

Britannia Industries

BUY

Milk Bikis to drive next wave of premiumization!

Summary

Britannia (BRIT) 4QFY21 result was below our estimates. Standalone revenue grew at 8% driven primarily by volume growth. Shutdown in business operation due to implementation of large scale digital project impacted primary billing for 3 days in Mar'21. However, this is likely to drive cost based efficiencies going forward. Deflationary raw material cost drove margin expansion. Management is aiming to drive aggressive growth of Milk-Bikis biscuits with (i) a new brand positioning of "Doodh Roti Ki Shakti" (ii) a new brand ambassador; Pankaj Tripathi (iii) first time Hindi labelling on products to win Hindi heartland (Milk Bikis so far has been a regional brand restricted primarily to Tamil Nadu and Kerala). BRIT is aiming to upgrade glucose-biscuit customers to Milk-Bikis (benefits of milk and glucose). We believe, this is a master stroke and BRIT is likely to benefit immensely if successful. However, due to sudden spike in cost of milk and RPO during 4QFY21, we have marginally trimmed our EPS estimate by 3-4% for FY22-23E. We maintain our BUY rating with a revised TP of Rs 4,395 (vs previous TP of Rs 4,564). We value BRIT at 50x FY23E EPS.

Key Highlights and Investment Rationale

Revenue growth marginally impacted by implementation of IT projects

Standalone revenue grew by 8%YoY led by volume growth of 8% YoY while revenue from subsidiaries grew 1%YoY (v/s 14%/34% in Q3FY21/Q4FY20). BRIT had to shut-down operations for 3 days in March which impacted primary billing during 4QFY21. The shutdown had been related to implementation of three transformational digital projects namely S4 HANA, an Online Dealer Management System and an Integrated Vendor Management System.

Deflationary raw material drives margin expansion

Gross margin expanded 80bp YoY to 40.5% (4th consecutive quarter of expansion) led by deflationary trend in Milk (-11%YoY), sugar (-2%YoY) and flour prices (-3%YoY). EBITDA grew by 11% while profit declined by 3% due to higher tax rate (26.9% in Q4FY21 vs 18.6% in Q4FY20).

Maintain BUY

We have marginally trimmed our EPS estimates by c. 3-4% in FY21-23E. This is largely driven by lower margin expectations due to sudden rise in raw material prices. Our revised TP stands at Rs 4,395. We maintain BUY rating on the stock.

Q4FY21 Result Review

Key Stock Data

Bloomberg / Reuters	BRIT IN / BRIT.BO
Sector	FMCG
Shares o/s (mn)	241
Market cap. (Rs mn)	852,674
Market cap. (US\$ mn)	11,421
3-m daily average value (Rs mn)	1,254.8
52-week high / low	Rs4,015 / 2,869
Sensex / Nifty	48,944 / 14,653

TP	Rs4,395
CMP	Rs3,540

Potential upside / downside	+24%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	79.0	87.9
Consensus	80.0	90.3
% difference	(1.3)	(2.7)

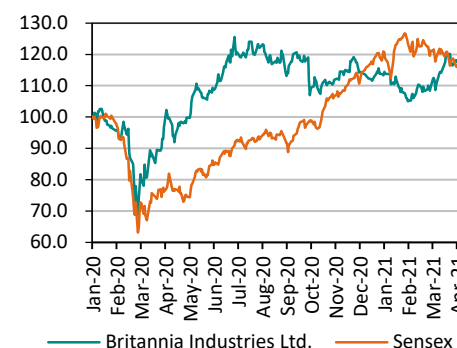
Shareholding Pattern (%)

Promoters	50.6
FII	18.0
DII	11.1
Public	20.3

Price Performance (%)

	-1m	-3m	-12m
Absolute	1.0	(1.9)	15.6
Rel to Sensex	1.2	(3.1)	(40.7)

Relative to Sensex (%)



Financial snapshot

Year	FY2019	FY2020	FY2021	FY2022E	FY2023E
Revenue	110,548	115,995	131,361	144,055	158,637
EBITDA	17,335	18,431	25,092	25,690	28,444
EBITDA (%)	15.7	15.9	19.1	17.8	17.9
Adj. PAT	11,519	14,185	18,639	18,993	21,140
EPS (Rs)	48.0	59.1	77.5	79.0	87.9
EPS Growth (%)	14.7	23.2	31.1	1.9	11.3
PE (x)	73.8	59.9	45.7	44.8	40.3
Dividend Yield (%)	0.4	0.5	3.3	0.7	0.8
EV/EBITDA (x)	49.1	46.9	34.7	33.4	29.7
RoE (%)	30.1	32.8	46.9	45.2	37.8
RoCE (%)	38.8	31.6	39.3	37.1	34.2

Source: Company; IDBI Capital Research

Conference Call Highlights

On Business Performance

- Consolidated revenue grew by 9% while volumes for the quarter grew by 8%.
- Consumer demand trends in the second wave are similar to last year; witnessed pantry loading, increase in in-home consumption etc. However, this time around producers are better prepared in terms of stock and manufacturing capabilities.
- For FY21, the focus was on core portfolio and not new products. Company has a pipeline of products waiting to be launched in the market as soon as situation normalizes.
- BRIT raised Rs700cr via CP in the last one and a half months for purchase of commodity especially wheat. April to June are the main wheat purchasing months.
- Food processing PLI scheme of government will be beneficial for the company. However, only the draft document has been released, the actual benefit will be determined when final document is released.
- ICD to promoter group as on 31st March, 2021 is at similar levels as last year.
- 3rd party manufactures account for 35% of total production.

Distribution

- Direct reach for the company has increased by 20%YoY to 2.3mn outlets as on March'21. Rural distribution has increased by 10%YoY to 23k dealers.
- Sales force of the company has been asked to not go on ground and work on call as the second wave of covid is vicious. Therefore expect some downtrend in distribution in the near term.

International business

- BRIT will be starting operations in two factories (Egypt and Uganda) in the coming year. In Uganda, turnover potential is of \$11mn and in Egypt more than that. The factories are set up via contract manufacturers.
- Company is also looking at entering new countries via the export model.

Milk & glucose segment

- In the milk biscuit category (~Rs 1260cr), BRIT has 26% market share whereas in milk+glucose segment (~Rs7260cr), the market share of the company is only 4%.
- BRIT will be relaunching milk bikis brand in this segment. Milk bikis was a regional brand with a few years ago with main presence in Kerala and Tamil Nadu. The brand has been launched aggressively all over India in Q4.
- Aim to make milk bikis a large brand in the hindi belt. Company has scaled up visibility of the brand (~14 lac sq.ft.) and has deployed the biscuit to 45k units.
- The product will be available at similar price points as Parle G but grammage will be lower. The brand has the potential to upgrade customers who are at the base of the pyramid.

Margins

- Commodities like flour and sugar prices have remained fairly stable whereas dairy is seeing a sequential uptrend. Significant inflationary trend is witnessed in edible oil, packaging material and fuel.
- Towards the end of the quarter, company took price hike in certain SKUs.
- Ad spend reached last year levels in Q3 and from Q4 onwards ad spends increased YoY. For FY21, ad spends were 1.5% lower than last year.
- Efficiencies gained during covid are sustaining like (i) factory productivity is 8% higher than pre covid levels, (ii) wastages/depot space is 20%/10% lower than pre-covid levels and (iii) direct dispatch from factories have increased by 50%

Commentary on digital projects

- BRIT lost 3 days of sale during the quarter due to implementation of the digital projects: S4 Hana, Arteria and Vendor management.
- S4 Hana project will help with (i) material resource planning, (ii) warehouse management, (iii) profitability analysis etc. Arteria (dealer management) to aid in (i) real-time data exchange, (ii) price & promotion controls, (iii) simplified claim settlement. Vendor management system to help in sourcing, digital contract, catalogue buying etc.
- Tangible benefits of the projects is visible from current quarter itself, however it will take 2-3 quarters for it to translate to topline

Exhibit 1: Consolidated Quarterly Snapshot

(INR m)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	YTD FY21	YTD FY20	YoY (%)
Revenues	31,308	28,676	9.2	31,656	-1.1	131,361	115,995	13.2
COGS	18,636	17,300	7.7	18,014	3.5	76,261	69,275	10.1
Gross profit	12,671	11,376	11.4	13,642	-7.1	55,100	46,720	17.9
<i>Gross Margin (%)</i>	<i>40.5</i>	<i>39.7</i>	<i>80 bps</i>	<i>43.1</i>	<i>-262 bps</i>	<i>41.9</i>	<i>40.3</i>	<i>167 bps</i>
Employee expenses	1,242	1,209	2.7	1,318	-5.7	5,274	4,867	8.4
<i>% of net sales</i>	<i>4.0</i>	<i>4.2</i>	<i>-25 bps</i>	<i>4.2</i>	<i>-20 bps</i>	<i>4.0</i>	<i>4.2</i>	<i>-18 bps</i>
Other Expenses	6,375	5,625	13.3	6,209	2.7	24,734	23,422	5.6
<i>% of net sales</i>	<i>20.4</i>	<i>19.6</i>	<i>75 bps</i>	<i>19.6</i>	<i>75 bps</i>	<i>18.8</i>	<i>20.2</i>	<i>-136 bps</i>
EBITDA	5,054	4,542	11.3	6,115	-17.4	25,092	18,431	36.1
<i>EBITDA Margin (%)</i>	<i>16.1</i>	<i>15.8</i>	<i>30 bps</i>	<i>19.3</i>	<i>-317 bps</i>	<i>19.1</i>	<i>15.9</i>	<i>321 bps</i>
Depreciation	528	485	9.0	486	8.7	1,979	1,848	7.1
EBIT	4,526	4,057	11.5	5,629	-19.60	23,114	16,583	39.4
Other Income	632	786	-19.6	826	-23.5	3,129	2,794	12.0
Interest Expenses	237	270	-12.2	318	-25.5	1,109	769	44.2
PBT	4,921	4,574	7.6	6,137	-19.8	25,134	18,608	35.1
Taxes	1,326	849	56.1	1,611	-17.7	6,630	4,507	47.1
Adjusted PAT	3,595	3,724	-3.5	4,526	-20.6	18,504	14,101	31.2
Share in profit/loss of associate	6	1		0		8	4	
Extra-ordinary items	0	-3		0		6	-170	
Minority Interest	42	24	76.7	31	36	133	90	
Reported PAT	3,643	3,747	-2.8	4,557	-20.1	18,651	14,026	33.0
EPS	15.1	15.6	-2.8	18.9	-20.1	77.5	58.3	32.8

Source: Company; IDBI Capital Research

Exhibit 2: Standalone Quarterly Snapshot

(INR m)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	YTD FY21	YTD FY20	YoY (%)
Revenues	29,527	26,919	9.7	29,787	-0.9	124,049	111,139	11.6
COGS	17,882	16,590	7.8	17,410	2.7	73,277	66,938	9.5
Gross profit	11,645	10,329	12.7	12,377	-5.9	50,772	44,201	14.9
<i>Gross Margin (%)</i>	<i>39.4</i>	<i>38.4</i>	<i>107 bps</i>	<i>41.6</i>	<i>-211 bps</i>	<i>38.7</i>	<i>38.1</i>	<i>54 bps</i>
Employee expenses	930	897	3.7	1,011	-8.1	4,110	3,715	10.6
<i>% of net sales</i>	<i>3.1</i>	<i>3.3</i>	<i>-18 bps</i>	<i>3.4</i>	<i>-25 bps</i>	<i>3.1</i>	<i>3.2</i>	<i>-7 bps</i>
Other Expenses	5,837	5,129	13.8	5,659	3.2	22,320	22,266	0.2
<i>% of net sales</i>	<i>19.8</i>	<i>19.1</i>	<i>72 bps</i>	<i>19.0</i>	<i>77 bps</i>	<i>17.0</i>	<i>19.2</i>	<i>-220 bps</i>
EBITDA	4,878	4,304	13.3	5,707	-14.5	24,343	18,221	33.6
<i>EBITDA Margin (%)</i>	<i>16.5</i>	<i>16.0</i>	<i>53 bps</i>	<i>19.2</i>	<i>-264 bps</i>	<i>18.5</i>	<i>15.7</i>	<i>282 bps</i>
Depreciation	452	393	14.9	409	10.4	1,625	1,508	7.8
EBIT	4,427	3,911	13.2	5,298	-16.45	22,717	16,712	35.9
Other Income	565	751	-24.7	778	-27.3	3,140	3,249	-3.4
Interest Expenses	205	207	-0.8	287	-28.5	1,060	666	59.1
PBT	4,787	4,455	7.5	5,789	-17.3	24,798	19,296	28.5
Taxes	1,252	643		1,505		6,447	4,851	
Adjusted PAT	3,535	3,812	-7.3	4,284	-17.5	18,351	14,445	27.0
Extra-ordinary items	0	0		0		0	190	
Reported PAT	3,535	3,812	-7.3	4,284	-17.5	18,351	14,635	25.4
EPS	14.7	15.9	-7.3	17.8	-17.5	76.4	60.9	25.4

Source: Company; IDBI Capital Research

Exhibit 3: Actual vs. Estimates

(Rs mn)

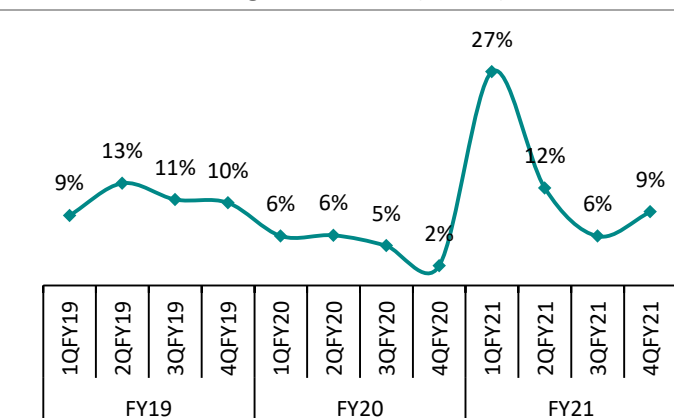
Particulars	Actual	IDBI Estimate	% variation IDBI
Revenue	31,308	30737	1.9
EBITDA	5,054	5400	(6.4)
Margin (%)	16.1	17.6	
PAT	3,595	4021	(10.6)

Source: Company; IDBI Capital Research

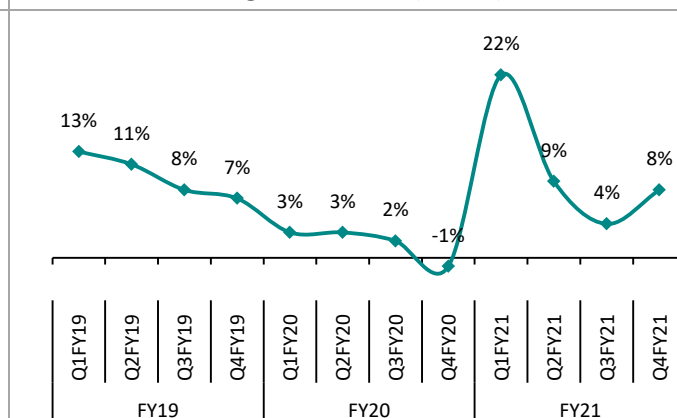
Exhibit 4: Change in estimates

	FY22E			FY23E		
	New	Old	(%) Chg	New	Old	(%) Chg
Revenue (Rs mn)	144,055	144,088	0.0	158,637	158,673	0.0
EBITDA (Rs mn)	25,690	26,373	-2.6	28,444	29,195	-2.6
EBITDA margin (%)	17.8	18.3		17.9	18.4	
Net profit (Rs mn)	18,993	19,684	-3.5	21,140	21,905	-3.5
EPS (Rs)	79.0	82.0	-3.7	87.9	91.3	-3.7

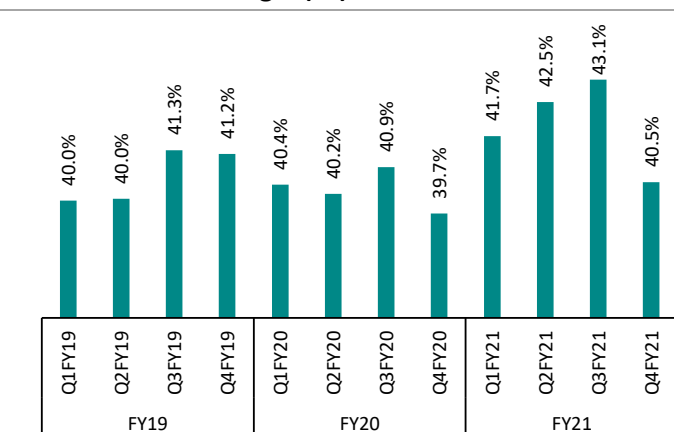
Source: Company; IDBI Capital Research

Exhibit 5: Revenue growth trend (% YoY)


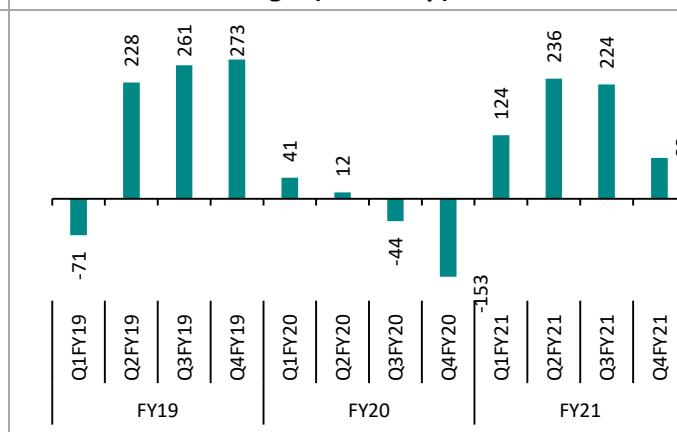
Source: Company, IDBI Capital research

Exhibit 6: Volume growth trend (% YoY)


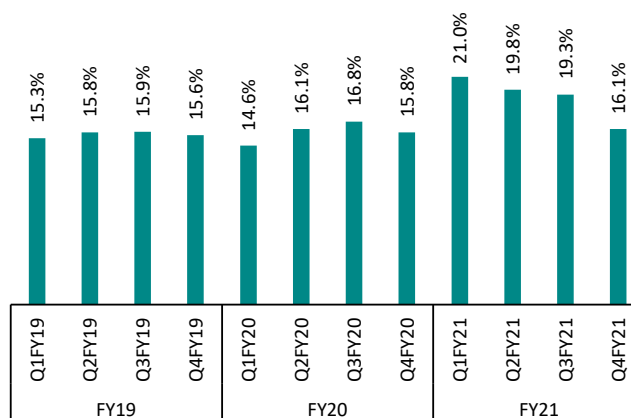
Source: Company, IDBI Capital research

Exhibit 7: Gross Margin (%)


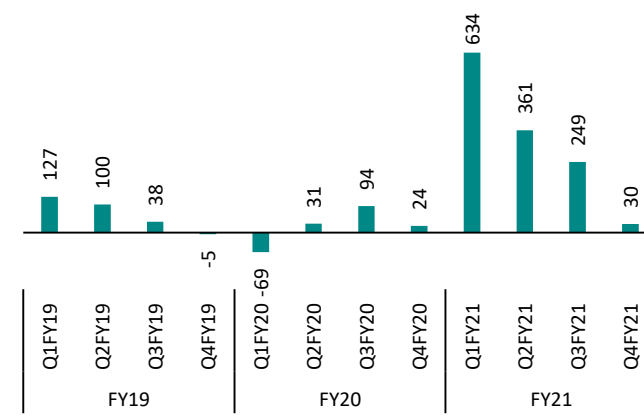
Source: Company, IDBI Capital research

Exhibit 8: Gross Margin (YoY in bp)


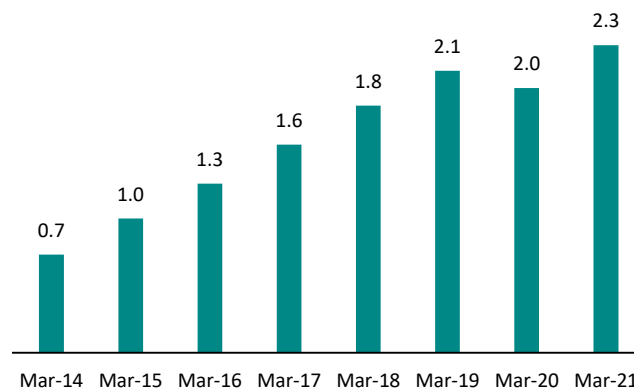
Source: Company, IDBI Capital research

Exhibit 9: EBITDA Margin (%)


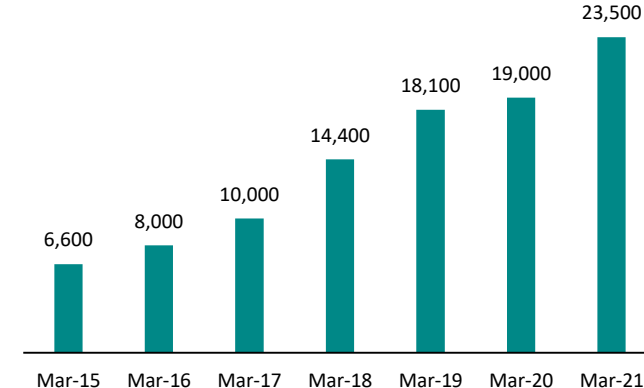
Source: Company, IDBI Capital research

Exhibit 10: EBITDA Margin (YoY in bp)


Source: Company, IDBI Capital research

Exhibit 11: Direct reach outlets (in Mn)


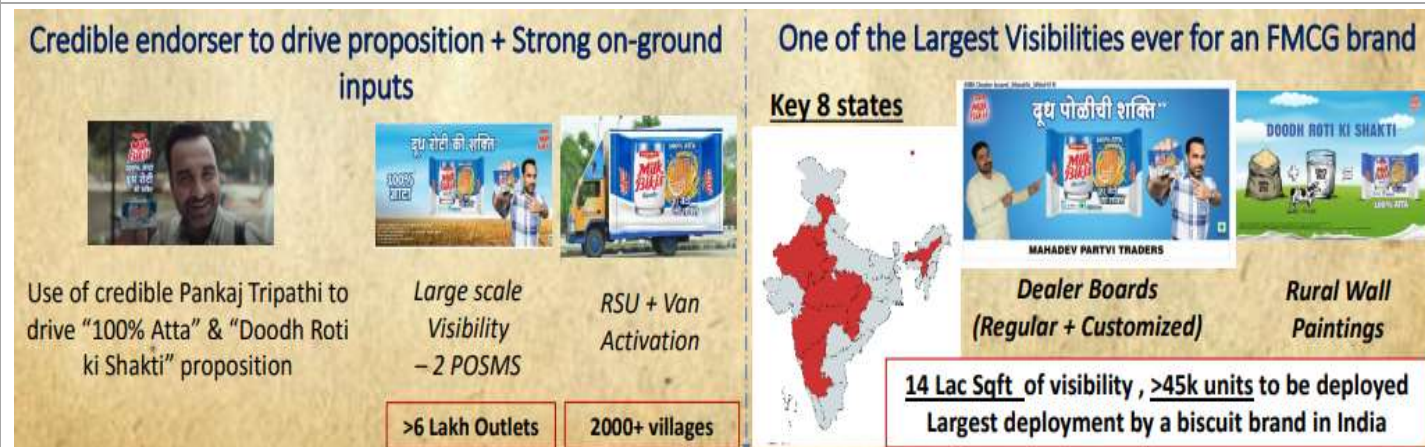
Source: Company, IDBI Capital research

Exhibit 12: Rural preferred dealers


Source: Company, IDBI Capital research

Exhibit 13: Re-launch of milk bikis 100% atta biscuit


Source: Company; IDBI Capital Research

Exhibit 14: Increasing visibility of the brand


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net sales	115,995	131,361	144,055	158,637
<i>Growth (%)</i>	<i>4.9</i>	<i>13.2</i>	<i>9.7</i>	<i>10.1</i>
Operating expenses	(97,564)	(106,269)	(118,365)	(130,194)
EBITDA	18,431	25,092	25,690	28,444
<i>Growth (%)</i>	<i>6.3</i>	<i>36.1</i>	<i>2.4</i>	<i>10.7</i>
Depreciation	(1,848)	(1,979)	(2,166)	(2,388)
EBIT	16,583	23,114	23,524	26,056
Interest paid	(769)	(1,109)	(1,053)	(1,000)
Other income	2,794	3,129	3,442	3,786
Pre-tax profit	18,608	25,134	25,913	28,842
Tax	(4,507)	(6,630)	(6,789)	(7,557)
<i>Effective tax rate (%)</i>	<i>24.2</i>	<i>26.4</i>	<i>26.2</i>	<i>26.2</i>
Minority Interest	(85.9)	141.1	(131.0)	(145.8)
Net profit	14,015	18,645	18,993	21,140
Exceptional items	(170)	6	-	-
Adjusted net profit	14,185	18,639	18,993	21,140
<i>Growth (%)</i>	<i>23.1</i>	<i>31.4</i>	<i>1.9</i>	<i>11.3</i>
<i>Shares o/s (mn nos)</i>	<i>240</i>	<i>241</i>	<i>241</i>	<i>241</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Pre-tax profit	18,438	25,128	25,913	28,842
Depreciation	1,848	1,979	2,166	2,388
Tax paid	(5,033)	(6,328)	(6,789)	(7,557)
Chg in working capital	1,511	1,156	(33)	(38)
Other operating activities	(1,919)	(3,423)	1,053	1,000
Cash flow from operations (a)	14,845	18,511	22,310	24,636
Capital expenditure	(2,442)	(2,421)	(2,569)	(2,844)
Chg in investments	(14,151)	7,033	(131)	(146)
Other investing activities	1,276	-	-	-
Cash flow from investing (b)	(15,316)	4,613	(2,700)	(2,990)
Equity raised/(repaid)	240	1,032	-	-
Debt raised/(repaid)	6,407	5,678	(1,000)	(1,000)
Dividend (incl. tax)	(4,325)	(28,238)	(5,888)	(6,553)
Chg in minorities	-	-	-	-
Other financing activities	(1,742)	(909)	(1,053)	(1,000)
Cash flow from financing (c)	579	(22,437)	(7,941)	(8,554)
Net chg in cash (a+b+c)	108	686	11,669	13,092

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22E	FY23E
Net fixed assets	19,033	19,118	19,521	19,978
Investments	18,989	13,852	13,852	13,852
Other non-curr assets	3,651	2,922	2,922	2,922
Current assets	36,750	44,197	57,169	71,758
Inventories	7,410	10,915	11,970	13,181
Sundry Debtors	3,204	2,573	2,821	3,107
Cash and Bank	1,229	2,113	13,782	26,874
Marketable Securities	-	-	-	-
Loans and advances	-	-	-	-
Total assets	78,422	80,088	93,463	108,509
Shareholders' funds	44,028	35,476	48,581	63,168
Share capital	241	241	241	241
Reserves & surplus	43,788	35,236	48,341	62,927
Total Debt	15,141	20,872	19,872	18,872
Secured loans	15,141	20,872	19,872	18,872
Unsecured loans	-	-	-	-
Other liabilities	724	635	634	634
Curr Liab & prov	18,173	22,749	24,019	25,479
Current liabilities	16,261	18,874	20,145	21,604
Provisions	1,913	3,875	3,875	3,875
Total liabilities	34,038	44,255	44,525	44,984
Total equity & liabilities	78,422	80,088	93,463	108,509
Book Value (Rs)	183	148	202	263

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	59.1	77.5	79.0	87.9
Adj. EPS growth (%)	23.2	31.1	1.9	11.3
EBITDA margin (%)	15.9	19.1	17.8	17.9
Pre-tax margin (%)	16.0	19.1	18.0	18.2
ROE (%)	32.8	46.9	45.2	37.8
ROCE (%)	31.6	39.3	37.1	34.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.6	1.7	1.7	1.6
Leverage factor (x)	1.6	2.0	2.1	1.8
Net margin (%)	12.2	14.2	13.2	13.3
Net Debt/Equity (x)	0.3	0.5	0.1	(0.1)
Working Capital & Liquidity ratio				
Inventory days	23	30	30	30
Receivable days	10	7	7	7
Payable days	42	45	44	45

Valuation

Year-end: March	FY20	FY21	FY22E	FY23E
P/E (x)	59.9	45.7	44.8	40.3
Price / Book value (x)	19.3	24.0	17.5	13.5
PCE (x)	53.0	41.3	40.2	36.2
EV / Net sales (x)	7.4	6.6	6.0	5.3
EV / EBITDA (x)	46.9	34.7	33.4	29.7
Dividend Yield (%)	0.5	3.3	0.7	0.8

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

IDBI Capital Markets & Securities Ltd.

Equity Research Desk

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

Compliance Officer: Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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