

Narrative Improving; Structural Story intact

CMP: INR 3,504

Rating: ACCUMULATE

Target Price: INR 3,857

Stock Info

BSE	500825
NSE	BRITANNIA
Bloomberg	BRIT:IN
Reuters	BRIT.BO
Sector	Packaged Foods
Face Value (INR)	1
Equity Capital (INR cr)	24
Mkt Cap (INR cr)	84,394
52w H/L (INR)	4,004/ 3,318
Avg Yearly Volume (in 000')	45

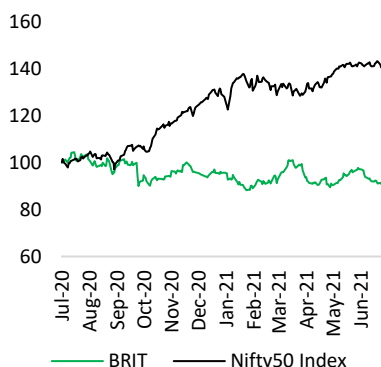
Shareholding Pattern %

(As on June, 2021)

Promoters	50.5
FII	18.4
DII	11.2
Public & Others	19.9

Stock Performance (%)	3m	6m	12m
BRIT	(3)	(4)	(9)
Nifty 50	9	14	54

BRIT Vs Nifty



A Surprise positive volume growth of 1% in Q1FY22 against our estimate of (-9%) led a revenue growth of 8.7% than our estimate to INR3,403cr (down 0.5% YoY and up 8.7% QoQ). BRIT has been able to report better than expected volume growth as 1) consumer resorted to increased in-home consumption and 2) availability of full range of products (value + premium) vs selected products / SKU being available in Q1FY21. However, the higher input cost plus caution on price hike led to 296bps contraction in GM to 38.7%. In addition, higher Other overheads further put pressure on EBITDA margin which came at 16.3%, lower 469bps YoY and 153bps lower than our estimate of 17.8%. PAT came lower by 28.7% YoY to INR387cr.

A positive volume growth and strong sales given the strong base: BRIT reported solid revenue growth (8.7% higher than our estimate), but EBITDA margin was way below than our estimate due to severe cost pressure. The COGS-inflation was higher than what the management has guided in the last earning call. In addition, the company was cautious in taking aggressive price hike as the consumer sentiment was weak owing to the ongoing pandemic. Even the rural economy suffered this time compared to covid1.0. However, the management has guided to take a calibrated pricing actions as situation normalizes in the country. Further, BRIT sowed down its innovation agenda and introduced just re-launch of Good Day Chocochips, launch of 50-50 Potazos in North East.

Sharp input cost + cautious pricing action led GM contraction: Company witnessed 6-7% higher RM inflation and 1-2% higher crude compared to last year. Thus, GM saw a 296bps contraction to 38.7%. Management attributed this to 1) sharp increases in costs of palm-oil and crude-oil that were 88% and >100% higher YoY on spot basis, 2) BRIT finding it difficult to take aggressive price hike or grammage reduction in Low unit packs (~40% of the business) and 3) normalization of trade schemes/incentives (curtailed trade promotions in Q1FY21). In addition, the higher Other expenses (which includes A&P) was high by 9.3% compared to sales de-growth of 0.5%. The A&P spend was higher as the brands were back in full swing on air with range of products in the markets given that the supply chain was not as impacted in last year. Management has guided to continue to focus on improving margin sequentially via operating efficiencies and rigorous process improvements.

Subsidiaries (Dairy + International): Sales declined 17% and EBITDA down 33%. Reported a loss of INR800mn vs profit of INR300mn in base quarter.

Valuation & Outlook: The biscuit category is expected to grow in mid-single digit providing significant growth opportunity for Britannia going forward. In current scenario, despite Britannia being a market leader in biscuit segment, it enjoys just market share of mid-30s, which opens enough space for the company to garner market share going forward with the new product launches, improving its presence in the glucose segment through Tiger and Milk Bikis (Parle is a market leader), gaining leadership in the premium segment, creating its strong positioning in the Hindi Hinterland region and growth in overall category.

BRIT has been working relentlessly to increase its presence in pan India and especially rural where the consumption is relatively strong. For this, the company has increased its direct reach to 2.3mn outlets, which is next to HUL.

Given its strength in brand building, the company has been successful in scale up of non-biscuit category led by cream wafers and milkshakes; which accounts for ~2% of total sales. Even the salty snacks which is present only in Andhra Pradesh offers promise. We feel that these segments provide immense growth opportunity from a medium to long term perspective.

BRIT's financial performance over the last decade has been splendid, with ~12% sales CAGR, EBITDA and PAT CAGR of ~27% each. This splendid performance was a result of A) huge market share gains, B) strengthening direct distribution reach, and C) better product development/innovations compared to its competition. We expect Britannia to report a Revenue/EBITDA/PAT CAGR of 8.5%/5.1%/5.4% to INR15,461cr/INR2,774cr/INR2,056cr, over FY21-FY23E, respectively. Hence, we have valued BRIT on a PE of 45x on FY23E and arrive at a TP of INR3,857 per share, an upside of 10.1%. We have an ACCUMULATE rating.

Key Concall takeaways

Performance Highlights

- Volume growth was 1% for Q1FY22 compared to high base of 21% in Q1FY21.
- BRIT has now gained market share for eight consecutive years.
- Direct reach now stands at 2.01m outlets compared to 2.4mn in March 2021. Management guided of reaching to the March 2021 levels.
- Sales in focus states are growing at 1.33x the rest of India.
- No disruption was seen in manufacturing and supply chain in during the quarter.
- Rural economy suffered this quarter due to second wave unlike the case in last year. As per management, the government measures in this front will make a difference.
- Saw a bit of resurgence in sales as people migrate toward trusted brands during pandemic, for BRIT most of the brands that did well were the premium brands.
- This quarter, the sales was mix of Value plus Premium and availability of full range of products compared to just 3 brands of premium segment in the base year.
- As per management, the July Sales expects to be reasonable.
- Due to on-going pandemic, the innovations took a backseat, and company re-launched Goodday Chocochip with a surprise campaign and 50 50 Potazos was launched in North East (to be scaled up in other markets).
- Management guided for an increase in innovations and looking at wafer sticks, Milk Biki Classics and Nutrichoice variants.
- During the quarter, the in-house consumption was the trend due to covid second wave. The Adjacent categories were mostly 'on-the-go' which got impacted. -INR2500cr of which Dairy is -5%.
- Online - having own online platform is an idea but believe objective is to work with partner. Ecom contribution up from 0.4-0.5% to 2%, should be at ~5% going forward.
- Company advertised heavily during the quarter.
- Operations fully on stream. Front-end was upset due to lockdown and restrictions on mobility. As of now, the company has frecovered 90% of the front desk.

Milk Bikis campaign

- Milk Bikis was predominantly a brand based in Tamil Nadu and Kerala until two years ago.
- BRIT is now targeting Rest of India, with a particular focus on the Hindi belt. The product offering is highlighted of using 100% atta.
- The company had signed actor Pankaj Tripathi as its brand ambassador.
- The company has a lower market share of +4% in the Glucose and Milk Biscuits category and looks to better the same. Company has gained some share in Milk Bikis.
- Pricing remains at a significant premium to Parle-G, with BRIT offering a similar price point v/s competition but with a lower grammage per pack.
- Milk Bikis is one of its most profitable brands. The company aims to upgrade a portion of Parle-G consumers.
- The growth target is 150-200% on the same.
- Milk Bikis witness sequential growth better than Britannia growth.

Input cost and Margin

- The company witnessed inflation input cost of 6-7% and crude cost of 1-2% compared to the last year.
- Early price hike was negated by the inflation. No substitute of price hike.
- SKU Mix: Q1FY21 – large packs were sold. Q1FY22 – lower unit packs were sold high.
- Despite being a market leader, company does not believe in price war.
- The company will take a calibrated price hike going forward.
- Expects to get back to historic margins and beyond with time. As per management, the margins in Q1FY21 was exceptional played by cost efficiencies and premium product mix.
- The price hikes are getting rolled out.
- Management expects to achieve continuous improvement in historical margins.
- Institutions: Railways, Airports, etc will help in the upside.

CAPEX & Financials

- The company has acquired land for its greenfield projects in Barabanki, Uttar Pradesh (received good incentive) and Tamil Nadu, but will look at the demand scenario and decide the timeline for the same.
- Ranjangaon Plant: ~INR130cr in FY22. Continuous process of investment. 8 lines are fully operational. Company is adding more lines of rusk, biscuit, etc.
- BRIT's dairy factory will be ready in Q2FY23.
- ~INR650cr of investment can give INR1200cr revenue as the lines are fully not utilized, new lines are being added and cake lines are not fully utilized. Post full utilization, the revenue of INR1500-1600cr can be achieved.
- **Production Linked Incentives (PLI) scheme:** The company has applied for the scheme. Once, implemented, it will provide 10% of incentives on incremental sales. Difficult to make an estimate at this point of time.
- Group Inter-Corporate Deposits stood at INR470cr vs INR790cr in March 2021.

International Business

- Middle East: Revamp distribution channel. Company has also changed the Distributor.
- Nepal: 26% YoY Revenue growth. BRIT is a market leader and enjoys fairly large and dominant position.
- Commercialized Partner in Egypt in Uganda.

Quarter Result

Q1FY22 Result Analysis

Particulars	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Net sales	3,421	3,131	3,403	(0.5)	8.7
Net raw material & Purchase of finished goods	1,996	1,864	2,087	4.5	12.0
% of sales	58.3	59.5	61.3		
Employee expenses	137	124	139	1.7	12.2
% of sales	4.0	4.0	4.1		
Other expenses	571	638	624	9.3	(2.1)
% of sales	16.7	20.4	18.3		
Total expenditure	2,704	2,625	2,850	5.4	8.5
Operating Profit	717	505	554	(22.8)	9.6
OPM(%)	21.0	16.1	16.3		
Interest	26	24	34	33.6	44.4
PBDT	691	482	520	(24.8)	7.9
Depreciation	48	53	49	2.3	(7.1)
Other income	94	63	60	(35.5)	(4.3)
Exceptional item	0	-	-		
Share of JV/Associate less minority interest	-	1	-		
PBT	737	493	531	(28.0)	7.8
Tax	194	133	144		
Effective tax rate (%)	26.4	26.9	27.2		
Reported PAT	543	360	387	(28.7)	7.4
Comprehensive income	(1)	3	3		
Adjusted PAT	542	364	390	(28.1)	7.2
NPM(%)	15.8	11.6	11.4		
EPS (Rs.)	22.5	15.1	16.2	(28.1)	7.2
Equity	24	24	24	-	-

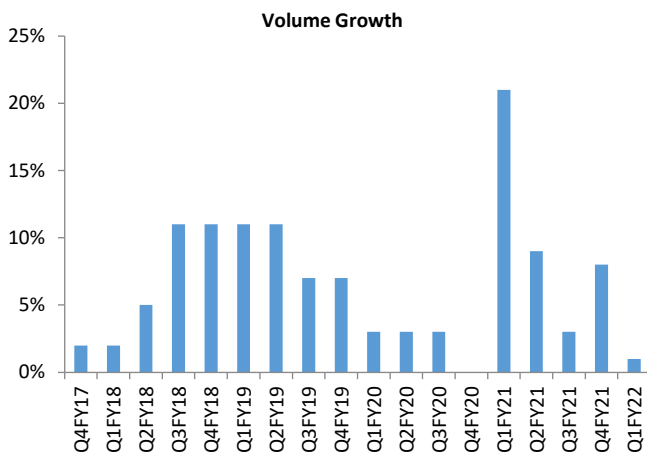
Source: Company & Arihant Research

Result declared vs Our estimates

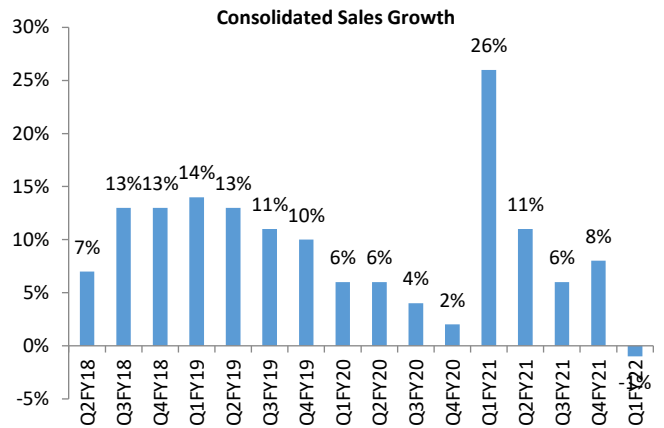
Y/E Mar (Rscr)	Q1FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)	Arihant Capital estimates	Variation (%)
Net Sales	3,421	3,131	3,403	(0.5)	8.7	3,130	8.7
EBITDA	717	505	554	(22.8)	9.6	557	(0.6)
EBITDA (%)	21.0	16.1	16.3	(469)	13	17.8	(153)
Reported PAT	543	360	387	(28.7)	7.4	405	(4.4)

Source: Company & Arihant Research

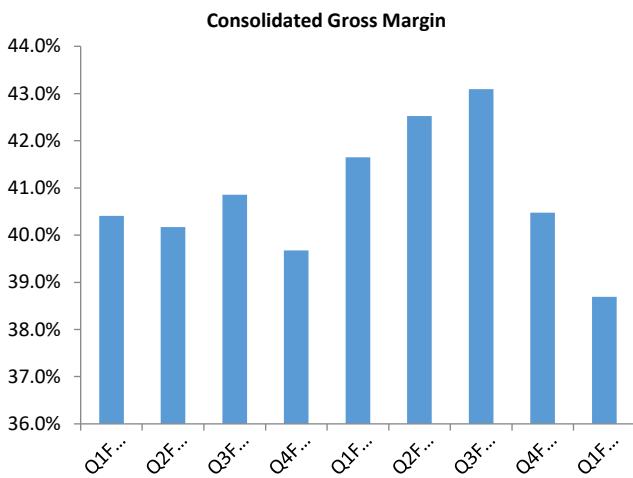
Quarterly Result



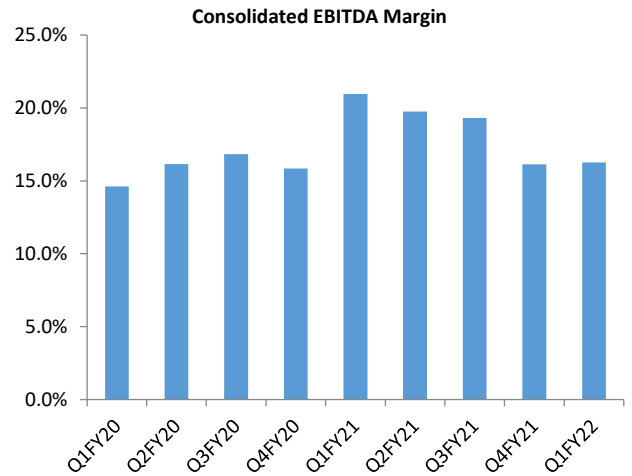
Source: Company & Arianth Research



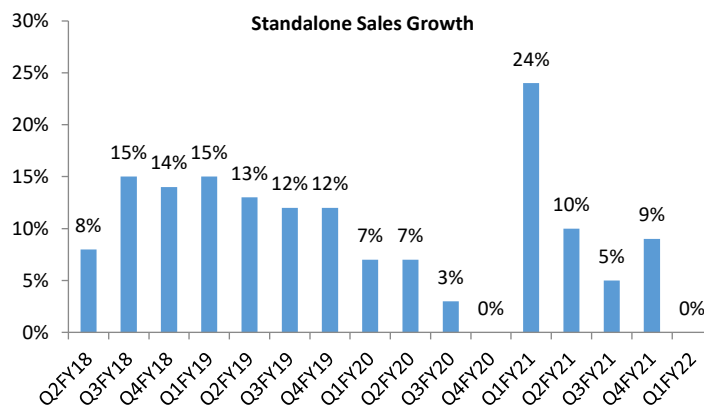
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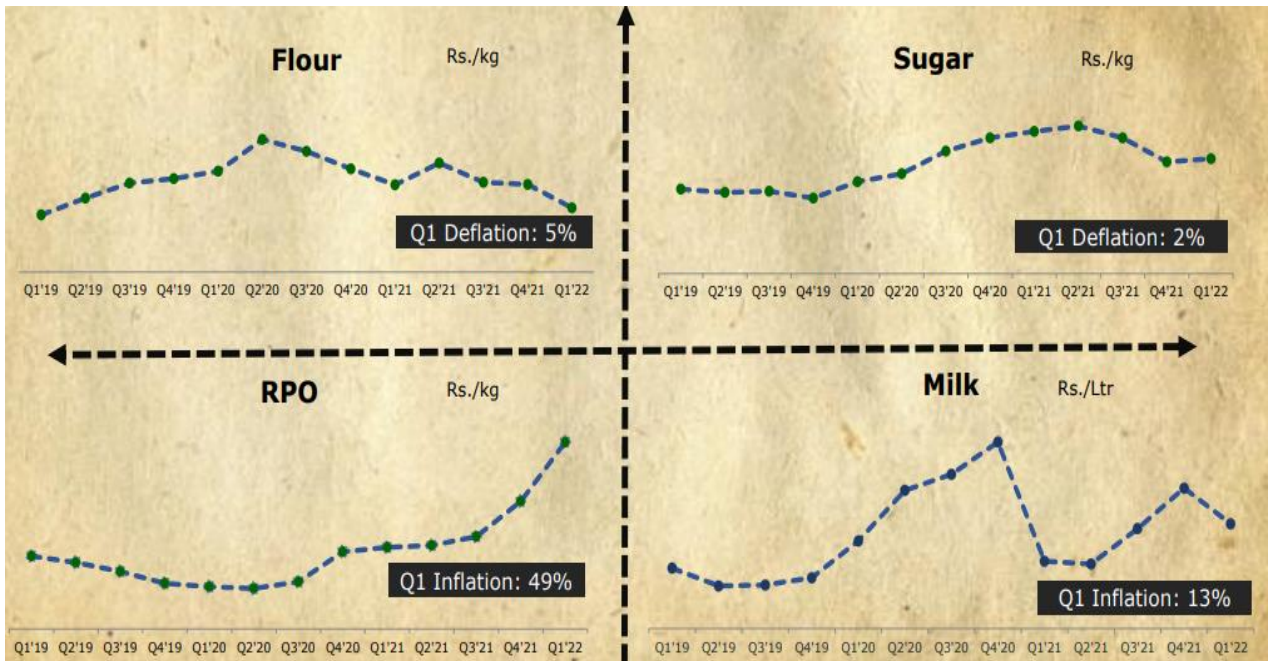
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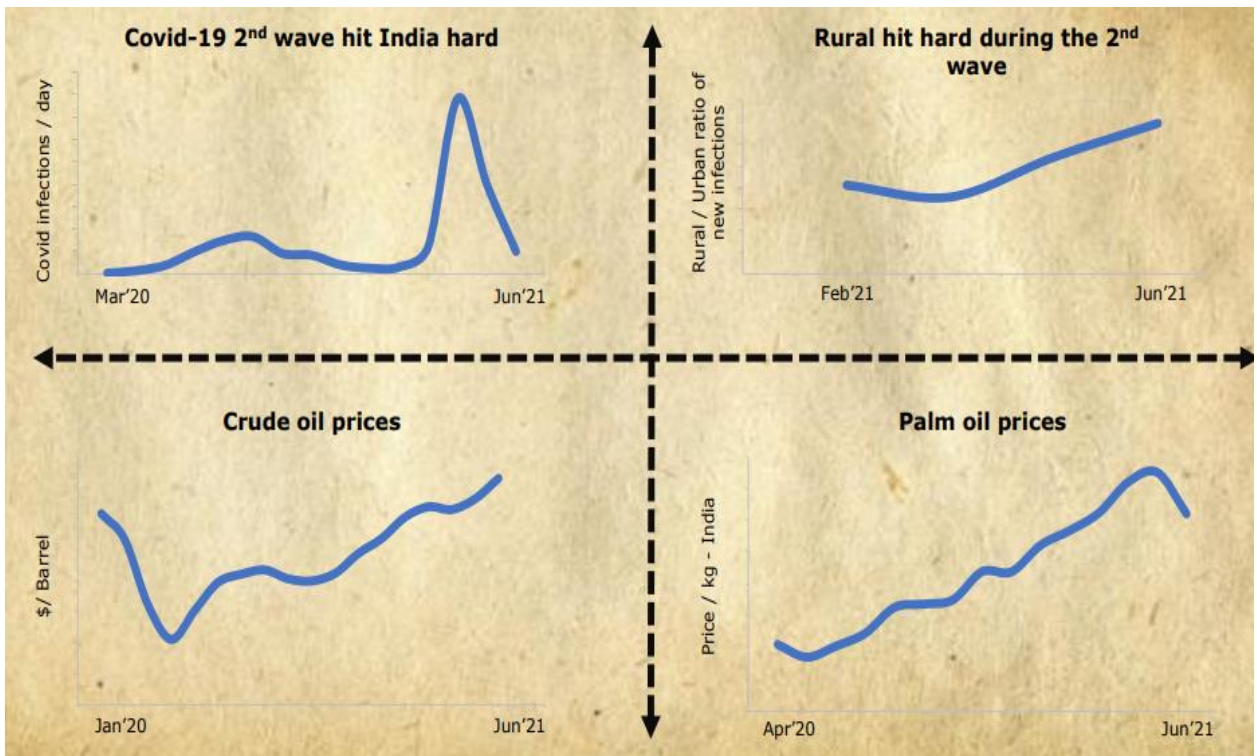
Quarterly Result

Commodities... Steep Inflation in Palm Oil



Source: Company Presentation & Arihant Research

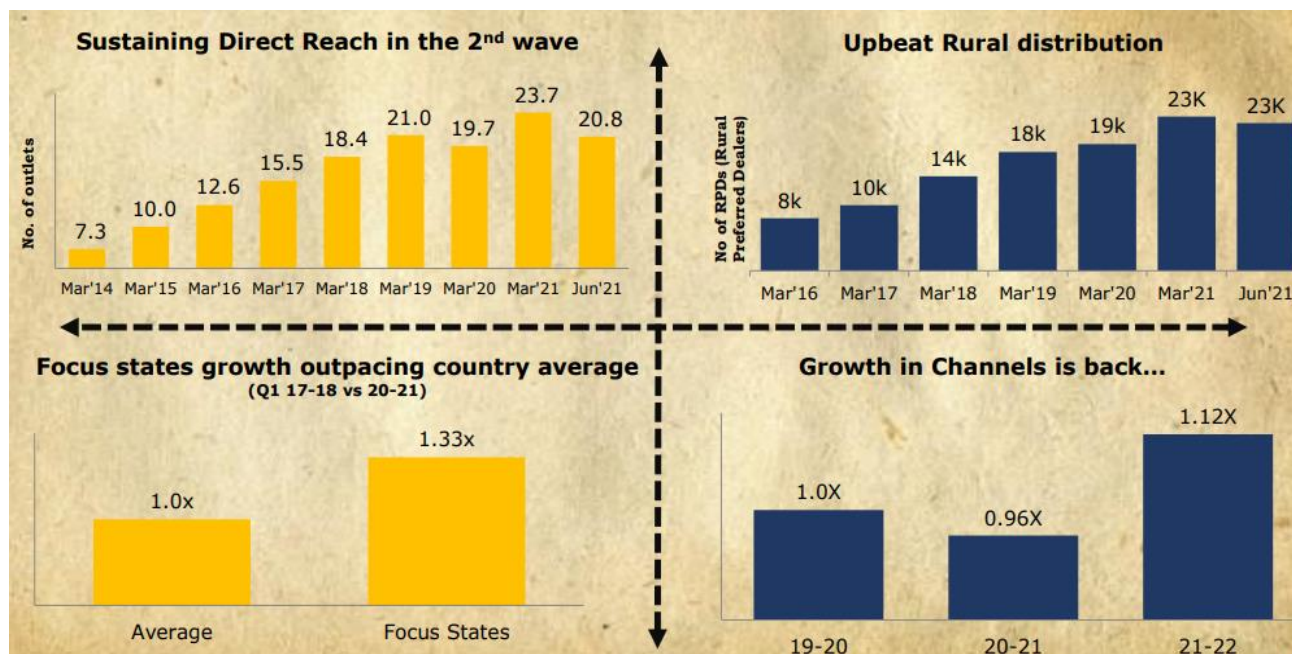
Dynamic & Volatile Environment



Source: Company Presentation & Arihant Research

Quarterly Result

Driving Efficiency in Distribution



Source: Company Presentation & Aриhant Research

Marketing Activities during the Quarter

<p>Milk Bikis - South</p> <p>Jim Jam</p> <p>Tiger Krunch</p>	<p>Milk Bikis Atta – Rest of India</p> <p>NutriChoice Thin Arrowroot</p> <p>50-50</p>	<p>Goodday Cashew Almond</p> <p>Pure Magic Chocolush</p> <p>Cake</p>
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Source: Company Presentation & Aриhant Research

Income statement summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Revenue	11,055	11,600	13,136	13,929	15,461
Operating profit	1,733	1,843	2,509	2,376	2,774
Depreciation	(162)	(185)	(198)	(218)	(241)
Interest expense	(9)	(77)	(111)	(125)	(118)
Other income	206	279	313	300	333
Extraordinary income	0	0	-1	0	0
Profit before tax	1,769	1,861	2,513	2,334	2,748
Taxes	(612)	(451)	(663)	(588)	(692)
Minorities and other	-1	0	1	1	1
Reported Net profit	1,155	1,411	1,851	1,746	2,056
Exceptional items	0	0	0	0	0
Net profit	1,155	1,411	1,851	1,746	2,056

Source: Company & Arihant Research

Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	11.5	4.9	13.2	6.0	11.0
Op profit growth	15.4	6.3	36.1	(5.3)	16.7
EBIT growth	16.5	9.0	35.4	(6.3)	16.6
Net profit growth	15.1	22.1	31.2	(5.6)	17.7
Profitability ratios (%)					
OPM	15.7	15.9	19.1	17.1	17.9
EBIT margin	16.1	16.7	20.0	17.6	18.5
Net profit margin	10.5	12.2	14.1	12.5	13.3
RoCE	41.3	35.1	42.4	39.9	44.7
RoNW	30.2	32.6	46.6	47.5	50.8
RoA	26.0	25.3	28.3	25.9	29.7
Per share ratios					
EPS	48.1	58.7	76.8	72.5	85.4
Dividend per share	15.0	35.0	62.0	62.0	65.0
Cash EPS	54.8	66.3	85.0	81.5	95.4
Book value per share	177.0	183.1	147.3	157.8	178.1
Valuation ratios					
P/E	72.9	59.7	45.6	48.3	41.1
P/CEPS	63.9	52.8	41.2	43.0	36.7
P/B	19.8	19.1	23.8	22.2	19.7
EV/EBIDTA	48.8	46.7	34.6	36.4	31.2
Payout (%)					
Dividend payout	31.2	59.7	80.7	85.5	76.2
Tax payout	34.6	24.2	26.4	25.2	25.2
Liquidity ratios					
Debtor days	13	10	7	7	7
Inventory days	31	28	37	34	34
Creditor days	45	42	45	46	46
Leverage ratios					
Interest coverage	195.6	25.2	23.7	19.7	24.2
Net debt / equity	0.1	0.4	0.6	0.5	0.5
Net debt / op. profit	0.2	0.9	0.9	0.9	0.7

Source: Company & Arihant Research

Balance sheet summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	24	24	24	24	24
Reserves	4,229	4,379	3,524	3,776	4,267
Net worth	4,253	4,403	3,548	3,800	4,291
Minority interest	33	36	36	36	36
Debt	434	1,873	2,497	2,397	2,247
Deferred tax liab (net)	26	-28	3	3	3
Total liabilities	4,747	6,283	6,085	6,237	6,578
Fixed assets	1,536	1,716	1,634	1,643	1,689
Capital Work In Progress	101	40	117	136	151
Investments	1,646	3,169	3,223	3,004	3,335
Goodwill	130	139	136	136	136
Deferred tax asset (net)					
Net working capital	1,224	1,097	764	972	1,083
Inventories	781	741	1,091	1,091	1,198
Sundry debtors	394	320	257	271	301
Loans & Advances	1,223	1,313	1,021	1,254	1,392
Other current assets	270	193	237	232	258
Sundry creditors	(1,141)	(1,116)	(1,315)	(1,444)	(1,586)
Other current liabilities & Prov	(304)	(355)	(528)	(432)	(479)
Cash	110	123	211	346	185
Total assets	4,747	6,283	6,085	6,237	6,578

Source: Company & Arihant Research

Cashflow summary

Y/e 31 Mar (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	1,769	1,861	2,513	2,334	2,748
Depreciation	162	185	198	218	241
Tax paid	(612)	(451)	(663)	(588)	(692)
Working capital Δ	(262)	127	333	(208)	(111)
Goodwill	(2)	(9)	3	-	-
Operating cashflow	1,054	1,713	2,384	1,756	2,185
Capital expenditure	(401)	(304)	(193)	(247)	(301)
Free cash flow	653	1,410	2,191	1,508	1,885
Equity raised	52	(419)	(1,212)	(0)	0
Investments	(451)	(1,523)	(54)	218	(330)
Debt financing/disposal	(4)	1,438	625	(100)	(150)
Dividends paid	(360)	(842)	(1,494)	(1,494)	(1,566)
Other items	33	(51)	33	1	1
Net Δ in cash	(77)	13	88	134	(161)
Opening Cash	186	110	123	211	346
Closing Cash	110	123	211	346	185

Source: Company & Arihant Research

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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