



TM

Britannia Industries

06 May 2023

Another earnings beat led by record margin performance

Britannia (BRIT) delivered another earnings beat despite sluggish volumes, with gross and EBITDA margins making new highs benefiting from softening inflation and aggressive pricing actions. Key takeaways are: 1) revenue growth of 13% with ~2% volume growth and ~12% growth in packs sold, 2) market share continued to improve for 40th quarter with the gap with the No.2 player up sharply in FY23, 3) not much impact of rural slowdown for BRIT, given its distribution efforts, 4) 688bps YoY improvement in gross margin and 442bps YoY increase in EBITDA margin which should moderate with expected price cuts to remain competitive and drive volumes/share gains, 5) strong growth in multiple innovative products in both biscuits and new categories, 6) Non biscuit portfolio grew 1.5x of company growth in FY23 led by dairy, cakes and croissants; 7) capex of Rs 5-6 bn in FY24E to increase in-house manufacturing from 57% to 65%, 8) positive growth outlook with distribution efforts continuing and innovation pipeline being strengthened further and 9) PLI incentives of Rs 150-200mn per quarter to aid other operating income.

Strong execution-led share gains in a recovering biscuits industry, good traction in new businesses like croissants, milk shakes and wafers, together with aggressive capacity expansion plans, reinforce our strong medium-term growth outlook. We expect increased marketing and distribution aggression from the company to continue both innovation and renovation in addition to price cuts/promotion increase which should boost volume growth. We see management commentary on margins as quite conservative and expect margins to improve from FY23 levels and settle in the 18-19% band. We build in 11%/18% revenue/PAT CAGR over FY23-25E and maintain our BUY rating, with an increased target price of Rs 5,194 (Rs 5,044 earlier), based on 50x FY25E earnings, in line with the last 5-year average multiple. We reiterate BRIT as one of our high-conviction picks in the FMCG space, with strong growth prospects and further re-rating/EPS upgrade potential.

Demand shows resilience to price hikes coupled with strong transaction growth: BRIT's 13.3% revenue growth (2% volume growth) in 4QFY23 was as per expectations, albeit it was helped by a one-off in the form of Rs 900mn PLI incentives, Rs 150-200mn of which should be recurring income going forward per quarter. Transaction growth stood strong at 12%, indicating downtrading towards smaller packs and grammage reduction by the company. As biscuits remain the cheapest snacking option, the category is outperforming other snacking and FMCG categories. With softening inflation driving pricing corrections in multiple segments, the biscuits business looks set to get back to mid to high single digit volume growth trajectory gradually, especially as we expect investments in key areas like innovation, distribution, and marketing to increase. The non-biscuit portfolio should continue to grow at a faster pace with multiple segments scaling up quite well.

Inflation continues to remain high in wheat, sugar, and milk; RPO, laminates and corrugated boxes prices cool down: Company has benefitted from correction in palm oil prices. However, high prices of sugar sustained; wheat flour (21% YoY) and milk prices (54%YoY) continue to soar. Benefits of aggressive ahead-of-the-market price hikes in addition to accelerated cost savings target have brought about a sharp recovery in margin trajectory with gross margin at 44.9% (+688bps) and EBITDA margin at 19.9% (+442bps). Margins should moderate over the next few quarters as the company has started taking price corrections in line with competition to protect

RESULT UPDATE

Sector: FMCG Rating: BUY

CMP: Rs 4,624 Target Price: Rs 5,194

Stock Info

Sensex/Nifty	61,054/ 18,069
Bloomberg	BRIT IN
Equity shares (mn)	241
52-wk High/Low	Rs 4,680/3,156
Face value	Rs1
M-Cap	Rs1114bn/\$13.6bn
3-m Avg volume	\$15mn

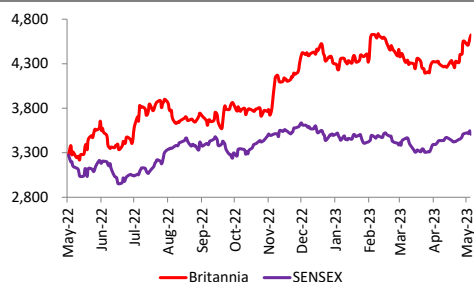
Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Sales	163,006	179,671	201,581
Adj. PAT	19,408	23,028	27,018
Adj. EPS (Rs)	96.2	95.6	112.2
PE (x)	57.4	48.4	41.2
EV/EBITDA (x)	40.3	34.6	29.6
P/BV (x)	31.5	27.2	23.2
EV/Sales	7.0	6.4	5.6
RoE (%)	63.7	60.3	60.7
RoCE (%)	48.9	48.6	51.8
NWC (days)	1.6	3.0	3.0
Net gearing (x)	0.8	0.7	0.6

Shareholding Pattern (%)

	Mar23	Dec22	Sept22
Promoter	50.6	50.6	50.6
-Pledged	-	-	-
FII	19.4	18.5	17.2
DII	14.2	15.1	16.1
Others	15.8	15.9	16.2

Stock Performance (1-year)



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share and drive volume growth. In FY24E, the company expects growth to be volume led and inflation to be in the range of 2.5-3%.

Marketing, distribution, and innovation push continues: The company's rural distribution push continues to drive rural share gains 1.4x faster than overall share gains. BRIT added 2 lakh outlets in FY23 to its direct distribution network to reach 26.8 lakh outlets, and during the same period the company has added 2,000 dealers to its rural preferred dealers (RPD) network to touch 28,000 RPDs. Innovation efforts have also started showing results with products launched during the year such as *50-50 Golmaal* which grew 40% QoQ led by extension in South & West; *Nutrichoice Seeds & Herbs* grew 50% QoQ led by higher focus in organized channels. *Milk Bikis Classic* grew 20% QoQ driven by nostalgia quotient.

Adjacent business on strong footing: Non-biscuits portfolio grew 1.5x compared to company average. Croissant grew 50% YoY in base markets of Tamil Nadu and West Bengal. Cake, rusk, dairy and bread reached Rs 6-7 bn in revenue; international business too crossed Rs 7bn mark; croissant and wafers touched Rs +1bn in revenue.

Aggressive capex to be incurred in FY24E & FY25E: Capex in FY24E is expected to be Rs5-6 bn. Capex will be incurred majorly in dairy, Ranjangaon plant and Bihar facility. Capex for the next 2 years will be higher, post which it will moderate.

Exhibit 1: Quarterly performance

YE March (Rs mn)	Q4FY23	Q4FY22	Q3FY23	YoY (%)	QoQ (%)
Net sales	40,232	35,505	41,968		
Net Revenues	40,232	35,505	41,968	13.3	(4.1)
Cost of material consumed	20,264	18,515	20,751	9.4	(2.3)
(% of sales)	50.4	52.1	49.4		
Purchase of traded goods	1,896	3,484	2,896	(45.6)	(34.5)
(% of sales)	4.7	9.8	6.9		
Employee cost	1,706	1,214	1,782	40.5	(4.3)
(% of sales)	4.2	3.4	4.2		
Others	8,358	6,795	8,363	23.0	(0.1)
(% of sales)	20.8	19.1	19.9		
EBITDA	8,009	5,497	8,176	45.7	(2.0)
EBITDA margin (%)	19.9	15.5	19.5		
Other income	564	538	508	4.7	11.1
PBIDT	8,573	6,035	8,683	42.0	(1.3)
Depreciation	653	509	580	28.3	12.7
Interest	349	338	381	3.3	(8.6)
PBT	7,571	5,188	7,722	45.9	(2.0)
Tax	2,035	1,410	2,169	44.4	(6.2)
ETR (%)	26.9	27.2	28.1		
P/L in associate	40.3	0.8	14.7		
Adjusted PAT	5,576	3,780	5,568	47.5	0.1
PATAMI margin	13.9	10.6	13.3		
Exceptional item	0	0	3,756		
Reported PAT	5,576	3,780	9,324	47.5	(40.2)
No. of shares (mn)	240.9	240.9	240.9		
Adj EPS (Rs)	23.1	15.7	23.1		

Source: Company, Systematix Institutional Research

Exhibit 2: Change in estimates (Rs mn)

	Old estimates		Revised estimates		Variation (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Net sales	1,84,363	2,05,187	179,671	201,581	-2.5%	-1.7%
EBITDA	32,231	36,988	33,004	38,397	2%	4%
EBITDA margin	17.5%	18.0%	18.4%	19.0%		
Adj. PAT	22,504	26,098	23,028	27,018	2%	4%

Source: Company, Systematix Institutional Research

Presentation takeaways:

RM inflation – Input inflation softened this quarter with correction in RPO & Packing material prices, except Flour which is trending higher.

Cost & Profitability – Pricing actions were taken to cover inflation; with softening of material prices in 2HFY23 and stepped-up cost efficiencies driving improvement in operating margins in Q4.

Consistent market share gains – Market share gains continued, gap between BRIT and largest competitor widened sharply in FY23.

Marketing activities – Mega marketing campaigns for Pure Magic Chocolush and Winkin Cow.

Bakery – 50-50 Golmaal extension to South & West, 40% QoQ growth; Nutrichoice Seeds & Herbs grew 50% QoQ led by higher focus in organized channels; Milk Bikis Classic grew 20% QoQ driven by nostalgia quotient; commercialized 3 new lines in rusk to enable competitive play in the widely fragmented market.

Croissant - Added new orange variant in Croissant; crossed Rs 1 bn turnover post national launch; Continued to grow at healthy rate of c. 50% YoY in Tamil Nadu and West Bengal.

Dairy – Launched Rich Milk Shakes and Coconut water in Q4; transitioned to PET bottles upgrading consumer experience; Winkin Cow brand crossed Rs 1.5 bn turnover; Winkin Cow is growing at high double digits; distribution reach in dairy grew 2x vs last year; innovation contribution was >10% in dairy.

Distribution – Gained market share in rural India (1.4x vs all India share gain) led by increase in RPDs to 28k vs 26k in March'22. Direct reach continues to increase to 26.8 lakh outlets vs 24.9 lakh outlets in March'22.

Outlook – Company remains vigilant of competitive pricing actions; closely monitoring prices of wheat and sugar; necessary pricing strategies would be deployed to remain competitive and drive market share growth.

Conference call takeaways:

Volume growth – Volume growth during 4QFY23 and FY23 stood at 2-3%; transaction growth stood at 12% YoY; volumes expected to grow from FY24E onwards; however, grammage increase in packs is expected to be less.

Inflation – Expects inflation to be in low single digit for BRIT in FY24E; no recalibration in dairy strategy due to milk inflation.

LUPs – Share of LUPs has remained constant vs pre pandemic.

Higher other operating income – Includes PLI benefit received from Government; PLI benefits of FY22 & FY23 received in Q3FY23 & Q4FY23 (Rs 900 mn in Q4); benefit of Rs 150-200 mn to be received in each quarter going forward.

Non – biscuit portfolio – Cake, rusk, dairy and bread reach Rs 6-7 bn in revenue; international business too reached Rs 7bn mark; croissant and wafers touched Rs +1bn in revenue; non – biscuit portfolio has witnessed growth of 1.5x of company growth in FY23.

Competitive intensity – No substantial change in competitive intensity; in cake and rusk there are many regional and small players; categories such as croissant and aseptic requires high investments thus creating entry barriers.

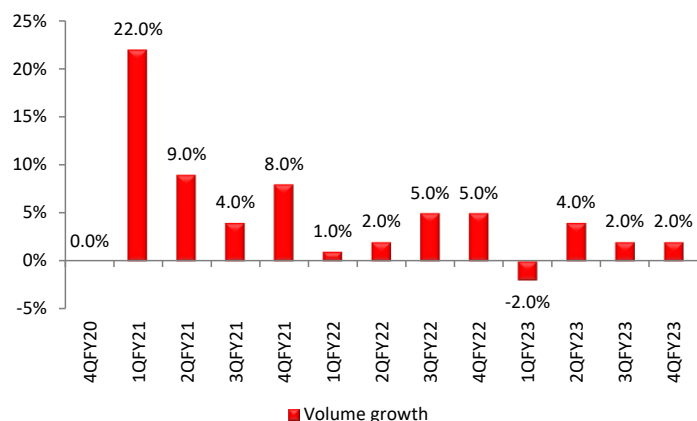
Market share gains despite inflation – Market share gains are attributed to distribution expansion and strength of the brand.

In house manufacturing – Currently stands at 57%, target to increase it to 65%.

Capex outlook – Capex in FY24E to be Rs5-6 bn; capex to be incurred majorly in dairy, Ranjangaon plant and Bihar facility; capex for next 2 years will be high post which it will moderate.

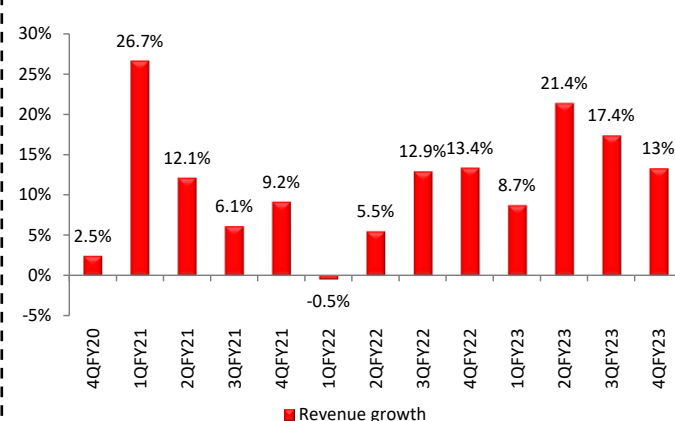
Gross margin outlook – To hover over FY23 gross margin level (c.41-42%).

Exhibit 3: Volumes grew 2% YoY



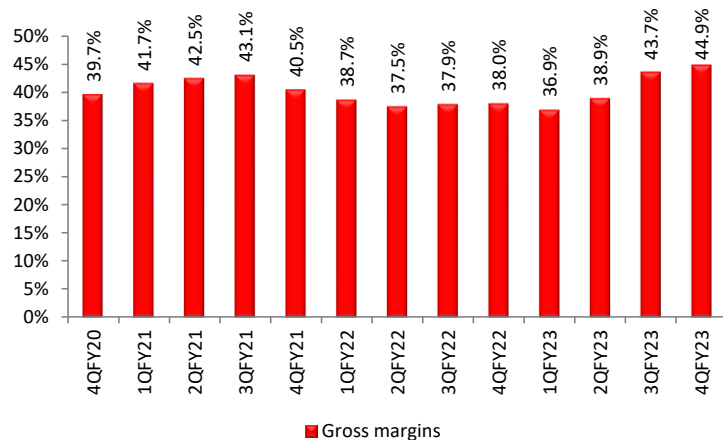
Source: Company, Systematix Institutional Research

Exhibit 4: Revenue grew 13% YoY on the back of better pricing



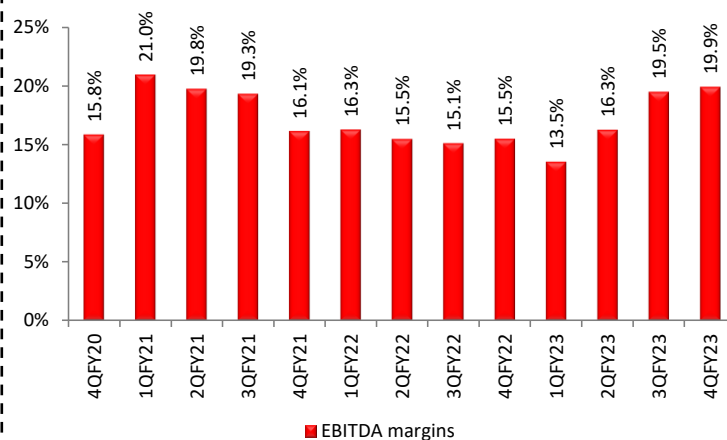
Source: Company, Systematix Institutional Research

Exhibit 5: Gross margin expanded to 44.9%



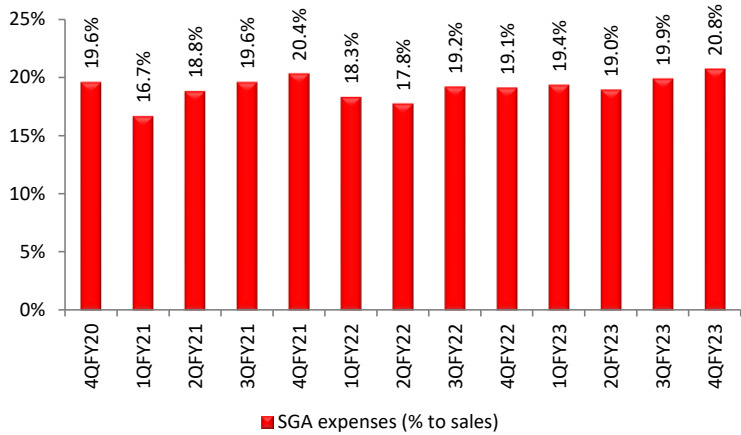
Source: Company, Systematix Institutional Research

Exhibit 6: EBITDA margin at 19.9% led by better gross margin



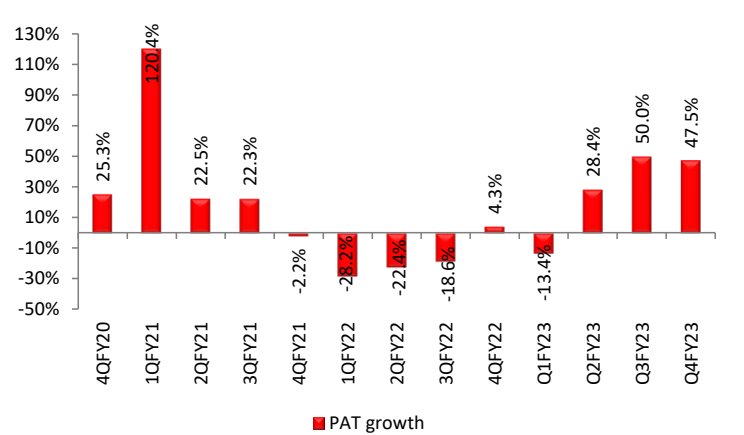
Source: Company, Systematix Institutional Research

Exhibit 7: SGA expenses increased to 20.8% of sales



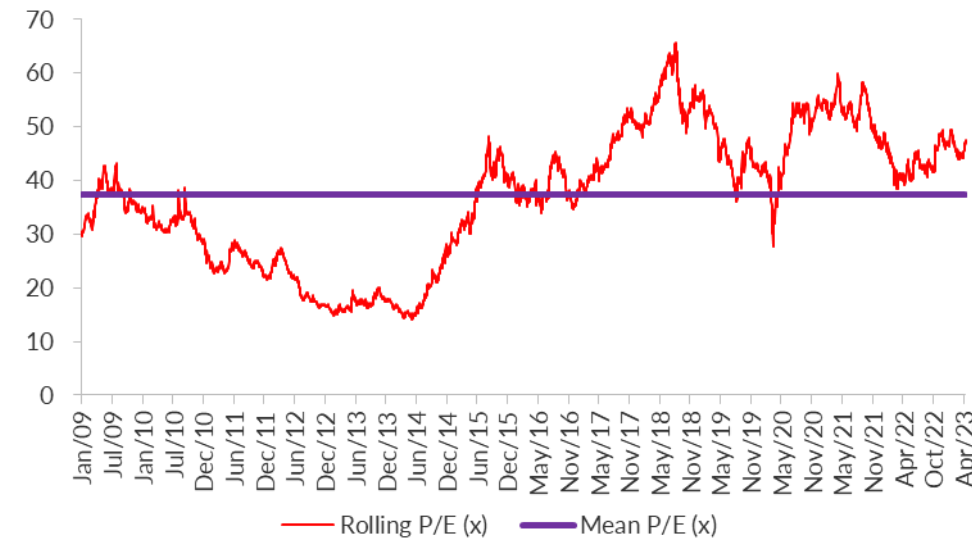
Source: Company, Systematix Institutional Research

Exhibit 8: PAT grew 47.5% YoY



Source: Company, Systematix Institutional Research

Exhibit 9: Currently trades at 47.5x one-year forward P/E



Source: Company, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	1,31,361	1,41,363	1,63,006	1,79,671	2,01,581
Gross profit	55,100	53,760	67,093	75,282	85,269
GP margin (%)	41.9%	38.0%	41.2%	41.9%	42.3%
Operating profit	25,093	22,015	28,309	33,004	38,397
OP margin (%)	19.1%	15.6%	17.4%	18.4%	19.0%
Depreciation	1,979	2,005	2,259	2,377	2,631
EBIT	23,114	20,010	26,050	30,627	35,766
Interest expense	1,109	1,443	1,691	1,788	1,788
Other income	3,129	2,228	2,159	2,418	2,708
Profit before tax	25,134	20,795	26,518	31,256	36,686
Taxes	6,630	5,624	7,165	8,283	9,722
Tax rate (%)	26.4%	27.0%	27.0%	26.5%	26.5%
Adj. PAT	18,645	15,258	19,408	23,028	27,018
Exceptional loss	6	10	(3,756)	-	-
Net profit	18,639	15,248	23,164	23,028	27,018
EPS	77.4	63.3	96.2	95.6	112.2

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	241	241	241	241	241
Reserves	35,236	25,340	35,102	40,785	47,808
Debt	20,872	24,655	29,805	29,805	29,805
Deferred tax liab (net)	87	8	19	-	-
Other non current liabilities	541	664	745	820	902
Total liabilities	56,976	50,909	65,912	71,650	78,756
Fixed Asset	19,095	22,889	27,602	30,725	33,594
Investments	27,807	17,624	33,242	33,242	33,242
Other Non-current Assets	8,120	8,811	9,178	10,040	10,989
Inventories	10,915	13,675	11,933	13,783	15,464
Sundry debtors	2,573	3,319	3,289	3,938	4,418
Cash & equivalents	1,750	1,582	1,696	2,096	5,797
Loans and Advances	9,466	6,980	5,600	7,384	8,284
Sundry creditors	13,148	12,852	14,488	16,244	18,225
Other current liabilities	9,601	11,120	12,141	13,313	14,806
Total Assets	56,976	50,909	65,912	71,650	78,756

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBIT	26,243	22,238	28,209	33,044	38,474
Depreciation	1,979	2,005	2,259	2,377	2,631
Tax paid	(6,630)	(5,624)	(7,165)	(8,283)	(9,722)
Working capital Δ	3,337	202	5,809	(1,354)	413
Other operating items	-	-	-	-	-
Operating cashflow	24,928	18,822	29,113	25,785	31,796
Capital expenditure	(1,896)	(5,800)	(6,972)	(5,500)	(5,500)
Free cash flow	23,032	13,023	22,140	20,285	26,296
Equity raised	7,740	(11,533)	3,943	-	-
Investments	1,125	10,183	(15,619)	-	-
Debt financing/disposal	5,731	3,784	5,150	-	-
Interest Paid	(1,109)	(1,443)	(1,691)	(1,788)	(1,788)
Dividends paid	(34,931)	(13,611)	(17,345)	(17,345)	(19,995)
Other items	(704)	(659)	3,563	(752)	(812)
Net Δ in cash	885	(256)	141	399	3,701

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Revenue growth (%)	13.2	7.6	15.3	10.2	12.2
Op profit growth (%)	36.1	-12.3	28.6	16.6	16.3
Net profit growth (%)	31.3	-18.2	27.2	18.7	17.3
OPM (%)	19.1	15.6	17.4	18.4	19.0
Net profit margin (%)	14.2	10.8	11.9	12.8	13.4
RoCE (%)	45.4	41.7	48.9	48.6	51.8
RoNW (%)	46.9	50.0	63.7	60.3	60.7
EPS (Rs)	77.4	63.3	80.6	95.6	112.2
DPS (Rs)	145.0	56.5	72.0	72.0	83.0
BVPS (Rs)	147.3	106.2	146.7	170.3	199.5
Debtor days	7	9	7	8	8
Inventory days	30	35	27	28	28
Creditor days	37	33	32	33	33
P/E (x)	59.7	73.0	57.4	48.4	41.2
P/B (x)	31.4	43.5	31.5	27.2	23.2
EV/EBITDA (x)	45.2	51.6	40.3	34.6	29.6

Source: Company, Systematix Institutional Research

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Served as an officer, director or employee	No

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