BUY

Britannia Industries

Structurally sound; Initiate with BUY

Emkay — Your success is our success

Consumer Goods ▸ Initiating Coverage ▸ **June 14, 2023**

TARGET PRICE (Rs): 5,700

Britannia Industries is well-placed in the core biscuits segment and is promptly addressing adjacency gaps, to evolve into a 'Total Foods Company'. Britannia aspires to clock mid-teen growth, with double-digit growth in Biscuits which, we believe, is possible only post requisite action towards establishing its adjacencies. But given the relentless rural slowdown, we model-in a low 10% revenue CAGR over FY23-26E. We initiate coverage on Britannia with a BUY and Jun-24E TP of Rs5,700/sh, based on 50x PER (~20% premium to its last 10-yr avg fwd PER). With a solid brand price straddle in place, it has been widening product availability with improved distribution, and has bolstered sourcing with an amplified capex cycle. We see the shift from opex to capex aiding earnings. Muted rural demand, inflation and competition are key risks to our call.

Britannia Industries: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	141,363	163,006	177,772	197,003	218,126
EBITDA	22,015	28,309	31,623	36,809	42,471
Adj. PAT	15,258	19,462	22,322	26,402	30,621
Adj. EPS (Rs)	63.3	80.8	92.7	109.6	127.1
EBITDA margin (%)	15.6	17.4	17.8	18.7	19.5
EBITDA growth (%)	(12.3)	28.6	11.7	16.4	15.4
Adj. EPS growth (%)	(18.2)	27.5	14.7	18.3	16.0
RoE (%)	50.0	63.9	63.0	68.6	69.5
RoIC (%)	57.5	70.7	68.6	73.3	83.7
P/E (x)	78.0	61.2	53.3	45.1	38.9
EV/EBITDA (x)	54.3	41.9	37.6	32.2	27.8
P/B (x)	46.5	33.7	33.5	28.7	25.5
FCFF yield (%)	0.6	1.6	1.4	1.9	2.4

Source: Company, Emkay Research

Fortifying the Biscuits play with strategic actions

Britannia has, under the leadership of Varun Berry, seen steady market-share expansion since the last 10 years; it has achieved 15-year peak share of 33.5% (Emkay estimate). We believe Britannia is well ensconced in the category for sustaining the share gains, on the back of: i) faster growth in the premium category, ii) the market shift, from Rs5 to Rs10, iii) gradual shift from unorganized, iv) an enhanced health portfolio, v) regional thrust, and vi) a strong research and development team. Britannia has fitted itself appropriately for its journey ahead with an accelerated capex cycle (over FY16-25) and expanding product reach, along with a superior distribution reach.

Execution in adjacencies crucial

The company has been charting its business diversification for a long time now, albeit dragging its feet on the execution front (non-biscuits share remains at 22-25% of sales). We believe factors such as robust opportunity in core biscuits, Britannia's limited domain knowledge in adjacencies and its negative margin mix have hurt its diversification agenda. Going ahead, Britannia is looking to secure partnerships with domain experts, like its tie-up in the croissants/cheese space. Mgmt aspires to achieve 35% revenue from non-biscuits in three years, expanding it to 40% in five years and to 50% in ten.

Execution and favorable setting to aid valuations; initiate with BUY

We initiate coverage on the stock with a BUY recommendation and Jun-24E target price of Rs5,700/share, based on 50x Jun-25E earnings. Our valuation of 50x is at a 20% premium to its last ten-year average forward PER. Valuation premium is justified by the improved execution and positive outlook on adjacencies. Management targets achieving mid-teen growth which, in our view, will require an improved demand setting across urban and rural. We model-in ~10% top line and ~16% earnings CAGR over FY23-26E. Key risks to our BUY call are: a) sustained inflation in key wheat flour, b) surge in competitive intensity (spike at the premium-end), c) Company's inability to execute in adjacencies, and d) rural slowdown.

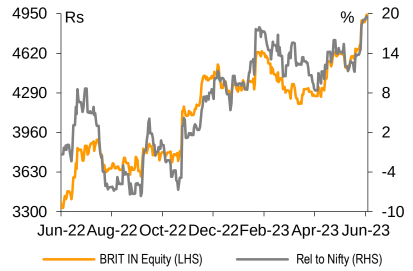
Target Price – 12M	Jun-24
Change in TP (%)	**NA**
Current Reco.	BUY
Previous Reco.	NA
Upside/(Downside) (%)	15.3
CMP (14-Jun-23) (Rs)	4,941.7

Stock Data	Ticker
52-week High (Rs)	4,980
52-week Low (Rs)	3,271
Shares outstanding (mn)	240.9
Market-cap (Rs bn)	1,190
Market-cap (USD mn)	14,497
Net-debt, FY24E (Rs mn)	-126
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	1,619.7
ADTV-3M (USD mn)	19.7
Free float (%)	49.5
Nifty-50	18,756
INR/USD	82.1
Shareholding, Mar-23	
Promoters (%)	50.6
FPIs/MFs (%)	19.4/14.4

Price Performance

(%)	1M	3M	12M
Absolute	7.0	15.1	46.1
Rel. to Nifty	4.5	4.6	22.5

1-Year share price trend (Rs)



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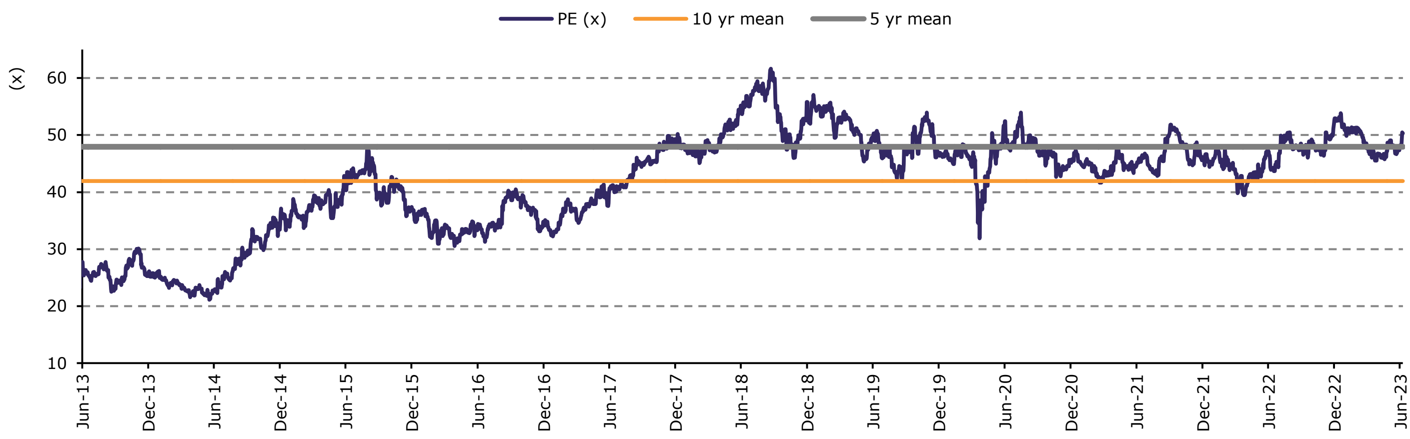
Valuations reflect Britannia's strong bakery positioning

Exhibit 1: One-year forward PER for Britannia



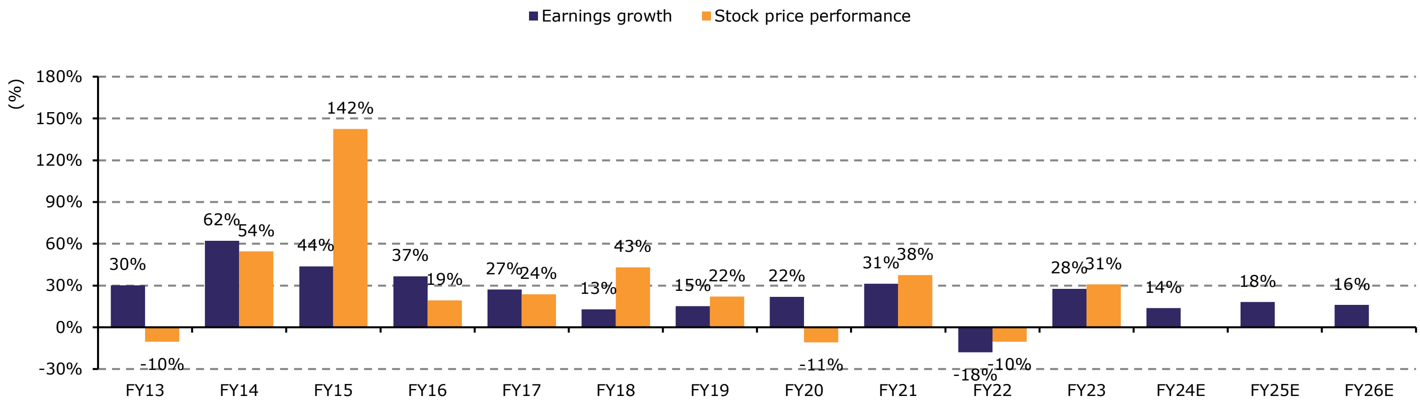
Source: Bloomberg consensus, Emkay Research

Exhibit 2: Assessing Britannia's stock valuation re-/de-rating, under the leadership of Varun Berry

Start	End	No. of months	12M fwd multiple (x)	Re-rating / de-rating	Comments
Feb-13	Oct-13	8	30.0	44%	Market-share gains; OPM expansion driven by cost control measures
Oct-13	May-14	7	21.1	-30%	Category slowdown
May-14	Jun-15	13	46.1	118%	High-single to low double-digit volume growth delivery; multiple cost-saving initiatives drove the sharp margin expansion; easing in key input prices; better pricing power; mix improvement; market-share gains (up 130bps YoY to 28%)
Jun-15	Mar-16	9	31.1	-33%	Increased competition in the Biscuits category (ITC and Mondlez turned aggressive with product launches and push); concerns on margin sustenance amid rising competitive intensity
Mar-16	Aug-16	5	39.0	25%	Managed margin expansion despite raw-material headwinds; execution in key low market-share states helped market-share gains
Aug-16	Dec-16	4	33.2	-15%	Inflationary raw materials drove margin contraction, bread business restructuring; three CFO changes in the last four years
Dec-16	Nov-17	11	49.8	50%	Better show, despite demonetization headwinds; in spite of expensive raw material, operating margin expansion continued; expectation of growth acceleration post GST implementation
Nov-17	Feb-18	3	46.1	-7%	Increased competitive intensity (ITC increased intensity in the cookies segment through *Mom's Magic* brand)
Feb-18	Aug-18	6	61.6	34%	Sector re-rating; strong growth in both, India and International; increase in number of new launches
Aug-18	Oct-18	2	46.1	-25%	Sector de-rating
Oct-18	Dec-18	2	55.9	21%	Sector re-rating
Dec-18	Aug-19	8	42.1	-25%	Slowdown in the category, promoter debt level concerns and rumor of Varun Berry exiting the company drove the de-rating
Aug-19	Oct-19	2	52.5	25%	Company confirmed Varun Berry's continuation with the company. Market-share gains endured
Oct-19	Nov-19	1	46.7	-11%	ICDs (inter corporate deposits) maintained at similar levels QoQ, unlike market expectation of reduction
Nov-19	Mar-20	4	46.3	-1%	Covid-19 related uncertainty
Mar-20	Apr-20	1	47.5	3%	Covid-19 related volatility in stock valuation, similar to peers'
Apr-20	Jul-20	3	54.0	14%	Leveraged Covid-19 opportunity, when company maximized the volume opportunity. Q4FY21 volume grew 21.5%
Jul-20	Jul-21	12	43.8	-19%	High competitive intensity. Retraction in benefits gained in previous quarters
Jul-21	Sep-21	2	51.8	18%	In line with sector re-rating
Sep-21	Mar-22	6	39.5	-24%	FMCG sector de-rating, on account of rural slowdown and margin stress
Mar-22	Dec-22	9	53.9	36%	Outperformed the sector index, when company widened the gap with other Biscuits incumbents
Dec-22	Apr-23	4	45.5	-16%	Pressure sustains on rural and concerns persist on the pricing growth lever
Apr-23	Jun-23	2	50.3	11%	Steady share gains, expected rural rebound and likely easing in key raw material prices

Source: Bloomberg, Emkay Research

Exhibit 3: Stock price performance vs earnings growth



Source:Bloomberg, Emkay Research

We initiate coverage with BUY and Jun-24E TP of Rs5,700/share

We initiate coverage on Britannia Industries with a BUY recommendation and Jun-24E target price of Rs5,700/share, based on 50x Mar-25E earnings

Britannia is placed well in the Indian foods & beverages space, where we see growth rebound with heightened consumer penetration in packaged foods. The company's aspiration to become a 'Total Foods Company', with multiple foods & beverages category incubations is encouraging. On a high base of FY23, when the company delivered 15% topline growth and peak EBITDA margin of 17.4% (on the back of a low-cost inventory position), we see growth in sales and earnings to be ~10% and ~16%, respectively, over FY23-26E.

We initiate coverage on Britannia with a BUY and Jun-24E TP of Rs5,700/sh, based on 50x Jun-25E EPS. Our valuation multiple of 50x is at ~20% premium to the 10-year average forward PER. We see the company firmly positioned now, reinforced by its last five-year assiduous actions in category incubations, thus leveraging the wider foods & beverages opportunity.

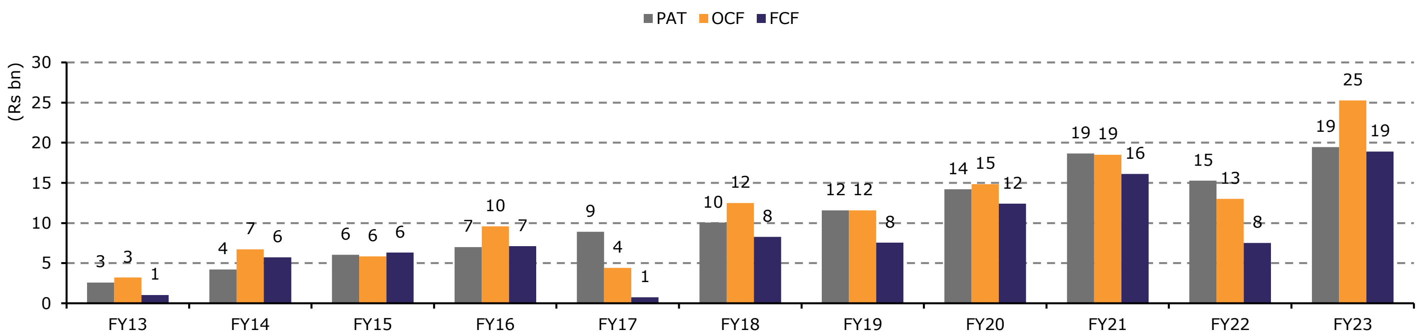
Healthy cash generation in business

As borrowing rate is cheaper than the ICD yield, Management see delta revenue from ICDs

As a part of its capital allocation strategy, the company is deploying a higher sum towards capacity enhancement and has also seen higher dividend payouts, on the back of healthy business liquidity. With large capacities expected to be commissioned by FY25, we see a period of muted capex thereafter. Additionally, the company is mulling inorganic opportunities, which in our view will further fortify its efforts to become a 'Total Foods Company'.

In the past few years, Britannia has issued non-convertible debentures to shareholders, who can opt to monetize with a separate listing. This is an interesting move as the company has been offering ICDs (inter corporate deposits) to corporates, including to Group companies.

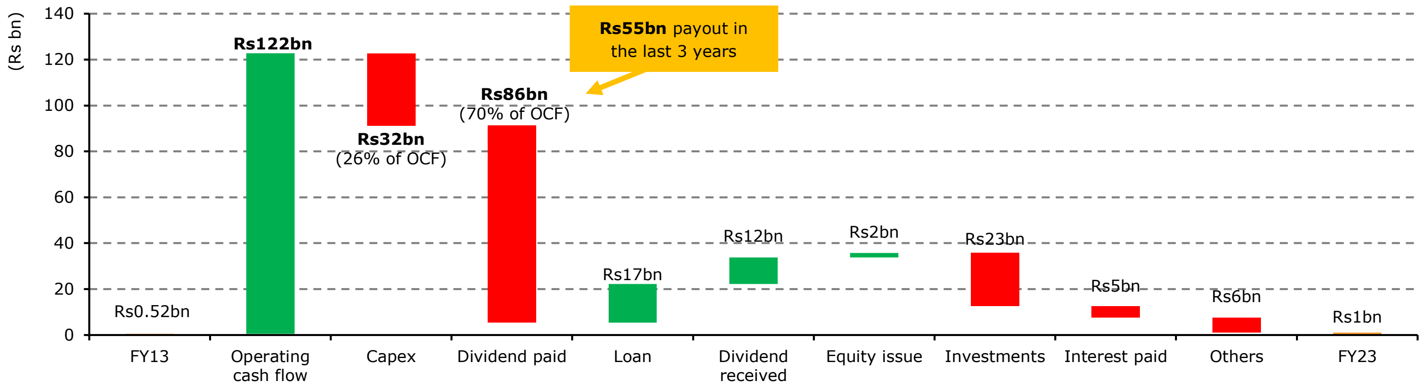
Exhibit 4: Cash generation remains healthy



Source: Company, Emkay Research

A closer look at last decade's cash flow points to operating cash generation of Rs122bn, which is a 100% cash earnings conversion. Of this operating cash generation, the company has utilized ~26% towards capex and ~70% for dividend payouts. The company has non-cash inflows from investments, where it is leveraging on low-cost debts.

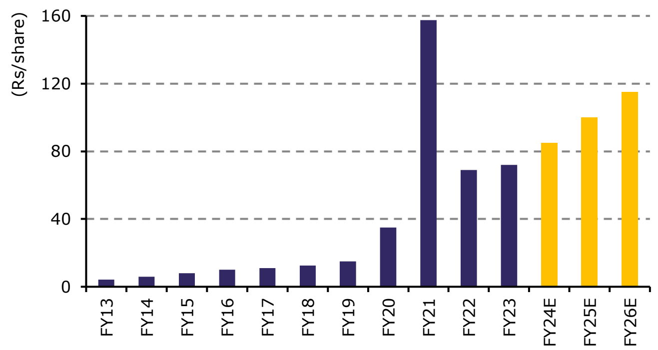
Exhibit 5: Decadal analysis of cash flow



Source: Company, Emkay Research

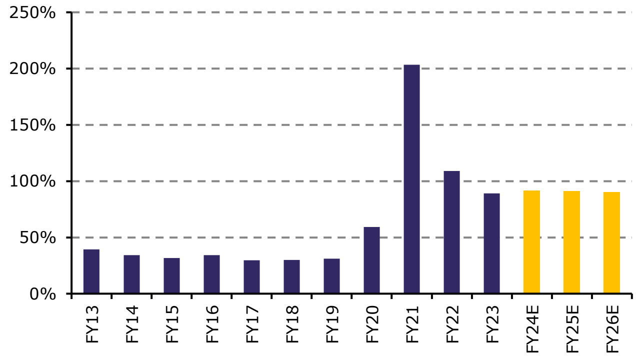
From FY21, the company has accelerated dividend payouts to 75-80%, to stay aligned with peers. As the incremental cash generation in the business is sufficient to fund its growth needs, we see dividend pay-outs remaining high.

Exhibit 6: Dividend per share on accrual basis



Source: Company, Emkay Research

Exhibit 7: Dividend pay-out



Source: Company, Emkay Research

The company has been enhancing its liquidity position with healthy cash generation in the business. However, given the accelerated dividend pay-outs, increased capex and issuance of debentures, Company's liquidity position waned in FY22 and it turned into a net debt company. In FY23, with improved liquidity, the company again turned net cash.

Exhibit 8: Borrowing position for Britannia

(Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23
Long-term borrowings	**846**	**619**	**7,661**	**7,478**	**7,070**	**15,518**
- Debenture	-	-	7,210	7,210	6,986	na
- Others	846	619	451	268	84	na
Short-term borrowings	**937**	**761**	**7,480**	**13,994**	**17,586**	**14,287**
- Commercial paper	-	-	4,785	9,744	-	na
- Debenture (Classified as Short term)	-	-	-	-	7,210	na
- Working capital Loan	-	-	-	1,000	7,500	na
- Liability under reverse factoring arrangement (bill discounting)	-	-	1,807	2,052	2,006	na
- Others	937	761	888	1,198	870	na
Total Borrowings	**1,783**	**1,380**	**15,141**	**21,472**	**24,656**	**29,805**

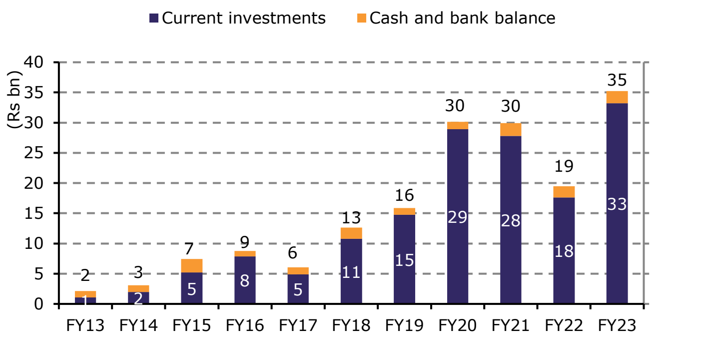
Source: Company, Emkay Research

Exhibit 9: Britannia's working capital position

(Rs mn)	FY18	FY19	FY20	FY21	FY22	FY23
Inventory	6,528	7,814	7,410	10,915	13,675	11,933
Trade receivables	3,046	3,942	3,204	2,573	3,319	3,289
Trade payables	9,941	11,405	11,163	13,148	12,852	14,488
Net working capital	**(367)**	**351**	**(550)**	**340**	**4,142**	**734**
Inventory days (no. of)	24	26	23	30	35	27
Receivable days (no. of)	11	13	10	7	9	7
Payable days (no. of)	37	38	35	37	33	32
Net working capital days (no. of)	**(1)**	**1**	**(2)**	**1**	**11**	**2**

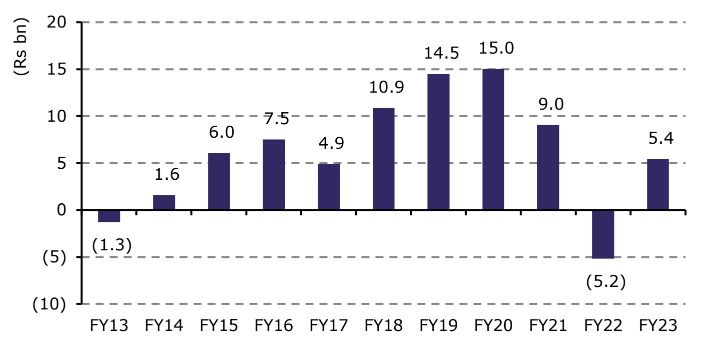
Source: Company, Emkay Research

Exhibit 10: Liquid assets



Source: Company, Emkay Research

Exhibit 11: Net cash / (Net debt) position



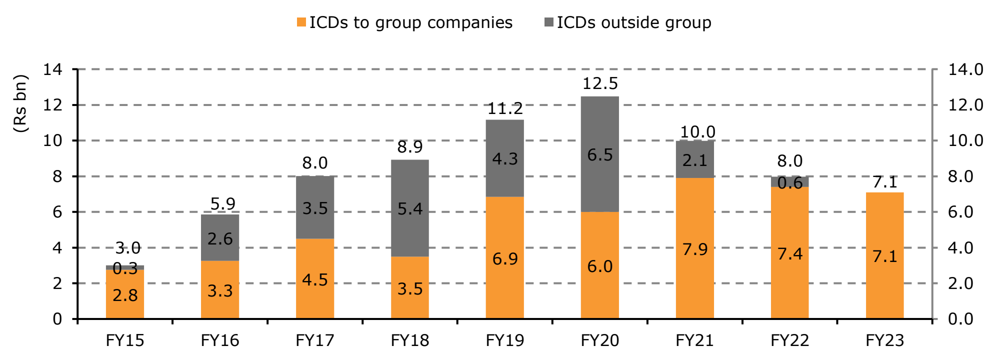
Source: Company, Emkay Research

Inter-corporate deposits (ICDs) in a comfortable zone

ICDs are for a 1-year tenure; offer ~8.75-10% annual returns

Amid shareholder concerns on extension of inter-corporate deposits (ICDs) to group companies, the company has paid due attention in the last three years, when ICDs reduced from Rs12.5bn in FY20 to Rs7.1bn in FY23. Management continues to see contraction in ICDs ahead. Given the yield being attractive at ~8.75-10%, the company believes it is prudent to extend ICDs.

Exhibit 12: Inter-corporate deposits, as of financial year end



Source: Company, Emkay Research

A closer look at related-party disclosures for FY23 suggests that the company has issued ICDs for a 12 month period, more towards helping inter-group companies.

- **Bombay Burmah Trading** is a tea and coffee plantations based company and, given the seasonal production, the company requires holding inventory for a long period, thus necessitating working-capital financing.
- **The Bombay Dyeing and Manufacturing Company** is engaged in three businesses: a) retail operations, addressing bedding needs, b) real estate, and c) polyester manufacturing. The company uses ICDs for general corporate purposes.

Company borrowing is ~5.8% vs the ~8.5% yield from ICDs. The company sees it as a better way to make ~200-300bps net returns

Exhibit 13: ICDs to group companies in the last five years

(Rs mn)	FY19	FY20	FY21	FY22	FY23
The Bombay Dyeing and Manufacturing Company					
Opening ICDs	3,500	3,500	3,500	2,900	3,500
ICDs placed	0	3,500	2,900	3,500	2,350
ICDs redeemed	0	3,500	3,500	2,900	2,500
Closing ICDs	**3,500**	**3,500**	**2,900**	**3,500**	**3,350**
Interest income	350.7	349.1	259.6	296.8	335
Interest yield	10%	10%	10%	10%	10.00%
Tenure (years)	1 Year	1 Year	1 Year	1-2 years	2 years
Bombay Burmah Trading Corporation					
Opening ICDs			0	5,000	3,900
ICDs placed			7,000	3,900	4,400
ICDs redeemed			2,000	5,000	4,550
Closing ICDs			**5,000**	**3,900**	**3,750**
Interest income			360	233	270
Interest yield			8.75%	8.75%	8.75%
Tenure (years)			1 year	1 year	1 year
Go Airlines					
Opening ICDs	0	3,350	2,500		
ICDs placed	3,600	1,600	700		
ICDs redeemed	250	2,450	3,200		
Closing ICDs	**3,350**	**2,500**	**0**		
Interest income	283.5	217.9	40.3		
Interest yield	10%	10%	10%		
Tenure (years)	1 year	1 year			

Source: Company, Emkay Research

Exhibit 14: Inter corporate deposits (ICDs)

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Bombay Dying & Manufacturing Co.		1,000	3,500	3,500	3,500	3,500	2,900	3,500	3,350
Go Airlines (India)					3,350	2,500			
The Bombay Burmah Trading Corporation	400	400	400				5,000	3,900	3,750
SCAL Services	1,750	1,250							
Macrofil Investments	600	600	600						
ICDs to group companies	**2,750**	**3,250**	**4,500**	**3,500**	**6,850**	**6,000**	**7,900**	**7,400**	**7,100**
% of total ICD	92%	56%	56%	39%	61%	48%	79%	93%	100%
Other ICDs	**250**	**2,600**	**3,508**	**5,418**	**4,320**	**6,470**	**2,090**	**580**	**0**
Total ICDs	**3,000**	**5,850**	**8,008**	**8,918**	**11,170**	**12,470**	**9,990**	**7,980**	**7,100**
Total ICDs placed	3,550	3,600	4,708	6,860	8,743	12,934	12,025	7,400	8,500
Total ICDs redeemed	1,050	750	2,550	5,950	6,354	12,042	14,914	9,415	9,380
Net ICD placed	**2,500**	**2,850**	**2,158**	**910**	**2,389**	**892**	**(2,889)**	**(2,015)**	**(880)**
- With group company		500	1,250	(1,000)	3,350	(850)	1,900	(500)	(300)

Source: Company, Emkay Research

Margin expansion to be gradual, as would be the returns

The company has seen a sharp 10ppt expansion in EBITDA margin during FY10-16

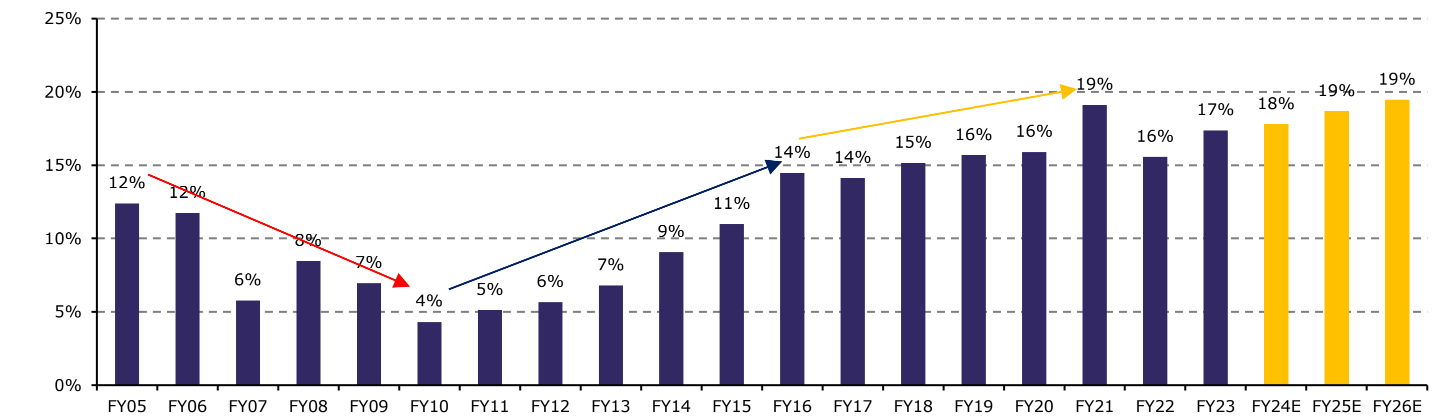
Being a foods player, the company has, we believe, put up a good show, given its margin at ~17% currently. Incrementally, we see margin expansion to be gradual (post recovery from normalization in raw-material costs), benefitting from premiumization in the core business as well as expected improvement in the mix. Britannia's margin trajectory is two-pronged:

- In the first phase, the company saw a sharp 10ppt expansion in EBITDA margin over FY10-16 (~4ppt from gross-margin expansion) which is really the recouping of margin by putting in place systems and processes to ward off unnecessary costs.

Margin expanded 500bps over FY16-21

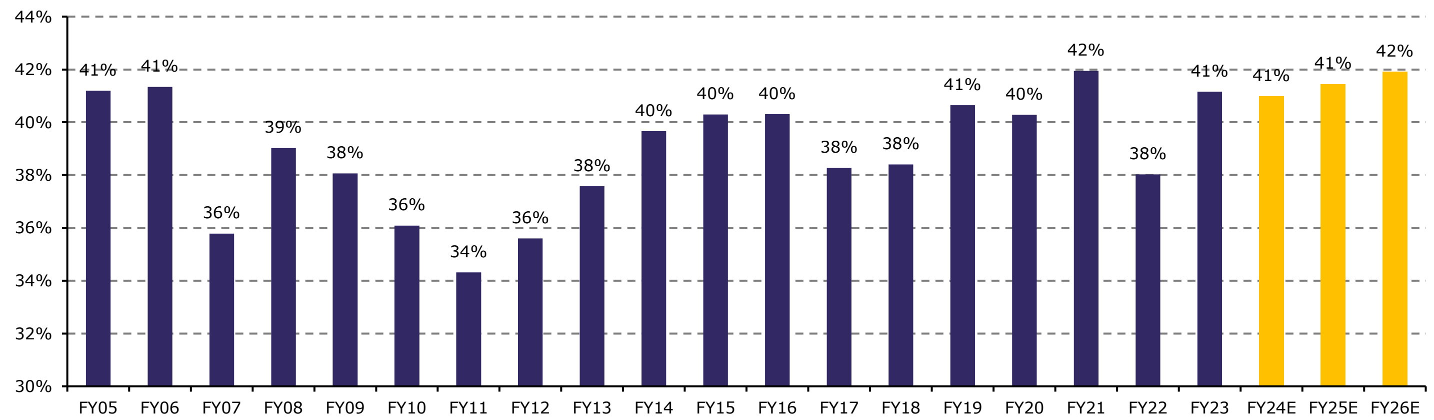
- In the second phase, we see margin expansion of ~5ppt driven by efficiency gains and gradual shift in the opex-heavy to a capex-heavy strategy. The company has embarked on a capex journey from FY16 that has helped it shift production in-house. With this production-shift, conversion costs have gone down, although this in turn has a bearing on the returns profile from lower asset turns.

Exhibit 15: EBITDA margin trend



Source: Company, Emkay Research

Exhibit 16: Gross margin trend

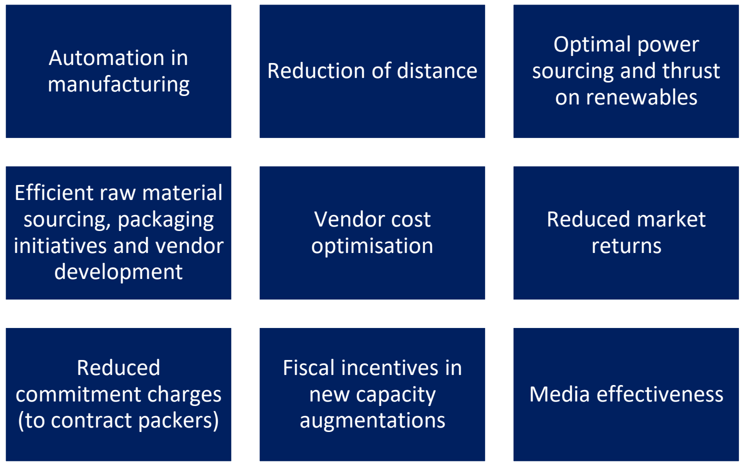


Source: Company, Emkay Research

Multiple initiatives in place to save costs across expense heads

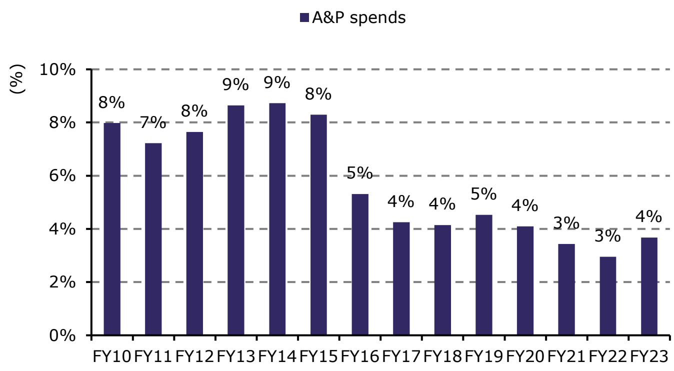
With gross margin near historical highs, we see that incremental gross-margin expansion would be a factor for its mix improvement. However, we remain positive on further EBITDA margin expansion on the back of cost efficiency thrust and Company's measure to shift production in-house (implying savings in job work/conversion related costs).

Exhibit 17: Key levers of cost efficiency



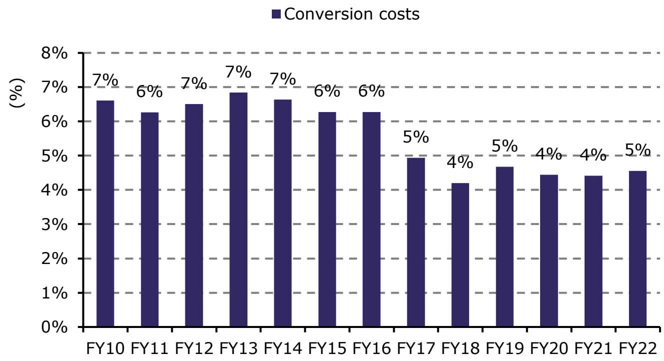
Source: Emkay Research

Exhibit 18: Advertisement and promotion spends



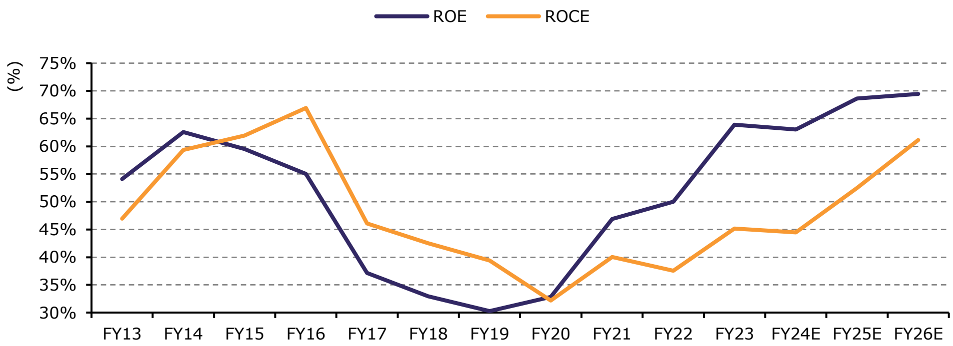
Source: Company, Emkay Research
Note: With Ind-AS accounting since FY16, the promotion component has been removed from A&P spends (as was the case till FY15)

Exhibit 19: Conversion costs continue to ease, with production shifting in-house



Source: Company, Emkay Research

Exhibit 20: Returns profile



Source: Company, Emkay Research

Exhibit 21: DuPont Analysis

	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Fixed asset turn (x)	5.2	5.0	5.1	5.1	8.5	7.2	6.1	5.1	5.2	5.2	4.8	4.2	4.2	4.4
Net profit margin (%)	4.2	6.1	7.7	9.5	9.8	10.1	10.5	12.2	14.1	10.7	11.9	12.4	13.3	14.1
Fixed assets/equity (x)	2.5	2.1	1.5	1.1	0.4	0.5	0.5	0.5	0.6	0.9	1.1	1.2	1.2	1.1

Source: Company, Emkay Research

Biscuits: Continues to fortify positioning

If we measure in terms of price per appetite, Biscuits are the cheapest option for a consumer, after home-cooked food

Britannia is known first for its Biscuits, than any other adjacency. The company, with its strong execution capabilities, has been cornering share in the category. Going ahead, Management sees the company clocking core biscuits business volume growth in double digits, while overall growth would be in mid-teens, with accelerated growth in adjacencies.

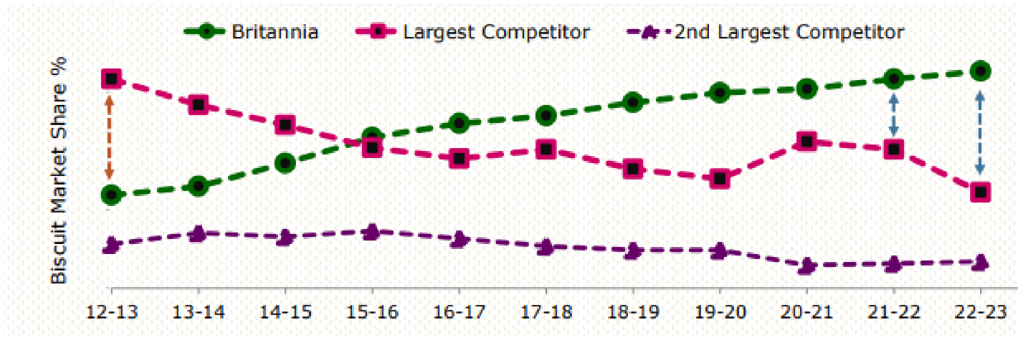
With 90% category penetration, we see growth to be driven from per-capita consumption and premiumization. Britannia is well placed with presence across segments, and follows a price-straddle approach in the category. With second-biggest player Parle struggling with sourcing & distribution and #3 participant ITC focusing on premium segments, we believe Britannia is well poised for continued share-gain. In the last few years, the company has doubled down on distribution and in-house capacities which, in our view, will fortify its position in the category.

Britannia has been expanding share in the category

Britannia has been gaining market share for 40 consecutive quarters now and boasts of a 15-year high market share

In the Biscuits category, Britannia is well positioned to continue on its leadership march. We see ~60% of the market being dominated by three players, where Britannia has ~33% share, followed by Parle Products and ITC. From the market-share perspective, we estimate over 40% share in the urban market for Britannia and ~28% share in the rural market. Britannia follows a price-straddle approach, which hooks a consumer to the portfolio. This is unlike peer Parle — a strong mass-end player — which has yet to see success in the premium portfolio. On the other hand, ITC is looking to scale its business at the premium-end, with focused interventions.

Exhibit 22: Biscuits category market share



Source: Company

Growth runway remains strong

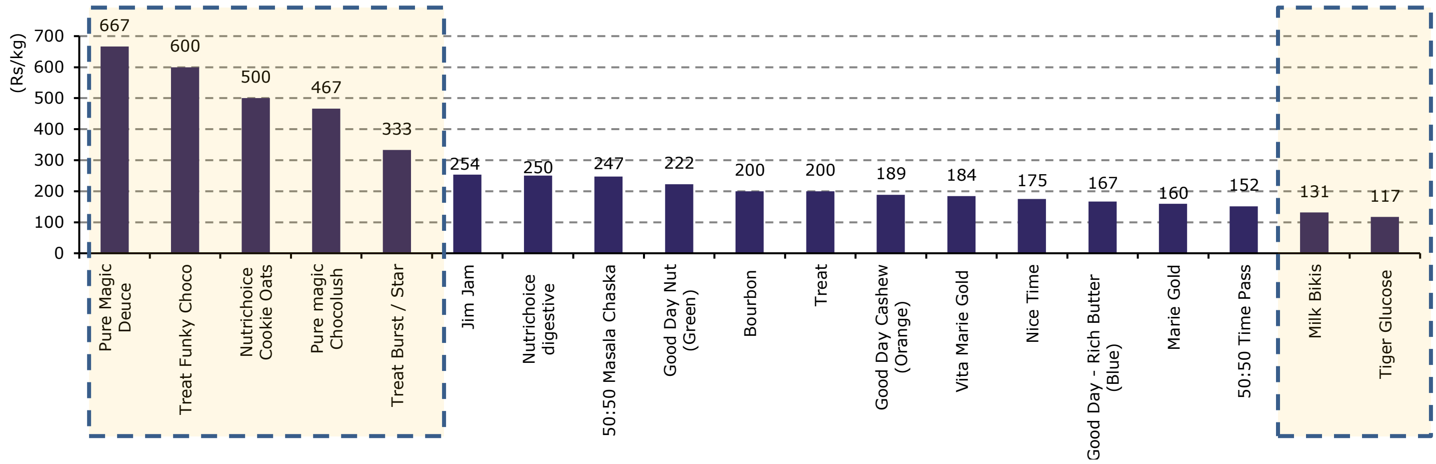
We see a strong volume-driven growth runway for Britannia, with Mgmt aspiring to achieve double-digit volume growth. In the last five years, Company has made efforts to bridge its distribution gap with mass-end player Parle. Britannia now jointly holds the #1 position with Parle, for weighted distribution in the Biscuits category (overall outlet reach: ~6.7mn). But in the Hindi-speaking belt, Britannia still requires drawing level with Parle by 1.2-1.3mn outlets.

The company, per its strategy, is refraining from a push in the mass-glucose segment

We believe growth for Britannia will be driven by structural factors, such as:

- **Low penetration of premium portfolio**: While the biscuits category's penetration level is 90%, that of premium product offerings has been low. With its consumer up-trade journey, we see deeper ingress for premium products. As the company executes well on the mix, we see its margin growing. Interestingly, amid limited national competition, the company can operate with low A&P spends.
- **Wider brand portfolio to leverage the retail opportunity:** We recently hosted Sanjay Kaul (Founder and CEO - Last Mile Channel Enhancement, LCME), an expert in rural India; he has been helping FMCG companies perforate deeper into rural with digital data. As per the survey findings by LCME, Britannia's reach is largely driven by brand *Good Day*. Britannia is yet to leverage its wider brand portfolio in the rural market.
- **Consumer upgrade journey with Britannia; brand price straddle to help:** Britannia has a well-established brand architecture for addressing wider consumer needs. It has been able to maintain its strong connect with consumers, via participation in marquee events. Over the years, the company has created demand pull for its brands which is commendable, given its high push model on the ground. As consumers look to up-trade, Britannia will benefit the most.

Exhibit 23: Britannia's brand price straddle

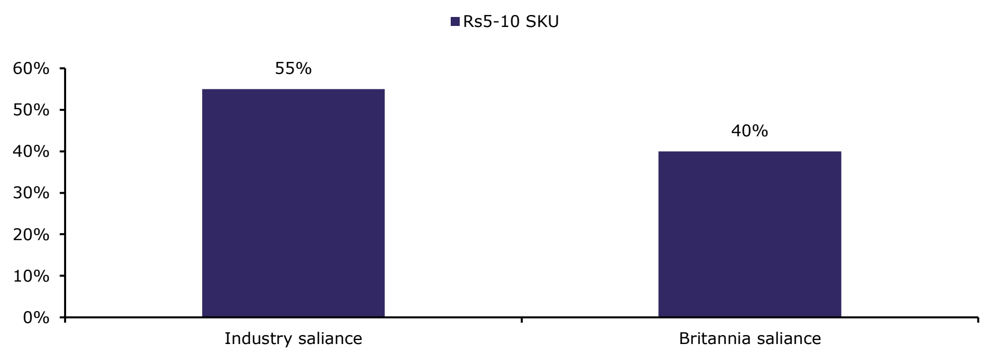


Source: Emkay Research

The Rs5-10 SKU represents ~55-60% of sales in the category

- **Shift from Rs5 to Rs10, a strong case for Britannia**: As per our checks, the Rs5 SKU salience is on the decline, as it is very difficult to maintain use case and drive profitability in the segment (in its Rs5 SKU, Parle stopped cutting down volume, which has now been halved since launch). Parle has, in media interviews, pointed to a shift needed in the industry. In this light, we see Britannia well placed to acquire consumers, given its wider brand portfolio.

Exhibit 24: Low unit pack (LUP) salience for the industry and Britannia



Source: Emkay Research

Parle's CEO Mayank Shah in his media interview (*link*) noted:

- *"What used to be 100 grams at one point is available today at nearly half the volume for the Rs5 price point. But the quantum available after grammage reduction is not enough to satiate one's appetite."*
- *"We barely break even on the Rs5 SKU of Parle-G, with margins in lower single digits. But we will continue to ensure it is present in the market because biscuits happen to be the lowest cost food for consumers and thus affordability is important."*
- *"We are seeing early trends of consumers moving towards Rs10 packs from Rs5 in tier-1/tier-2 towns."*

Exhibit 25: Biscuits category LUP price actions in the glucose segment

		Volume (grammage)			YoY Change	
	Company	**Mar-21**	**Mar-22**	**Mar-23**	**Mar-22**	**Mar-23**
Rs10 SKU						
Parle G	Parle Products	130	120	100	-8%	-17%
Tiger Glucose	Britannia	124	100	85	-19%	-15%
Rs5 SKU						
Parle G	Parle Products	65	50	50	-23%	0%
Tiger Glucose	Britannia	58	46	42.7	-21%	-7%

Source: Emkay Research

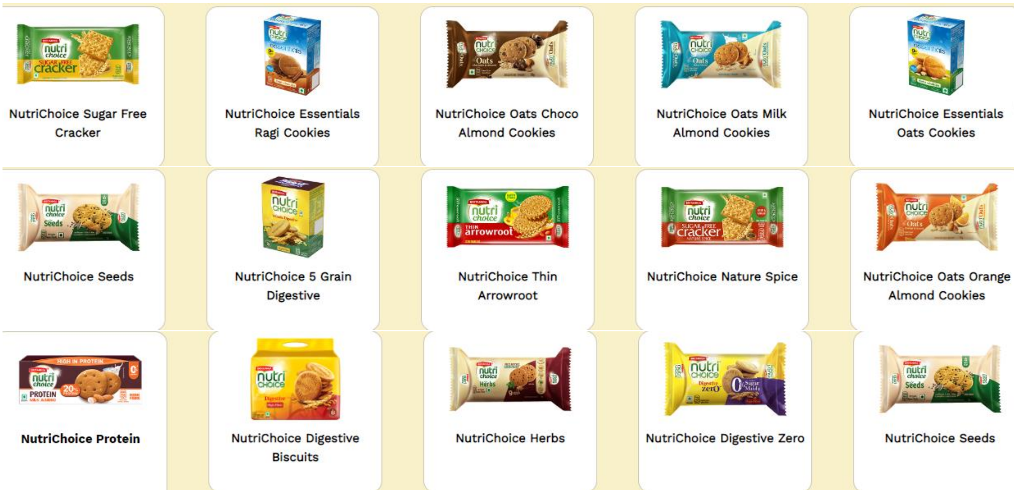
Britannia's strategy to push the Rs10 SKU implies that most of the new launches start from the Rs10-priced SKU. The strategy of up-trading consumers to Rs10 SKUs seems a viable long-term strategy that should help drive margin and market share, as commodity prices ease. We expect gradual adjustment in volume for the Rs10 SKUs and roll-over of the Rs5 SKUs over the medium term.

Biscuits is the most penetrated out-of-home category, with ~54% of the population making purchases in the category on a monthly basis on an average. Region-wise, monthly penetration is at 60% in the East, 58% in the South, and 48% in the West

- **Shift from unorganized to aid growth**: In the high commodity inflation environment, larger players like Britannia are significantly better-positioned to tackle rising input prices and gain market share from the unorganized sector, further driving growth.
- **High share of on-the-go, a positive**: Among multiple FMCG categories, Biscuits entails the most frequent purchases, with the average number of purchase occasions in a month at ~5.7x, as per Kantar. Given own purchase occasions, consumer outlay is largely unaffected. This is unlike the planned monthly purchases, where the consumer is looking to cut spends in inflationary settings.
- **Enhancement in health portfolio**: Sensing the evolved consumer preference for healthy foods, the company has been actively adding variants in its *Nutri Choice* brand offering.
  - The company has also enhanced formulation of select brands; e.g. *Milk Bikis* was relaunched with 100% atta and 13% less sugar. R&D has further strengthened Company's capabilities via inclusion of alternate cereals, whole grains and millets in the product portfolio, while continuing to deliver on taste and 'excitement'.
  - Britannia now targets reducing sugar and sodium content in its portfolio by 8% and 6%, respectively, by end-2024. It is continuously working towards achieving its goal of using 100% recyclable or bio-degradable laminate packaging in its portfolio by the end of 2024, to sustain its plastic-neutral status.

New product launches offer ~3.5% revenue contribution; in modern retail channels, share of new products is ~20%

Exhibit 26: Britannia has extended its *Nutri Choice* brand portfolio



Source: Company

After Tamil Nadu and Maharashtra, Uttar Pradesh is the biggest market for Britannia

- **Brand regionalization:** The Company has created a portfolio of strong brands across price points. However, one brand may not be a good fit for all markets; as such, the company is gradually rolling out regional variants of the main brand. For example, extension of *Milk Bikis* from South India to the Hindi-speaking belt with a higher nutritional proposition. We consider this initiative important, given Company's low market share in Uttar Pradesh. The company recently launched *Jeera Marie* in South India. Similarly, *50-50 Golmaal* was launched in the East.

Exhibit 27: *Milk Bikis* brand extension in North India

Source: Company

Exhibit 28: *Marie Gold* brand extension in South India

Source: Company

Potazos is a margin-accretive proposition

- **Faster adoption of evolving consumer taste:** In the last couple of years, Britannia saw differentiated launches — *50-50 Potazos* and *Biscafe*. Post the Pran Group's outstanding success in Bangladesh, Britannia has been quick to adopt the evolving segment, which entails a two-in-one format of potato chips and biscuits. As a result, Britannia too tasted success, and other incumbents are also seen adopting the new offering. Britannia is using its cracker lines to produce *Potazos*. Thereafter, the company launched a coffee-based cracker (the *Biscafe* brand) — Management noted that there were already multiple complementary products for tea in the market, but there was no coffee-based variant.

Exhibit 29: *Biscafe* brand launched in Q1FY23

Source: Company

Exhibit 30: Britannia followed the lead from Bangladesh-based Pran Group and launched *Potazos*

Source: Company

Research & development center continues to fortify Company portfolio

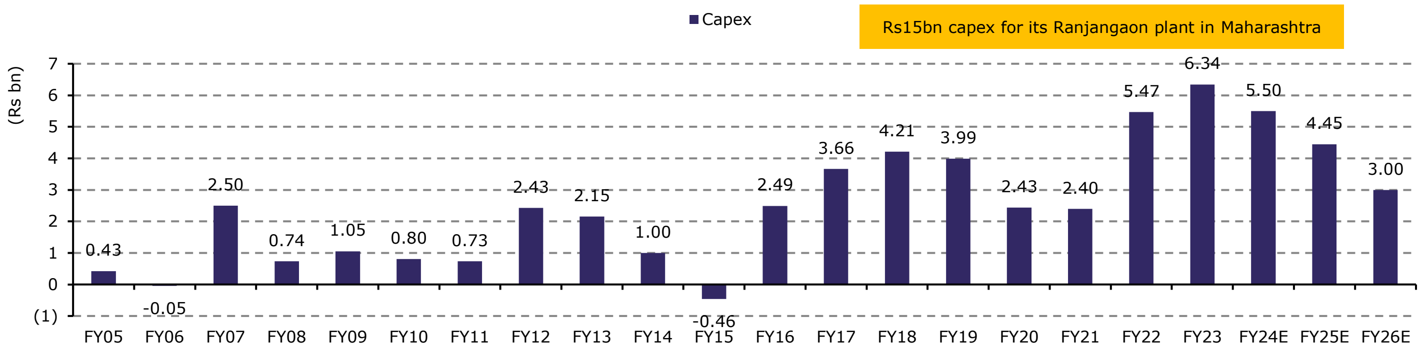
- Britannia established its R&D center in FY16, and has consequently driven successful premium innovations in the core business; it has seen similar success in its health portfolio.
- We see the R&D set up being instrumental in the company achieving its aspirations in adjacencies, where it can develop categories with differentiated product propositions.
- On the health proposition, Britannia has been working towards enhancing nutrients in the portfolio. Reduction of sodium and salt is being addressed without compromising on product taste. Britannia has also built capabilities in alternate cereals, whole grains and millets.
- Its R&D team is also helping Britannia achieve its sustainable packaging target of 100% recyclable or reusable or bio-degradable laminate packaging by end-CY24.

Strengthening fundamentals with aggressive capex

Management is selectively addressing gaps in the business, thus continuously fortifying its position which is reflected in sustained share gains in the last decade. Despite category leadership in Biscuits, the company is executing regionally and looking to expand share in weak markets. For example, the company has scope to expand its rural market share, from ~28% now to ~40% in future, as it has done in the urban market. Particularly in Uttar Pradesh, Britannia's third-largest consumer, the company has 18% market share now vs 11-12% share in FY15-16. In the next three years, with expansion in distribution, the company is looking to narrow the gap between rural and urban market-share.

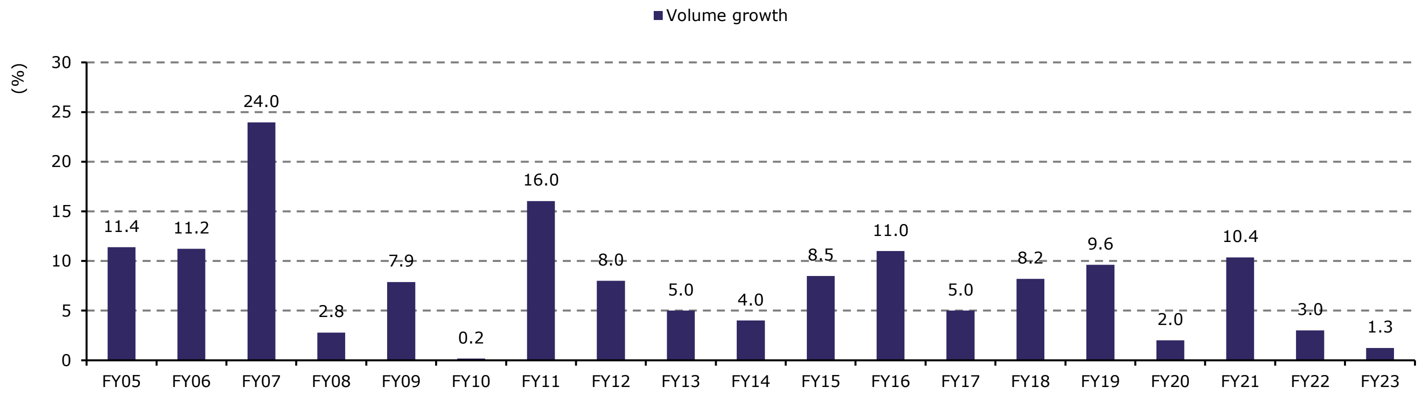
Heightened capex plan till FY25

Exhibit 31: Britannia Industries — Capital expenditure trend



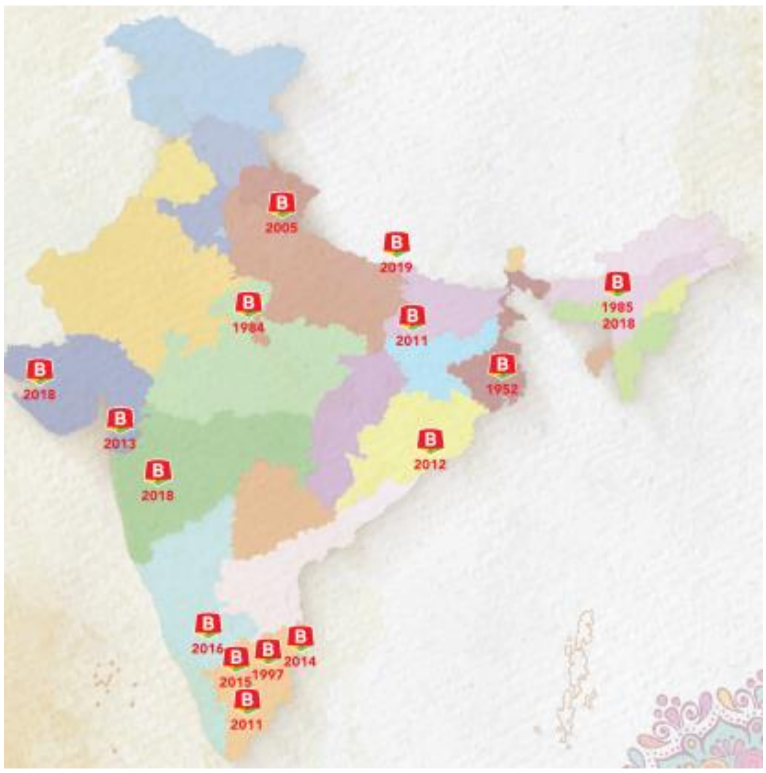
Source: Company, Emkay Research

Exhibit 32: Britannia Industries — Annual volume growth trend



Source: Company, Emkay Research

Exhibit 33: Britannia's manufacturing facilities in India



Source: Company

Britannia's market share has gone up by 400bps, notwithstanding where the company has put up a factory

Exhibit 34: Company's Ranjangaon plant in Maharashtra helps to facilitate in-house capacities across categories

Source: Company

Exhibit 35: Capex spending and addition plans

	Capex spends (Rs bn)	Progressive capex	Planned capex
FY25E	4.45	• Addition of lines in **Ranjangaon** to continue • Additional line in **Orissa** • Three new lines — in **Uttar Pradesh, Tamil Nadu** and **Bihar**	• Rs7.5bn CY capex; the next 2-3 years' investment will be Rs2.5bn • Post this, Company will take a capex holiday, except innovation investment
FY24E	5.50	• Extension at the **Orissa** factory to continue • **Uttar Pradesh** factory to commission (Capex outlay of Rs3bn) • **Tamil Nadu** green-field expansion to continue (Capex outlay of Rs3bn) • New line addition in **Ranjangaon** to continue	• Capex outlay planned for FY24 at Rs5-6bn. Focus is on putting up factories near consumption centers • The company is evaluating a factory in **Bihar** (Capex outlay to be Rs2-2.5bn) • Of the allocated Rs15bn to be spent in Ranjangaon, Britannia has already spent ~Rs12bn
FY23	6.34	• The company has been adding lines in the **Ranjangaon** plant • It has done brownfield expansion in **Orissa** • The company has undergone greenfield capex in **Uttar Pradesh** • Spending on its green-field **Tamil Nadu** plant has begun	
FY22	5.47	• Expansion of its Khurda plant; new facility in **Tamil Nadu** (to address capacity constraints) • The company continues to add lines in **Ranjangaon**	• In the North, with resurgence of the 'Hindi belt', Britannia is looking to set up a plant in **Uttar Pradesh**. The company has bought land in Barabanki, and focus is to start execution. Britannia will get incentive from the UP state government
FY21	2.40	• Capacity augmentation in **Bihar** (commenced) • Augmentation in capacity at **Orissa** • Couple of new lines added in **Ranjangaon**. The company decided to add a dairy line, where milk procurement will be leveraged	• New plant in **Uttar Pradesh** (second-largest market for the company), where supplies are now from Uttaranchal • For its **Ranjangaon** facility, the company enhanced spend to Rs15bn by 2024, from the initial outlay of Rs7bn
FY20	2.43	• Bulk of expansion capex is in **Ranjangaon** • Balance capex spends are on maintenance	
FY19	3.99	• During the year, Britannia commissioned 2 biscuits and 1 cake line in **Ranjangaon**	• The company is looking to add two new plants in the **East**, one in the **South** and, after a couple of years, one in the **North** • Addition of lines in **Ranjangaon** to continue which, on full commissioning, will add 11-12% to production volume. With 14 lines, Management sees annual capacity addition of 130k ton.
FY18	4.21	• Green field capex for SEZ in **Gujarat** (to cater to the international demand) • Green-field capex in **Assam** • Combined green-field capacity will add 6% to the total capacity (60,000ton)	• Announced capex plan of Rs10bn in **Ranjangaon,** to be spent over 3 years; asset turns expected at 4x

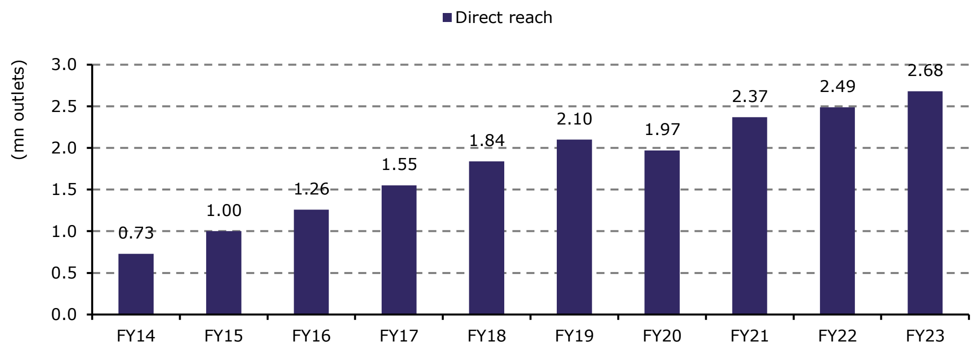
Source: Company, Emkay Research

Distribution expansion adds more width

Overall reach is 6.7mn outlets, with direct coverage up to 2.7mn outlets

Britannia has been addressing the distribution gaps in the sector, with volume category leader Parle Products. On the back of steady focus on addressing gaps in weak markets, the company now has a similar distribution roadmap on weighted average basis as Parle products. Compared with Parle's 6.3mn outlet reach, Britannia's reach in FY15 was 3.2mn outlets and 5.5mn in FY20; at present, it is on the verge of reaching on par with Parle. The company still sees gaps in the Hindi-speaking belt which it is addressing with rural preferred dealers. Regarding execution, the company is looking at consolidating market share and growth.

Exhibit 36: Direct outlet reach for Britannia



Source: Company, Emkay Research

Distribution thrust on rural, a rewarding endeavor

The company generates ~35% revenue from rural markets

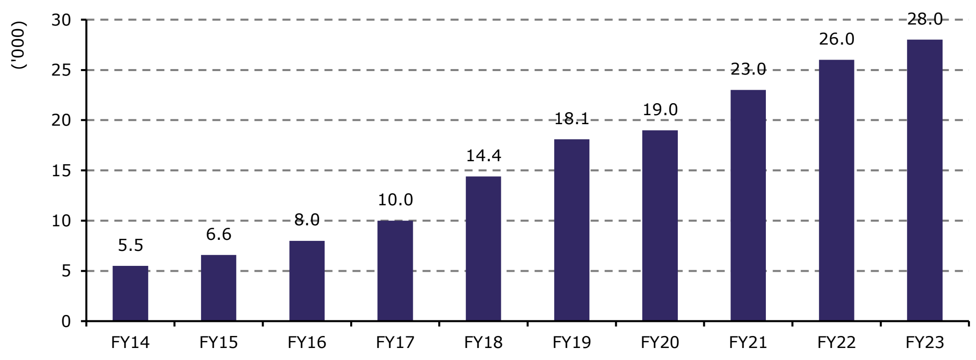
For Rural, the company has adopted the hub & spoke distribution model and has been expanding its rural preferred-dealer network to reach markets directly. The rural preferred dealer (RPD) generally covers 10-50 outlets, which cater to ~10K population. Here, distribution is left to 'Carry and Forwarding' agents. As soon as they achieve sales worth Rs2-3mn, the company provides a larger coverage area and even starts direct coverage of the area along with the agent.

On the back of rural distribution expansion, the company is seeing good growth in Rural, where its share gain is 1.5x of the all-India share gain

In the last few years, Company has accelerated its rural distribution network, which reflects in the RPD count, now at 28k (vs 8k RPDs in 2016). Backed by accelerated rural efforts, share gains for the company in Rural are 1.5x of the overall share gains.

The company is looking at three factories for Rural India

Exhibit 37: Number of rural preferred dealers (RPDs)



Source: Company, Emkay Research

Non-core adjacencies now turning relevant

Total addressable market (TAM) for non-dairy categories is Rs1.13trillion. With dairy, TAM expands to Rs2.73trillion

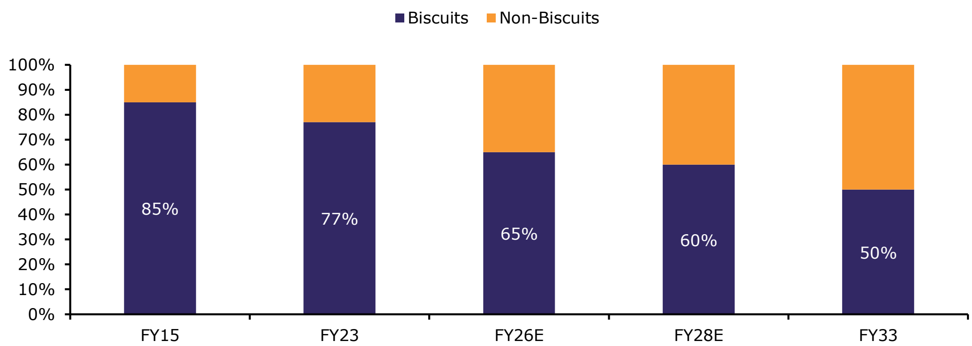
Britannia has, under the leadership of Varun Berry, been consolidating its position in the core biscuits segment, while its non-biscuits execution has been sub-par. Over the last decade, despite multiple initiatives, the company has not been able to diversify from Biscuits. Share of non-biscuits hovers at 22-25%. Further to its aspiration to become a 'Total Foods Company', Britannia aims "to move from the side of the plate to the middle". Post Covid-19, share of biscuits has seen expansion. Some key issues that Britannia faces in business diversification are listed below (Exhibit 38):

Exhibit 38: Key issues in Britannia's diversification agenda in the past

Source: Emkay Research

Going ahead, the company will maintain thrust on clocking equal revenue contribution from its biscuits and non-biscuits segments for the next decade. It has set a target of expanding contribution of non-biscuits to ~35% in the next three years, to 40-45% in five years and to ~50% in coming 10 years, with expected growth acceleration in the non-biscuits segment..

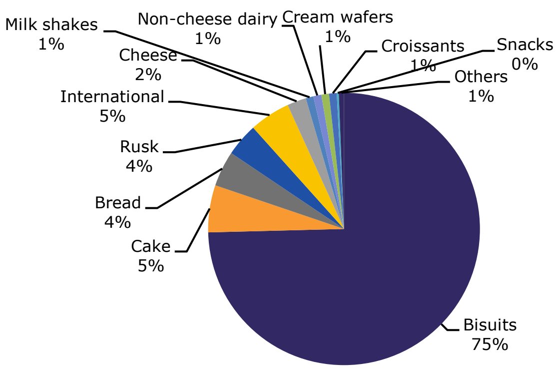
Exhibit 39: Business mix and Company expectation



Source: Company, Emkay Research

The company is looking at achieving wider presence in the 'ready to eat' segments vs commodity offerings like Atta, Salt and Rice

Exhibit 40: Current revenue split for Britannia



Source: Emkay Research

With its Croissant and Cheese operations under a Joint Venture, the company has focused ~78% of its revenue on Biscuits. Bread, Rusk, Cake and Dairy have near-equal revenue contribution for Britannia. Incrementally, post Covid-19, with stability in 'on the go' consumption, we see it is the right time to accelerate its diversification agenda and pursue its 'Total Foods Company' agenda.

Exhibit 41: Overview of adjacencies

	Dairy products	Bread	Rusk	Cake	Wafers	Croissants	Salty snacks
Category Size	Rs1.6trillion	Rs150bn		Rs60bn	Rs7.5bn	Rs10bn	Rs400bn
Britannia - Revenue	Rs6bn	Rs7bn	Rs6bn	Rs10bn	Rs1.5bn	Rs1.5bn	Rs300-400mn
Incubation (Year of)	1997	1954	2006	1963	2019	2019	2019
Overview	Value-added thrust on dairy cast a positive light on Britannia. Company has tied up with France-based Bel SA for cheese production (category size at Rs30bn)	The company has transformed its portfolio with a wider range of product offerings. During Covid-19, the category regained perspective	The rusk market is largely unorganized, with no national player. Britannia can leverage its distribution to widen reach	A fragmented market, with high regional player concentration. Innovation in the category is leading to new players gaining share	Quick pace of growth since launch has helped Britannia achieve the #2 position in the category	The company has entered the market with a joint venture with Greece-based Chipita	This is a tough market to crack; Britannia has been piloting in the category for the last few years
Opportunity	Britannia has 6 decades of experience in the vertical. Additionally, it can enter into a dairy partnership with a global major	The company can drive higher consumption occasions. With sustained promotion, it can entice consumers to use it as a meal alternative	Bigger opportunity, where a value-added offering will get consumer attention	The company is leveraging its brand equity, and can consolidate its leading position with disruptive innovation	The category is as big as Biscuits in some countries; in select countries like Iran and Indonesia, the wafers category is bigger than biscuits	Britannia is likely to get the 'first mover advantage' in the category. High capex needs would limit competition in the category	Attempts so far have been in the mass-end, which entails intense competition. We expect focus on premium healthy snacks

Source: Emkay Research

Bread growing profitably

Britannia entered the bread category in 1954 and has been a top player since, though market share has bobbed at a low 10-13% range over the last decade. Neighborhood bakeries active across markets form ~55% of the market. The overall bread category size is Rs150bn, and has been growing in a high single digit.

Bread business overhaul in FY16

The company overhauled its operation in FY16, upgrading its manufacturing facilities, which helped it enhance product quality and enter multiple sub-segments. Historically, category extension was limited, given the products' low shelf life and high amount of price competitiveness. Understanding the needs of the different cohorts in the segment, the company has expanded offerings across markets. The company has also addressed the gap in profitability; e.g. in southern India, profit was 1.7x that of the North. With innovation and extension of offerings vs peers, Britannia has been able to drive profitability in the category.

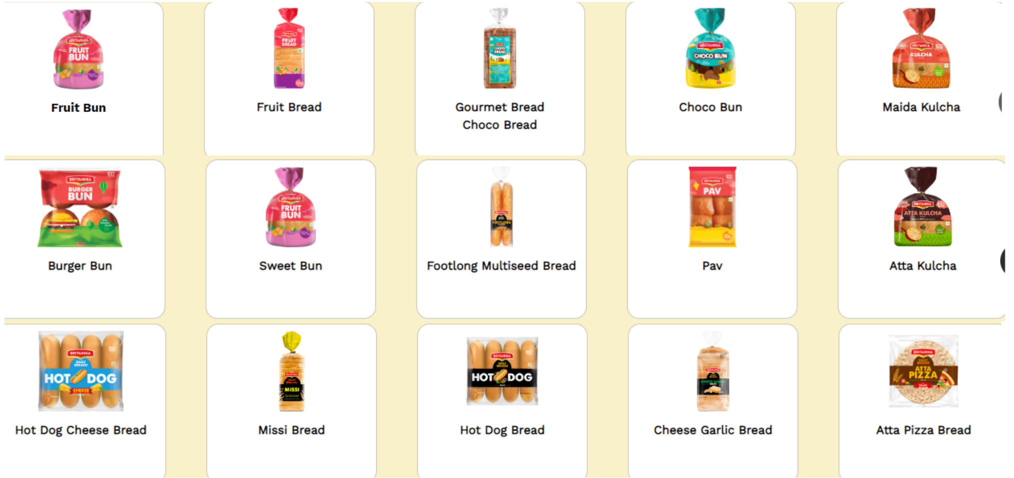
Effective Q2FY19, the company has started supplying raw material to contract manufacturers with a view to maintain product consistency. Thus, the company has also been able to drive savings in procurement costs.

Breads has moved 'from side of the plate to the center' since Covid-19

During Covid-19, the category saw sharp scale-up, given the house-bound setting. Incrementally, in the post Covid-19 world, demand has sustained but growth has moderated.

The company generates ~4% of revenue from the breads category. The company has segmented breads into three segments: a) white bread (variants include milk bread, sandwich bread, sweet bread, vitarich bread and popular bread), b) wheat flour breads (variants include brown bread, atta bread, multigrain bread, honey & oats bread, daily whole wheat bread), and c) gourmet breads (for variants, refer to Exhibit 42). The company is also looking at atta pizza, multigrain bread and cheese garlic bread, etc, which are differentiated cohorts with superior and healthy product offerings.

Exhibit 42: Britannia's gourmet bread offerings



Source: Company

Rusk: Britannia can formalize and lead

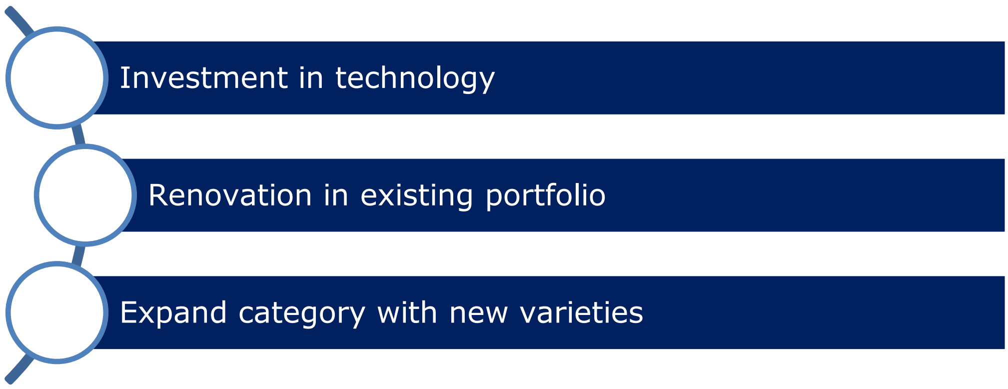
Home consumption of rusk is better than that of biscuits

The rusk market in India is largely unorganized, with multiple local players in the market. This category has not seen any branding exercise, unlike other bakery categories. Instead, the company believes it has a 'right to win' and is looking to differentiate itself with innovative product offerings. As per management estimate, there are ~2,500 rusk manufacturers in India.

Given the wide market prospects and opportunities to differentiate in this category (with value-added offerings), the company is expanding production lines to four from one (at Madurai) now. In-house production is vital for improving quality and pricing of products.

North India has a wider opportunity to formalize

Exhibit 43: Key strategy in Rusk



Source: Emkay Research

Cake: New formats to drive growth

Historically, the cake category has stayed less developed, as most players are local, products more basic than, say, biscuits, and most offerings contain egg. It is only in the last decade that cakes has gained perspective, with multiple national players entering the category as well as developed markets. A vegetarian offering in cakes has helped the category scale up faster.

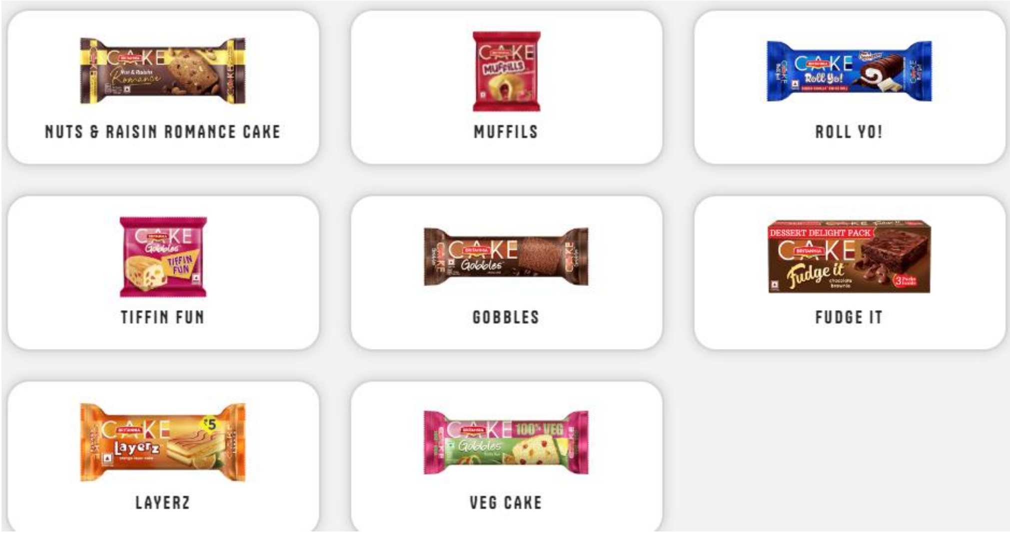
The organized market for cake is ~Rs60bn (low double-digit penetration), and remains fragmented, with regional players wielding strong presence. Innovation is the only way to gain scale in the market and to corner share from regional incumbents. In India, the cake category is a tenth of the Biscuits category, while in countries like Iran and Indonesia, it is bigger. Britannia entered the category in 1963, and is now looking at value-added offerings like center-filled cakes. In the Non-biscuits segment, cake is the largest contributor to revenue.

Britannia has dedicated 2 lines in its Ranjangaon factory to cakes; the factory has a ~500tpa capacity, expandable to 800-900tpa. To connect better with the youth, Britannia has focused on innovation in the category, having upgraded its visual identity (tie-up with a UK-based agency). Britannia has expanded its sub-brand offerings: a) *Gobbles* (bar offerings), b) *Muffills*, c) *Roll Yo*!, d) *Layerz, e*) *Fudge it, f) Romance (mix of dry fruits), and g) Tiffin Fun.*

With launch of the Rs5 SKU, the company has addressed the portfolio gap in the East and central India

The company has launched a marble cake in East India which, after a successful pilot, is ready for national launch

Exhibit 44: Britannia's Cake offerings



Source: Company

Britannia generates ~Rs10bn estimated revenue in the cakes category, where it has ~26% share. Monginis is the #2 player in the category with ~9% share, followed by the Lotte Group at 5%. Almost 60% of the market has players with less than 2% share each.

Croissants has structural opportunity

The company entered the croissants category in March 2019; but owing to Covid-19, it was compelled to defocus on the segment. The company has signed a non-binding memorandum of understanding (MOU) with Greece-based cakes & confectionery major Chipita SA in 2017. In their joint venture entity BritChip Foods, Britannia has ~60% share. Chipita SA is present internationally in four major product categories — croissants & similar dough products, savory snacks (bake rolls), and cakes and confectionery under key brands *7DAYS*, *molto*, *fineti* and *Chipicao*.

Britannia gained leadership in the category, with national roll out

Croissants is a capex-intensive category with expected asset turns at 3.3x.

JV BritChip Foods has product offerings under the brand name *Treat*, which has strong positioning in center-filled biscuits. After multiple product tests and pilots in the key Tamil Nadu and West Bengal markets, the company has finally made adjustments as per the consumer palate. Britannia now generates over Rs1.5bn revenue in the category, with in-house production based in Ranjangaon, Maharashtra (200mnpa piece capacity, sufficient for three years). In the sustainable category, the company has started adding variants, which further widen the category potential. Britannia is looking to extend products to other markets. In this segment, the company has competition only from Bauli, which has non-vegetarian offerings, but which do not fare well with the ~30% vegetarian population in the country. Post tweaks in products for eastern India, Britannia has gained leadership in the category, in the region. East India is a big market for croissants, where Bauli has been the category leader for the last 10 years.

Entry barriers high in the category; regional competition to be limited

Given technological knowhow and a separate set of machinery needed in the category (which requires hefty capex), the company does not see any material competition from small players. Entry of large players, on the other hand, will help develop the category, where Britannia will have first mover advantage.

The company generated ~Rs1.5bn in revenue from the segment in FY23 and, in the next three years, Company is looking to double its revenue

In FY23, the company added two new variants — orange and vanilla crème

Exhibit 45: Britannia's *Treat* Croissant offering

Source: Company

Exhibit 46: Factors driving snacking options in India

- Large young population
- Evolving aspirations
- Changing lifestyles
- Need for convenience
- Inclination to experiment

Source: Emkay Research

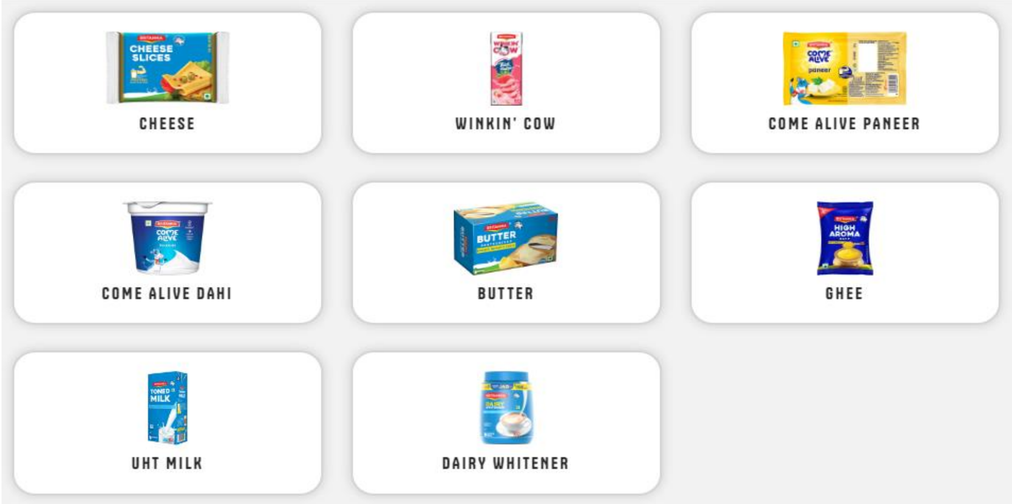
Dairy gaining structural perspective

India produces 22% of the milk globally. The organized sector forms only 20%. Overall, 50% of the milk produced is consumed in liquid form and the other half in part of value-added categories like milk powder, ghee, butter, cheese, yogurt, etc

Britannia entered the dairy business in 1997 (under subsidiary Britannia Dairy Private); albeit, the turnover is still only Rs7bn (up to FY10, revenue was Rs1.9bn, with Rs100mn profit), which is a mere ~4% of its total turnover, despite multiple launches and relaunches. While progress has been slow, the company has been making profit in the segment, post some constructive actions — it rationalized its non-profitable SKUs and segments over FY18-19. Compared with biscuits, dairy contribution is 5% now, with the company looking to expand share to 15% in the next three years.

With view to strengthen business, Britannia met with multiple dairy majors world-wide who have liked its progress in Biscuits, but do not believe its dairy operations are structural. Britannia's dairy business has been based on a contract manufacturing model, with a substantial part (primarily cheese and curd) coming from Schreiber and Dynamix. The company is now looking to clock revenue of Rs20bn in the next five years. Four focus areas for the company are: a) Cheese, b) Yogurt, c) Drinks, and d) Dairy whitener. Ghee, Butter and UHT milk are tactical categories, where Britannia is not too ambitious.

Exhibit 47: Britannia's dairy portfolio



Source: Company

Dairy gains structural perspective, with a dedicated Dairy plant

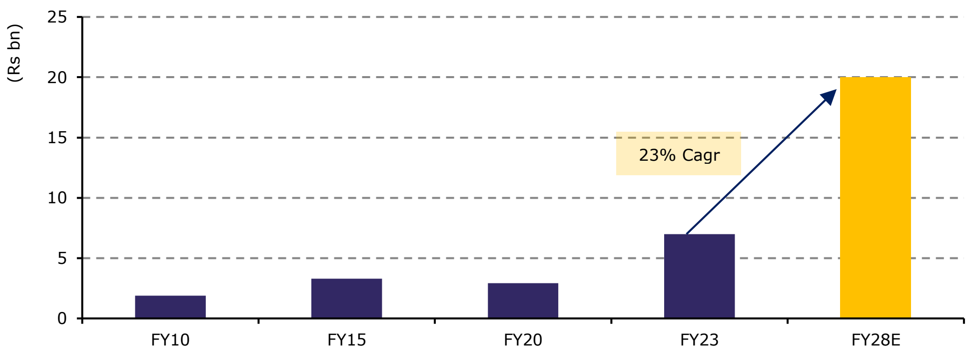
Management intent of setting up a dedicated factory gained perspective with the state incentive in Ranjangaon. The company started milk sourcing in 2017 and now collects 200k liters daily, of which ~70k liters is being sourced directly from farmers (Ranjangaon is home to the highest milk production in India). The company has ~100 milk collection centers, run by partners in rural areas. With the help of back-end, the company now supplies the entire SMP (skimmed milk powder) and SCM (sweetened condensed milk) for captive consumption in bakery, from its own dairy plant. The company is looking to sustain its thrust in value-added dairy and keep a distance from commodity offerings like pouch milk.

Amid multiple lines dedicated to dairy, one is for Tetra to PET packs for drinks, another fresh dairy line for yogurt (with shelf life of 21 days), with one line for powder dairy and yet another for ghee production.

With multiple actions in place and driving growth in focus categories, the company is looking to double segment revenue contribution to 8-9% (with revenue of Rs20bn) in the next 5 years.

Dairy worldwide entails low margin, though in India margin is reasonable, given the value-added opportunities

Exhibit 48: Britannia's dairy revenue trend and aspiration



Source: Company, Emkay Research

Per media reports, Amul is the Cheese category leader with ~45% share, followed by Parag Milk with 34% share

Dairy operations segregated in two in 2022

To enhance the structural perspective, Britannia has divided its operations into two. The Cheese part of the business has now moved (in Nov-22) into a JV with Bel SA, under the brand name *Britannia The Laughing Cow*. Bel SA has expertise in Cheese; prior to its JV with Britannia, Bel SA was active in the India market under brands *The Laughing Cow, Kiri* and *Nurishh*. In the Joint Venture (Britannia Bel Foods Private), Britannia has 51% stake and Bel SA has the balance 49%. Britannia and Bel SA will invest Rs2.15bn and Rs2.07bn, respectively, in the ratio of the equity stake. Abhishek Sinha has moved from Britannia Dairy Private (where he was Chief Business Officer) to head the joint venture.

The JV will look at development, manufacturing, marketing, distribution, trading and selling of its cheese products in India. The JV also has marketing rights in some neighboring markets, such as Nepal, Bhutan and Myanmar. The JV will produce cheese in the new state-of-the-art facility at Ranjangaon, where Britannia has invested Rs1.6bn and is looking to invest another Rs1.6-1.7bn over the next 2-3 years.

The company aspires to register revenue of Rs12.5bn in the next five years, on a base of Rs2.5bn in FY23.

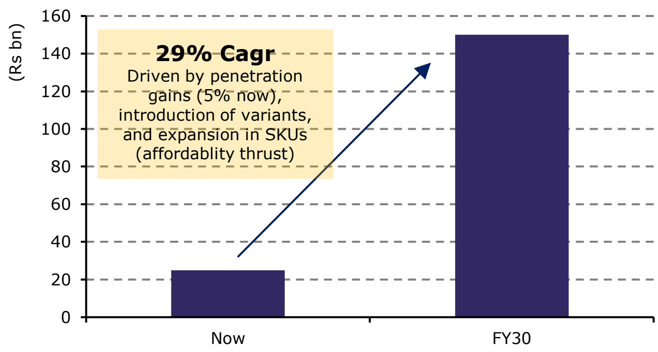
The overall Cheese market size is Rs50bn (with equal share of B2B and B2C), which is quite a miniscule part of the overall Rs15trillion dairy market; but the cheese market size is logging Cagr of over 20%

Exhibit 49: *Britannia's The Laughing Cow* cheese offering

Source: Company

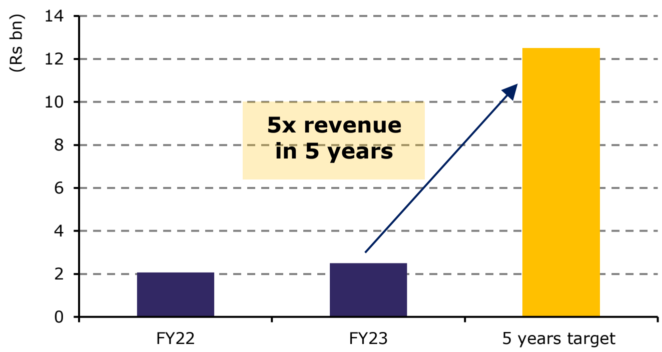
The Company plans to commence with Rs10 SKUs, which will help in category penetration. The USP of the 'The Laughing Cow' triangle-shaped cheese is that it will continue to be imported from Vietnam. There is no import duty from Vietnam, and the company will take advantage of the treaty. Own production (expected to start in Ranjangaon, effective Q1FY24) will focus on pre-distribution and scale-up of offerings.

Exhibit 50: Cheese category size



Source: Company

Exhibit 51: Cheese category revenue aspirations

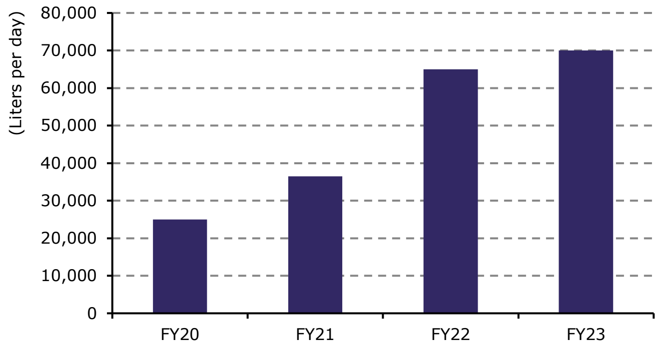


Source: Company

Non-Cheese dairy looking for strategic partnership

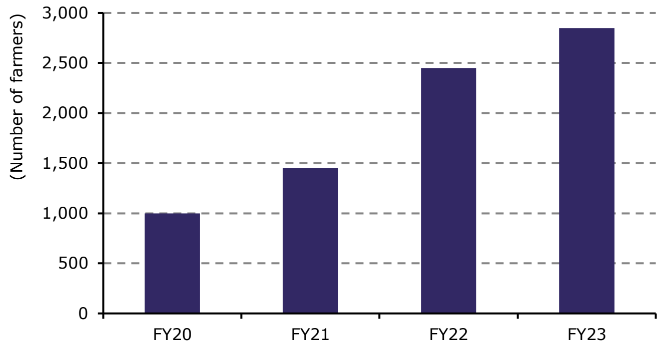
Post separation of its dairy business, the non-cheese business is now part of standalone operations (earlier, was part of subsidiary Britannia Dairy Private). As it did in the Cheese category, the company is looking for strategic partnership in the non-cheese category too, to enhance its prospects. In India, attaining success in dairy is tough, given that large cooperatives, such as Amul, control the dairy market. Hence, it is crucial to have end-to-end operations, which require substantial investment and commitment for developing the milk collection system in select geographies. Management thrust is to scale-up in value-added adjacencies. Key segments are dairy-based drinks, the market size of which is ~Rs30bn and in which the company has presence under brand *Winkin*.

Exhibit 52: Daily milk collections in Maharashtra



Source: Company, Emkay Research

Exhibit 53: Direct milk sourcing from farmers



Source: Company, Emkay Research

In Q2FY23, the company entered the 'paneer' category under brand *Come Alive* in western India. The product is currently sourced from a third party and is priced at a premium to mass/value players. Based on the success of the pilot, the company will look to add a line in its Ranjangaon facility.

Wafers can chart the Biscuits path to success

Wafers is a category with regional participation and has a huge runway of growth based on the category-size across the world. Britannia entered the category (the only national player) in 2019 (with sourcing from a contract manufacturer), with a test launch in South India. At initial launch, the product was priced at Rs25; the company gradually rolled out its Rs10 SKU, which is helping drive penetration in the space. The company quickly rolled the offering pan-India in 2020.

In the Rs7.5bn cream wafer category, Britannia generates ~Rs1.5bn revenue

Given local competition in the category, wafers has been a push category historically, with aggressive discount and promotions. Britannia is leveraging its *Treat* brand and, with marketing investments, driving pull in the category. With strong growth momentum, the company is looking to gain the leadership position in the space. The company is leading in category distribution and is the #2 player, in terms of revenue.

Based on consumer response and business case, the company shifted its production in-house, with capacities in its Perundurai (Tamil Nadu) and Ranjangaon (Maharashtra) factories. However, with peak utilization, Company is looking to add a new capacity.

Management views the 'wafers' segment similar to biscuits, where the price straddle approach is helping address wider consumer needs

Exhibit 54: Britannia's foray into the wafers category

Source: Company

Snacks pilot yet to gain perspective

In its quest to become a 'Total Foods Company', Britannia has entered the snacks segment under the *Time Pass* brand, in select South Indian states. Post launch of the brand in 2019, the company has seen multiple hiccups and continues to evolve with the help of consumer feedback. The company is evaluating partnership with an expert player, just as it has forged relationships in Croissants and Cheese.

If successful, the business entails high asset turns; to be margin accretive

Salty snacks now is a Rs300-400mn business for Britannia, with pilot in select South Indian states

The organized market size of salty snacks is ~Rs400bn, with ~12-15% Cagr over the next five years. The segment's healthy growth opportunity appealed to Britannia. The company under brand *Time Pass* has western snack offerings, which generate revenue of Rs300-400mn at present. Given the fragmented market, where each region has huge local competition, Management is ready to make timely investments for building the business.

Snacks have low brand loyalty; sustained innovation and quality key

The snacks landscape is competitive, with the market dominated by the likes of national players Pepsi Co, ITC, Haldiram's, Bikaji, and Prataap Snacks, while there are thousands of regional/local players. To keep consumers engaged and to make the brand relevant, there is need for sustained innovation and consistency in the quality and taste of the product.

Better to get into the premium segment, which is growing fast

High concentration of low-unit packs make the category unique. Almost 80% of the market is concentrated in low-unit packs priced at Rs5-10. Based on our checks on the ground, there is a strong growth trend at the premium-end of the market (SKUs priced at >Rs40). In this segment with claims to offer 'healthy' options, multiple new brands have emerged. We see Britannia can make inroads in this market; this seems like a better proposition than exploring the mass-market opportunity, which though is quite large. Also, it would be prudent to avoid the crowded, mass-selling potato chips market, given sustained raw material volatility and stiff competition from large players.

Focus should be on shifting into healthy snacks

The company also expressed interest in evolving the health snacks offerings like cereal bars, protein bars, fox nuts and ready-to-eat popcorn. With wider distribution reach, the company has capability to place the product in a wider market. Indian households are likely to double their spending on health-focused foods and beverages in the next five years, as consumers have been increasingly seen to shift to healthier alternatives and buy foods with better ingredients, as per Avendus Capital. With health becoming a major priority, a 2x increase in per capita spending on healthy foods is expected by 2026.

Exhibit 55: *Time Pass* snack offering

Source: Company

International business yet to see scale-up

The company has been actively present in the international market, exporting products to developed and emerging markets. To better leverage the opportunity, the company added capacity in an SEZ (in Gujarat) in FY18. Additionally, it has installed capacity in Nepal. The company has started production in Kenya, through contract manufacturers, who will help supply the African markets. Its aim is to add capacities in a market where the base country has FTAs (free trade agreements, which entail nil taxes) with large neighboring markets.

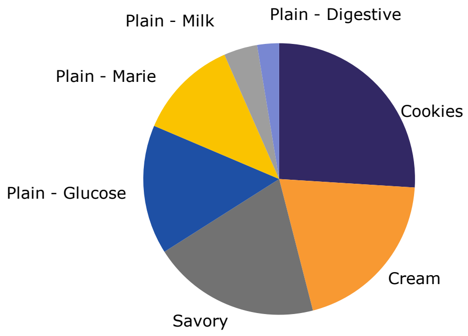
Actions undertaken by Management to fortify international operations:

Post the distributor change in the UAE, the company has seen share-loss arrested and a gain instead

- In the **UAE**, which is Britannia's largest International market, the company has recently changed the distributor which would have a bearing on its near-term performance. All accounts need to be registered with the new distributor which would take a few months. The previous distributor had expertise in logistics, but failed to effectively distribute products.
- Company's **Nepal** business is strong, with own manufacturing and distribution set up in place. Nepal generates ~Rs1bn in revenue for Britannia. The company is looking at portfolio expansion in the country.
- In **Africa**, the company has two contract packers. Three markets are of high importance for the company where manufacturing set up is in place in two of these markets — Egypt and Uganda. Thrust would be to export from these three markets to the entire Africa region.
- **Rest of the world,** including Europe, America, South East Asia and Australia, is seeing fast growth, with demand being addressed by exports. However, the share in total international revenue remains low.

Appendix 1: Biscuits categories

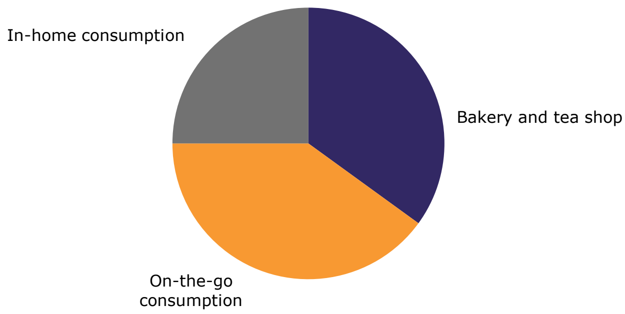
Exhibit 56: Biscuits category (size: ~Rs500bn) — Segment wise



Source: Emkay Research

The overall Biscuits category size is ~Rs500bn, of which ~65% makes up share of three key incumbents: a) Britannia, b) Parle, and c) ITC. Mondlez has ~3% share, while other regional players have less than 3% share each in the category.

Exhibit 57: Biscuits category — Consumption

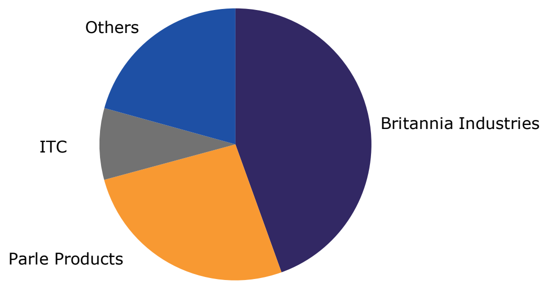


Source: Emkay Research

Sweet Cookies (25-30% of the category)

- Britannia, through its *Good Day* brand, is the category leader with ~45% market share. Britannia generates ~35% of the Biscuits revenue in Cookies. The company has 65% share in the premium cookies segment.
- Competitor Parle, with 20-20 and Hide and Seek, has ~25% share.
- Peer ITC has been maintaining its high single-digit share in the category. With thrust at the premium-end, the company is not aggressive in the segment.

Exhibit 58: Cookies segment — Market share

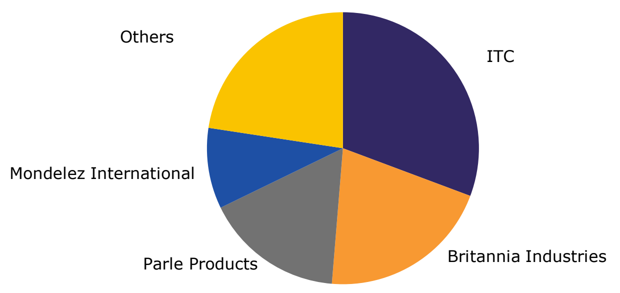


Source: Emkay Research

Cream (~20% of the category)

- ITC is the leader in the Cream segment, with ~35% share. Britannia follows with ~28% share in the segment. Parle has ~15% share.
- In the mass cream segment, Parle is the leader under its Magix brand, followed by ITC under Bounce and Britannia under *Tiger*.
- Premium cream segment makes the bulk of the market, where ITC has created a strong hold with its Dark Fantasy range of biscuits. Britannia has expanded its offering with its *Treat* brand, which has >20% share in the segment. Mondlez under the Oreo brand has mid-single-digit share in the category.
- Britannia is looking to disrupt the segment with aggressive launches, which will help it recoup lost share in the category.

Exhibit 59: Cream segment — Market share



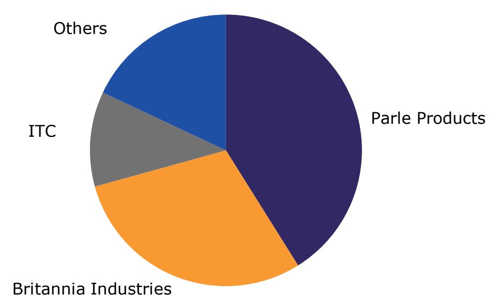
Source: Emkay Research

Plain (~35% of the category)

Biscuits priced below Rs100 per kg account for 25% of the biscuits market in value terms and 42% in volume terms. Glucose, Marie and milk biscuits fall under this category

- In the mass-end Glucose segment, Parle, through Parle G, is the leader with >70% market share. Britannia and ITC have single-digit share in the segment. Britannia generates mid-single-digit revenue in the segment.
- As regards *Marie*, Britannia is the category leader through its *Marie Gold* brand. The company has been extending its brand offerings on the premium front. Britannia is looking to develop the segment with healthier and regional options. Britannia generates an estimated ~30% revenue in the segment.

Exhibit 60: The Plain segment — Market share



Source: Emkay Research

Marie (~10% of the category)

- Britannia is the category leader, with ~50% market share. Variants *Marie Gold* and *Marie* have ~35% and ~15% market share. The company generates ~20% of the biscuit revenue from *Marie*.
- ITC and Parle follow, with 10% and 5% market share, respectively.

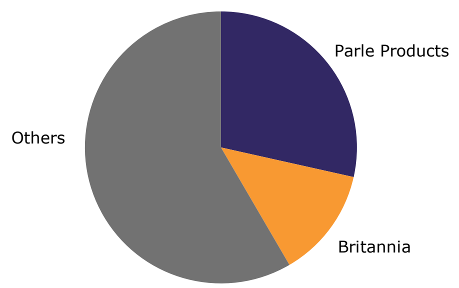
Milk based biscuit (~5% of the category)

- Largely prevalent in South and East India (mainly in Tamil Nadu). Tamil Nadu alone generates 25% revenue for the segment. Milk Biscuits have 2.5x better gross margin vs glucose offerings.
- Britannia is the category leader, with ~70% market share. In its key market of Tamil Nadu, the company has 90% share. Patanjali is the #2 player in the category and is seeing good traction on the ground.
- Other category incumbents like ITC have not able to make a mark in the segment. After launching *Sunfeast NaatMaadPaal* biscuits in Tamil Nadu in Aug-2017, the company re-entered the category in 2023 under the new brand *Sunfeast Super Milk*.
- Britannia launched a superior version of milk-based biscuits (*Milk Bikis*) in 2021 for the Hindi-speaking belt. The differentiated proposition is a 100% atta product - *dood roti ki shakti* (i.e. milk and flour power). This category not only has milk as its center-point, but also seeks to gain share from 'glucose' biscuits. Additionally, in the home market, the company had a nostalgic relaunch of the brand, with packaging of the 1980s.

Savory (~20% of the category)

- Parle is the category leader, with a host of brand offerings (Krack Jack, Monaco and Top & Spin). Parle has ~30% share in the category.
- Britannia has been neck and neck with Parle in the segment. After addressing portfolio gaps, the company is leveraging its first mover advantage with innovations. The success of *Potazos* has provided Britannia extra width in the portfolio. We estimate Britannia has ~25% share in the segment.
- ITC has miniscule presence in the segment, with low single-digit share.
- The segment has multiple regional participation.

Exhibit 61: The savory / salty biscuits segment — Market share



Source: Emkay Research

Britannia's biscuits portfolio

Based on Management commentary and industry insights, we have studied the key segments in the Biscuits category.

Exhibit 62: Size of the Biscuits category, and Britannia's share and revenue salience

(Rs bn)	Market Size	Salience	Brands from Britannia	Share of Britannia
Cookies	130	26%	Good Day	45%
Cream	100	20%	Bourbon, Jim Jam, Pure Magic	21%
Savory	100	20%	50-50	25%
Plain - Glucose	77	15%	Tiger	12%
Plain - Marie	60	12%	Marie Vita, Marie Gold	50%
Plain - Milk	20	4%	Milk Bikis	70%
Plain - Digestive	13	3%	Nutri Choice	75%
Total	**500**	**100%**		**33.5%**

Source: Industry, Company, Emkay Research

Appendix 2: Management team

Exhibit 63: Management team at Britannia Industries

	Designation	With Britannia since:	Experience (years)
Varun Berry	MD	January 2013	Unilever (6 years), Pepsi Co (17 years)
Rajneet Kohli	CEO	September 2022	Asian Paints (5.5 years), Coca Cola (14 years), Jubilant Food works (4 years)
Venkataraman N	CFO	April 2007	Hindustan Aeronotics (9 years), Eicher Motors (12 years)
Vipin Kumar Kataria	Chief Sales Officer	December 2005	Eicher Motors (3 years), Ford Motor (2 years)
Amit Doshi	Chief Marketing Officer	January 2022	Perfetti Van Melle (1.5 years), Britannia (9 years), Lenovo (8.5 years)
Vinay Kushwaha	Chief Supply Chain Officer	August 2010	Unilever (8 years), Dabur (2 years)
Sudhir Nema	Chief Development and Quality Officer	August 2014	Unilever (4 years), Pepsi Co (12 years)
Manoj Balgi	Head Procurement	October 2019	General Motors (2 years), Asian paints (5 years), Godrej Agrovet (4 years), Hewlett-Packard (1.5 years)

Source: Emkay Research

Appendix 3: Financial statements

Exhibit 64: Consolidated profit and loss statement

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	**109,735**	**114,440**	**128,830**	**139,447**	**159,849**	**174,859**	**193,862**	**214,734**
- Growth	11.6%	4.3%	12.6%	8.2%	14.6%	9.4%	10.9%	10.8%
Other operating income	812	1,556	2,531	1,916	3,157	2,912	3,141	3,393
Total Revenue	**110,547**	**115,996**	**131,361**	**141,363**	**163,006**	**177,772**	**197,003**	**218,126**
- Growth	11.5%	4.9%	13.2%	7.6%	15.3%	9.1%	10.8%	10.7%
Gross Profit	**44,932**	**46,721**	**55,100**	**53,760**	**67,093**	**72,856**	**81,655**	**91,433**
as a percentage of net sale	40.6%	40.3%	41.9%	38.0%	41.2%	41.0%	41.4%	41.9%
Employee Benefits	4,418	4,867	5,274	5,423	6,584	7,045	7,538	8,065
as a percentage of net sale	4.0%	4.2%	4.0%	3.8%	4.0%	4.0%	3.8%	3.7%
Advertisement & Sales Promotion	5,008	4,754	4,515	4,173	5,994	6,120	6,785	7,516
as a percentage of net sale	4.5%	4.1%	3.4%	3.0%	3.7%	3.4%	3.4%	3.4%
Other Expenses	18,171	18,668	20,219	22,149	26,205	28,068	30,523	33,381
as a percentage of net sale	16.4%	16.1%	15.4%	15.7%	16.1%	15.8%	15.5%	15.3%
EBITDA	**17,334**	**18,432**	**25,093**	**22,015**	**28,309**	**31,623**	**36,809**	**42,471**
- Growth	15.4%	6.3%	36.1%	-12.3%	28.6%	11.7%	16.4%	15.4%
as a percentage of net sale	15.7%	15.9%	19.1%	15.6%	17.4%	17.8%	18.7%	19.5%
Net Depreciation and Amortization	1,619	1,848	1,979	2,005	2,259	2,600	2,800	3,100
EBIT	**15,715**	**16,584**	**23,114**	**20,010**	**26,050**	**29,023**	**34,009**	**39,371**
- Growth	15.6%	5.5%	39.4%	-13.4%	30.2%	11.4%	17.2%	15.8%
as a percentage of net sale	14.2%	14.3%	17.6%	14.2%	16.0%	16.3%	17.3%	18.0%
Finance Cost	91	769	1,109	1,443	1,691	1,464	1,044	900
Other Income	2,066	2,794	3,129	2,228	2,159	2,200	2,300	2,400
Profit Before Tax	**17,690**	**18,609**	**25,134**	**20,795**	**26,518**	**29,759**	**35,165**	**40,771**
- Growth	16.5%	5.2%	35.1%	-17.3%	27.5%	12.2%	18.2%	15.9%
as a percentage of net sale	16.0%	16.0%	19.1%	14.7%	16.3%	16.7%	17.8%	18.7%
Tax (adjusted for tax benefit from Amort)	6,125	4,507	6,630	5,624	7,165	7,737	9,143	10,601
as a percentage of Profit Before Tax	34.6%	24.2%	26.4%	27.0%	27.0%	26.0%	26.0%	26.0%
Profit After Tax before extraordinary items	**11,565**	**14,102**	**18,504**	**15,172**	**19,353**	**22,022**	**26,022**	**30,171**
- Growth	15.1%	21.9%	31.2%	-18.0%	27.6%	13.8%	18.2%	15.9%
as a percentage of net sale	10.5%	12.2%	14.1%	10.7%	11.9%	12.4%	13.2%	13.8%
Extraordinary gains/(losses)	-	(170)	(6)	(10)	3,756	-	-	-
MI	(27)	(95)	(141)	(86)	(109)	(300)	(380)	(450)
Profit After Tax and extraordinary items	**11,592**	**14,026**	**18,639**	**15,248**	**23,218**	**22,322**	**26,402**	**30,621**
- Growth	15.4%	21.0%	32.9%	-18.2%	52.3%	-3.9%	18.3%	16.0%
as a percentage of net sale	10.5%	12.1%	14.2%	10.8%	14.2%	12.6%	13.4%	14.0%
Adjusted Profit	**11,592**	**14,196**	**18,645**	**15,258**	**19,462**	**22,322**	**26,402**	**30,621**
Weighted avg - No. of shares	240	241	241	241	241	241	241	241
Earnings Per Share (Rs)	48.2	58.3	77.4	63.3	96.4	92.7	109.6	127.1
- growth	15%	21%	33%	-18%	52%	-4%	18%	16%
Adjusted Earnings Per Share (Rs)	**48.2**	**59.0**	**77.4**	**63.3**	**80.8**	**92.7**	**109.6**	**127.1**
- growth	15%	22%	31%	-18%	28%	15%	18%	16%
Recurring Cash Earnings per share (CEPS)	55.0	66.7	85.6	71.7	90.2	103.5	121.2	140.0
- growth	15%	21%	28%	-16%	26%	15%	17%	15%

Source: Company, Emkay Research

Exhibit 65: Consolidated Balance Sheet

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	240	241	241	241	241	241	241	241
Reserves and Surplus	42,292	43,788	35,236	25,340	35,102	35,261	41,186	46,513
Total Shareholders' Funds	**42,533**	**44,028**	**35,477**	**25,581**	**35,343**	**35,502**	**41,427**	**46,753**
Minority Interest	327	357	363	275	302	242	162	62
Long-Term Borrowings	619	7,661	7,478	7,070	15,518	7,000	7,000	7,000
Short-Term Borrowings	761	7,480	13,394	17,586	14,287	22,805	15,820	10,820
Total borrowings	**1,380**	**15,141**	**20,872**	**24,655**	**29,805**	**29,805**	**22,820**	**17,820**
Deferred Tax Liabilities (Net)	(99)	(69)	(10)	(509)	(554)	(554)	(554)	(554)
Long-Term Provisions	115	132	-	205	256	-	-	-
Total Non-Current Liabilities	**16**	**63**	**(10)**	**(304)**	**(297)**	**(554)**	**(554)**	**(554)**
Total Liabilities	**44,255**	**59,588**	**56,702**	**50,208**	**65,153**	**64,995**	**63,856**	**64,082**
Gross Block	20,615	24,750	26,201	28,087	39,481	44,981	47,981	50,981
Accumulated Depreciation (net)	5,035	7,358	9,630	11,951	14,210	16,810	19,610	22,710
Closing Block	**15,579**	**17,392**	**16,571**	**16,136**	**25,271**	**28,171**	**28,371**	**28,271**
CWIP	1,012	396	1,165	5,357	1,050	1,050	2,500	2,500
Goodwill	1,304	1,390	1,359	1,396	1,282	1,282	1,282	1,282
Net Fixed Assets	**17,895**	**19,177**	**19,095**	**22,889**	**27,602**	**30,502**	**32,152**	**32,052**
Current Investments	14,763	28,932	27,807	17,624	33,242	10,000	10,000	10,000
Inventories	7,814	7,410	10,915	13,675	11,933	14,372	15,934	17,649
Trade Receivables	3,942	3,204	2,573	3,319	3,289	4,312	4,780	5,295
Cash and Cash Equivalents	1,098	1,229	2,113	1,849	1,980	19,931	16,737	16,616
Short-Term Loans and Advances	12,229	13,131	10,211	7,980	7,100	7,810	8,591	9,450
Other Current Assets	4,539	5,145	7,277	7,303	7,808	8,589	9,448	10,393
Total Current Assets	**44,385**	**59,049**	**60,897**	**51,750**	**65,353**	**65,014**	**65,490**	**69,403**
Trade Payables	11,405	11,163	13,148	12,852	14,488	15,849	17,571	19,463
Other Current Liabilities	4,655	5,563	6,267	6,933	8,180	8,743	9,693	10,737
Short-Term Provisions	1,965	1,913	3,875	4,647	5,134	5,929	6,522	7,174
Total Current Liabilities	**18,026**	**18,639**	**23,289**	**24,431**	**27,802**	**30,521**	**33,786**	**37,374**
Net Current Assets	**26,360**	**40,411**	**37,607**	**27,319**	**37,551**	**34,493**	**31,703**	**32,030**
Total Assets	**44,255**	**59,588**	**56,702**	**50,208**	**65,153**	**64,995**	**63,856**	**64,082**

Source: Company, Emkay Research

Exhibit 66: Consolidated Cash-flow statement

(Rs mn)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net PBT and Extraordinary Items	17,689	18,439	25,128	20,785	30,274	29,759	35,165	40,771
Depreciation & Amortization	1,619	1,848	1,979	2,005	2,259	2,600	2,800	3,100
Interest	91	769	1,109	1,443	1,691	1,464	1,144	1,000
Loss / (Profit) on sale of Fixed Assets	(648)	(900)	(658)	(299)	(4,185)	0	0	0
Dividend Received	(1,368)	(1,768)	(2,347)	(1,846)	(1,632)	(2,200)	(2,300)	(2,400)
Others	161	216	189	48	56	0	0	0
Operating Profit Before Working Capital Changes	**17,544**	**18,604**	**25,400**	**22,137**	**28,463**	**31,623**	**36,809**	**42,471**
Trade & Other Payables	2,005	292	4,047	521	2,920	2,462	3,265	3,587
Inventories	(1,272)	430	(3,514)	(2,748)	1,772	(2,439)	(1,562)	(1,715)
Trade & Other Receivables	(867)	789	614	(722)	13	(1,022)	(469)	(515)
Others	109	(237)	(1,708)	(324)	(648)	(1,491)	(1,640)	(1,804)
Total Decrease / (Increase) in Working Capital	**(25)**	**1,274**	**(562)**	**(3,273)**	**4,057**	**(2,490)**	**(405)**	**(447)**
Cash Generated from Operations	17,519	19,878	24,839	18,864	32,520	29,133	36,404	42,025
Direct Taxes Paid	(5,961)	(5,033)	(6,328)	(5,869)	(7,258)	(7,737)	(9,143)	(10,601)
Net cash from operating activities	**11,558**	**14,845**	**18,511**	**12,995**	**25,262**	**21,396**	**27,261**	**31,424**
Purchase of Fixed Assets	(3,994)	(2,434)	(2,399)	(5,470)	(6,345)	(5,500)	(4,450)	(3,000)
Purchase of Investments	(3,341)	(13,266)	1,788	10,497	(11,453)	23,242	0	0
Dividend Received	1,169	1,276	2,334	2,068	1,747	2,200	2,300	2,400
Others	(2,389)	(892)	2,889	2,015	880	0	0	0
Net Cash Used in Investing Activities	**(8,555)**	**(15,316)**	**4,613**	**9,109**	**(15,171)**	**19,942**	**(2,150)**	**(600)**
Issue of Equity Share Capital	298	240	1,032	0	0	(60)	(80)	(100)
Repayment of Loans (Net)	(419)	4,925	5,678	3,599	5,182	0	(6,985)	(5,000)
Interest Paid	(94)	(355)	(1,013)	(1,186)	(1,957)	(1,464)	(1,144)	(1,000)
Dividend Paid	(3,544)	(4,325)	(28,238)	(24,849)	(13,592)	(22,163)	(20,477)	(25,295)
Others	232	95	104	(22)	83	0	0	0
Net Cash Used in Financing Activities	**(3,527)**	**579**	**(22,437)**	**(22,458)**	**(10,284)**	**(23,687)**	**(28,686)**	**(31,395)**
EFFECT OF FOREIGN EXCHANGE FLUCTUATION	33	57	(24)	33	101	0	0	0
Net Changes in Cash & Cash Equivalents	**(491)**	**165**	**662**	**(321)**	**(92)**	**17,651**	**(3,575)**	**(570)**
Cash & Cash Equivalents-Opening Balance	1,078	587	753	1,415	1,093	1,002	18,653	15,078
Cash & Cash Equivalents-Closing Balance	**636**	**869**	**1,403**	**1,213**	**1,125**	18,675	15,101	14,530

Source: Company, Emkay Research

Exhibit 67: Key ratios

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratios (YoY)								
Gross sales growth	10.8%	4.3%	12.6%	8.2%	14.6%	9.4%	10.9%	10.8%
Net sales growth	11.5%	4.9%	13.2%	7.6%	15.3%	9.1%	10.8%	10.7%
EBITDA growth	15.4%	6.3%	36.1%	-12.3%	28.6%	11.7%	16.4%	15.4%
EBIT growth	15.6%	5.5%	39.4%	-13.4%	30.2%	11.4%	17.2%	15.8%
PBT growth	16.5%	5.2%	35.1%	-17.3%	27.5%	12.2%	18.2%	15.9%
Reported PAT growth	15.4%	21.0%	32.9%	-18.2%	52.3%	-3.9%	18.3%	15.9%
Adjusted PAT growth	15.1%	21.9%	31.2%	-18.0%	27.6%	13.8%	18.2%	16.0%
EPS growth	15.3%	20.9%	32.7%	-18.2%	52.3%	-3.9%	18.3%	16.0%
Recurring CEPS Growth	15.1%	21.3%	28.3%	-16.3%	25.8%	14.7%	17.2%	15.5%
Operating Ratios								
Gross margin	40.6%	40.3%	41.9%	38.0%	41.2%	41.0%	41.4%	41.9%
Employee costs-to-sales	4.0%	4.2%	4.0%	3.8%	4.0%	4.0%	3.8%	3.7%
A&P-to-sales	4.5%	4.1%	3.4%	3.0%	3.7%	3.4%	3.4%	3.4%
Other expenses-to-sales	16.4%	16.1%	15.4%	15.7%	16.1%	15.8%	15.5%	15.3%
EBITDA margin	15.7%	15.9%	19.1%	15.6%	17.4%	17.8%	18.7%	19.5%
EBIT margin	14.2%	14.3%	17.6%	14.2%	16.0%	16.3%	17.3%	18.0%
Other income / PBT	11.7%	15.0%	12.4%	10.7%	8.1%	7.4%	6.5%	5.9%
PBT margin	16.0%	16.0%	19.1%	14.7%	16.3%	16.7%	17.8%	18.7%
Effective tax rate	34.6%	24.2%	26.4%	27.0%	27.0%	26.0%	26.0%	26.0%
Adj PAT margin	10.5%	12.2%	14.1%	10.7%	11.9%	12.4%	13.2%	13.8%
Per-Share Data (Rs)								
Recurring Earning per share (EPS)	48.2	59.0	77.4	63.3	80.8	92.7	109.6	127.1
Reported Earnings per share	48.2	58.3	77.4	63.3	96.4	92.7	109.6	127.1
Dividend per share	15.0	30.0	32.5	72.0	85.0	100.0	115.0	130.8
Recurring Cash Earnings per share (CEPS)	55.0	66.7	85.6	71.7	90.2	103.5	121.2	140.0
Reported Book Value (BV)	177.0	183.1	147.3	106.2	146.7	147.4	172.0	194.1
Operating cash flow per share	48.1	61.7	76.8	53.9	104.9	88.8	113.2	130.4
Free Cash flow per share (FCPS-post capex)	31.5	51.6	66.9	31.2	78.5	66.0	94.7	118.0
Return / Profitability Ratios								
Avg ROE	30%	33%	47%	50%	64%	63%	69%	69%
Avg ROCE	39%	32%	40%	38%	45%	44%	53%	61%
Avg ROIC	40%	44%	61%	51%	63%	66%	69%	77%
Solvency Ratios / Liquidity Ratios								
Debt Equity Ratio (D/E)	-34%	-34%	-26%	20%	-15%	0%	-9%	-19%
Long Term Debt / Total Debt	45%	51%	36%	29%	52%	23%	31%	39%
Net Working Capital / Total Assets	57%	66%	63%	51%	55%	22%	23%	24%
Interest Coverage Ratio-based on EBIT (x)	172.9	21.6	20.8	13.9	15.4	19.8	29.7	39.4
Debt Servicing Capacity Ratio (DSCR; x)	14.9	2.0	2.0	1.7	1.7	1.8	2.4	3.2
Current Ratio (x)	2.4	3.1	2.5	2.0	2.3	1.5	1.4	1.4
Cash and cash equivalents / Total Assets (x)	0.0	0.0	0.0	0.0	0.0	0.3	0.3	0.3
Turnover-related Ratios								
Inventory days (No. of)	25.8	23.3	30.3	35.3	26.7	29.5	29.5	29.5
Receivable days (No. of)	13.0	10.1	7.1	8.6	7.4	8.9	8.9	8.9
Payable days (No. of)	37.7	35.1	36.5	33.2	32.4	32.5	32.6	32.6
Cash conversion cycle (No. of)	1.2	-1.7	0.9	10.7	1.6	5.8	5.8	5.8
Fixed Assets Turnover Ratio (x)	6.1	5.1	5.2	5.2	4.8	4.2	4.2	4.4

Source: Company, Emkay Research

Britannia Industries : Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	**141,363**	**163,006**	**177,772**	**197,003**	**218,126**
Revenue growth (%)	7.6	15.3	9.1	10.8	10.7
EBITDA	**22,015**	**28,309**	**31,623**	**36,809**	**42,471**
EBITDA growth (%)	(12.3)	28.6	11.7	16.4	15.4
Depreciation & Amortization	2,005	2,259	2,600	2,800	3,100
EBIT	**20,010**	**26,050**	**29,023**	**34,009**	**39,371**
EBIT growth (%)	(13.4)	30.2	11.4	17.2	15.8
Other operating income	1,916	3,157	2,912	3,141	3,393
Other income	382	463	500	550	600
Financial expense	1,443	1,691	1,464	1,144	1,000
PBT	**20,795**	**26,518**	**29,759**	**35,165**	**40,771**
Extraordinary items	0	0	0	0	0
Taxes	5,624	7,165	7,737	9,143	10,601
Minority interest	88	55	60	80	100
Income from JV/Associates	(2)	54	240	300	350
Reported PAT	**15,248**	**23,218**	**22,322**	**26,402**	**30,621**
PAT growth (%)	(18.2)	52.3	(3.9)	18.3	16.0
Adjusted PAT	**15,258**	**19,462**	**22,322**	**26,402**	**30,621**
Diluted EPS (Rs)	**63.3**	**80.8**	**92.7**	**109.6**	**127.1**
Diluted EPS growth (%)	(18.2)	27.5	14.7	18.3	16.0
DPS (Rs)	**69.0**	**72.0**	**85.0**	**100.0**	**115.0**
Dividend payout (%)	**109.0**	**74.7**	**91.7**	**91.2**	**90.5**
EBITDA margin (%)	15.6	17.4	17.8	18.7	19.5
EBIT margin (%)	14.2	16.0	16.3	17.3	18.0
Effective tax rate (%)	27.0	27.0	26.0	26.0	26.0
NOPLAT (pre-IndAS)	**14,599**	**19,012**	**21,477**	**25,167**	**29,135**
Shares outstanding (mn)	240.9	240.9	240.9	240.9	240.9

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	241	241	241	241	241
Reserves & Surplus	25,340	35,102	35,261	41,186	46,513
Net worth	**25,581**	**35,343**	**35,502**	**41,427**	**46,753**
Minority interests	275	302	242	162	62
Deferred tax liability (net)	(509)	(554)	(554)	(554)	(554)
Total debt	**24,655**	**29,805**	**29,805**	**22,820**	**17,820**
Total liabilities & equity	**50,003**	**64,896**	**64,995**	**63,856**	**64,082**
Net tangible fixed assets	16,136	25,271	28,171	28,371	28,271
Net intangible assets	1,396	1,282	1,282	1,282	1,282
Net ROU assets	1,893	1,987	2,087	2,191	2,301
Capital WIP	5,357	1,050	1,050	2,500	2,500
Goodwill	1,396	1,282	1,282	1,282	1,282
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	**19,473**	**35,222**	**29,931**	**26,737**	**26,616**
Current assets (ex-cash)	32,277	30,130	35,083	38,753	42,787
Current Liab. & Prov.	24,636	28,058	30,521	33,786	37,374
NWC (ex-cash)	**7,641**	**2,072**	**4,562**	**4,967**	**5,413**
Total assets	**50,003**	**64,896**	**64,995**	**63,856**	**64,082**
Net debt	5,183	(5,417)	(126)	(3,917)	(8,796)
Capital employed	50,003	64,896	64,995	63,856	64,082
Invested capital	**25,173**	**28,624**	**34,014**	**34,619**	**34,965**
BVPS (Rs)	106.2	146.7	147.4	172.0	194.1
Net Debt/Equity (x)	0.2	(0.2)	0.0	(0.1)	(0.2)
Net Debt/EBITDA (x)	0.2	(0.2)	0.0	(0.1)	(0.2)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	**38.2**	**46.1**	**45.5**	**53.6**	**62.5**

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	20,795	26,518	29,759	35,165	40,771
Others (non-cash items)	(251)	(4,129)	0	0	0
Taxes paid	(5,869)	(7,258)	(7,737)	(9,143)	(10,601)
Change in NWC	(3,273)	4,057	(2,490)	(405)	(447)
Operating cash flow	**12,995**	**25,262**	**21,396**	**27,261**	**31,424**
Capital expenditure	(5,470)	(6,345)	(5,500)	(4,450)	(3,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	2,068	1,747	2,200	2,300	2,400
Investing cash flow	**9,109**	**(15,171)**	**19,942**	**(2,150)**	**(600)**
Equity raised/(repaid)	0	0	(60)	(80)	(100)
Debt raised/(repaid)	3,599	5,182	0	(6,985)	(5,000)
Payment of lease liabilities	22	0	0	0	0
Interest paid	(1,186)	(1,957)	(1,464)	(1,144)	(1,000)
Dividend paid (incl tax)	(24,849)	(13,592)	(22,163)	(20,477)	(25,295)
Others	(22)	83	0	0	0
Financing cash flow	**(22,458)**	**(10,284)**	**(23,687)**	**(28,686)**	**(31,395)**
Net chg in Cash	(354)	(192)	17,651	(3,575)	(570)
OCF	12,995	25,262	21,396	27,261	31,424
Adj. OCF (w/o NWC chg.)	16,268	21,206	23,886	27,666	31,871
FCFF	7,525	18,917	15,896	22,811	28,424
FCFE	8,150	18,973	16,632	23,967	29,824
OCF/EBITDA (%)	59.0	89.2	67.7	74.1	74.0
FCFE/PAT (%)	53.4	97.5	74.5	90.8	97.4
FCFF/NOPLAT (%)	**51.5**	**99.5**	**74.0**	**90.6**	**97.6**

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	78.0	61.2	53.3	45.1	38.9
P/CE(x)	68.0	54.1	47.1	40.2	34.8
P/B (x)	46.5	33.7	33.5	28.7	25.5
EV/Sales (x)	8.6	7.4	6.8	6.1	5.5
EV/EBITDA (x)	54.3	41.9	37.6	32.2	27.8
EV/EBIT(x)	59.0	44.9	40.5	34.4	29.6
EV/IC (x)	46.9	40.8	34.5	33.8	33.3
FCFF yield (%)	0.6	1.6	1.4	1.9	2.4
FCFE yield (%)	0.7	1.6	1.4	2.0	2.5
Dividend yield (%)	1.4	1.5	1.7	2.0	2.3
DuPont-RoE split					
Net profit margin (%)	10.8	11.9	12.6	13.4	14.0
Total asset turnover (x)	2.6	2.8	2.7	3.1	3.4
Assets/Equity (x)	1.7	1.9	1.8	1.7	1.5
RoE (%)	**50.0**	**63.9**	**63.0**	**68.6**	**69.5**
DuPont-RoIC					
NOPLAT margin (%)	10.3	11.7	12.1	12.8	13.4
IC turnover (x)	5.6	6.1	5.7	5.7	6.3
RoIC (%)	**57.5**	**70.7**	**68.6**	**73.3**	**83.7**
Operating metrics					
Core NWC days	(13.9)	(12.6)	(13.7)	(12.7)	(12.7)
Total NWC days	**19.7**	**4.6**	**9.4**	**9.2**	**9.1**
Fixed asset turnover	5.0	4.6	4.1	4.1	4.3
Opex-to-revenue (%)	22.5	23.8	23.2	22.8	22.4

Source: Company, Emkay Research

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