11	7	(3)	(4)
<b>Valuation(x)</b>				
PER	60.4	55.0	44.7	38.4
P/B	35.8	34.0	27.1	22.3
P/CEPS	53.4	48.6	39.9	34.5
EV/EBITDA	42.3	38.5	30.2	26.2
EV/Sales	6.6	5.7	5.0	4.5
Dividend Yield (%)	2.0	1.5	1.5	1.8

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	Hold	4,026	3,769
2	05-Aug-22	Hold	3,880	3,775
3	07-Jul-22	UR	-	3,810
4	04-May-22	BUY	3,770	3,385
5	08-Apr-22	BUY	3,823	3,353
6	31-Jan-22	BUY	4,139	3,535
7	06-Jan-22	Accumulate	4,093	3,660
8	09-Nov-21	Accumulate	4,093	3,622

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,326	3,141
2	Avenue Supermarts	BUY	5,121	4,306
3	Britannia Industries	Hold	4,026	3,769
4	Colgate Palmolive	Accumulate	1,639	1,605
5	Dabur India	Accumulate	615	549
6	Emami	Accumulate	574	499
7	Hindustan Unilever	Accumulate	2,798	2,654
8	ITC	Accumulate	365	350
9	Jubilant FoodWorks	BUY	688	615
10	Kansai Nerolac Paints	Accumulate	563	465
11	Marico	Hold	543	539
12	Mold-tek Packaging	Accumulate	898	858
13	Nestle India	Accumulate	20,111	19,388
14	Pidilite Industries	Hold	2,691	2,656
15	Restaurant Brands Asia	Accumulate	156	132
16	Titan Company	Accumulate	2,875	2,770
17	Westlife Development	BUY	847	719

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

## **ANALYST CERTIFICATION**

### **(Indian Clients)**

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