



Powered by the Sharekhan 3R Research Philosophy

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 Mar 08, 2023 **26.74**

Medium Risk

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

Source: Morningstar

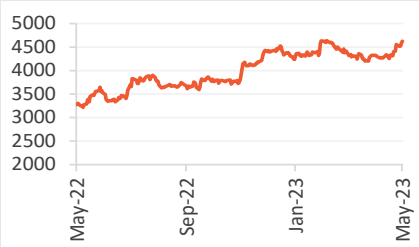
Company details

Market cap:	Rs. 1,11,375 cr
52-week high/low:	Rs. 4,680 / 3,156
NSE volume: (No of shares)	3.3 lakh
BSE code:	500825
NSE code:	BRITANNIA
Free float: (No of shares)	11.9 cr

Shareholding (%)

Promoters	50.6
FII	20.9
DII	14.4
Others	14.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	6.8	-0.1	21.5	41.1
Relative to Sensex	4.6	-0.5	21.4	31.5

Sharekhan Research, Bloomberg

Britannia Industries Ltd

Strong Q4; levers intact for consistent growth

Consumer Goods	Sharekhan code: BRITANNIA		
Reco/View: Buy	↔	CMP: Rs. 4,624	Price Target: Rs. 5,500 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Q4FY23 numbers of Britannia Industries (Britannia) were excellent with revenue growing by 13%, while gross margins and OPM expanded by 688 bps and 442 bps y-o-y respectively, to 44.9% and 19.9% (beating our as well street expectation of ~17-17.5%).
- Biscuit volume growth would improve in FY2024 from low single digits in FY2023 led by relevant pricing actions. Non-biscuit portfolio is growing at 1.5x the biscuit portfolio.
- Prices of some key inputs such as palm oil and packaging material have moderated. This along with benefit from forward contracts in flour will help gross margins to remain stable in the coming quarters. OPM to remain at high teens in the coming years.
- Britannia trades at 49x/42x its FY2024E/FY2025E earnings. We maintain our Buy rating on the stock with a revised PT of Rs. 5,500.

Britannia Industries (Britannia) reported yet another quarter of stellar numbers in Q4FY2023, beating ours as well as the street's expectations led by strong margin expansion amid volatile commodity prices. Consolidated revenues grew by 11% y-o-y to Rs. 3,892 crore, driven by ~2% volume growth and rest by price-led growth. The company continues to witness higher growth in unit purchases. Gross margins improved by 688 bps y-o-y to 44.9% (up 127 bps q-o-q), driven by the benefits of forward contracts, procurement efficiencies, and price hikes undertaken in the portfolio. Operating profit margin (OPM) improved by 442 bps y-o-y to 19.9% and operating profit grew by ~46% y-o-y to Rs. 800.9 crore. Adjusted PAT grew by 47% y-o-y to Rs. 553.6 crore. For FY2023, Consolidated revenues grew by 15.3% y-o-y to Rs. 16,300.6 crore, OPM expanded by 180 bps to 17.4% and PAT grew by 28.6% y-o-y to Rs. 1,951.3 crore. Management expects volume growth to pick-up in FY2024 with raw material inflation stabilising. OPM would remain in high teens in the coming years on back of improved mix, operating efficiencies and increasing focus on in-house manufacturing.

Key positives

- Market share gains continued in core biscuits category for the 40th consecutive quarter.
- Non-biscuit portfolio is growing at 1.5x of biscuit portfolio.
- Necessary pricing actions, correction in palm oil prices and strategic buying aided 440 bps expansion in OPM to 19.7% in H2FY2023.

Key negatives

- Volume growth remained lower at 2% due to cut in grammage in key packs.

Key management commentary

- Prices of palm oil, laminates and corrugated boxes have corrected from highs, while flour prices remained firm in Q4. Management expects wheat prices to correct in the coming quarters. Overall, for FY2024, the management is expecting raw material inflation of 3%.
- Correction in the input prices would largely be passed on to improve volume growth in the near term. Management expects volume growth to be much better as compared to FY2023 volume growth of 2-3%.
- Gross margins would remain stable at around 45%. OPM is expected to remain in high teens in the near term. Improving mix, procurement efficiencies and cost-saving initiatives will help the OPM to consistently improve in the coming years.
- Adjacent categories (cakes, rusks, dairy, bread and croissant) have gone up to 23% in FY2023 from 15% in the last 7-8 years. The management expects it to reach 30%+ over the next five years. Products such as croissants, cakes, dairy and wafer biscuits are expected to lead adjacency growth in the coming years.
- The company is planning a capex of Rs. 500-600 crore in FY2024 towards investment in enhancing dairy capacity, new facility in Bihar and investments in existing facility in Ranjangaon. Capex will moderate from FY2026.

Revision in earnings estimates - We have revised upwards our earnings estimates for FY2024 and FY2025 by 2% and 3% to factor in better-than-expected operating margins.

Our Call

View – Maintain Buy with a revised PT of Rs. 5,500: Britannia has widened the gap with the No. 2 player in the biscuits category and is focusing on becoming a formidable player in bakery and dairy business by adding capacities in key markets. With sustained market share gains, 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. The company is going big with the dairy segment, making strong investments on product launches. This along with scale-up in revenue of the adjacent categories and efficiencies would help Britannia achieve double-digit earnings growth of 17% over FY2023-FY2025E. Britannia's stock price is currently trading at 49.4x/41.7x its FY2024E/FY2025E EPS. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 5,500.

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 for FY2024 and FY2025.

Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	14,136	16,301	18,093	20,500
OPM (%)	15.6	17.4	17.9	18.3
Adjusted PAT	1,517	1,951	2,255	2,674
% YoY growth	-18.0	28.6	15.5	18.6
Adjusted EPS (Rs.)	63.0	81.0	93.6	111.0
P/E (x)	73.4	57.1	49.4	41.7
P/B (x)	43.5	31.5	24.3	18.4
EV/EBIDTA (x)	51.9	39.9	34.6	29.5
RoNW (%)	49.7	64.1	55.5	50.3
RoCE (%)	28.0	32.8	33.4	36.4

Source: Company; Sharekhan estimates

Strong Q4– Higher-than-expected margins led to strong PAT growth

Consolidated revenues grew by 13.3% y-o-y to Rs. 3,892 crore. Net sales (excluding other operating income) grew by 11% y-o-y to Rs. 3,892 crore, driven by 2% volume growth and 9-10% price led growth. Other operating income grew by 2.1x to Rs. 131.2 crore as it included Rs. 90 crore of PLI scheme benefits received for FY2022 and FY2023. Despite sustained raw material price inflation on a y-o-y basis (especially in flour and milk products), gross margin expanded by 688 bps y-o-y to 44.9%, while OPM improved by 442 bps y-o-y to 19.9%, aided by cost efficiencies undertaken by the company. Sequentially, gross margin and OPM improved by 127 bps and 43 bps, led by consistent correction in commodity prices. Operating profit grew by 45.7% y-o-y to Rs. 800.9 crore. In-line with growth in operating profit, adjusted PAT grew by 47% y-o-y to Rs. 553.6 crore.

Key conference call highlights

- ◆ **Prices of key inputs except for milk and wheat corrected:** Some of the key input prices such as palm oil, laminates and corrugated boxes declined by 14%, 9% and 16% on y-o-y basis. Flour prices are up 21% y-o-y. However, in view of forward contracts of wheat flour, management is well covered for the quarters ahead. Further, wheat prices have started seeing some softness in the recent times and are expected to correct if monsoons are relatively better. Thus, overall the company is expecting raw material inflation of 3% for FY2024.
- ◆ **Eyeing better volume growth:** With commodity inflation stabilising, the company has regained its focus on improving the volume growth in the coming quarters. It will opt for relevant pricing actions /grammage correction to remain competitive and improve volume growth in the quarters ahead. Management is confident of achieving much better volume growth compared to 2-3% volume growth achieved in FY2023.
- ◆ **Non-biscuit portfolio performing well:** Adjacent categories (cake, rusk, dairy, bread and croissant) have gone up to 23% in FY2023 from 15% in the last 7-8 years. It is growing at 1.5x the base biscuit portfolio. Croissant has become a Rs. 100 crore product, base market Tamil Nadu and West Bengal are growing in upwards of 50%. Winkin Cow has become a Rs. 150 crore brand and is expected to grow strongly in the coming years. Cheese re-branding transition is on track with 'Britannia The Laughing Cow'. The company commercialized three new lines in rusks to enable competitive play in the widely fragmented market. Britannia bridged portfolio gaps in cakes and continued to focus on growing profitable segments. Management expects non-biscuit portfolio to be at over 30% in the next five years. Products such as croissants, cakes, dairy and wafer biscuits are expected to lead adjacency growth in the coming years.
- ◆ **OPM to remain in high teens:** Gross margins would remain stable at around 45%. OPM is expected to remain in high teens in the near term. Improving mix, procurement efficiencies and cost saving initiatives will help the OPM to consistently improve in the coming years.
- ◆ **Distribution continues to expand:** Rural distributors have increased by 2.8x in the past 5-6 years and the company currently has 28,000 rural distributors under its network. Share gains in rural India are 1.4x higher compared to urban areas. The company has also enhanced its direct reach by adding 1.9 lakh outlets in FY2023, with the current direct reach at 26.8 lakh outlets. The company's products are available in the 67 lakh outlets, while industry reach is 92 lakh outlets. Second largest player is available in five lakh more outlets compared to Britannia, which it plans to cover up in the coming years. Large focus is on expanding reach in the rural market (especially Hindi speaking belt).
- ◆ **New products see strong traction:** New product launches continued to gain strong traction in the key markets. 50-50 Golmaal is extended to South and West market from East earlier and delivered sequential growth of 40%. Nutri Choice Seeds, Herbs & Protein, which were launched in Q1FY2023, grew 50% q-o-q, while Milk Bikis Classics launched in Tamil Nadu, grew 20% q-o-q. Further, the company expanded portfolio of few of adjacent categories including Winkin Cow Milk Shakes (in aseptic PET bottles) and also launched Rich milk shakes in Q4. Distribution of milk shakes grew at 2x compared to last year and will continue to scale-up further in the coming years. Winkin Cow is a Rs. 150 crore brand. Management expects new product contribution to go up to 4-4.5% in the coming years from 3% currently.
- ◆ **Commercial operations of new facilities:** Britannia commercialised operations of two of its new biscuit greenfield units in Uttar Pradesh and Tamil Nadu and a brownfield expansion in Odisha. It also commercialized three new lines of Rusk in Q4FY2023. This is in line with its strategy to make in-house exclusive range of products and further enhance productivity. It is focusing on enhancing the in-house production to 65% from current 57% in the coming years.

- ◆ **Capex of Rs. 500-600 crore in FY2024:** The company is planning a capex of Rs. 500-600 crore in FY2024 on enhancing dairy capacity, setting up new facility in Bihar and investments in existing facility in Ranjangaon. Capex will moderate from FY2026.
- ◆ **Benefits of PLI scheme accrued in other operating income:** Britannia's other operating income grew by 2.1x to Rs. 131.2 crore as it includes Rs. 90 crore of PLI scheme benefits received for FY2022 and FY2023. The management expects to accrue PLI benefits of Rs. 25-30 core per quarter.

Results (Consolidated)

Particulars	Rs cr				
	Q4FY23	Q4FY22	y-o-y %	Q3FY23	q-o-q %
Net sales	3,892.0	3,508.4	10.9	4,101.5	-5.1
Other operating income	131.2	42.1	211.5	95.3	37.6
Total revenues	4,023.2	3,550.5	13.3	4,196.8	-4.1
Raw material cost	2,215.9	2,199.9	0.7	2,364.7	-6.3
Employee cost	170.6	121.4	40.5	178.2	-4.3
Other expenses	835.8	679.5	23.0	836.3	-0.1
Total operating expenses	3,222.3	3,000.8	7.4	3,379.2	-4.6
Operating Profit	800.9	549.7	45.7	817.6	-2.0
Other income	56.4	53.8	4.7	50.8	11.1
Interest expenses	34.9	33.8	3.3	38.1	-8.6
Depreciation	65.3	50.9	28.3	58.0	12.7
Profit before tax	757.1	518.8	45.9	772.2	-2.0
Tax charges	203.5	141.0	44.4	200.9	1.3
Adjusted PAT	553.6	377.9	46.5	571.3	-3.1
Exceptional item	0.0	0.0	-	359.0	-
Share of profit from associates	4.0	0.1	-	1.5	-
Reported PAT	557.6	378.0	47.5	931.8	-40.2
EPS (Rs.)	23.0	15.7	46.1	23.7	-3.1
			bps		bps
GPM (%)	44.9	38.0	688	43.7	127
OPM (%)	19.9	15.5	442	19.5	43
NPM (%)	18.8	14.6	420	18.4	42
Tax rate (%)	26.9	27.2	-29	26.0	86

Source: Company, Sharekhan Research

Results (Standalone)

Particulars	Rs cr				
	Q4FY23	Q4FY22	y-o-y %	Q3FY23	q-o-q %
Total revenues	3,894.7	3,336.5	16.7	4,011.2	-2.9
Operating Profit	794.7	522.0	52.2	789.8	0.6
Other income	53.2	103.0	-48.3	48.4	9.9
PBT	760.8	550.7	38.2	752.8	1.1
Reported PAT	558.2	413.4	35.0	766.9	-27.2
GPM (%)	43.1	36.7	639	42.2	92
OPM (%)	20.4	15.6	476	19.7	71
NPM (%)	14.3	12.4	194	14.6	-25
Tax rate (%)	26.6	24.9		22.3	

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Rural recovery key for revival in volume growth

A recovery in rural demand is key for consumer goods companies to post recovery in volume growth in the quarters ahead. A normal monsoon, well spread across the country, and government support (especially prior to elections) might help rural demand to gradually pick up. In terms of categories, out-of-home, packaged foods, and edible oil categories are likely to maintain good momentum in the coming quarters. With mercury expected to rise in most parts of the country, demand for summer products is increasing as trade channels are building up the inventory prior to the season. On the margin front, stable raw-material prices post the recent correction in some of the key inputs (including crude oil and vegetable oils) will help margins consistently improve in the coming quarters. Low penetration in key categories (especially in rural India), lower per capita consumption compared with other countries, a large shift to branded products, and the emergence of new channels such as e-Commerce/D2C provide several opportunities for achieving sustainable growth in the medium to long run.

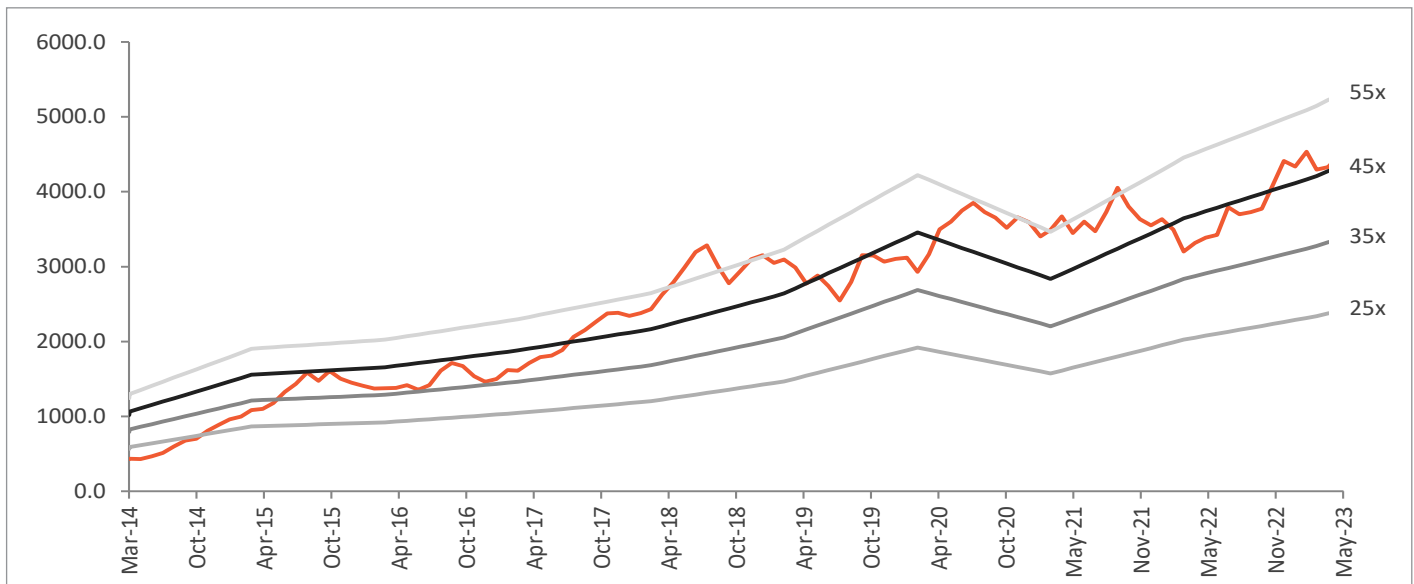
■ Company outlook - Focus on achieving consistent volume growth

Britannia is focusing on achieving high single-digit volume growth in the medium term through market share gains, distribution expansion, better penetration in the Hindi-speaking belt, and new product launches. The company has a strong product pipeline and will launch relevant products amid a normal demand environment. Contribution of new product launches 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 expected to tone down to 2-3% in FY2024. Along with its focus on improving mix, the company will stringently manage its discretionary costs and will continue to strengthen efficiencies at the operations and distribution level to reduce the cost, which will help to achieve better OPM of high teens in the coming years.

■ Valuation - Maintain Buy with revised price target of Rs. 5,500

Britannia has widened the gap with the No. 2 player in the biscuits category and is focusing on becoming a formidable player in bakery and dairy business by adding capacities in key markets. With sustained market share gains, product launches, and higher traction on new channels (including e-Commerce), we expect Britannia's core biscuits category to beat the industry's growth in the medium term. The company is going big with the dairy segment, making strong investments on product launches. This along with scale-up in revenue of the adjacent categories and efficiencies would help Britannia achieve double-digit earnings growth of 17% over FY2023-FY2025E. Britannia's stock price is currently trading at 49.4x/41.7x its FY2024E/FY2025E EPS. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 5,500.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Hindustan Unilever	58.6	54.0	46.3	42.7	37.9	32.4	25.8	28.0	31.7
Nestle India*	88.8	70.3	60.7	57.0	47.5	41.0	129.2	135.5	138.9
Britannia	57.1	49.4	41.7	39.9	34.6	29.5	32.8	33.4	36.4

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. 16,000 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 yogurt. 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% of 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 the volume growth trajectory to improve ahead. Along with its focus on improving mix, the company will stringently manage its discretionary cost and will continue to strengthen efficiencies at the operations and distribution level to reduce the cost, which will help to achieve better OPM of high teens in the coming years.

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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	5.37
2	JP Morgan Chase & Co	2.18
3	SBI Funds Management Ltd	2.05
4	Vanguard Group Inc	1.91
5	Blackrock Inc	1.79
6	General Insurance Corp of India	1.16
7	ICICI Prudential Asset Management Co.	0.98
8	ICICI Prudential Life Insurance Co Ltd	0.70
9	Touchstone Advisors Inc	0.66
10	UTI Asset Management Co Ltd	0.41

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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