

Pack sales up; Margin expansion to remain low

CMP: INR 4,639

Rating: Accumulate

Target Price: INR 5,161

Stock Info

BSE	500825
NSE	BRITANNIA
Bloomberg	BRIT:IN
Reuters	BRIT.BO
Sector	Packaged Foods
Face Value (INR)	1
Equity Capital (INR cr)	24.1
Mkt Cap (INR cr)	111,375
52w H/L (INR)	4,680/ 3,156
Avg Daily Volume (in 000')	331

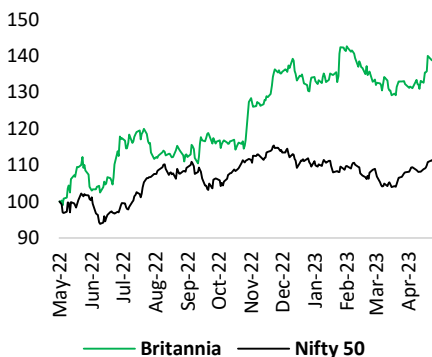
Shareholding Pattern %

(As on March 2023)

Promoters	50.55
FII	19.44
DII	14.22
Public & Others	15.79

Stock Performance (%)	1m	3m	12m
Britannia	6.9	(0.1)	41.2
Nifty 50	2.9	1.2	8.3

Britannia Vs Nifty 50



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This year saw a double-digit revenue growth with volume growth at around 2-3%. This trend is expected to carry forward into FY24. Commodity inflation for a few inputs has eased up but remains high for the entire consumption basket. The input inflation basket will remain at ~3% for FY24. In Q4FY23, Britannia's consolidated revenue grew 10.94% YoY to INR 3,892 Cr (-5.11% QoQ). Gross Margin expanded 68-8bps YoY 44.92% (+127bps QoQ). EBITDA grew by 45.70% YoY to INR 801 Cr (-2.04% QoQ). EBITDA Margin expanded 442bps YoY to 19.91% (+43bps QoQ). PAT grew 54.08% YoY to INR 558 Cr (-48.43% QoQ). **Going forward, the company will push pack sales more than overall volume growth. During the year pricing actions were taken to offset the effects of inflation on the bottom line. There was a PLI benefit of INR 90 Cr received during the year.**

Market share growth: Market share gains continue as Britannia has widened the gap between itself and the second-largest competitor.

Coconut water and milkshakes: The production of coconut water (new foray) will be outsourced and the production of milkshakes is taking place at the Ranjangaon plant. Milkshakes have taken off well and are now an INR 150 Cr business with the Winkin Cow brand, and have now been launched in PET bottles too. PET launch of coconut water will follow.

Britannia laughing cow: Distribution of cheese has begun. The plant has a collection of 1.3 LPD.

Commodity price trajectory: 4 commodities are 60% of the cost base; Flour (+21% YoY), Palm Oil (-14% YoY), Laminates (-9% YoY), and Corrugated boxes (-16% YoY). Additionally, milk is also up 54% YoY with no signs of respite anytime soon. Inflation in sugar has been flatish.

Additional brownfield lines being added: The company is adding additional lines for the production of rusk, cake, wafers, etc. The total capex amount expected for FY24 is INR 500-600 Cr including additional lines at the dairy plant. Post the addition of new lines, in-house production will rise from 57% to 65%. The products manufactured will be on bakery adjacencies and will aid in improving efficiencies for the company.

Input cost inflation: Going forward they expect single-digit inflation. Pricing actions will be taken to moderate this. Volume growth will also pick up this year with slight increases in grammage but the overarching focus will be on pushing pack sales.

PLI Benefits: The company expects PLI benefits of INR 20-30 Cr to accrue every quarter and they will be accounted for under 'other income.'

Valuation & Outlook: In place of the current economic headwinds, the company delivered growth in the mid-teens with substantial growth in the non-biscuit portfolio and NPD contribution at ~4%. This momentum will be sustained into FY24, with moderate margin expansion and volume growth. Like many of its peers, the premium end of the portfolio outperformed the economy end of the portfolio in terms of value growth, despite there being growth in rural distribution. We assign a TP of INR 5,161 valued at a P/E multiple of 45x the FY25E EPS of INR 115, and an 'Accumulate' rating.

INR Cr	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenues	13,136	14,136	16,301	18,424	21,004	24,049
yoy growth (%)	13.2	7.6	15.3	13.0	14.0	14.5
Operating profit	2,509	2,202	2,831	3,215	3,707	4,291
OPM (%)	19.1	15.6	17.4	17.5	17.6	17.8
Pre-exceptional PAT	1,851	1,516	2,316	2,391	2,763	3,271
yoy growth (%)	31.2	-18.1	52.8	3.2	15.6	18.4
EPS (Rs)	76.8	62.9	96.2	99.2	114.7	135.8
P/E (x)	60.2	73.5	48.1	46.6	40.3	34.1
Price/Book (x)	31.4	43.5	31.5	26.3	21.0	16.1
EV/EBITDA (x)	45.3	51.9	40.5	35.7	30.9	26.6
Debt/Equity (x)	0.7	1.2	1.0	0.9	0.7	0.5
RoE (%)	46.6	49.7	76.0	61.5	57.8	53.5
RoCE (%)	42.4	38.3	44.7	44.4	45.2	45.6

Source: Company & Arihant Research

Quarterly Result

INR Cr (consolidated)	Q4FY23	Q3FY23	Q4FY23	Q-o-Q	Y-o-Y
Net Revenue	3,892	4,101	3,508	-5.11%	10.94%
Other Operating Income	131	95	42	37.61%	211.54%
Raw Material Costs	2216	2216	2216	0.00%	0.00%
Gross Profit	1,807	1,981	1,335	-8.76%	35.42%
Gross Margin	44.92%	48.30%	38.04%	-338bps	688bps
Employee costs	171	178	121	-4.30%	40.49%
Other Expenses	836	836	679	-0.06%	23.00%
Other Non Operating Income	56	51	54	11.07%	4.72%
EBITDA	801	966	534	-17.12%	50.08%
<i>EBITDA margin %</i>	<i>19.91%</i>	<i>23.03%</i>	<i>15.03%</i>	<i>-312bps</i>	<i>488bps</i>
Depreciation	65	58	51	12.72%	28.27%
EBIT	792	959	537	-17.43%	47.60%
Finance costs	35	38	34	-8.58%	3%
Exceptional expense	-	376	-	-100.00%	-
Share of Profit/Loss from associates & JV	4	1	0	174.15%	4938%
PBT	761	1,298	503	-41.37%	51.35%
Tax Expense	204	217	141	-6.18%	44%
Effective tax rate %	27%	17%	28%	1003bps	-129bps
PAT	558	1,081	362	-48.43%	54.08%
Add: Other Comprehensive Income	-2	4	3	-144.77%	40.31%
Consolidated PAT	556	1,086	365	-48.82%	52.17%
<i>PAT margin %</i>	<i>13.65%</i>	<i>25.44%</i>	<i>10.04%</i>	<i>-1179bps</i>	<i>361bps</i>
EPS (INR)	38.71	14.01	15.41	176.30%	151.20%

Source: Company & Arianth Research

Q4FY23 Earnings Call Highlights:

- Inflation in milk is expected to continue throughout the year which was taken head-on. Dairy suffered some downside during the year but the brand was managed well through winkin cow.
- Competitive intensity in some products like cakes and rusks saw a slight increase during the year.
- Weighted distribution is at 90.7%. Britannia can increase the number of outlets by 5-6 lakhs to close the gap between itself and the next closest competitor in terms of distribution. The current direct + indirect outlet reach is ~67 lakh. Retail is at 91-92% of total distribution.
- Larger categories other than biscuits comprise cake rusk, dairy, and bread- all of which are approximately the same size at INR 6-700cr each. The international business is at INR 7-800cr. Emerging businesses like croissants are at about INR 100cr.

Consolidated Financial Highlights

Income Statement (INR Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	13,136	14,136	16,301	18,424	21,004	24,049
Operating profit	2,509	2,202	2,831	3,215	3,707	4,291
Depreciation	(198)	(201)	(226)	(244)	(241)	(261)
Interest expense	(111)	(144)	(169)	(179)	(183)	(186)
Other income	313	223	216	347	346	453
Extraordinary income	-1	-1	376	0	0	0
Profit before tax	2,513	2,079	3,027	3,139	3,629	4,296
Taxes	(663)	(562)	(716)	(753)	(871)	(1,031)
Minorities and other	1	-0	5	5	5	5
Reported Net profit	1,851	1,516	2,316	2,391	2,763	3,271
Balance Sheet (INR Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity capital	24	24	24	24	24	24
Reserves	3,524	2,534	3,510	4,215	5,292	6,876
Net worth	3,548	2,558	3,534	4,239	5,316	6,900
Minority interest	36	28	30	30	30	30
Debt	2,499	2,958	3,554	3,604	3,704	3,754
Deferred tax liab (net)	3	-21	-31	-31	-31	-31
Total liabilities	6,086	5,522	7,088	7,842	9,019	10,653
Fixed assets	1,634	1,584	2,472	2,805	2,947	3,080
Capital Work In Progress	117	536	105	133	145	157
Investments	3,245	2,236	3,840	4,335	4,942	5,659
Goodwill	136	140	128	128	128	128
Net working capital	743	842	344	340	362	536
Inventories	1,091	1,367	1,193	1,310	1,441	1,646
Sundry debtors	257	332	329	358	408	468
Loans & Advances	1,000	798	710	829	987	1,202
Other current assets	236	241	276	307	350	401
Sundry creditors	(1,313)	(1,285)	(1,449)	(1,690)	(1,922)	(2,195)
Other current liabilities & Prov	(528)	(612)	(715)	(774)	(903)	(986)
Cash	211	185	198	101	496	1,094
Total assets	6,086	5,522	7,088	7,842	9,019	10,653
Cash Flow Statement (INR Cr)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	2,513	2,079	3,027	3,139	3,629	4,296
Depreciation	198	201	226	244	241	261
Tax paid	(663)	(562)	(716)	(753)	(871)	(1,031)
Working capital Δ	353	(98)	498	4	(22)	(174)
Goodwill	3	(4)	11	-	-	-
Operating cashflow	2,404	1,615	3,046	2,633	2,977	3,352
Capital expenditure	(193)	(569)	(683)	(605)	(395)	(407)
Free cash flow	2,211	1,045	2,362	2,028	2,583	2,946
Equity raised	(1,212)	(1,144)	394	0	-	-
Investments	(76)	1,009	(1,604)	(495)	(607)	(717)
Debt financing/disposal	626	459	596	50	100	50
Dividends paid	(1,494)	(1,361)	(1,734)	(1,686)	(1,686)	(1,686)
Other items	33	(34)	(1)	5	5	5
Net Δ in cash	88	(26)	13	(97)	395	598
Opening Cash	123	211	185	198	101	496
Closing Cash	211	185	198	101	496	1,094

Source: Company & Arianth Research

Ratio Analysis	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)						
Revenue growth	13.2	7.6	15.3	13.0	14.0	14.5
Op profit growth	36.1	(12.3)	28.6	13.6	15.3	15.8
EBIT growth	35.4	(15.3)	26.8	17.6	14.9	17.6
Net profit growth	31.2	(18.1)	52.8	3.2	15.6	18.4
Profitability ratios (%)						
OPM	19.1	15.6	17.4	17.5	17.6	17.8
EBIT margin	20.0	15.7	17.3	18.0	18.1	18.6
Net profit margin	14.1	10.7	14.2	13.0	13.2	13.6
RoCE	42.4	38.3	44.7	44.4	45.2	45.6
RoNW	46.6	49.7	76.0	61.5	57.8	53.5
RoA	28.3	22.8	31.1	26.9	27.5	28.2
Per share ratios						
EPS	76.8	62.9	96.2	99.2	114.7	135.8
Dividend per share	62.0	56.5	72.0	70.0	70.0	70.0
Cash EPS	85.0	71.3	105.5	109.4	124.7	146.6
Book value per share	147.3	106.2	146.7	176.0	220.7	286.4
Valuation ratios						
P/E	60.2	73.5	48.1	46.6	40.3	34.1
P/CEPS	54.4	64.9	43.8	42.3	37.1	31.5
P/B	31.4	43.5	31.5	26.3	21.0	16.1
EV/EBIDTA	45.3	51.9	40.5	35.7	30.9	26.6
Payout (%)						
Dividend payout	80.7	89.8	74.9	70.5	61.0	51.6
Tax payout	26.4	27.1	23.7	24.0	24.0	24.0
Liquidity ratios						
Debtor days	7	9	7	7	7	7
Inventory days	37	42	32	31	30	30
Creditor days	45	39	39	41	41	41
Leverage ratios						
Interest coverage	23.7	15.4	16.7	18.5	20.9	24.0
Net debt / equity	0.6	1.1	0.9	0.8	0.6	0.4
Net debt / op. profit	0.9	1.3	1.2	1.1	0.9	0.6
Du-Pont Analysis						
Tax burden (x)	0.74	0.73	0.77	0.76	0.76	0.76
Interest burden (x)	0.96	0.93	1.07	0.95	0.95	0.96
EBIT margin (x)	0.20	0.16	0.17	0.18	0.18	0.19
Asset turnover (x)	2.01	2.13	2.19	2.07	2.09	2.07
Financial leverage (x)	1.65	2.17	2.44	2.29	2.10	1.90
RoE (%)	46.55	49.66	76.04	61.52	57.84	53.55

Source: Company & Arianth Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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