

Britannia Industries

ADD

CMP Rs3,541

Target Rs 3,809

Upside 7.6%

Result Highlights

- ✓ **Revenue** – Revenue came ahead of expectations at Rs 31.3bn, a growth of 9.2% vs our expectation of 8%, with volume growth of 8%, indicating a marginal pick-up in growth momentum from 3Q.
- ✓ **Gross margins** – Gross margins surprised negatively declining 80bps to 40.5% due to a combination of higher palm oil and packing material prices and an inferior product mix.
- ✓ **EBITDA margins** – Weaker than expected at 16.1%, up only 30bps yoy (our expectation of 18.2%) due to GM decline and sharp 13.3% rise in other expenses.
- ✓ **PAT** – PAT growth was below estimates declining 3.3% yoy with PAT coming in at Rs 3.6bn (our expectation of Rs 4.09bn).
- ✓ **Management commentary** – Execution of a few digital transformation projects during the quarter necessitated shutdown of operations for a few days in March impacting primary billing; cost efficiency programs delivered targeted results; sharp inflation in palm oil, dairy and packing material has made company evaluate price increases

Our view: Given the pandemic-related uncertainties, there is limited visibility on the timing of the resumption of a double-digit growth trajectory for the company. Even margins should settle below the exceptional levels seen in FY21 with commodity inflation and higher marketing spends, albeit continued cost efficiency and digital transformation initiatives will keep them at much above historical levels. BRIT's innovation pipeline in biscuits and new adjacent categories remain key drivers for a pick-up in growth trajectory which needs to be closely monitored. Given no near-term triggers, a high base for 1HFY22 and market's preference for top line growth where BRIT seems to be lacking, current valuations at 39x FY23E earnings are among the cheapest in the FMCG space. Strong cost controls should ensure healthy earnings growth despite subdued topline growth which gradually get better led by innovations, new launches and distribution infrastructure expansion. The stock is currently at 39x FY23E earnings and we build in 8.9%/8.3% revenue/PAT CAGR over FY21-23E. We initiate coverage with an ADD rating with a TP of Rs 3,809 based on 42x FY23E earnings, a 10% discount to its 5-yr average P/E multiple.

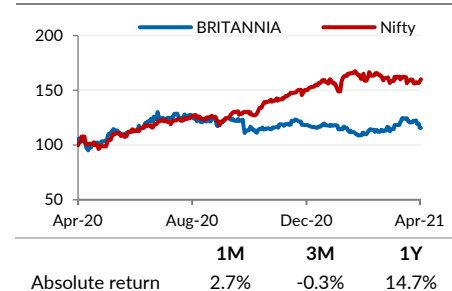
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Net sales	31,308	28,677	9.2	31,656	(1.1)
Operating profit	5,054	4,543	11.3	6,115	(17.4)
OPM (%)	16.1	15.8		19.3	
Depreciation	528	485	9.0	486	8.7
Interest	237	270	(12.2)	318	(25.5)
Other income	632	786	(19.6)	826	(23.5)
PBT	4,921	4,574	7.6	6,137	(19.8)
Tax	1,326	849	56.1	1,611	(17.7)
Effective tax rate (%)	26.9	18.6		26.2	
Minority int / associate	5.8	1.1		0.2	
Exceptional	0	(3)		0	
Reported PAT	3,601	3,724	(3.3)	4,526	(20.5)

Stock data (as on Apr 27, 2021)

Nifty:	14,653
52 Week h/l (Rs)	4,010/2,867
Market cap (Rs/USD mn)	852,963/11,425
Outstanding Shares	241
6m Avg t/o (Rs mn):	2,551
Div yield (%):	3.5
Bloomberg code:	BRIT IN
NSE code:	BRITANNIA

Stock performance



Shareholding pattern (As of Dec'20 end)

Promoter	50.6%
FII+DII	27.5%
Others	21.9%

Financial Summary

	FY21	FY22e	FY23e
Net Revenue	131,361	141,233	155,716
YoY Growth	13.2	7.5	10.3
EBIDTA	25,093	25,411	28,811
YoY Growth	36.1	1.3	13.4
PAT	18,645	19,207	21,846
YoY Growth	31.3	3.0	13.7
ROE	46.9	50.7	51.1
EPS	77.4	79.7	90.7
P/E	45.7	44.4	39.0
BV	147.3	167.0	187.7
P/BV	24.0	21.2	18.8

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CON-CALL HIGHLIGHTS

- ✓ **Margin impact of commodity inflation** - Have started taking some price hikes towards end of quarter, confident of fully passing on the 3% material inflation over FY22; FY21 margins of 17.9% look difficult to sustain but should definitely sustain margins above FY20 levels of 15.9%.
- ✓ **Near-term demand and production trends** - Witnessing a surge in demand again in April, some amount of pantry loading and higher demand for in-home consumption products visible in the near term; companies seem better prepared than last year so expect minimal production and supply chain issues.
- ✓ **Milk Bikis strategy** - Pricing of non-milk variant at premium to Parle-G; Milk Bikis will remain most profitable brand and not worried about any hit on margins due to expansion in this sub-premium product (gross margins 2.5x of glucose segment) ; looking to upgrade consumers of base glucose products like Tiger and Parle-G.
- ✓ **Capex plans and update** - Currently running at more than 90% utilization and spent a lesser than planned 200crs in FY21; looking at increasing biscuit capacity (4 factories in UP, Bihar, Orissa and TN will come up but might see some delays depending on environment), dairy plant remains on track; current third party manufacturing contribution is 35%.
- ✓ **International business** - New factories coming up (in tie-up with contract manufacturers) in Egypt and Uganda in international business with both capable of doing more than USD 11mn annual revenue.
- ✓ **Medium term growth outlook** - High single digit category growth should come back for the industry gradually as things settle down, market share gains can get back double-digit growth for Britannia, have a strong product pipeline which could not be executed in FY21 and will be done as normalcy returns.
- ✓ **Digital transformation** - Had to close quarter 3 days in advance which impacted primary billing; will improve fill rates with new dealer management system, also improve ability to analyze data and improve decision making ability, small expense but benefits can be large over long term with strong edge over competitors; benefits already visible via real-time analytics for 20 lakh outlets.
- ✓ **PLI for processed foods manufacturing** - Ready-To-Eat food products including biscuits is included in the PLI for food manufacturing, scheme details not yet finalized by the government; benefits should accrue to companies like Britannia.
- ✓ **Distribution update** - Asking salespeople to not physically visit markets and do more telesales and increase wholesale trade; distribution reach will drop in near-term till the pandemic subsides.
- ✓ **Adspends** - FY21 advertising spends 150bps lower in FY21 over FY20, but 3Q spends were flattish and 4Q spends higher yoy.

PRESENTATION HIGHLIGHTS

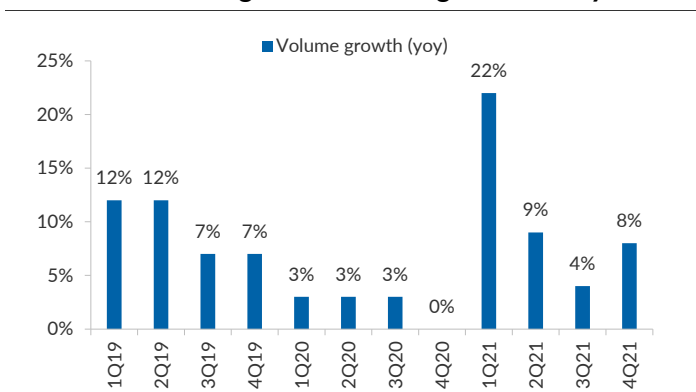
- ✓ **FY21 summary** - 13% revenue growth, 340bps margin improvement in a difficult year; market share has remained stable for Britannia while Parle seems to have gained significant share from ITC in FY21.
- ✓ **Distribution update** - Number of rural dealers increased to 23,500 after dipping to 19,300 in March 2020 vs 21,300 in FY19; direct reach increased to 23.7 lakh outlets after dipping

to 19.7 in FY20 vs 21 lakh in FY19; focus states grew 25% higher than other markets and eCom business is up 4.1x on base of FY19 after growing 1.9x in FY20.

- ✓ **Marketing update** – Multiple new brand campaigns and activations in biscuits, relaunch of Milk Bikis 100% Atta with focus on creating a large brand in Hindi belt, new campaigns for adjacent categories like rusk, wafers and milk shakes which saw highest ever volumes.
- ✓ **COVID efficiencies being sustained** – Factory productivity 8% higher, wastages 20% lesser, direct dispatch from factories to distributors 50% higher and depot space used 10% lower than pre-COVID levels.
- ✓ **Digital transformation** – Implemented 3 major projects to create large digital platform and increase efficiencies – S4 Hana as core ERP, Arteria for integrated dealer management and a new vendor management system.
- ✓ **Cost efficiencies continue to deliver** – Cost savings at 4.6x using FY14 as base vs 5.7x in FY20 (one-time benefit due to extra incentives) and 4.8x in FY19.
- ✓ **Commodity inflation** – Sharp sequential inflation in milk and palm oil, 3% yoy deflation in flour, 2% deflation in sugar, 24% inflation in RPO and 11% deflation yoy in milk.

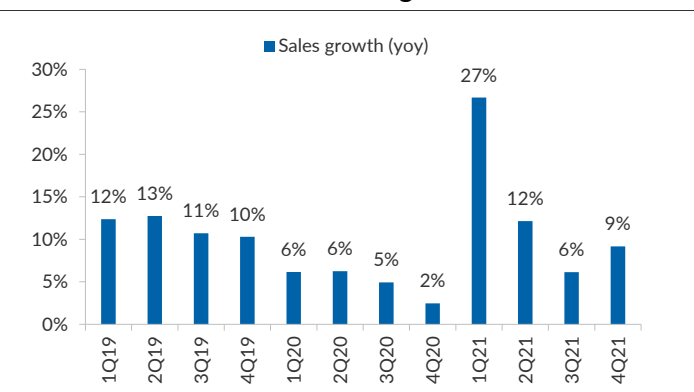
CHARTS

Exhibit 2: Volume growth sees marginal recovery



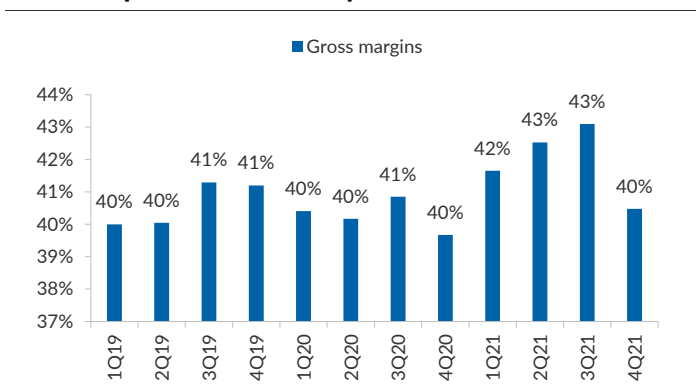
Source: Company, YES Sec – Research

Exhibit 3: Similar trend for sales growth



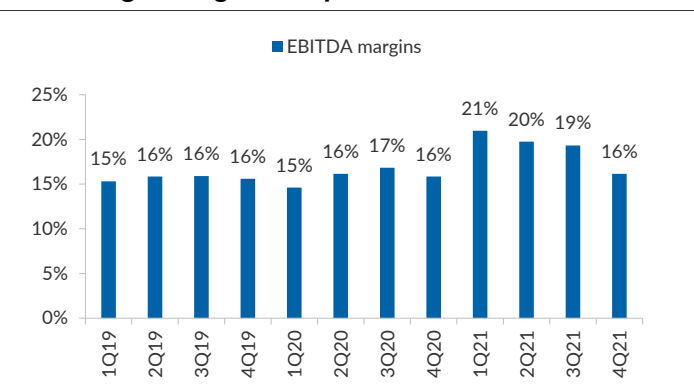
Source: Company, YES Sec – Research

Exhibit 4: Gross margin impacted by palm oil, packing material prices and inferior product mix



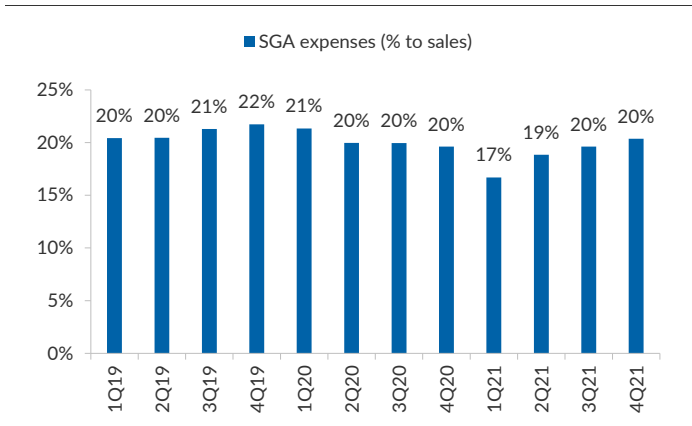
Source: Company, YES Sec – Research

Exhibit 5: EBITDA margin impacted by increase in marketing and logistics expenses



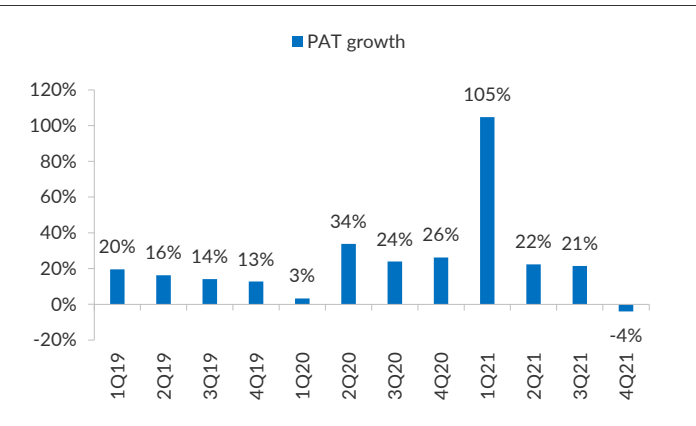
Source: Company, YES Sec – Research

Exhibit 6: SG&A costs rising gradually through FY21



Source: Company, YES Sec - Research

Exhibit 7: Earnings trajectory goes into negative territory



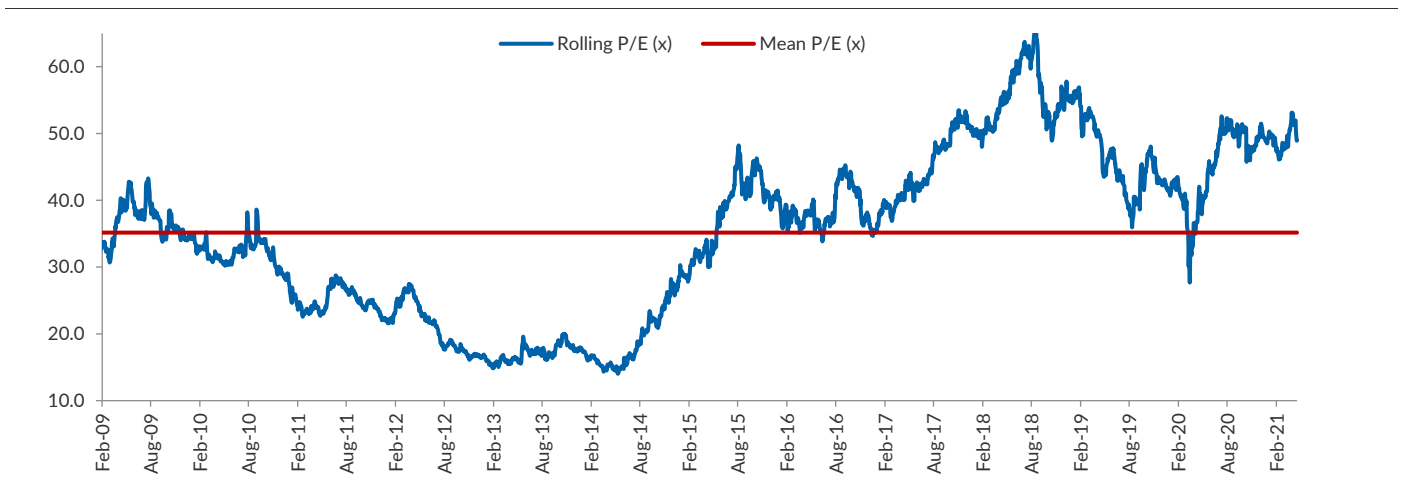
Source: Company, YES Sec - Research

Exhibit 8: Commodity price trends – sharp sequential inflation in palm oil and dairy prices

Commodity Inflation (% yoy)	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21
Flour	7.0	9.0	9.0	11.0	14.0	7.0	2.0	(3.0)	(5.0)	(7.0)	(3.0)
Sugar	(17.0)	(14.0)	(8.0)	1.0	1.0	3.0	5.0	4.0	4.0	1.0	(2.0)
RPO	22.0	10.0	(5.0)	(15.0)	13.0	(5.0)	18.0	23.0	25.0	25.0	24.0
Milk	(22.0)	(12.0)	(9.0)	10.0	37.0	42.0	50.0	(7.0)	(21.0)	15.0	(11.0)
Overall	4.0	4.0	3.0	4.0	3.0	4.0	4.0	3.0	3.0	1.0	3.0

Source: Company, YES Sec - Research

Exhibit 9: Currently trading at 49x one-yr fwd earnings



Source: Company, YES Sec - Research

FINANCIALS

Exhibit 10: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	240	241	241	241	241
Reserves	42,292	43,788	35,236	39,989	44,972
Net worth	42,533	44,028	35,477	40,230	45,213
Debt	1,380	15,141	20,872	20,872	20,872
Deferred tax liability	39	127	87	-	-
Other non-current liabilities	387	597	541	595	654
Current liability	17,753	18,173	22,749	23,609	26,019
Sundry creditors	11,405	11,163	13,148	13,543	14,932
Other current liabilities	4,383	5,098	5,726	5,804	6,399
Provision	1,965	1,913	3,875	4,262	4,688
Total liabilities	62,091	78,066	79,724	85,305	92,758
Net Block	16,883	18,782	17,930	18,808	19,470
CWIP	1,012	396	1,165	1,165	1,165
Fixed Asset	17,895	19,177	19,095	19,973	20,635
Non-current investments	14,763	28,932	27,807	27,807	27,807
Other Non-current Assets	4,866	7,370	8,120	8,835	9,718
Non-current assets	37,525	55,480	55,021	56,615	58,159
Current Assets	23,795	21,714	22,953	26,312	28,157
Inventories	7,814	7,410	10,915	10,834	11,092
Sundry debtors	3,942	3,204	2,573	3,869	4,266
Loans and Advances	12,039	11,101	9,466	11,608	12,799
Cash & equivalents	771	872	1,750	2,379	6,442
Total assets	62,091	78,066	79,724	85,305	92,758

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	1,10,547	1,15,996	1,31,361	1,41,233	1,55,716
Operating profit	17,334	18,432	25,093	25,411	28,811
Depreciation	1,619	1,848	1,979	2,122	2,338
Interest expense	91	769	1,109	1,252	1,252
Other income	2,065	2,794	3,129	3,442	3,786
Profit before tax	17,689	18,609	25,134	25,479	29,006
Taxes	6,125	4,507	6,630	6,413	7,301
Minorities and other	10	(95)	(141)	(141)	(141)
Adj. profit	11,555	14,196	18,645	19,207	21,846
Exceptional items	-	170	6	-	-
Net profit	11,555	14,026	18,639	19,207	21,846

Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	17,780	19,378	26,243	26,731	30,258
Depreciation	1,619	1,848	1,979	2,122	2,338
Tax paid	(6,125)	(4,507)	(6,630)	(6,413)	(7,301)
Working capital Δ	(3,568)	2,501	3,337	(2,498)	565
Other operating items					

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Operating cashflow	9,706	19,220	24,928	19,942	25,861
Capital expenditure	(4,030)	(3,130)	(1,896)	(3,000)	(3,000)
Free cash flow	5,676	16,090	23,032	16,942	22,861
Equity raised	1,169	(2,598)	7,740	-	(0)
Investments	(3,970)	(14,170)	1,125	-	-
Debt financing/disposal	(402)	13,760	5,731	-	-
Dividends paid	(91)	(769)	(1,109)	(1,252)	(1,252)
Other items	(4,253)	(9,933)	(34,931)	(14,454)	(16,863)
Net Δ in cash	1,106	(2,251)	(704)	(607)	(682)

Exhibit 13: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.65	0.76	0.74	0.75	0.75
Interest burden (x)	0.99	0.96	0.96	0.95	0.96
EBIT margin (x)	0.16	0.17	0.20	0.19	0.19
Asset turnover (x)	1.94	1.66	1.67	1.71	1.75
Financial leverage (x)	1.49	1.62	1.98	2.18	2.08
RoE (%)	30.2	32.8	46.9	50.7	51.1

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	11.5	4.9	13.2	7.5	10.3
Op profit growth	15.4	6.3	36.1	1.3	13.4
EBIT growth	16.5	9.0	35.4	1.9	13.2
Net profit growth	15.1	22.9	31.3	3.0	13.7
Profitability ratios (%)					
OPM	15.7	15.9	19.1	18.0	18.5
EBIT margin	16.1	16.7	20.0	18.9	19.4
Net profit margin	10.5	12.2	14.2	13.6	14.0
RoCE	44.6	37.6	45.4	45.5	47.6
RoNW	30.2	32.8	46.9	50.7	51.1
RoA	20.3	20.3	23.6	23.3	24.5
Per share ratios					
EPS	48.1	59.0	77.4	79.7	90.7
Dividend per share	15.0	35.0	145.0	60.0	70.0
Cash EPS	54.8	66.7	85.6	88.5	100.4
Book value per share	177.0	183.1	147.3	167.0	187.7
Valuation ratios					
P/E	73.7	60.0	45.7	44.3	39.0
P/CEPS	73.7	60.7	45.7	44.3	39.0
P/B	20.0	19.3	24.0	21.2	18.8
EV/EBIDTA	49.1	47.0	34.7	34.3	30.1
Payout (%)					
Dividend payout	37	70	187.3	75.3	77.2
Tax payout	35	24	26.4	25.2	25.2
Liquidity ratios					
Debtor days	13	10	7.1	10.0	10.0
Inventory days	26	23	30.3	28.0	26.0
Creditor days	37.7	35.1	36.5	35.0	35.0

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