

Britannia Industries Limited



Britannia Industries Ltd.

Continued double-digit revenue growth and margin improvement

CMP INR 4,628	Target INR 5,094	Potential Upside 10.1%	Market Cap (INR Mn) INR 11,14,738	Recommendation ACCUMULATE	Sector FMCG
-------------------------	----------------------------	----------------------------------	---	-------------------------------------	-----------------------

Result Highlights of Q3FY23

- BRIT reported revenue of INR 41,968 mn (+17.4% YoY/ -4.2% QoQ). For 9MFY23, revenue grew by 16.0% YoY.
- EBITDA improved by 51.5% YoY/ 14.9% QoQ to INR 8,176 mn. EBITDA margin saw a sharp sequential improvement of 438 bps YoY/ 323 bps QoQ to 19.5%. Gross margin improved by 574 bps YoY/ 472 bps QoQ. EBITDA for 9MFY23 grew by 22.9% YoY to INR 20,300 mn while EBITDA margin expanded by 93 bps YoY to 16.5%.
- In Q3FY23, Britannia had an exceptional gain of INR 3,756 mn pertaining to profit on sale of 49% equity stake in Britannia Dairy Private limited to Bel SA and fair valuation of balance 51% stake held in BDPL. Adj. PAT for Q3FY23 was INR 5,568 mn (+49.6% YoY/ +12.9% QoQ). For 9MFY23, Adj. PAT grew by 21.1% to INR 13,876 mn.

MARKET DATA

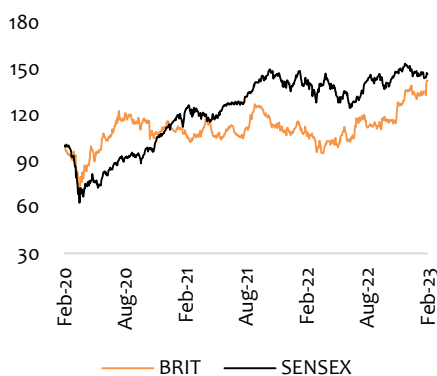
Shares outs (Mn)	241
Mkt Cap (INR Mn)	11,14,738
52 Wk H/L (INR)	4,660/ 3,050
Volume Avg (3m K)	377
Face Value (INR)	1
Bloomberg Code	BRIT IN

KEY FINANCIALS

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Revenue	1,31,361	1,41,363	1,65,024	1,83,377	1,99,862
EBITDA	25,093	22,015	27,969	31,783	36,404
Adj. PAT	18,645	15,258	19,184	22,013	25,566
Adj. EPS (INR)	77.4	63.3	79.6	91.4	106.1
EBITDA Margin (%)	19.1%	15.6%	16.9%	17.3%	18.2%
Adj. NPM (%)	14.2%	10.8%	11.6%	12.0%	12.8%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Double-digit revenue growth along with consistent market share gains: BRIT reported revenue of INR 41,968 mn (+17.4% YoY/ -4.2% QoQ). The growth in the number of packets sold was almost 17.0% YoY in Q3FY23 while volume growth was in the low single digits, meaning there was a shift to smaller packets. Even this quarter, BRIT has continued to gain market share and continued widening the gap with its largest competitor. BRIT has managed to gain market share despite leading price increases.

Strong gross margin improvement with some ramp-up in ad spends: EBITDA for the quarter improved by 51.5% YoY/ 14.9% QoQ to INR 8,176 mn. EBITDA margin saw a sharp sequential improvement and expanded by 438 bps YoY/ 323 bps QoQ to 19.5%. The improvement in margins was on account of price actions taken in H1FY23, cost efficiencies, and reduced input prices in Q3FY23. BRIT has normalized its ad spends in Q3FY23 and gone back to pre-Covid levels. Gross margin improved by 574 bps YoY/ 472 bps QoQ. Food inflation in India has continued but the rate has lowered slightly. In Q3FY23, the food inflation was 5.8% YoY vs. 7.7% in Q2FY23 and 8.0% in Q1FY23. For BRIT, compared to Q3FY21, cumulative inflation was 23.0% in Q3FY23 vs. 29.0% in Q2FY23. While wheat prices continued to be higher, a decline in Palm oil prices has helped control input costs.

MARKET INFO

SENSEX	60,507
NIFTY	17,765

Outlook on margins: The international wheat prices have reduced after Q1FY23, but that is not the case in India. Wheat prices in India have kept rising. In Q3FY23, BRIT used the lower-cost forward covers for flour it had taken at the start of the year, leading to a bit of softening in the internal consumption prices. This effect will not continue, and the price of wheat will be determined in the next season, which will be in about 2 months' time. In some product segments, where there is higher competitive intensity, BRIT will make some price modifications, specifically promotions, in the coming quarters. Going forward, EBITDA margins could be between the range of Q2FY23 and Q3FY23.

SHARE HOLDING PATTERN (%)

Particulars	Dec-22	Sep-22	Jun-22
Promoters	50.6	50.6	50.6
FIIIs	18.5	17.2	16.7
DIIIs	15.2	16.3	8.7
Others	15.8	16.0	24.1
Total	100	100	100

12.2%

Revenue CAGR between FY22 and FY25E

18.8%

Adj. PAT CAGR between FY22 and FY25E

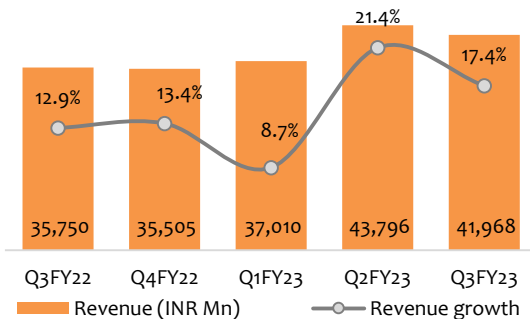
Britannia Industries Ltd.

Key Concall Highlights : (1) BRIT has not seen a slowdown in rural business due to distribution expansion. For BRIT, the market share gained in rural is 1.5x the market share gained in overall India. (2) BRIT has also expanded its direct reach from 24.9 lakh outlets at the end of Mar-22 to 26.4 lakh outlets at the end of Dec-22. (3) During the quarter, BRIT had new launches like Festive launch of plum cake in East and South India, Tic tac toe in the snacking portfolio in South India, and Paneer in the fresh portfolio in West India. (4) Products launched earlier in the year, in both biscuits and adjacent categories, have seen strong growth. (5) BRIT’s new JV with Bel, France will be looking at a differentiated portfolio of innovative cheese products which will be manufactured at the new state-of-the-art facility in Ranjangaon. (6) The cheddar cheese lines at Ranjangaon will commercialize in Q1FY24E and the processed cheese lines in H2FY24E. (7) BRIT will continue to import the INR 10 sachet of cheese that Bel sells currently and the triangular portions from Vietnam as India has a no import duty treaty with Vietnam. The scale up will happen from Ranjangaon factory over next 2 years as required. (8) At the Ranjangaon dairy facility, BRIT is currently collecting 70,000 litres of milk per day from 2,850 farmers. The target is to take it up to 150,000 litres per day from 4,000+ farmers. (9) The skimmed milk powder (SMP), dairy whitener, sweetened condensed milk lines have already been commercialized at Ranjangaon and the products are being used in the internal bakery business. The PET line has been commercialized and BRIT has launched milkshakes in PET bottles in South India in January. Fresh dairy lines will be commissioned in a couple of months before end of Q4FY23E. (10) The bakery adjacencies have seen improved profitability across the business. (11) New businesses of Croissants and wafers are seeing good traction. In international business, there is healthy profitable growth across geographies. (12) The current scale of dairy business is just over INR 6 bn and BRIT expects to ramp up to INR 20 bn in the medium term. (13) The share of the non-biscuits portfolio is now around 23.0% from 15.0% about 7-8 years ago. Over the next 5 years, this portfolio could become ~45.0% of the overall business. Of the 23.0% non-biscuit portfolio currently, 50.0% would be cakes, and rusk. (14) Capex for FY23E will be INR 7,500 mn and for next 2-3 years, capex will be INR 2,500 mn.

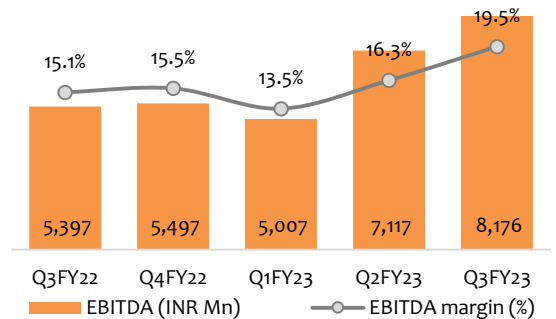
Valuation and view

BRIT has continued to see strong topline growth along with market share gains. Efforts to expand its distribution have led to strong market share gains in rural India and BRIT has not faced a slowdown, unlike the industry. Volume growth has remained positive despite the inflationary pressures. BRIT is focusing on expanding its adjacent business and new launches under these categories are seeing strong traction. BRIT achieved a strong 19.5% EBITDA margin in Q3FY23. While this level of margin will not continue as one-off benefits which will go away, management thinks margins will remain somewhere between the Q2FY23 and Q3FY23 levels. We expect the margins to come off a bit in the next quarter but expect annual margins to improve in FY24E and FY25E due to cost efficiencies, higher volume growth, and premiumization of the portfolio. Adjacent businesses are also seeing improving profitability. We expect a Revenue/ EBITDA/ Adj. PAT CAGR of 12.2%/ 18.3%/ 18.8% respectively over FY22-FY25E. **We apply a P/E multiple of 48.0x to the FY25E EPS of INR 106.1 and arrive at the target price of INR 5,094 per share (earlier INR 4,829 per share); an upside of 10.1% over the CMP. Accordingly, we maintain our “ACCUMULATE” rating on the shares of Britannia Industries.**

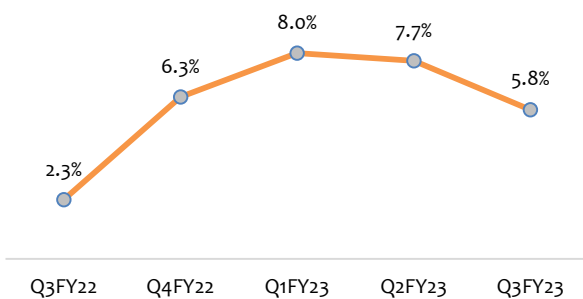
Revenue growth continues in double-digits



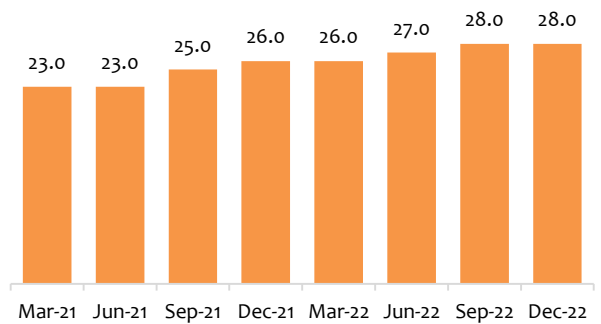
Strong QoQ margin improvement



Consumer Food Price Inflation (YoY %)



No of Rural Preferred Dealers (In '000)



Source: Company, KRChoksey Research

Britannia Industries Ltd.

KEY FINANCIALS

Particulars (INR Mn)	Q3FY23	Q2FY23	Q3FY22	QoQ	YoY	9MFY23	9MFY22	YoY
Sales	41,968	43,796	35,750	-4.2%	17.4%	1,22,774	1,05,858	16.0%
Total Expenditure	33,792	36,679	30,353	-7.9%	11.3%	1,02,474	89,340	14.7%
Cost of Raw Materials	20,983	22,459	18,183	-6.6%	15.4%	63,036	56,153	12.3%
Purchase of stock	2,896	4,663	4,130	-37.9%	-29.9%	11,476	10,132	13.3%
Changes in Inventories	-231	-377	-117	-38.7%	98.5%	-758	-681	11.2%
Employee cost	1,782	1,626	1,279	9.6%	39.3%	4,878	4,208	15.9%
Other Expenses	8,363	8,308	6,878	0.7%	21.6%	23,842	19,527	22.1%
EBITDA	8,176	7,117	5,397	14.9%	51.5%	20,300	16,518	22.9%
EBITDA Margins	19.5%	16.3%	15.1%	323 bps	438 bps	16.5%	15.6%	93 bps
Depreciation	580	517	504	12.2%	15.0%	1,606	1,496	7.3%
EBIT	7,596	6,600	4,893	15.1%	55.2%	18,694	15,022	24.4%
Interest Expense	381	541	374	-29.6%	2.0%	1,342	1,105	21.4%
Other income	508	532	551	-4.7%	-7.9%	1,595	1,690	-5.6%
PBT	7,722	6,591	5,071	17.2%	52.3%	18,947	15,607	21.4%
Exceptional items	3,756	0	-10	NA	NM	3,756	-10	NM
Tax	2,169	1,686	1,362	28.6%	59.2%	5,130	4,214	21.7%
Share of Associates/ Minority income	15	28	13	-45.7%	16.3%	58	66	-12.5%
PAT	9,324	4,933	3,712	89.0%	151.2%	17,632	11,449	54.0%
PAT Margin	22.2%	11.3%	10.4%	1,095 bps	1,183 bps	14.4%	10.8%	355 bps
Adj. PAT	5,568	4,933	3,722	12.9%	49.6%	13,876	11,459	21.1%
Adj. PAT Margin	13.3%	11.3%	10.4%	200 bps	286 bps	11.3%	10.8%	48 bps
EPS	38.7	20.5	15.4	89.0%	151.2%	73.2	47.5	54.0%
Adj. EPS	23.1	20.5	15.4	12.9%	49.6%	57.6	47.6	21.1%

Exhibit 1: Profit & Loss Statement

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Revenues	1,31,361	1,41,363	1,65,024	1,83,377	1,99,862
COGS	76,261	87,603	98,195	1,07,584	1,16,491
Gross profit	55,100	53,760	66,829	75,793	83,371
Employee cost	5,274	5,423	6,568	7,335	7,994
Other expenses	24,734	26,322	32,292	36,675	38,973
EBITDA	25,093	22,015	27,969	31,783	36,404
EBITDA Margin	19.1%	15.6%	16.9%	17.3%	18.2%
Depreciation & amortization	1,979	2,005	2,211	2,556	2,731
EBIT	23,114	20,010	25,759	29,227	33,673
Interest expense	1,109	1,443	1,726	1,621	1,411
PBT	25,128	20,785	29,946	29,957	34,793
Tax	6,630	5,624	7,100	8,089	9,394
Minority interest	-133	-88	-71	-109	-127
PAT	18,639	15,248	22,940	22,013	25,566
Adj. PAT	18,645	15,258	19,184	22,013	25,566
EPS (INR)	77.4	63.3	95.2	91.4	106.1
Adj. EPS	77.4	63.3	79.6	91.4	106.1

Exhibit 3: Key Ratios

Key Ratio	FY21	FY22	FY23E	FY24E	FY25E
EBITDA Margin (%)	19.1%	15.6%	16.9%	17.3%	18.2%
Tax rate (%)	26.4%	27.1%	23.7%	27.0%	27.0%
Net Profit Margin (%)	14.2%	10.8%	11.6%	12.0%	12.8%
RoE (%)	52.0%	59.0%	65.1%	52.5%	51.4%
RoCE (%)	40.8%	39.6%	43.0%	45.9%	49.2%
Adj. EPS (INR)	77.4	63.3	79.6	91.4	106.1
Adj. PE	59.8x	73.1x	58.1x	50.6x	43.6x

Source: Company, KRChoksey Research

Britannia Industries Ltd.

Exhibit 4: Balance Sheet

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Non-current assets					
Property, plant and equipment	16,343	15,841	20,130	20,074	19,843
Capital work-in-progress	1,165	5,357	5,357	5,357	5,357
Investment Property	142	140	140	140	140
Goodwill	1,359	1,396	1,396	1,396	1,396
Other intangible assets	85	156	156	156	156
Investment in Associate	23	21	21	21	21
Investments	13,852	9,266	9,266	9,266	9,266
Loans	746	1,000	1,000	1,000	1,000
Other financial assets	301	318	318	318	318
Income Tax Assets (Net)	718	449	525	583	635
Deferred Tax Assets (Net)	97	517	603	670	731
Other non-current assets	1,060	992	1,158	1,287	1,402
Total non-current assets	35,891	35,451	40,068	40,267	40,264
Current assets					
Inventories	10,915	13,675	15,328	16,794	18,184
Investments	13,933	8,337	6,837	8,837	10,837
Trade receivables	2,573	3,319	6,782	7,536	8,213
Cash and cash equivalents	1,427	1,181	6,549	8,110	10,954
Other Balances with Banks	686	669	669	669	669
Loans	9,466	6,980	6,980	6,980	6,980
Other financial assets	3,978	4,280	4,997	5,552	6,052
Other current assets	1,220	1,263	1,475	1,639	1,786
Total current assets	44,197	39,705	49,617	56,118	63,676
TOTAL ASSETS	80,088	75,156	89,685	96,384	1,03,941
EQUITY AND LIABILITIES					
Equity share capital	241	241	241	241	241
Other equity	35,236	25,340	34,669	41,273	48,942
Equity attributable to the equity shareholders	35,477	25,581	34,910	41,514	49,183
Non-controlling interests	363	275	346	455	582
Total equity	35,840	25,856	35,255	41,969	49,765
LIABILITIES					
Non-current liabilities					
Borrowings	7,478	7,070	7,070	7,070	7,070
Other financial liabilities	541	665	665	665	665
Deferred tax liabilities, (net)	87	8	9	11	11
Total non-current liabilities	8,105	7,743	7,744	7,745	7,746
Current liabilities					
Borrowings	13,394	17,586	17,586	14,586	11,586
Trade payables	13,148	12,871	16,142	17,685	19,149
Other financial liabilities	3,560	4,237	4,946	5,496	5,990
Other current liabilities	1,405	1,267	1,479	1,644	1,791
Provisions	3,875	4,851	5,663	6,293	6,859
Current tax liabilities, (net)	761	746	870	967	1,054
Total current liabilities	36,143	41,557	46,686	46,670	46,429
Total liabilities	44,248	49,300	54,430	54,416	54,175
TOTAL EQUITY AND LIABILITIES	80,088	75,156	89,685	96,384	1,03,941

Exhibit 2: Cash Flow Statement

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Cash Generated From Operations	18,755	12,995	23,803	23,883	27,221
Net Cash Flow from/(used in) Investing Activities	4,356	9,109	(3,169)	(2,402)	(2,197)
Net Cash Flow from Financing Activities	(22,425)	(22,458)	(15,265)	(19,921)	(22,180)
Net Inc/Dec in cash equivalents	686	(354)	5,369	1,561	2,844
Opening Balance	753	1,415	1,180	6,549	8,110
Closing Balance Cash and Cash Equivalents	1,428	1,180	6,549	8,110	10,954

Source: Company, KRChoksey Research

Britannia Industries Ltd.

Britannia Industries Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
06-Feb 23	4,628	5,094	ACCUMULATE	Buy	More than 15%
03-Jan 23	4,250	4,829	ACCUMULATE		
09-Nov 22	4,140	4,556	ACCUMULATE	Accumulate	5% – 15%
05-Aug 22	3,633	4,016	ACCUMULATE		
06-May 22	3,277	3,755	ACCUMULATE	Hold	0 – 5%
31-Jan-22	3,535	3,987	ACCUMULATE		
10-Nov-21	3,622	3,802	HOLD	Reduce	-5% – 0
05-Aug-21	3,611	4,000	ACCUMULATE		
30-Jun-21	3,657	4,000	ACCUMULATE	Sell	Less than – 5%
29-Apr-21	3,479	4,000	BUY		

ANALYST CERTIFICATION:

I, Abhishek Agarwal (CA, CFA L3 Cleared), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSPL is a registered Research Entity vide SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSPL policies, in circumstances where KRCSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Abhishek Agarwal (CA, CFA L3 Cleared), of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Abhishek Agarwal (CA, CFA L3 Cleared), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other Jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject KRCSPL and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com

Visit us at www.krchoksey.com

KRChoksey Shares and Securities Pvt. Ltd

Registered Office:

1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.

Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.

Corporate Office:

ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.

Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.

ANALYST

Abhishek Agarwal, research5@krchoksey.com, +91-22-6696 5575

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com