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3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

ESG Disclosure Score NEW

ESG RISK RATING
Updated Oct 08, 2022 26.74

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

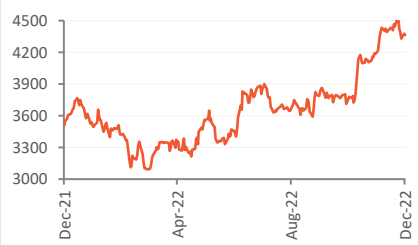
Company details

Market cap:	Rs. 1,05,135 cr
52-week high/low:	Rs. 4,535 / 3,050
NSE volume: (No of shares)	3.6 lakh
BSE code:	500825
NSE code:	BRITANNIA
Free float: (No of shares)	11.9 cr

Shareholding (%)

Promoters	50.6
FII	18.5
DII	16.3
Others	14.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	3.6	13.3	27.1	24.2
Relative to Sensex	6.1	5.6	12.5	18.1

Sharekhan Research, Bloomberg

Britannia Industries Ltd

Market share gain in core and scale up in adjacencies to drive growth

Consumer Goods	Sharekhan code: BRITANNIA		
Reco/View: Buy	↔	CMP: Rs. 4,365	Price Target: Rs. 5,060 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We reiterate our Buy recommendation on Britannia Industries Limited (Britannia) with a revised price target of Rs. 5,060. Strong positioning in the biscuit segment, creating additional growth levers, and strong liquidity position make it a strong play in the large FMCG space.
- The company has entered into a JV agreement with Bel SA, France, to expand its cheese business (likely to grow by 5x over the next five years).
- With consistent market share gains, good traction to the new launches, deepening penetration in the rural market, and expected recovery of the rural market, the company will continue to achieve volume growth ahead of the industry's growth in the core biscuit category.
- As wheat prices continue to remain high, EBIDTA margin will remain subdued in the near term. However, the company has strong drivers in place to achieve margin expansion in the long run.

Britannia Industries Limited (Britannia) is focusing on scaling up its adjacent portfolio (including dairy, bakery, and snacking) along with achieving consistent share gains in the core biscuit category to achieve consistent revenue growth in the medium to long run (revenue registered a 9% CAGR over FY2017-FY2022). The company recently entered into a joint venture agreement (JVA) with Bel SA, France, to expand its cheese business in India and other international markets (cheese business to grow by 5x over the next five years). The wafer segment is expected to achieve more than Rs. 100 crore of revenue in FY2023, while the croissants segment is expected to achieve revenue of Rs. 150 crore. Thus, the company is building up a strong adjacencies portfolio, which will help in driving strong growth in the long run. On the other hand, in the core biscuit category, the company is consistently gaining market share (Q2 was the 38th consecutive quarter of share gain), which is aiding the company to achieve growth ahead of the industry's growth. Thus, drivers are in place to achieve consistent double-digit earnings growth in the coming years.

- Entered into a JV with BEL SA to grow the cheese business by 5x over the next five years:** Britannia has entered into a JVA with Bel SA, France (BeL) and Britannia Dairy Pvt. Ltd. (BDPL) to undertake the development, manufacturing, marketing, distribution, and selling of cheese products in India and other international markets. The Bel Group is a world leader in branded cheese segment and a major player in the healthy snacking segment. As part of the JV, Britannia shall sell and transfer 49% of its equity stake in the wholly owned subsidiary, BDPL, to BEL. Britannia will continue to hold a controlling stake of 51% in BDPL. Britannia will transfer 49% equity of BDPL for Rs. 262 crore to Bel. BDPL has a turnover of Rs. 340 crore (contributes ~2.4% to the consolidated revenue), including the cheese segment's revenue of over Rs. 200 crore. Britannia will invest around Rs. 215 crore in the JV. With new product launches and distribution expansion, the company expects the cheese segment's revenue to grow by 5x over the next five years.
- Focus on volume growth recovery in the core biscuit segment:** Britannia's sales volume grew in mid-single digit in Q2 (value growth was 22%). The company has maintained volume growth ahead of the industry's growth due to sustained market share gains. As some of the input prices (such as palm oil) cooled off, the company is unlikely to take any further price hikes in its portfolio in the coming quarters. Hence, Britannia's entire focus would shift towards recovering sales volume in the coming quarters. As per the latest macro-economic data, the rural economy is gradually recovering, as indicated by factors such as moderation in rural unemployment, higher tractor sales, and increased rabi crop acreage. This, coupled with tapering of inflation, would lead to a reduction in downtrading and aid in improving the volume trend in the coming quarters. Moreover, the company is focusing on deepening its penetration in the rural market to partially mitigate the impact of rural slowdown. We expect the volume growth trajectory in the biscuit segment to gradually improve in the quarters ahead.
- OPM to remain subdued in the near term; Recovery likely in FY2024:** Raw-material inflation stood at 12% in H1FY2023. Though palm oil prices have corrected from their high, wheat prices and sugar prices continue to remain high on a y-o-y basis. Thus, we expect OPM to remain subdued in the near term. However, OPM is expected to improve in the coming years considering the historical trend, efficiency measures, better revenue mix, and increased volume growth. Thus, if raw-material prices correct substantially in the coming quarters, we expect OPM to improve from FY2024.

Our Call

View – Maintain Buy with a revised PT of Rs. 5,060: Britannia has widened the gap with the No. 2 player consistently for the past six years and focuses on expanding it further. With sustained market share gains, new product launches, and higher traction on new channels (including e-commerce), we expect Britannia's core biscuit category to beat the industry's growth in the medium term. This along with scale-up in the revenue of adjacent categories and efficiencies would help Britannia achieve double-digit earnings growth of 17.2% over FY2022-FY2025E. Britannia is currently trading at 59x/50.7x/43.1x its FY2023/FY2024E/FY2025E EPS. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 5,060 over the next 12 months.

Key Risks

Any sustained slowdown in the key category and spike in key input prices would act as a key risk to our earnings estimates.

Valuation (consolidated)

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	13,136	14,136	16,397	18,247	20,699
OPM (%)	19.1	15.6	15.5	16.0	16.5
Adjusted PAT	1,850	1,517	1,782	2,073	2,441
% YoY growth	31.2	-18.0	17.5	16.3	17.8
Adjusted EPS (Rs.)	76.8	63.0	74.0	86.0	101.3
P/E (x)	56.8	69.3	59.0	50.7	43.1
P/B (x)	29.6	41.1	33.5	26.3	20.1
EV/EBIDTA (x)	42.8	49.0	42.1	36.6	31.1
RoNW (%)	46.5	49.7	62.6	58.1	52.8
RoCE (%)	31.3	28.0	33.9	35.8	36.8

Source: Company; Sharekhan estimates

Britannia enters JV with Bel SA, France, to expand its cheese business

Britannia has entered into a JVA with BeL and BDPL to undertake the development, manufacturing, marketing, distribution, and selling of cheese products in India and other international markets. As part of the JV, Britannia shall sell and transfer 49% of its equity stake in the wholly owned subsidiary, BDPL, to BEL. Britannia will continue to hold a controlling stake of 51% in BDPL. Thus, BDPL will become a JV company of Britannia and BeL in India, which will carry out/undertake the cheese business in India. Britannia will transfer 49% equity of BDPL for Rs. 262 crore to BeL. BDPL has a turnover of Rs. 340 crore (contributes ~2.4% to the consolidated revenue), including cheese turnover of Rs. 207 crore. Britannia will invest around Rs. 215 crore in the JV in the coming years. The BeL Group is a world leader in branded cheese and a major player in the healthy snacking segment. Its portfolio of differentiated and internationally recognised brands include products such as The Laughing Cow®, Kiri®, Babybel®, Boursin®, Nurishh®, Pom'Potes®, and GoGo squeeZ®, as well as some 20 other local brands, which have enabled it to generate sales of Euro 3.38 billion (Rs. 28,500 crore) in CY2021.

Targets the cheese segment to grow by 5x over the next five years

The cheese segment currently contributes ~2% to the company's consolidated revenue. Penetration of cheese and cheese products is low in India, which provides an opportunity for branded players like Britannia to scale-up fast. The company is planning to add new products in its existing portfolio. Ranjangaon cheese facility will start operating from mid of FY2023. Currently, cheese is outsourced. Post the commencement of operations of Ranjangaon facility, approximately 70% will be manufactured in-house. The company expects revenue from the cheese segment to grow by 5x over the next five years.

Adjacencies maintained strong growth momentum

Adjacencies are gaining strong traction and are scaling up well. The dairy and wafer segments are expected to achieve more than Rs. 100 crore of revenue in FY2023, while the croissants segment is expected to achieve revenue of Rs. 150 crore (grew by 250% compared to last year). Bread continued its profitable growth, while cake and rusk are back on track. On the international front, Middle East is growing strongly. Further, the acquisition of a controlling stake in a Kenyan company provides an opportunity to scale-up in Africa.

New launches gaining traction

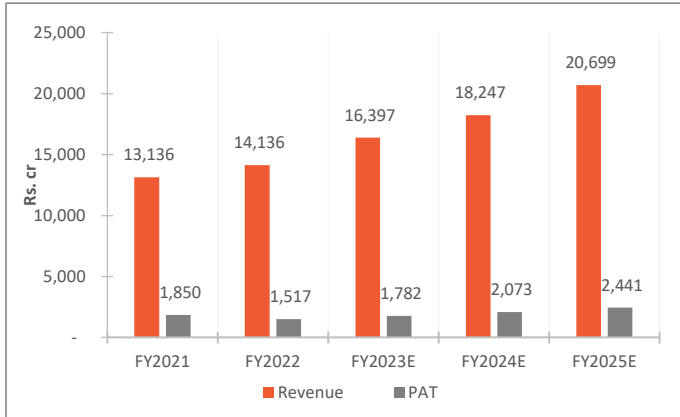
New product contribution to sales is around 3.5% and new launches are gaining strong traction in the domestic market. Biscafe and Nutri Choice Seeds, Herbs and Protein, which were launched in Q1FY2023, delivered 2.9x and 2.5x q-o-q revenue growth, respectively. 50-50 Golmaal was extended to Bihar, Jharkhand, and Orissa and reported 85% q-o-q revenue growth. Cheese wafers, which were launched in June 2022 were extended to the Western Region and currently have annualised revenue of Rs. 15 crore. Marble Cake delivered 2x revenue growth on a q-o-q basis, aided by all-India marketing drive. The company expects Croissants to end FY2023 at a revenue of Rs. 150 crore. The company's other innovations are also performing well. Milkshakes crossed Rs. 100 crore revenue in FY2022, while Biscafe and Potazzo are also scaling up very fast.

Strong drivers in place to achieve consistent double-digit revenue growth over FY2022-FY2025

Britannia's revenue reported a 9% CAGR over FY2017-FY2022. With consistent market share gains, good traction to new launches, deepening penetration in the rural market, and expected recovery of the rural market, the company will continue to achieve volume growth ahead of the industry's growth in the core biscuit category. This along with fast scale-up in adjacent businesses would help the company's revenue to register a 14% CAGR over FY2022-FY2025.

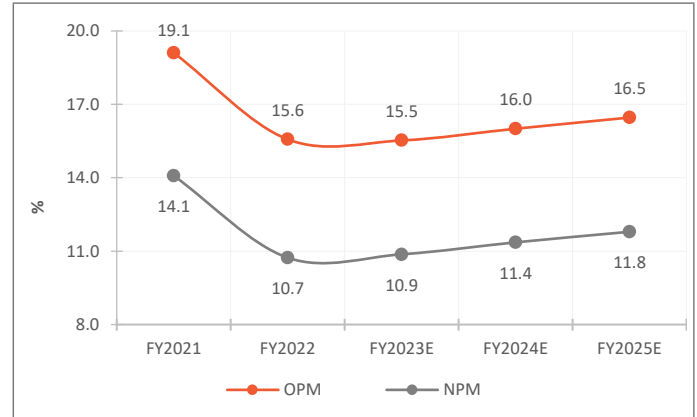
Financials in charts

Steady growth in revenue and PAT



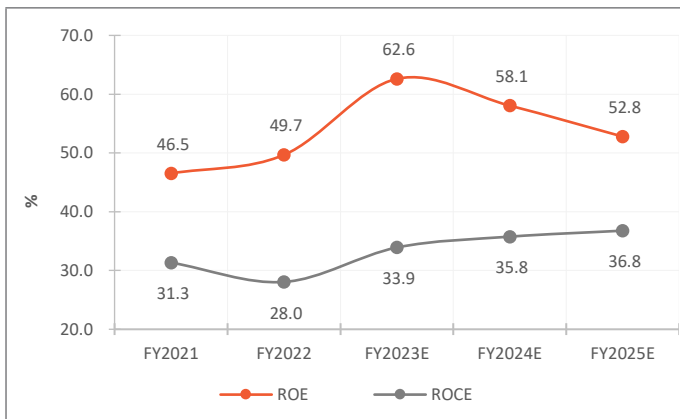
Source: Company, Sharekhan Research

Margins to expand going ahead



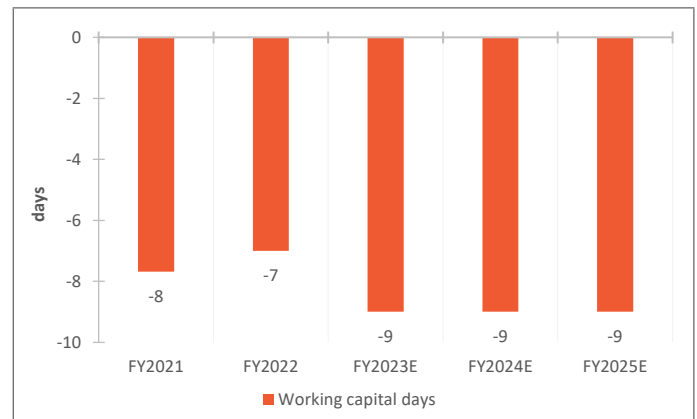
Source: Company, Sharekhan Research

Return ratios to improve from current level



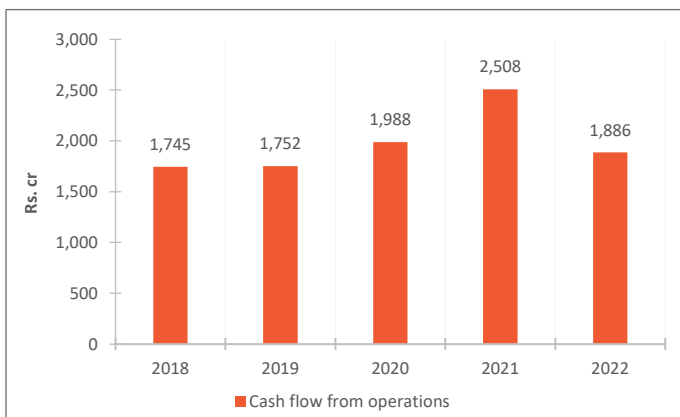
Source: Company, Sharekhan Research

Steady working capital days



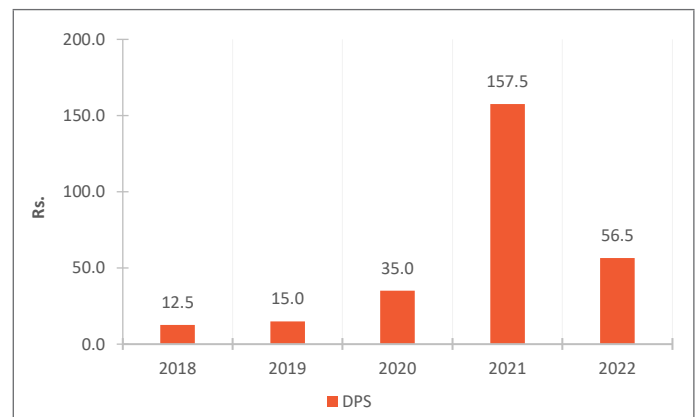
Source: Company, Sharekhan Research

Strong cash flows generated over the years



Source: Company, Sharekhan Research

Trend in dividend payout



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector View – H2FY2023 to be better compared to H1

Consumer goods companies would start seeing the benefit of correction in key input prices from Q3FY2023. The recent sharp correction in some key input prices helped companies to pass on benefits to the customer in the form of price cuts in highly penetrated categories (such as soaps). This along with good monsoons in most parts of the country (except for some parts in the North and East) will help in good recovery in sales volumes in the coming quarters. A decline in commodity prices has also helped inflationary pressures to ease out, thus boosting consumer sentiments. Hence, some tailwinds are building up for the sector to improve its growth in the coming quarters. Overall, we expect H2FY2023 will be much better compared to H1FY2023 with expected recovery in sales volumes. OPM is also expected to improve from Q3FY2023. Low penetration in key categories (especially in rural India), lower per capita consumption compared to other countries, a large shift to branded products, and emergence of new channels such as e-commerce/D2C provide several opportunities for achieving sustainable growth in the medium to long run.

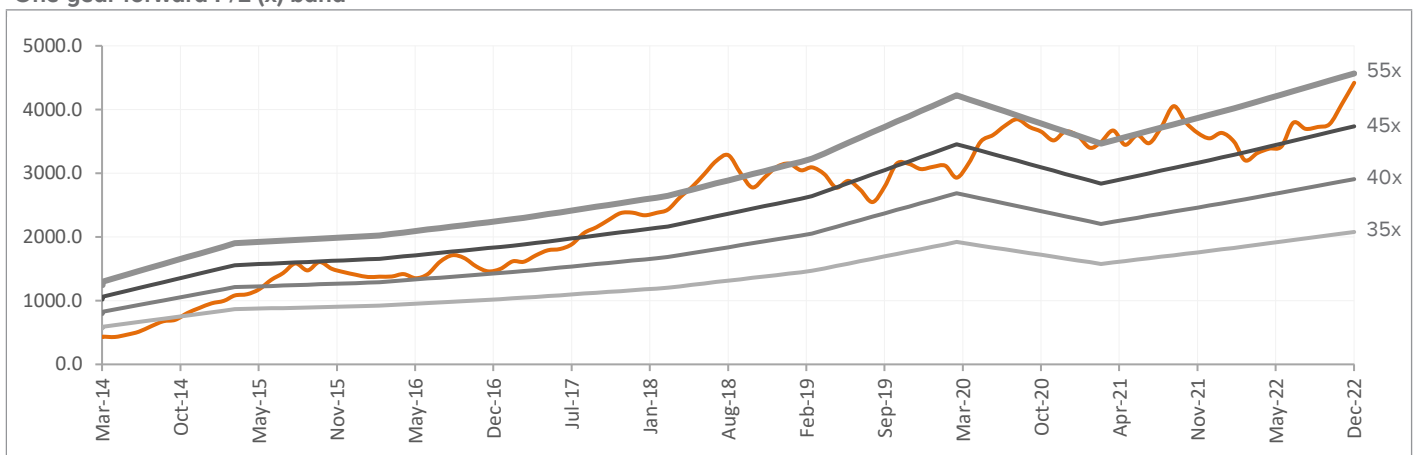
■ Company Outlook – Focus on achieving consistent volume growth

Britannia is focusing on achieving high single-digit volume growth in the medium term through market share gains, distribution expansion, improved penetration in the Hindi-speaking belt, and new product launches. The company has a strong pipeline of new products and will launch relevant products in the backdrop of a normal demand environment. New product launches contribution stood at 3.5% of revenue and will be one of the key drivers along with distribution expansion (including the Hindi speaking belt) in the coming years. Raw-material inflation is currently at 20%. The company has undertaken 20% price hike in a calibrated manner depending upon commodity price trends. Along with price hikes, the company will stringently manage its discretionary cost and will continue to strengthen efficiencies at operations and distribution level to reduce the cost, which will ease stress on OPM in the near term.

■ Valuation – Maintain Buy with revised price target of Rs 5060

Britannia has widened the gap with the No. 2 player consistently for the past six years and focuses on expanding it further. With sustained market share gains, new product launches, and higher traction on new channels (including e-commerce), we expect Britannia's core biscuit category to beat the industry's growth in the medium term. This along with scale-up in the revenue of adjacent categories and efficiencies would help Britannia achieve double-digit earnings growth of 17.2% over FY2022-FY2025E. Britannia is currently trading at 59x/50.7x/43.1x its FY2023/FY2024E/FY2025E EPS. We maintain our Buy recommendation on the stock with a revised PT of Rs. 5,060 over the next 12 months.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Hindustan Unilever	68.8	62.6	52.8	48.2	43.7	37.1	24.1	26.3	30.6
Nestle India*	82.3	75.5	61.8	53.0	49.9	41.6	138.3	129.4	125.8
Britannia	69.3	59.0	50.7	49.0	42.1	36.6	28.0	33.9	35.8

Source: Company, Sharekhan estimates; *Nestle is a calendar year ending company

About company

Britannia is one of India's leading packaged food companies with a 100-year legacy and annual revenue in excess of Rs. 14,000 crore. The company is among the most trusted food brands and manufactures well-known brands such as Good Day, Tiger, NutriChoice, Milk Bikis, and Marie Gold, which are household names in India. Britannia's product portfolio includes biscuits, bread, cakes, rusk, and dairy products, including cheese, beverages, milk, and yoghurt. The company is the market leader in the biscuit category, with close to 34% market share in the domestic market. The dairy business contributes 5% to overall revenue.

Investment theme

Britannia is a strong brand with market leadership in the domestic biscuit market with a 40% share. Sustained new launches and entry into healthier and premium variants helped it gain market share and beat category growth. The company is also focusing on growing its adjacent categories such as dairy and bakery. Volume growth is expected to sustain in mid-single digits in the near term. Market share gains, expanding reach in rural India, and strong traction to innovation would help volume growth trajectory to improve ahead. Though OPM is expected to remain under pressure in FY2023, it will improve in FY2024 with better mix and cost-saving measures.

Key Risks

- ◆ Any further lockdown in some of the key domestic markets would act as an obstacle to the strong growth momentum and will consequently have an impact on earnings growth.
- ◆ Dismal performance by some of the new ventures would affect the company's overall performance in the near to medium term.

Additional Data

Key management personnel

Nusli N Wadia	Chairman
Varun Berry	Managing Director
N Venkataraman	Chief Financial Officer
T V Thulsidass	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.5
2	JP Morgan Chase & Co	2.3
3	SBI Funds Management Pvt Ltd	2.0
4	Blackrock Inc	1.8
5	Vanguard Group Inc	1.6
6	General Insurance Corp of India	1.3
7	ICICI Prudential Asset Management	1.0
8	Mirae Asset Global Investments Co	1.0
9	Touchstone Advisors Inc	0.7
10	Sands Capital Management LLC	0.5

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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