

Britannia Industries Limited



Britannia Industries Ltd.

Strong margin beat in the quarter

CMP INR 4,600	Target INR 5,094	Potential Upside 10.7%	Market Cap (INR Mn) INR 11,07,994	Recommendation ACCUMULATE	Sector FMCG
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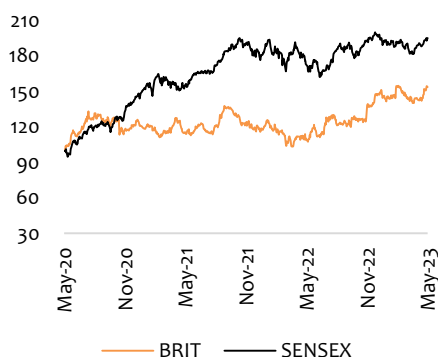
Result Highlights of Q4FY23

- BRIT reported revenue of INR 40,232 mn (+13.3% YoY/ -4.1% QoQ). For FY23, revenue was INR 1,63,006 mn (+15.3% YoY). The revenue growth for the quarter was backed by significant distribution gains.
- EBITDA for the quarter was INR 8,009 mn (+45.7% YoY/ -2.0% QoQ). EBITDA margin improved by 442 bps YoY/ 43 bps QoQ to 19.9%. For FY23, EBITDA was INR 28,309 mn (+28.6% YoY) while EBITDA margin improved by 179 bps YoY to 17.4%.
- Reported PAT for the quarter was INR 5,587 mn (+47.1% YoY/ -40.1% QoQ). The quarterly decline is due to an exceptional gain that was reported in Q3FY23. Adj. PAT growth was 47.1% YoY/ 0.3% QoQ. For FY23, Adj. PAT improved by 27.6% YoY.

MARKET DATA

Shares outs (Mn)	241
Mkt Cap (INR Mn)	11,07,994
52 Wk H/L (INR)	4,700/ 3,156
Volume Avg (3m K)	282
Face Value (INR)	1
Bloomberg Code	BRIT IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	61,764
NIFTY	18,264

KEY FINANCIALS

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,31,361	1,41,363	1,63,006	1,80,721	1,99,545
EBITDA	25,093	22,015	28,309	32,221	36,838
Adj. PAT	18,645	15,258	19,462	21,961	25,390
Adj. EPS (INR)	77.4	63.3	80.8	91.2	105.4
EBITDA Margin (%)	19.1%	15.6%	17.4%	17.8%	18.5%
Adj. NPM (%)	14.2%	10.8%	11.9%	12.2%	12.7%

Source: Company, KRChoksey Research

Revenue growth continues to be driven by pricing while volumes see low single-digit growth:

For Q4FY23, BRIT reported revenue of INR 40,232 mn (+13.3% YoY/ -4.1% QoQ). The revenue growth for the quarter was backed by significant distribution gains. BRIT continued to widen its market share gap vs. the 2nd largest competitor. For FY23, revenue was INR 1,63,006 mn (+15.3% YoY). Volume growth for the quarter, as well as the full year, would be in the range of low single digits. While volumes were lower during the year due to grammage cuts, the total number of packs sold was higher by 12.0% YoY. Other operating income was higher in Q3FY23 and Q4FY23 as the PLI funds for FY22 and FY23 were realized in these quarters. The funds realized in Q4FY23 were INR 900 mn.

Strong sequential margin improvement continues in this quarter as well:

Gross margin for the quarter improved by 688 bps YoY/ 127 bps QoQ. Raw material prices softened due to correction in palm oil & packaging materials, while flour continued to trend higher. For FY23, the gross margin improved by 313 bps YoY. EBITDA for the quarter was INR 8,009 mn (+45.7% YoY/ -2.0% QoQ). EBITDA margin improved by 442 bps YoY/ 43 bps QoQ to 19.9%. For FY23, EBITDA was INR 28,309 mn (+28.6% YoY) while EBITDA margin improved by 179 bps YoY to 17.4%.

View on commodities, pricing, and margins: The 4 commodities that form 60% of BRIT's inputs are flour, palm oil, laminates and corrugated boxes. Flour prices in Q4FY23 were higher by 21.0% YoY/ 4.0% QoQ. The other 3 key inputs saw some softening with palm oil down 14.0% YoY/ 6.0% QoQ, laminates down by 9.0% YoY/ 5.0% QoQ and corrugated boxes down by 16.0% YoY/ 7.0% QoQ. All these commodities however remain above the levels seen in Q1FY21. Besides these, dairy has seen inflation of 54.0% YoY/ 20.0% QoQ with no respite in sight. Sugar was inflated YoY but flat QoQ. Considering some softening of input costs seen in H2FY23 and cost savings from efficiencies, BRIT is evaluating price cuts in some categories. BRIT has already initiated price cuts or promotional offers in some brands, which will lead to better volume growth in FY24E. BRIT has planned for a 3.0% YoY inflation in FY24E as they had good prices on some inputs last year due to strategic buying. BRIT expects gross and EBITDA margins in FY24E to be at FY23 average levels and not at the exit levels as they will undertake some pricing changes in the face of slightly higher competitive intensity.

SHARE HOLDING PATTERN (%)

Particulars	Mar-23	Dec-22	Sep-22
Promoters	50.6	50.6	50.6
FIIIs	19.4	18.5	17.2
DIIIs	14.4	15.2	16.3
Others	15.7	15.8	16.0
Total	100	100	100

10.6%

Revenue CAGR between FY23 and FY25E

14.2%

Adj. PAT CAGR between FY23 and FY25E

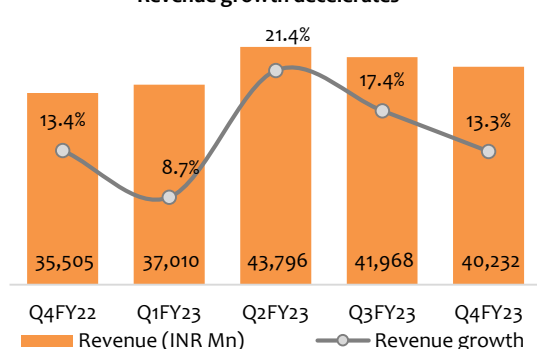
Britannia Industries Ltd.

Key Concall Highlights: (1) BRIT did not see any material impact on Lower Unit Packs (LUPs) and their share has remained more or less constant. (2) Revenue of adjacent categories like Cake, Rusk, Dairy and Bread are all around INR 6 bn to 7 bn, international is ~INR 8 bn while Croissants which is an emerging category is INR 1 bn. (3) BRIT's market share gains are owing to distribution expansion and brand strength. (4) BRIT's savings from efficiencies were 9x in FY23 vs. FY14 levels. (5) In FY24E, an average of INR 150 to 200 mn will be realized as PLI in every quarter. (6) New product contribution is ~3.5% of the portfolio and BRIT will scale up to 4.0% in FY24E. (7) In Q4FY23, BRIT relaunched Pure Magic in biscuits and launched drinks in aseptic PET bottles, which were sold in tetra packs earlier. (8) Recent innovations are seeing good growth. 50-50 Golmaal was extended to South and West India and has seen 40.0% QoQ growth. NutriChoice Herbs and Seeds grew by 50.0% QoQ, Milk Bikis Classic saw a 20.0% QoQ growth. (9) BRIT also launched new rich milkshakes and coconut water to expand the drinks portfolio. (10) BRIT is one of the few companies making milkshakes from farm fresh milk, meaning better quality. The Winkin Cow brand has revenue of INR 1.5 bn and the milkshakes distribution shift was 2x of last year. (11) BRIT has taken some hit on profitability in Winkin Cow due to inflation, but not on the topline and has established a strong brand. (12) Under bakery adjacencies, bread continues to see profitable growth. BRIT commercialized new lines for Rusk to increase competitiveness. BRIT also bridged portfolio gaps in Cakes. (13) In Croissants, the base markets of Tamil Nadu and West Bengal continue to grow by 50.0% YoY with continued new market additions. (14) BRIT's JV with Bel is now scaling up and BRIT is transitioning to the Britannia Laughing Cow brand. (15) BRIT's total milk collection has been scaled up to 2 lakh litres per day, of which 70,000 litres is collected directly from farmers and 1.3 lakh litres is through bulk collection. The entire Skimmed Milk Powder (SMP) and Sweetened Condensed Milk (SCM) to the bakery division is supplied by the dairy plant. (16) BRIT's rural distribution increased from 26,000 in March 2022 to 28,000 in March 2023. (17) BRIT continues to gain more share in rural and has 1.4x share vs. all of India. (18) BRIT increased its direct reach by 2 lakh outlets in FY23. (19) Capex for FY24E is expected to be INR 5 to 6 bn, largely for the dairy business. The capex intensity has been high for 2 years, so it will slow down thereafter.

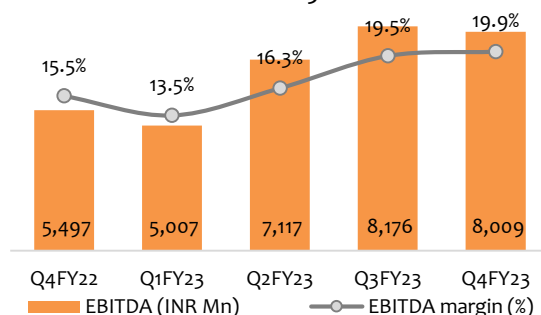
Valuation and view

BRIT has reported sequential margin improvement in each quarter of FY23 but expects the margins to settle in at the average FY23 levels, which would be a contraction from the exit levels. The stable YoY margins would be on account of favourable contracts leading to lower input costs in FY23 due to favourable contracts and higher competitive intensity in the market now. As BRIT passes on the benefit of lower input costs to the customers and undertakes price corrections and restores grammage, volumes should see a boost. We believe that the management's focus on the topline growth instead of just margin pursuit will lead to a growth ramp-up in the coming quarters. We like the growth trajectory of adjacent businesses and expect that as these businesses scale up, they will contribute meaningfully to profitability. We broadly maintain our EPS estimates for FY24E/ FY25E. We expect a Revenue/ EBITDA/ Adj. PAT CAGR of 10.6%/ 14.1%/ 14.5% respectively over FY23-FY25E. **We apply a P/E multiple of 48.3x to the FY25E EPS of INR 105.4 and arrive at the target price of INR 5,094 per share (unchanged); an upside of 10.7% over the CMP. Accordingly, we maintain our "ACCUMULATE" rating on the shares of Britannia Industries.**

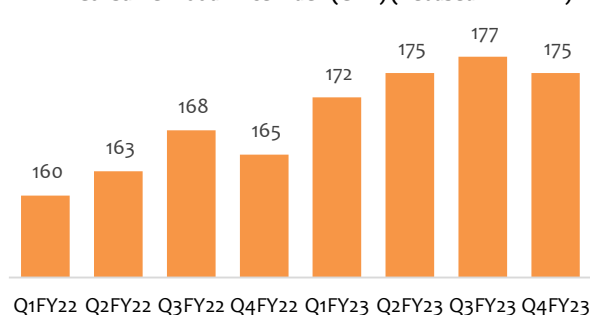
Revenue growth decelerates



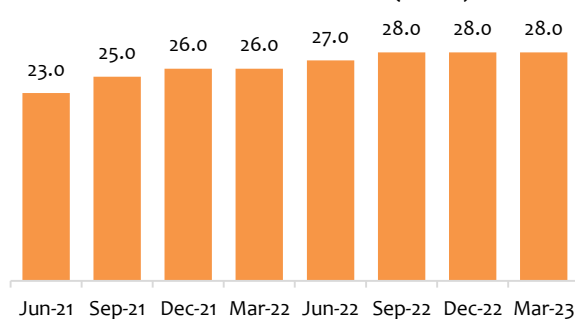
Strong QoQ margin improvement in all quarters of FY23



Consumer Food Price Index (CFPI) (Rebased 2012= 100)



No of Rural Preferred Dealers (In '000)



Source: Company, KRChoksey Research

Britannia Industries Ltd.

KEY FINANCIALS

Particulars (INR Mn)	Q4FY23	Q3FY23	Q4FY22	QoQ	YoY	FY23	FY22	YoY
Sales	40,232	41,968	35,505	-4.1%	13.3%	1,63,006	1,41,363	15.3%
Total Expenditure	32,223	33,792	30,008	-4.6%	7.4%	1,34,696	1,19,348	12.9%
Cost of Raw Materials	20,232	20,983	18,587	-3.6%	8.8%	83,267	74,740	11.4%
Purchase of stock	1,896	2,896	3,484	-34.5%	-45.6%	13,371	13,616	-1.8%
Changes in Inventories	32	-231	-72	113.9%	144.9%	-725	-753	-3.6%
Employee cost	1,706	1,782	1,214	-4.3%	40.5%	6,584	5,423	21.4%
Other Expenses	8,358	8,363	6,795	-0.1%	23.0%	32,200	26,322	22.3%
EBITDA	8,009	8,176	5,497	-2.0%	45.7%	28,309	22,015	28.6%
EBITDA Margins	19.9%	19.5%	15.5%	43 bps	442 bps	17.4%	15.6%	179 bps
Depreciation	653	580	509	12.7%	28.3%	2,259	2,005	12.7%
EBIT	7,356	7,596	4,988	-3.2%	47.5%	26,050	20,010	30.2%
Interest Expense	349	381	338	-8.6%	3.3%	1,691	1,443	17.2%
Other income	564	508	538	11.1%	4.7%	2,159	2,228	-3.1%
PBT	7,571	7,722	5,188	-2.0%	45.9%	26,518	20,795	27.5%
Exceptional items	0	3,756	0	-100.0%	NA	3,756	-10	NM
Tax	2,035	2,169	1,410	-6.2%	44.4%	7,165	5,624	27.4%
Share of Associates/ Minority income	51	15	20	248.6%	154.5%	109	86	25.7%
PAT	5,587	9,324	3,799	-40.1%	47.1%	23,218	15,248	52.3%
PAT Margin	13.9%	22.2%	10.7%	-833 bps	319 bps	14.2%	10.8%	346 bps
Adj. PAT	5,587	5,568	3,799	0.3%	47.1%	19,462	15,258	27.6%
Adj. PAT Margin	13.9%	13.3%	10.7%	62 bps	319 bps	11.9%	10.8%	115 bps
EPS	23.2	38.7	15.8	-40.1%	47.1%	96.4	63.3	52.3%
Adj. EPS	23.2	23.1	15.8	0.3%	47.1%	80.8	63.3	27.6%

Exhibit 1: Profit & Loss Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Revenues	1,31,361	1,41,363	1,63,006	1,80,721	1,99,545
COGS	76,261	87,603	95,913	1,05,109	1,15,734
Gross profit	55,100	53,760	67,093	75,612	83,811
Employee cost	5,274	5,423	6,584	7,124	7,565
Other expenses	24,734	26,322	32,200	36,267	39,408
EBITDA	25,093	22,015	28,309	32,221	36,838
EBITDA Margin	19.1%	15.6%	17.4%	17.8%	18.5%
Depreciation & amortization	1,979	2,005	2,259	3,126	3,301
EBIT	23,114	20,010	26,050	29,095	33,537
Interest expense	1,109	1,443	1,691	1,851	1,758
PBT	25,128	20,785	30,274	29,809	34,464
Tax	6,630	5,624	7,165	8,049	9,305
Share of JVs/ Minority interest	141	86	109	200	231
PAT	18,639	15,248	23,218	21,961	25,390
Adj. PAT	18,645	15,258	19,462	21,961	25,390
EPS (INR)	77.4	63.3	96.4	91.2	105.4
Adj. EPS	77.4	63.3	80.8	91.2	105.4

Exhibit 3: Key Ratios

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin (%)	19.1%	15.6%	17.4%	17.8%	18.5%
Tax rate (%)	26.4%	27.1%	23.7%	27.0%	27.0%
Net Profit Margin (%)	14.2%	10.8%	11.9%	12.2%	12.7%
RoE (%)	52.0%	59.0%	65.1%	51.9%	50.8%
RoCE (%)	40.8%	39.6%	39.8%	40.4%	43.7%
Adj. EPS (INR)	77.4	63.3	80.8	91.2	105.4
Adj. PE	59.4x	72.6x	56.9x	50.5x	43.6x

Source: Company, KRChoksey Research

Britannia Industries Ltd.

Exhibit 4: Balance Sheet

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Non-current assets					
Property, plant and equipment	16,343	15,841	24,722	27,596	26,796
Capital work-in-progress	1,165	5,357	1,050	1,050	1,050
Investment Property	142	140	406	406	406
Goodwill	1,359	1,396	1,282	1,282	1,282
Other intangible assets	85	156	142	142	142
Investment in Associate	23	21	4,952	4,952	4,952
Investments	13,852	9,266	10,281	10,281	10,281
Loans	746	1,000	1,500	1,500	1,500
Other financial assets	301	318	236	236	236
Income Tax Assets (Net)	718	449	436	484	534
Deferred Tax Assets (Net)	97	517	573	635	701
Other non-current assets	1,060	992	486	538	594
Total non-current assets	35,891	35,451	46,065	49,102	48,474
Current assets					
Inventories	10,915	13,675	11,933	13,077	14,399
Investments	13,933	8,337	18,010	20,010	22,010
Trade receivables	2,573	3,319	3,289	7,427	8,200
Cash and cash equivalents	1,427	1,180	1,024	806	4,474
Other Balances with Banks	686	669	956	956	956
Loans	9,466	6,980	5,600	5,600	5,600
Other financial assets	3,978	4,280	4,520	5,011	5,533
Other current assets	1,220	1,382	1,807	2,004	2,213
Total current assets	44,197	39,823	47,462	55,214	63,707
TOTAL ASSETS	80,088	75,274	93,527	1,04,315	1,12,181
EQUITY AND LIABILITIES					
Equity share capital	241	241	241	241	241
Other equity	35,236	25,340	35,102	41,690	49,307
Equity attributable to the equity shareholders	35,477	25,581	35,343	41,931	49,548
Non-controlling interests	363	275	302	344	392
Total equity	35,840	25,856	35,645	42,275	49,940
Non-current liabilities					
Borrowings	7,478	7,070	15,518	15,518	15,518
Other financial liabilities	541	664	745	745	745
Deferred tax liabilities, (net)	87	8	19	21	23
Provisions	0	205	256	256	256
Total non-current liabilities	8,105	7,947	16,538	16,540	16,542
Current liabilities					
Borrowings	13,394	17,586	14,287	14,287	11,287
Trade payables	13,148	13,228	14,488	17,278	19,025
Other financial liabilities	3,560	3,959	4,987	5,529	6,105
Other current liabilities	1,405	1,307	1,763	1,955	2,159
Provisions	3,875	4,646	5,134	5,692	6,285
Current tax liabilities, (net)	761	746	684	759	838
Total current liabilities	36,143	41,471	41,344	45,500	45,698
Total liabilities	44,248	49,418	57,882	62,040	62,241
TOTAL EQUITY AND LIABILITIES	80,088	75,274	93,527	1,04,315	1,12,181

Exhibit 2: Cash Flow Statement

INR Mn	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	18,755	12,995	25,262	22,559	28,136
Net Cash Flow from/(used in) Investing Activities	4,356	9,109	(15,171)	(5,595)	(1,986)
Net Cash Flow from Financing Activities	(22,425)	(22,458)	(10,284)	(17,182)	(22,483)
Net Inc/Dec in cash equivalents	686	(354)	(192)	(218)	3,667
Opening Balance	753	1,415	1,093	1,024	806
Closing Balance Cash and Cash Equivalents	1,428	1,180	1,024	806	4,474

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
08-May 23	4,600	5,094	ACCUMULATE	Buy	More than 15%
06-Feb 23	4,628	5,094	ACCUMULATE		
03-Jan 23	4,250	4,829	ACCUMULATE	Accumulate	5% – 15%
09-Nov 22	4,140	4,556	ACCUMULATE		
05-Aug 22	3,633	4,016	ACCUMULATE	Hold	0 – 5%
06-May 22	3,277	3,755	ACCUMULATE		
31-Jan-22	3,535	3,987	ACCUMULATE	Reduce	-5% – 0
10-Nov-21	3,622	3,802	HOLD		
05-Aug-21	3,611	4,000	ACCUMULATE	Sell	Less than – 5%
30-Jun-21	3,657	4,000	ACCUMULATE		

ANALYST CERTIFICATION:

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