

February 2, 2023

Q3FY23 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	HOLD		HOLD	
Target Price	4,580		4,297	
Sales (Rs. m)	1,83,879	2,05,272	1,85,205	2,06,759
% Chng.	(0.7)	(0.7)		
EBITDA (Rs. m)	32,713	36,882	31,501	35,959
% Chng.	3.8	2.6		
EPS (Rs.)	91.9	105.1	88.5	102.5
% Chng.	3.8	2.5		

Key Financials - Consolidated

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	1,41,363	1,64,318	1,83,879	2,05,272
EBITDA (Rs. m)	22,015	27,785	32,713	36,882
Margin (%)	15.6	16.9	17.8	18.0
PAT (Rs. m)	15,170	19,078	22,127	25,315
EPS (Rs.)	63.0	79.2	91.9	105.1
Gr. (%)	(18.1)	25.8	16.0	14.4
DPS (Rs.)	74.5	56.5	57.0	70.0
Yield (%)	1.6	1.2	1.2	1.5
RoE (%)	49.7	69.5	65.8	59.9
RoCE (%)	37.5	46.5	47.3	50.8
EV/Sales (x)	7.9	6.8	6.0	5.3
EV/EBITDA (x)	50.7	40.0	33.5	29.4
PE (x)	72.6	57.7	49.8	43.5
P/BV (x)	43.1	37.5	29.1	23.7

Key Data

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52-W High / Low	Rs.4,597 / Rs.3,050
Sensex / Nifty	59,932 / 17,610
Market Cap	Rs.1,102bn/ \$ 13,403m
Shares Outstanding	241m
3M Avg. Daily Value	Rs.1510.72m

Shareholding Pattern (%)

Promoter's	50.55
Foreign	18.46
Domestic Institution	15.21
Public & Others	15.78
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	6.5	20.7	26.3
Relative	8.7	17.1	25.5

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Strong outlook but peaked out margins

Quick Pointers:

- 3Q margins higher than long term sustainable levels of 17.5-18%
- Innovations report 1-3x scalability since 1Q23, market share gains continue

We increase our FY23/FY24/FY25 EPS estimates by 7.9%/3.8%/2.5% on account of higher margins led by 1) incentives on new plants in other operating income and 2) stabilizing RM basket. BRIT continues to gain share in core Biscuits & Bakery segment and scale adjacencies & innovations like Biscuits, Nutrichoice Herbs, Marble cake, Croissants etc with sales up 1-4x since 1Q23. While Palm oil (down 50% from peak) & SMP (down 40% from peak) are favorable, benefits of lower cost wheat futures will end in FY23 and new season procurement price will be higher by ~10-15% (30-35% higher as of now) in our view. We believe 19.5% EBIDTA margin is unsustainable and factor in 17.8/18% margins for FY24/25.

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) cost efficiency gains in manufacturing, distribution and procurement 5) sustained innovation program and 6) Dairy expansion plans in new categories in Ranjangaon Dairy unit. We estimate 13.2%/18.6% sales and PAT CAGR over FY22-25. We roll over to 45x Dec24EPS thereby arriving at a target price of Rs4,580 (Rs4,297 earlier). Retain Hold.

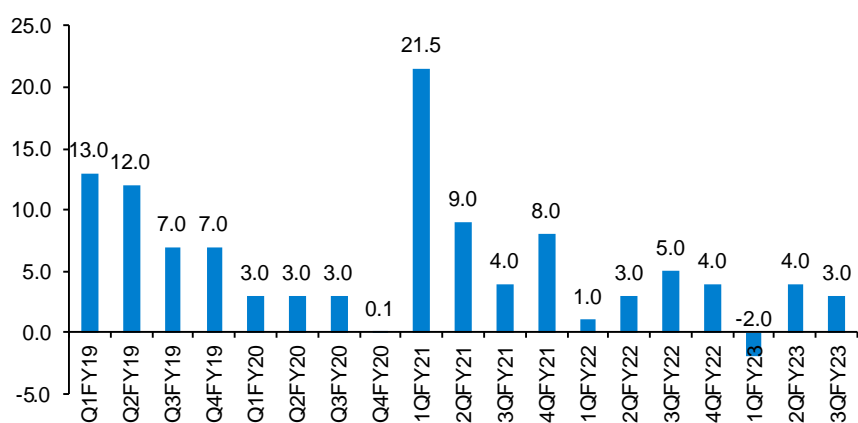
Concall Takeaways: 1) Low-single digit volume growth was helped by increase in rural distribution 2) GM was benefited by lower priced wheat which is expected to normalise in 4Q 3) Inflation has come down QoQ due to drop in palm oil prices which does not warrant any further price hikes 4) May look at price cuts across select brands, SKUs and products as inflation settles 5) Non-biscuit sales contribution at 23% which is expected to go to 35% in the medium term 6) New products like plum Cake, Tic Tac Toe and Paneer launched in select markets 7) Ad spends have returned to pre-COVID levels during 3Q 8) Dairy business (currently clocking Rs 5-6bn) potential seen at Rs20bn in the medium term 9) Dairy business growth to be supported by increase in milk collection to 150k LPD (from 70K) 10) Dairy business medium term contribution to overall sales expected to be 8-10% and may not result in margin dilution 11) Cheese to be rolled out in disruptive formats such as sachets & triangular portions 12) Cheese products will be priced to compete at the premium end of market 13) Capex for FY23/24 at Rs7.5/2.5bn

Low-single digit volume growth: Consolidated Revenues grew by 17.4% YoY to Rs42bn. Gross margins expanded by 574bps YoY/472bps QoQ to 43.7%. EBITDA grew by 51.5% YoY to Rs8.2bn; Margins expanded by 438bps YoY/323bps QoQ to 19.5%. PBT grew by 52.3% YoY to Rs 7.7bn. Adjusted PAT grew by 49.7% YoY to Rs5.6bn. Imputed Subsidiary Sales declined by 7.8% YoY to Rs1.9bn; PAT grew by 13% YoY to 161.4mn. Standalone Revenues grew by 18.9% YoY to Rs40.1bn. EBITDA grew by 54.1% YoY to Rs7.9bn with margin expansion of 450bps YoY/329bps QoQ to 19.7%. PAT grew by 51.2% YoY to Rs 5.4bn.

Exhibit 1: 3QFY23 Consolidated Results: Sales up 17.4%, Margins expanded by 438bps/323bps YoY/QoQ

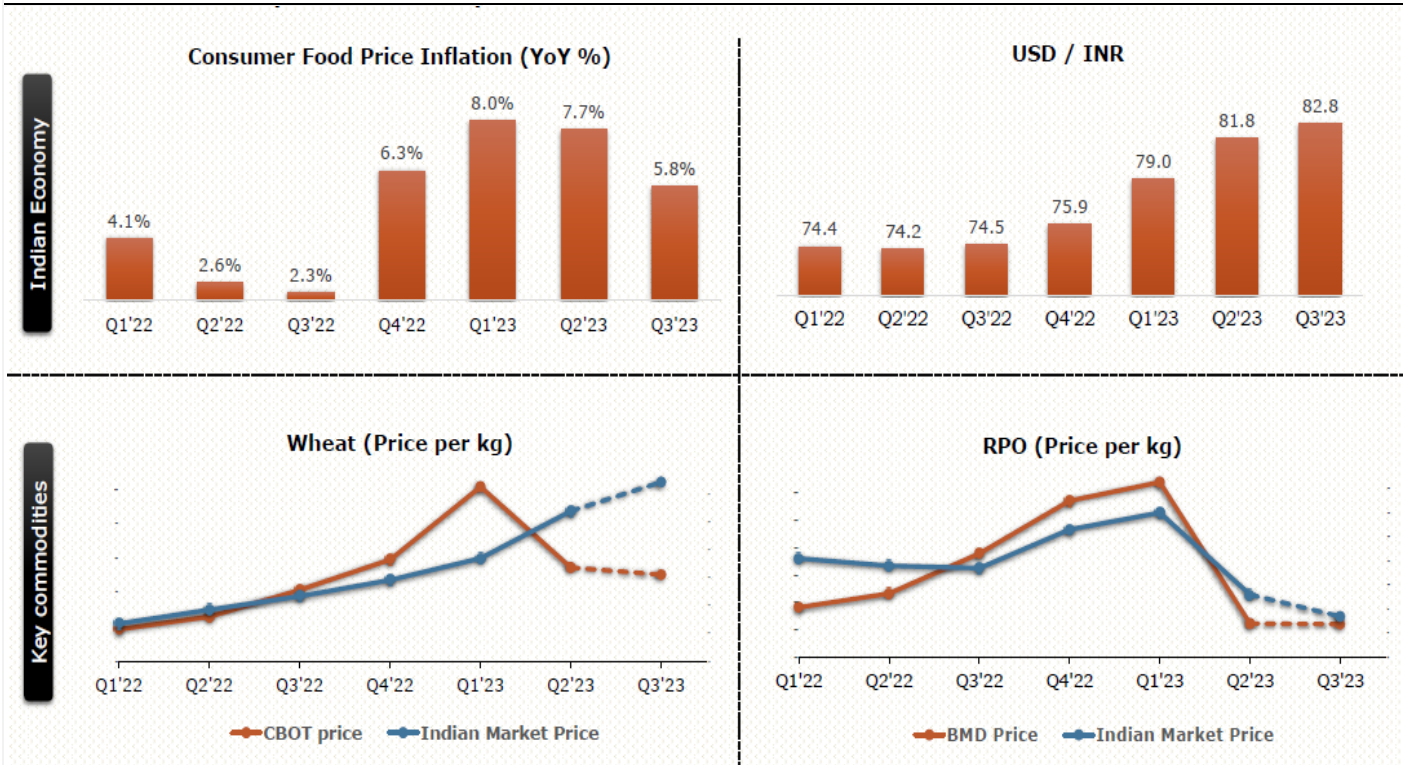
Y/e March (Rs m)	3QFY23	3QFY22	YoY gr. (%)	2QFY23	9MFY23	9MFY22	YoY gr. (%)
Net Sales	41,968	35,750	17.4	43,796	122,774	105,858	16.0
Gross Profit	18,321	13,554	35.2	17,050	49,020	40,254	21.8
<i>Margins (%)</i>	<i>43.7</i>	<i>37.9</i>	<i>5.7</i>	<i>38.9</i>	<i>39.9</i>	<i>38.0</i>	<i>1.9</i>
Other Expenses	10,145	8,157	24.4	9,933	28,720	23,736	21.0
<i>% of Sales</i>	<i>24.2</i>	<i>22.8</i>	<i>1.4</i>	<i>22.7</i>	<i>23.4</i>	<i>22.4</i>	<i>1.0</i>
EBITDA	8,176	5,397	51.5	7,117	20,300	16,518	22.9
<i>Margins (%)</i>	<i>19.5</i>	<i>15.1</i>	<i>4.4</i>	<i>16.3</i>	<i>16.5</i>	<i>15.6</i>	<i>0.9</i>
Depreciation	580	504	15.0	517	1,606	1,496	7.3
Interest	381	374	2.0	541	1,342	1,105	21.4
Other Income	508	551	(7.9)	532	1,595	1,690	(5.6)
PBT	7,722	5,071	52.3	6,591	18,947	15,607	21.4
Tax	2,169	1,362	59.2	1,686	5,130	4,214	21.7
<i>Tax Rate (%)</i>	<i>28.1</i>	<i>26.9</i>	<i>1.2</i>	<i>25.6</i>	<i>27.1</i>	<i>27.0</i>	<i>0.1</i>
Adjusted PAT	5,553	3,709	49.7	4,905	13,817	11,393	21.3

Source: Company, PL

Exhibit 2: Volumes grow 3% YoY; grows 4.0% on 3-year CAGR


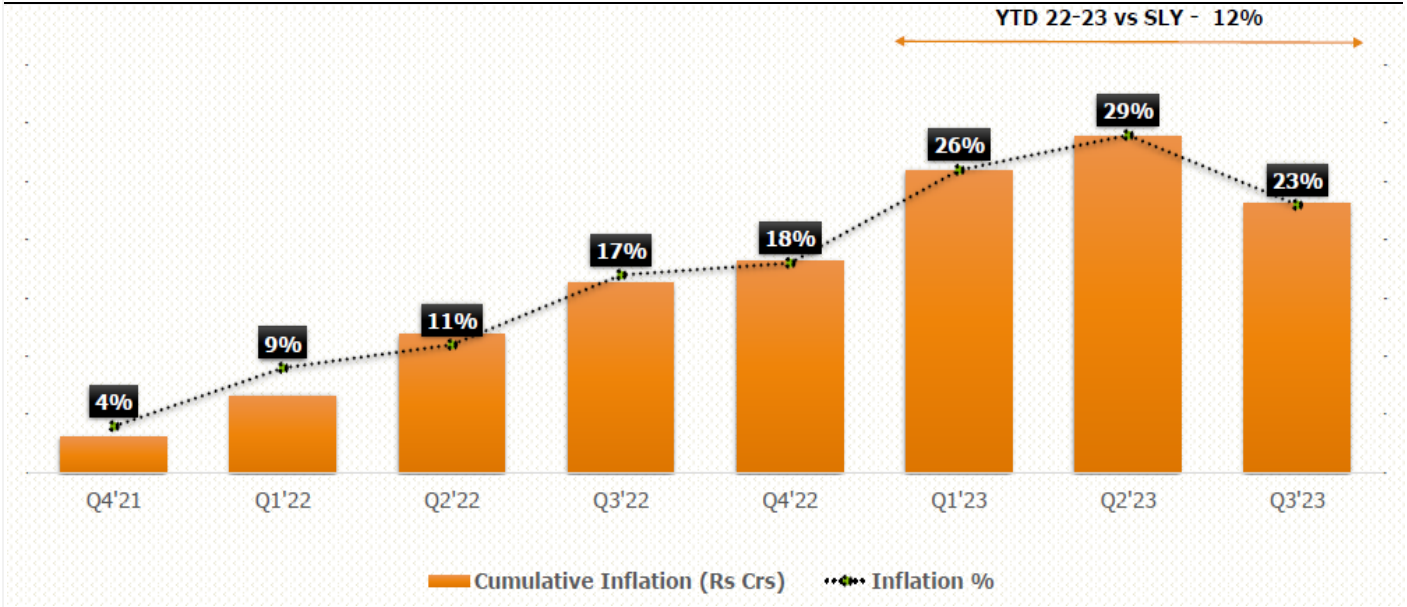
Source: Company, PL

Exhibit 3: Wheat prices continue to move up while Palm Oil softens in 3Q



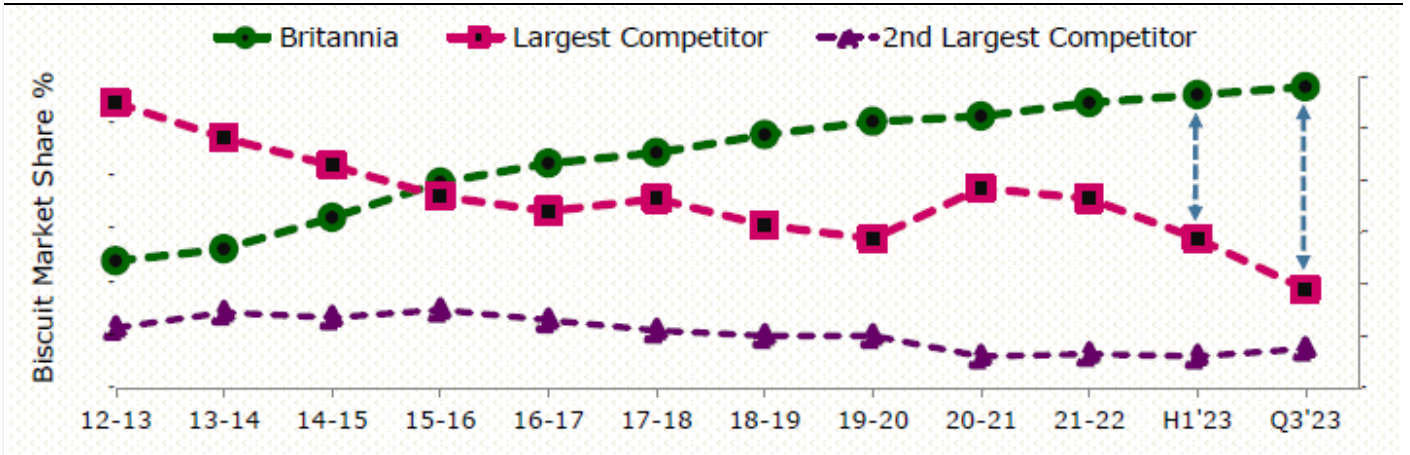
Source: Company, PL

Exhibit 4: Leading to an overall reduction in cumulative inflation



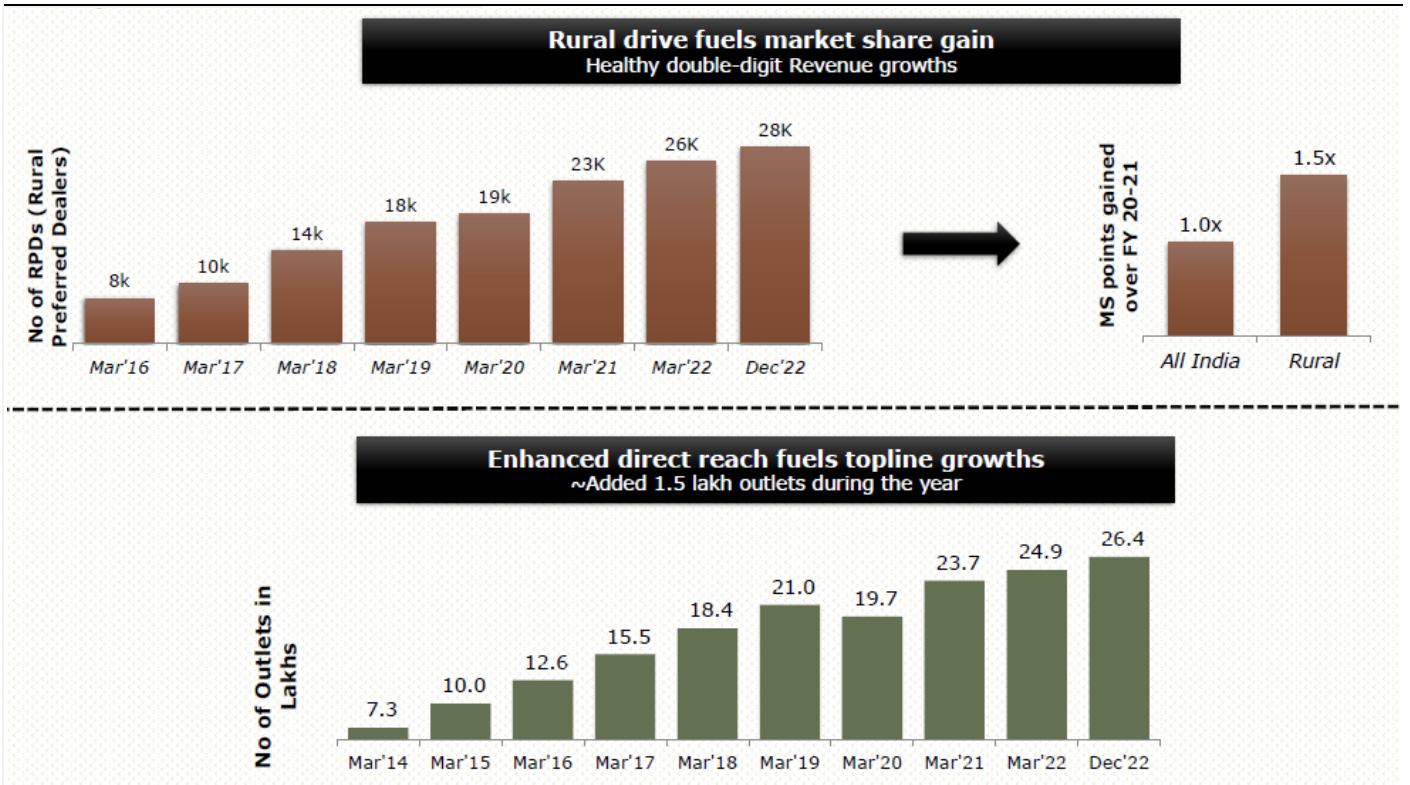
Source: Company, PL

Exhibit 5: BRIT continues to gain market share



Source: Company, PL

Exhibit 6: Rural preferred dealers up at 28k, direct reach also inching up gradually



Source: Company, PL

Exhibit 7: Innovations continue to witness exponential growth; New launches undertaken in select markets



Source: Company, PL

Exhibit 8: Ranjangoan Dairy factory commercialized; Cheese line to be commissioned in FY24



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Net Revenues	1,41,363	1,64,318	1,83,879	2,05,272
YoY gr. (%)	7.6	16.2	11.9	11.6
Cost of Goods Sold	87,603	98,478	1,08,264	1,20,206
Gross Profit	53,760	65,839	75,615	85,066
Margin (%)	38.0	40.1	41.1	41.4
Employee Cost	5,423	6,573	7,355	8,211
Other Expenses	557	575	625	677
EBITDA	22,015	27,785	32,713	36,882
YoY gr. (%)	(12.3)	26.2	17.7	12.7
Margin (%)	15.6	16.9	17.8	18.0
Depreciation and Amortization	2,005	2,251	2,485	2,580
EBIT	20,010	25,533	30,228	34,302
Margin (%)	14.2	15.5	16.4	16.7
Net Interest	1,443	1,981	2,332	2,084
Other Income	2,228	2,420	2,221	2,362
Profit Before Tax	20,795	25,972	30,118	34,580
Margin (%)	14.7	15.8	16.4	16.8
Total Tax	5,624	6,894	7,991	9,264
Effective tax rate (%)	27.0	26.5	26.5	26.8
Profit after tax	15,172	19,078	22,127	25,315
Minority interest	-	-	-	-
Share Profit from Associate	(2)	-	-	-
Adjusted PAT	15,170	19,078	22,127	25,315
YoY gr. (%)	(18.1)	25.8	16.0	14.4
Margin (%)	10.7	11.6	12.0	12.3
Extra Ord. Income / (Exp)	(10)	-	-	-
Reported PAT	15,160	19,078	22,127	25,315
YoY gr. (%)	(18.1)	25.8	16.0	14.4
Margin (%)	10.7	11.6	12.0	12.3
Other Comprehensive Income	63	-	-	-
Total Comprehensive Income	15,223	19,078	22,127	25,315
Equity Shares O/s (m)	241	241	241	241
EPS (Rs)	63.0	79.2	91.9	105.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
Non-Current Assets				
Gross Block	29,483	36,646	38,114	39,588
Tangibles	27,670	34,773	36,181	37,595
Intangibles	1,813	1,873	1,933	1,993
Acc: Dep / Amortization	11,951	14,202	16,687	19,267
Tangibles	11,690	13,921	16,397	18,968
Intangibles	261	281	290	299
Net fixed assets	17,532	22,444	21,427	20,320
Tangibles	15,980	20,852	19,784	18,626
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	1,606	1,765	1,938
Current Assets				
Investments	8,337	4,930	12,872	12,316
Inventories	13,675	15,109	12,458	13,832
Trade receivables	3,319	3,329	3,727	4,162
Cash & Bank Balance	1,849	15,890	22,974	24,411
Other Current Assets	1,263	1,479	1,655	1,847
Total Assets	75,155	87,479	99,211	1,01,569
Equity				
Equity Share Capital	241	241	241	241
Other Equity	25,340	29,112	37,677	46,298
Total Networkth	25,581	29,353	37,918	46,539
Non-Current Liabilities				
Long Term borrowings	7,070	17,098	17,098	7,113
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	17,586	13,242	13,242	13,242
Trade payables	12,852	15,301	17,410	19,982
Other current liabilities	11,120	11,381	12,366	13,433
Total Equity & Liabilities	75,155	87,479	99,211	1,01,569

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	20,795	25,972	30,118	34,580
Add. Depreciation	2,320	2,251	2,485	2,580
Add. Interest	1,443	1,981	2,332	2,084
Less Financial Other Income	2,228	2,420	2,221	2,362
Add. Other	(2,597)	(2,573)	(2,366)	(2,518)
Op. profit before WC changes	21,961	27,632	32,568	36,727
Net Changes-WC	85	1,552	5,088	1,394
Direct tax	(5,624)	(6,894)	(7,991)	(9,264)
Net cash from Op. activities	16,423	22,290	29,666	28,856
Capital expenditures	(6,113)	(2,563)	(968)	(1,574)
Interest / Dividend Income	2,228	2,420	2,221	2,362
Others	10,183	3,408	(7,942)	555
Net Cash from Inv. activities	6,299	3,264	(6,689)	1,344
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	-	-	-	-
Net cash from Fin. activities	(22,986)	(11,513)	(15,893)	(28,762)
Net change in cash	(265)	14,041	7,084	1,437
Free Cash Flow	10,310	19,727	28,698	27,283

Source: Company Data, PL Research

Quarterly Financials (Rs m)

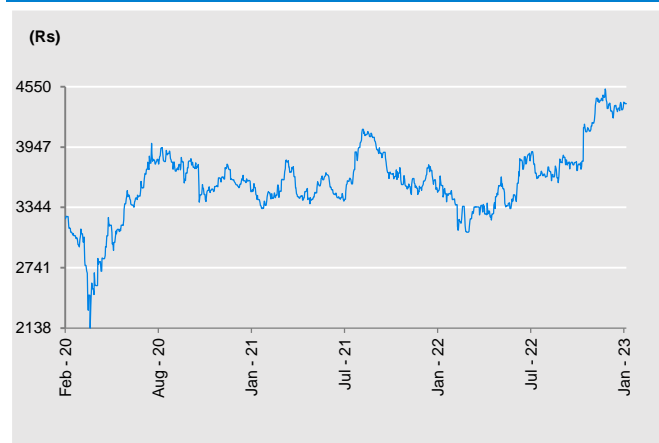
Y/e Mar	Q4FY22	Q1FY23	Q2FY23	Q3FY23
Net Revenue	35,505	37,010	43,796	41,968
YoY gr. (%)	13.4	8.7	21.4	17.4
Raw Material Expenses	21,999	23,361	26,746	23,647
Gross Profit	13,506	13,648	17,050	18,321
Margin (%)	38.0	36.9	38.9	43.7
EBITDA	5,497	5,007	7,117	8,176
YoY gr. (%)	8.8	(9.6)	27.5	51.5
Margin (%)	15.5	13.5	16.3	19.5
Depreciation / Depletion	509	510	517	580
EBIT	4,988	4,498	6,600	7,596
Margin (%)	14.0	12.2	15.1	18.1
Net Interest	338	420	541	381
Other Income	538	555	532	508
Profit before Tax	5,188	4,633	6,591	7,722
Margin (%)	14.6	12.5	15.1	18.4
Total Tax	1,410	1,274	1,686	2,169
Effective tax rate (%)	27.2	27.5	25.6	28.1
Profit after Tax	3,779	3,359	4,905	5,553
Minority interest	-	-	-	-
Share Profit from Associates	-	(2)	1	15
Adjusted PAT	3,779	3,357	4,906	5,568
YoY gr. (%)	5.1	(13.2)	28.5	50.4
Margin (%)	10.6	9.1	11.2	13.3
Extra Ord. Income / (Exp)	1	76	52	3,801
Reported PAT	3,780	3,434	4,958	9,369
YoY gr. (%)	4.0	(11.9)	30.0	154.3
Margin (%)	10.6	9.3	11.3	22.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,780	3,434	4,958	9,369
Avg. Shares O/s (m)	241	241	241	241
EPS (Rs)	15.7	14.0	20.4	23.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
Per Share(Rs)				
EPS	63.0	79.2	91.9	105.1
CEPS	71.3	88.5	102.2	115.8
BVPS	106.2	121.8	157.4	193.2
FCF	42.8	81.9	119.1	113.3
DPS	74.5	56.5	57.0	70.0
Return Ratio(%)				
RoCE	37.5	46.5	47.3	50.8
ROIC	30.8	38.3	47.7	52.9
RoE	49.7	69.5	65.8	59.9
Balance Sheet				
Net Debt : Equity (x)	0.6	0.3	(0.1)	(0.4)
Net Working Capital (Days)	11	7	(2)	(4)
Valuation(x)				
PER	72.6	57.7	49.8	43.5
P/B	43.1	37.5	29.1	23.7
P/CEPS	64.1	51.6	44.8	39.5
EV/EBITDA	50.7	40.0	33.5	29.4
EV/Sales	7.9	6.8	6.0	5.3
Dividend Yield (%)	1.6	1.2	1.2	1.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jan-23	Hold	4,297	4,359
2	07-Nov-22	Hold	4,142	3,804
3	04-Oct-22	Hold	4,026	3,769
4	05-Aug-22	Hold	3,880	3,775
5	07-Jul-22	UR	-	3,810
6	04-May-22	BUY	3,770	3,385
7	08-Apr-22	BUY	3,823	3,353

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,150	2,866
2	Avenue Supermarts	BUY	4,675	3,864
3	Britannia Industries	Hold	4,297	4,359
4	Colgate Palmolive	Hold	1,578	1,459
5	Dabur India	Accumulate	609	553
6	Emami	Accumulate	521	420
7	Hindustan Unilever	Accumulate	2,800	2,650
8	ITC	Accumulate	365	335
9	Jubilant FoodWorks	BUY	567	456
10	Kansai Nerolac Paints	Accumulate	563	419
11	Marico	Hold	531	513
12	Mold-tek Packaging	Hold	940	983
13	Nestle India	Accumulate	20,201	19,890
14	Pidilite Industries	Hold	2,500	2,315
15	Restaurant Brands Asia	Accumulate	156	111
16	Titan Company	Accumulate	2,875	2,538
17	Westlife Foodworld	BUY	852	735

PL's Recommendation Nomenclature (Absolute Performance)

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



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