

25th August 2021

# Britannia Industries–BUY

**CMP** :Rs.3818  
**Target Price** : Rs.4331  
**Upside** : 15%+  
**Stop Loss** : Rs.3500 (Closing basis)

## Investment Thesis

The government announced Production Linked Incentive (PLI) scheme for the food processing industry in Mar-21 with a potential outlay of Rs 10900Cr. The objective is to boost domestic manufacturing and sales as well as incentivize Indian brands to compete in global markets. With new category heads in place for less than 18 months now, Britannia should be able to accelerate their new launches and innovation plans in adjacent business (including dairy business). Apart from this, with FY21 and 1QFY22 getting impacted by Covid and with most of the Britannia's adjacent products (croissants, salted snacks, cakes, milk shakes) being on-the-go products, management possibly intentionally took a step back from innovation in adjacencies considering consumers were largely protected at home. However, now with the Covid curve normalising and lockdowns withdrawing, we expect management to bounce back aggressively. Of the overall adjacencies having market size of Rs 2.8tn, Believe Britannia has right to win in a good size of market opportunity. EBITDA for the quarter declined 22.8% YoY to Rs. 554cr (+9.6% QoQ), impacted by increase in commodity prices, especially for red palm oil (RPO) and milk. As a result, EBITDA margins contracted 470bps YoY to 16.5% (-10bps QoQ). Adjusted PAT declined 28.6% YoY to Rs. 390cr (+6.9% QoQ), further impacted by higher interest expenses (+33.6% YoY) and lower other income (-35.5% YoY), partially offset by lower taxes (-25.8 %YoY). Despite the price rise in commodities, the company tried to be aggressive on cost efficiencies and improve the profitability. Company is pushing to improve sales for its premium category of products through focus on innovation and marketing. Additionally, it is also taking necessary efforts to better handle the commodity price inflation and maintain profitability.

Ranjangaon: eight lines fully functional; more lines to come up in rusk, biscuits; facility investment is Rs 6.5bn with revenue generation of Rs 12bn (to reach Rs15-16bn on full utilization). BRIT getting tax incentive of 110% on investment. Dairy facility also coming up at Ranjangaon, by 2Q23. Other expansions: expansion in Khurda plant, new facility in Tamil Nadu and in Uttar Pradesh (acquired land in Barabanki, granted incentive from Uttar Pradesh government). Capex seen at Rs 130Cr for FY22. Company focus on direct reach was slightly lower at 20.8 lakh outlets from the 23.7 lakh outlets in the March quarter. This however is coming back to normal at a rapid pace. Rural distribution was almost flat compared to the March quarter at about 23,000 RPDs. Over the years Britannia has issued ICDs to promoter group companies. As of FY21 total ICDs outstanding to promoter group companies (majorly Bombay Dyeing and Bombay Burmah Trading) stood at Rs 811Cr. As per management, this exposure has reduced to Rs 470Cr as at 1QFY22. While this is a positive development, we will have to see if this trend continues.

## Stock Data

Market Cap (Rs. Mn)	8,75,993
Market Cap (\$ Mn)	11,731.5
Shares O/S (in Mn)	240.5
Avg. Volume (3 month)	10,19,000
52-Week Range (Rs.)	3,708.00/ 2,100.00

## Shareholding Pattern

Promoters	50.63%
FII's	14.71%
Institutions	13.38%
Others (incl. body corporate)	21.28%

Performance (%)	1M	6M	1Yr
Absolute	0.8%	16.4%	26.6%
BSE FMCG	3.6%	0.1%	-0.1%

## Key Ratios

Div Yield	1.0%
TTM PE	61.7x
ROE	32.1%
TTM EPS (Rs.)	58.3/-

## Key Business Highlights

- Britannia is engaged in the manufacturing of bakery and dairy products. Its product portfolio includes Biscuits, Bread, Cakes, Rusk, and Dairy products including Cheese, Beverages, Milk and Yoghurt.
- Britannia's product brands under biscuits category include Good Day, Crackers, NutriChoice, Marie Gold, Tiger, Milk Bikis, Jim Jam + Treat, Bourbon, Little Hearts, Pure Magic and Nice Time.
- Britannia's products are exported across the world, which include Gulf Cooperation Council Countries (GCC), African Countries and American Countries.

## Valuation

- Britannia has lowest dependency on wholesale channel for its domestic business. It has increased direct reach and lowered dependence on wholesale channels, which has benefited Britannia. In line with its strategy to widen the distribution reach, Britannia has increased its direct reach by over 3.0x to 2.22mn by FY20 from FY13 level. Britannia plans to further add 0.2-0.25mn direct distribution outlets every year so that it will have more than twice the retail outlets than the market leaders. It has focused on expanding its distribution in the rural market, tier-II and tier-III cities. Britannia's total distribution reach currently stands at ~5.5mn outlets, increased from 3.6mn outlets 4 years ago. As a result, Britannia has reduced its distribution distance to 400 Kms from 676 Kms a few years ago. This has not only saved distribution costs, but also helped Britannia to provide fresh products to customers.
- Britannia is focused on aggressive product launches and plans to launch 50 new products in the next 3-4 years, which are futuristic and highly differentiated in nature along with targeting various markets at the same time. Recently, it has launched Pure Magic Deuce, premium biscuit and also revamped its chocolate portfolio in Goodday through the launch of Choco Almond and Chocochips. It has also signed a joint venture agreement with Greek company, Chipita for manufacturing and selling long life filled croissants. New launches will lead to category extensions as well as entry in newer categories, which will help Britannia to increase its market share. The new products took a slight setback due to product prioritization amid Covid-19. However, the innovation pipeline is in order for the next few quarters.
- With drive on cost efficiencies, reduction in wastages and ability to leverage fixed costs, strong revenue growth of 20% YoY and 28% YoY for April and May 2020, strategy to widen the distribution reach & reduction of distribution distance and aggressive product launches, we value Britannia at 47x FY23E EPS of Rs 96.25 to arrive at target price of Rs.4331 an upside of 15%.

## Risk & Concern

- Any significant rise in competition by large organized players or unorganized regional players may impact future growth of Britannia.
- Any sharp rise in the prices of key inputs without commensurate hike in product prices may affect margin of Britannia.
- Increase in ICDs and dividend payouts.
- Any economic slowdown in India or in regions where Britannia exports its products, may delay in recovery in consumer demand.

## Graphs & Charts

Figure 1: Net Sales Trend

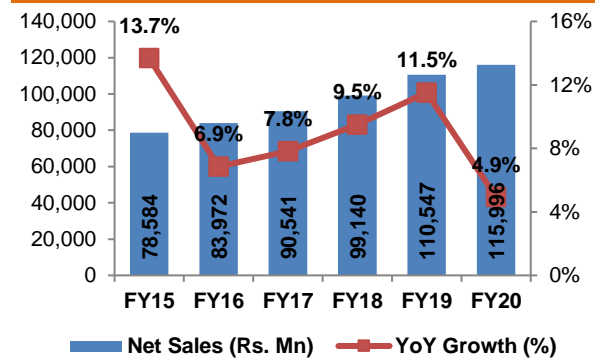


Figure 2: EBITDA & EBITDA Margin Trend

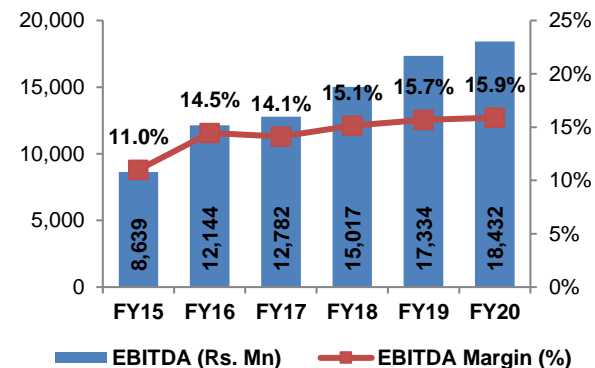


Figure 3: PAT Trend

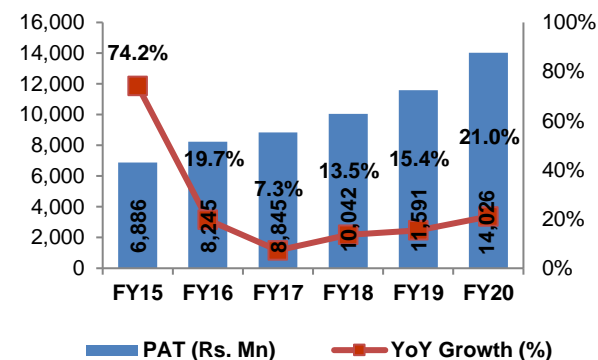
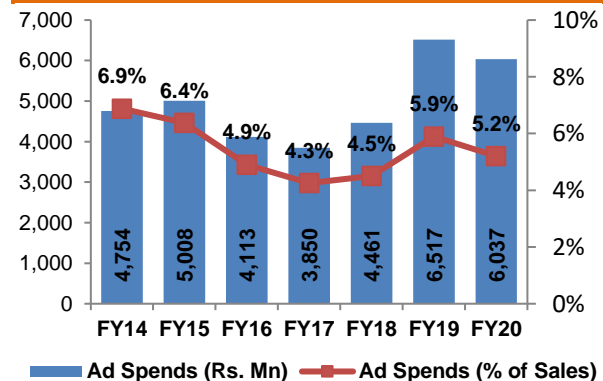


Figure 4: Ad-Spends as a % of Sales Trend



**Disclosure:**

Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. Bonanza Portfolio Ltd is responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. Bonanza Portfolio Ltd or its associates or Analyst or his relatives may or may not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

Bonanza Portfolio Ltd operates under the regulation of SEBI RegnNo.INM000012306

**Disclaimer:**

This research report has been published by Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently sent or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of Bonanza portfolio Ltd shall be liable. Research report may differ between Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the subject company or third party in connection with the research report

Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063

Web site: <https://www.bonanzaonline.com>

SEBI Regn. No.: INZ000212137

BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836

| CDSL: a) 120 33500 | NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

