

24<sup>th</sup> August 2022

## Britannia Industries Ltd.

**CMP** :Rs. 3649  
**Target Price** : Rs 4283  
**Upside** : +17%  
**Stop Loss** :Rs 3260 (Closing basis)

### Investment Thesis

Britannia Industries is one of India's leading food companies with a 100-year legacy and annual revenues in excess of Rs. 9000 Cr. Britannia is among the most trusted food brands, and manufactures India's favorite brands like Good Day, Tiger, NutriChoice, Milk Bikis and Marie Gold which are household names in India. The product portfolio includes Biscuits, Bread, Cakes, Rusk, and Dairy products including Cheese, Beverages, Milk and Yoghurt. Expanding beyond the Biscuit market (market size 32000Cr), has increased the addressable market by 9.3x to Rs 3 trillion. Addressing huge market size :

- The adjacent business has a total addressable market size of more than Rs 3 trillion we believe Britannia has the potential to gain good market share within the next 4 to 5 years down the line.
- Leveraging on its leadership in the biscuit market under the different brands. Britannia has now entered other segments to increase its addressable market opportunity to more than Rs 3 trillion.
- It has rapidly gained market share in newer segments including Cake (Market share of more than 24% and market size Rs 5000Cr), Bread and Rusk (market share of 12% and market size of more than Rs 10,000Cr), Value-added dairy (market share 10% cheese and other value-added and market size more than Rs 30,000Cr) which is a demonstration of its execution is its ability.

Strong traction in adjacent business :

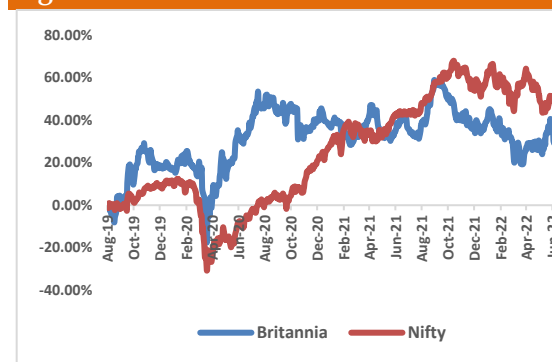
- Britannia's adjacent businesses have gained good traction during the year. The bakery business registered high double-digit growths across divisions and reported healthy and consistent margins in the bread & rusk portfolios. The Croissant business continued to gain traction with consumers and is expected to be launched across the country after its regional success.
  - The Dairy business reported a strong quarter with robust double-digit growth. The dairy business revenues crossed the 'Rs. 500 crore' mark during the year and the company target dairy business revenue of Rs. 2,000 crore in the next four to five years. Revenues from Winkin Cow crossed the 'Rs. 100 crore' mark in Q4FY2022.
  - In terms of the company's international business, Nepal continued to perform well and joined the 'Rs. 100 crore' revenue club during the quarter. Middle east delivered muted performance as distribution revamp in the region impacted the performance.
- Healthy volume growth in a challenging environment
- Market share gains continued: The company gained a market share of 80 bps in the last two years to 40% in the core biscuit categories. It is focusing on ahead further share with defined strategies in key markets. Hindi Belt is growing 20% faster than the rest of India. Smaller Hindi-Belt states need more attention. Uttar Pradesh is 50% of Hindi-Belt sales and is doing well. Adjacencies and International business to scale up and will add to the topline. It will focus on improving the rural market share and bringing close to the urban market through its defined strategies.
  - Focus on expanding the rural reach: Britannia now has a reach of 26,000 rural distributors against 19,000 distributors in March 2020. The majority of the focus states are rural thus reinforcing the company's aim to grow its footprint in these areas. Focus states such as Uttar Pradesh, Rajasthan, Madhya Pradesh, and Uttarakhand grew at 1.2x rest of India. Britannia is looking to rural distribution to come at par with the urban distribution. Products such as Milk Bikis and Tiger Crunch continue to gain good traction in the Hindi belt and are growing in strong double digits. Tiger Crunch is growing by 30-35%.

Stock Data	
Market Cap (Rs.Cr)	88219.2
Market Cap (\$ Mn)	11028
Shares O/S (in Mn)	241
Avg. Volume 3m (000)	363
52-Week Range (Rs.)	4153 / 3050

Shareholding Pattern	
Promoters	50.6%
FII's	16.7%
Institutions	8.8%
Others (incl. body corporate)	24.1%

Performance (%)	1M	6M	1Yr
Absolute	-2.2%	6.1%	-0.7%
Nifty FMCG	3.5%	5.6%	13.8%

Figure 1: Price Chart



- A steady rise in the direct reach: Direct reach currently stands at 2.49 million outlets, up from 1.97 million outlets in March 2020. The company targets direct coverage to reach 3.0 million outlets in the coming years.
- RM Inflation was further elevated due to geopolitical factors: To counter inflation, the management undertook some forward covers and is focusing on controlled discretionary spending (rationalization of A&P, controlled Overhead exp. etc), cost efficiency programs, packaging optimization, backward integration, and process automation to improve productivity. The company increased the prices of its products by nearly 13% in 9MFY22 and by 10% in Q4FY22. Britannia undertook these price hikes primarily by reducing the grammage of its products.

## Financials

Particulars (Rs Cr)	FY20	FY21	FY22	FY23E	FY24E
Net Sales	11,599.6	13,136.1	14,136.3	15,732.1	16,905.0
Gross Profit	4,638.4	5,206.8	5,255.0	6,283.7	6,902.5
EBITDA	1,843.2	2,509.3	2,201.5	2,653.8	2,941.3
Profit After Tax	1,402.6	1,863.9	1,524.8	1,904.7	2,104.1
Adjusted EPS	58.8	77.4	63.3	79.1	87.4
ROE	32.7%	46.9%	50.0%	65.6%	63.2%

## Valuation

- Britannia is the value leader in the biscuit category in advance of Parle and has expanded market share by more than 700bps from the last 4 to 5 years market size of 32000cr with 40% market share close competitor Parle gets 25% of sales value from the economy segment biscuit. As per management, the company is very close to becoming a total foods company when trailed by the implementation it will set the stock re-rate going forward once revenue starts reflecting in their topline, higher traction on new channels including e-commerce, robust portfolio, and distribution expansion. There are near-term headwinds to profitability owing to RM headwinds which would initiate fresh price hikes that could potentially impact volumes. The stock trades at an inexpensive valuation of 38.3x FY24E given a strong track record of return ratios of more than 30% over the last 10 years and 22% EPS CAGR in the past 10 years ended FY22, respectively These valuations also offer a substantial discount to its historical five-year averages of 49x.
- We continue to apply a P/E of 49x on FY24E EPS of INR 87.4 and arrive at our target price of INR 4283 per share with an upside potential of 17.3% from the CMP. Accordingly, we are recommending an "Buy" of the shares of Britannia industries for the long term.

## Key Business Highlights

- The company reported revenue of Rs 14136Cr, up 7.6% YoY, driven by mid and single-digit volume growth of 3.25% on account of share gain from unorganized players. In the latest quarter, the consensus-estimated flattish growth from the industry but Britannia industry reported better than the consensus-estimated number. The pressure on margins was due to high raw material costs and other expenses. Raw material inflation of 14% in FY22 led to a 246bps YoY decline in gross margins to 37.2%. However, lower other expenses resulted in a decline in OPM to 15.6%. Adjacencies continued to perform well and products such as bread, rusk, and dairy drinks are growing in double digits along with improvement in profitability due to a better product mix.
- Strong operating performance, the adjusted PAT stood at Rs. 1516 crore, better than the consensus expectation. For FY2022, Britannia's revenues grew by 7.6%, while the PAT was lower by 18% YoY due to a decline in OPM.
- In order to mitigate inflationary pressure, the company took judicious price hikes, controlled discretionary spending, and initiated cost efficiency programs. It could achieve 5x cost savings in FY22.
- Nepal business is doing more than Rs100 crs revenue performed well due to own distribution and manufacturing facility. Britannia industry has 2 contract packers in Africa. UAE (largest business) was impacted due to issues with distribution partners which are resolved. Europe, America, Australia, and South-East Asia export business grew in double digits.

**Risk-** Delay in ramp-up of adjacencies, Increase in capital allocation and Change in management

Figure 2: Net Sales Trend

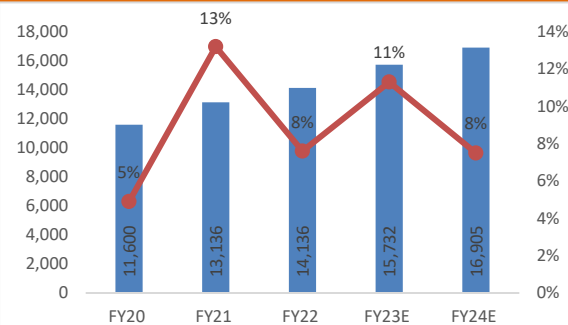


Figure 3: EBITDA & EBITDA Margin Trend

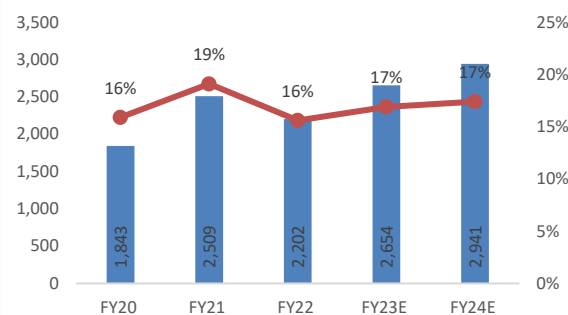


Figure 4: PAT Trend

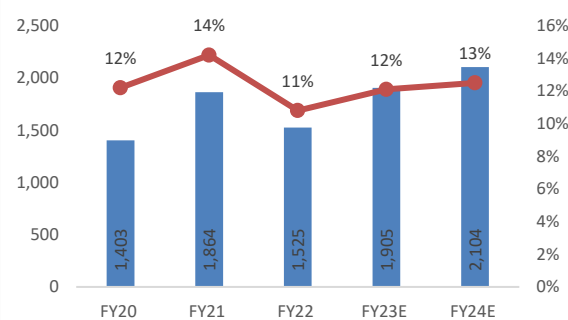
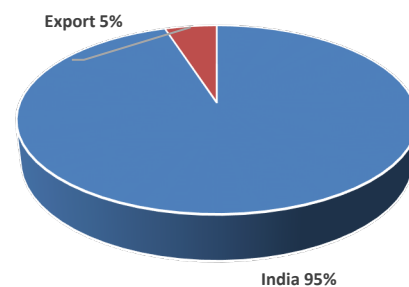


Figure 5: Geography Wise Revenue (FY22)



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