

BUY**TP: Rs 5,623 | ▲ 23%****BRITANNIA INDUSTRIES**

Consumer Staples

02 February 2023

Strong performance in a challenging environment

- Q3 revenue grew 17% YoY to Rs 42bn driven by price hikes, with adj. PAT up 50%
- BRIT sees its 39th consecutive quarter of market share gains in both volume and value terms
- We assume coverage with BUY and a TP of Rs 5,623, set at 51x FY25E EPS

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Growth momentum continues led by price hikes: BRIT's Q3FY23 revenue grew 17% YoY largely driven by price increases while volumes grew in low single digits. Despite taking price hikes, the company continued to gain market share for the 39th consecutive quarter. Market share gains were visible in both volumes and value, as well as in rural centres. BRIT's focus on enhancing direct distribution reach, marketing, innovation and driving adjacent categories is fueling growth.

Robust operating performance: The company reported strong margin expansion driven by softening commodity prices and cost rationalisation initiatives. EBITDA grew 52% YoY and 15% QoQ to Rs 8.2bn. EBITDA margin expanded 440bps YoY and 320bps QoQ to 19.5% on the back of forward covers in flour and correction in refined palm oil (RPO) prices.

Focus remains on innovation and adjacent categories: BRIT continues to invest in innovation – during the quarter, the company launched plum cake in the east and south, 'Tic Tac Toe' (snack) in the south, and a fresh portfolio of paneer in the western region. The company is also scaling up its recent launches in cake, croissant and biscuits. Management expects to roll out cheddar cheese in Q1FY24 and processed cheese in Q2FY24.

Update on JV with Bel, France: The joint venture is working on joint branding, simplifying the organisation structure, and finalising the portfolio. It will import some products from Bel, Vietnam, to begin with and plans to gradually set up production facilities in India.

BUY, TP Rs 5,623: BRIT continues to report double-digit growth with improvement in margins. We expect the company's focus on innovation, brand investment, direct reach expansion, and product launches to spur profitable growth. The stock is trading at 46.6x/41.5x FY24E/FY25E EPS. We assume coverage with BUY and value the stock at 51x FY25E EPS, in line with the long-term mean, translating to a TP of Rs 5,623.

Ticker/Price	BRIT IN/Rs 4,573
Market cap	US\$ 13.4bn
Free float	49%
3M ADV	US\$ 19.4mn
52wk high/low	Rs 4,596/Rs 3,050
Promoter/FPI/DII	51%/17%/32%

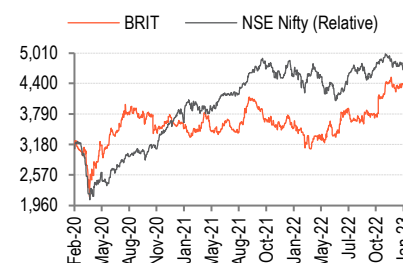
Source: NSE | Price as of 2 Feb 2023

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	1,41,363	1,64,314	1,84,375
EBITDA (Rs mn)	22,015	28,282	34,629
Adj. net profit (Rs mn)	15,258	19,356	23,645
Adj. EPS (Rs)	63.3	80.3	98.2
Consensus EPS (Rs)	63.3	74.4	88.3
Adj. ROAE (%)	59.0	65.3	55.7
Adj. P/E (x)	72.2	56.9	46.6
EV/EBITDA (x)	50.0	38.9	31.8
Adj. EPS growth (%)	(18.2)	51.6	2.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



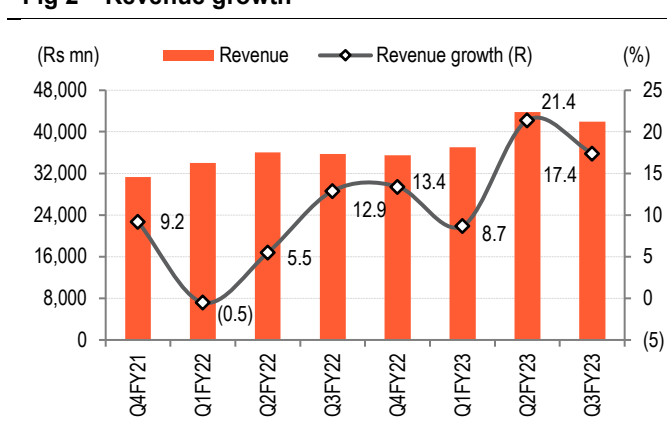
Source: NSE



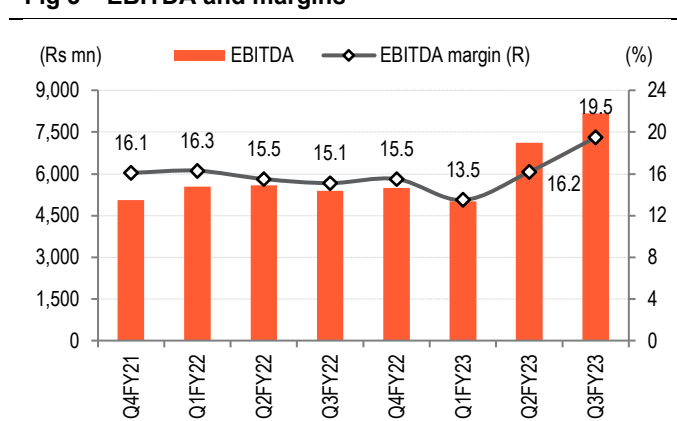
Fig 1 – Quarterly performance

(Rs mn)	Q3FY23	Q2FY23	Q3FY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	41,968	43,796	35,743	(4.2)	17.4	41,783	0.4
EBIDTA	8,176	7,117	5,390	14.9	51.7	6,852	19.3
Adj. PAT	5,568	4,908	3,703	13.4	50.4	4,566	21.9
Gross Margin (%)	43.7	38.9	37.9	480bps	580bps	39.1	460bps
EBIDTA Margin (%)	19.5	16.3	15.1	320bps	440bps	16.4	310bps
Adj. PAT Margin (%)	13.3	11.2	10.4	210bps	290bps	10.93	237bps

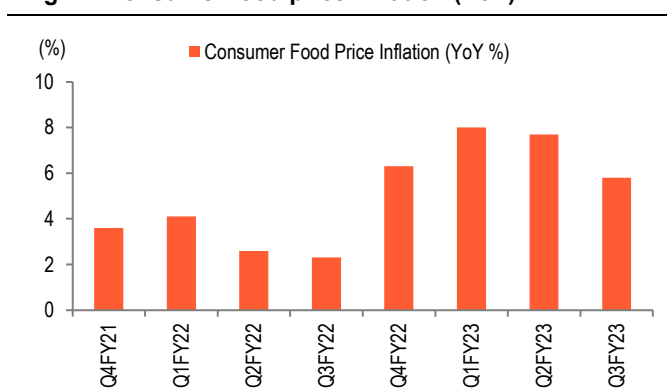
Source: Company, BOBCAPS Research

Fig 2 – Revenue growth

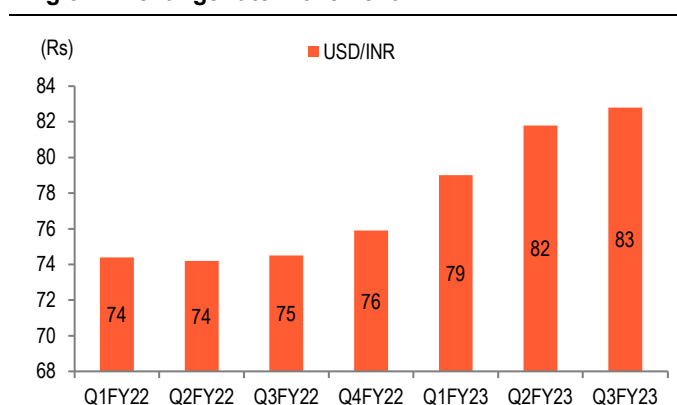
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margins

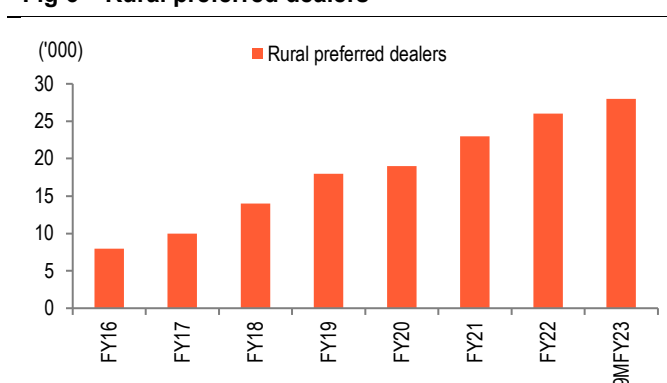
Source: Company, BOBCAPS Research

Fig 4 – Consumer food price inflation (YoY)

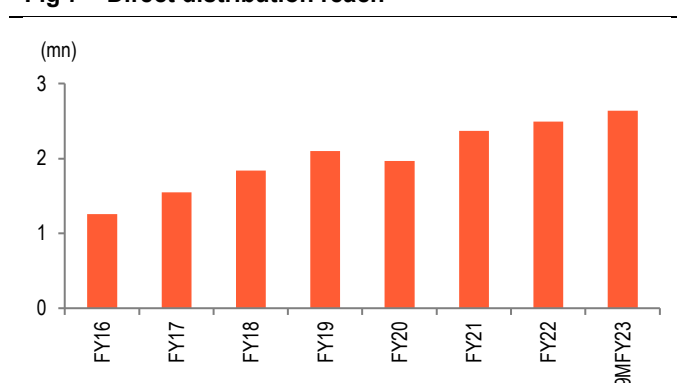
Source: Company, BOBCAPS Research

Fig 5 – Exchange rate movement

Source: Company, BOBCAPS Research

Fig 6 – Rural preferred dealers

Source: Company, BOBCAPS Research

Fig 7 – Direct distribution reach

Source: Company, BOBCAPS Research

Earnings call highlights

- BRIT's addressable market continues to grow, and the company indicated that it has not seen any slowdown in rural volume growth, with rural centres witnessing 1.5x the market share gains seen in the rest of its geographies during Q3FY23.
- Food inflation remains high in India. Prices of wheat are still elevated despite softening in international markets over the last two quarters. RPO prices have eased in domestic markets, helping BRIT control cost inflation. Forward covers on flour and cost-control initiatives taken by the company resulted in a sharp improvement in Q3 gross margin.
- Despite taking prices hikes, the company continued to gain market share for the 39th consecutive quarter. However, management indicated that some of the pricing benefits and forward covers on flour will not be available in coming quarters, resulting in some pressure on margins going ahead.
- BRIT continues to focus on driving innovation, investing in brands, growing adjacent businesses, cost-efficiency initiatives, and sustainability
 - Investments continued in core brands with new marketing campaigns launched during the quarter.
 - Innovation remains one of the growth drivers for the company, and it launched three products in adjacent categories during the quarter. New products in the biscuit category, including BisCafe, Nutri Choice Seeds, 50-50, and Golmaal, have shown a strong uptick in revenue since their launch in Q1FY23.
- The company further augmented its direct distribution reach, adding 0.15mn outlets during the last nine months, taking the total count to 2.64mn. Management indicated that it will continue to enhance its direct reach going forward.
- BRIT has commissioned aseptic PET, fresh dairy, powder, and ghee lines at the Ranjangaon (Maharashtra) facility. It expects the cheese line to be commissioned in FY24.
- In the dairy business, management indicated that milk collection now stands at 70k litres/day from 2,850 farmers, which the company aims to increase to 150k litres/day from more than 4,000 farmers by the end of the year.
- Skimmed milk, sweetened condensed milk, and dairy whitener lines have been commercialised for captive consumption.
- International business is showing healthy, profitable growth across geographies. BRIT commercialised own operations in Kenya during the quarter.

Valuation methodology

BRIT continues to report double-digit growth with margin expansion despite sticky commodity inflation. We expect the company's focus on innovation, brand investment, direct reach expansion, adjacencies and product launches to spur profitable growth.

Investments toward the scale-up of adjacent categories are expected to fuel the next phase of growth for the company. Profitability has improved on cake, rusk and bread, even as the wafers business continues to gain market share. Premium products are outperforming value products despite a challenging demand environment.

Commercialisation of the Ranjangaon facility, ramping up of the milk portfolio and a growing international business also bode well for growth.

The stock is trading at 46.6x/41.5x FY24E/FY25E EPS. We assume coverage with a BUY rating and value the stock at 51x FY25E EPS, in line with the long-term mean, translating to a TP of Rs 5,623.

Key risks

Key downside risks to our estimates are:

- increase in key input prices, and
- further price increase in the core portfolio, impacting volume growth.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Total revenue	1,31,361	1,41,363	1,64,314	1,84,375	2,02,344
EBITDA	25,093	22,015	28,282	34,629	38,743
Depreciation	1,979	2,005	2,143	2,300	2,458
EBIT	23,114	20,010	26,140	32,329	36,285
Net interest inc./(exp.)	1,109	1,443	1,751	1,866	1,846
Other inc./(exp.)	3,129	2,228	1,994	1,909	1,927
Exceptional items	6	10	(3,756)	0	0
EBT	25,128	20,785	30,139	32,372	36,366
Income taxes	6,630	5,624	7,063	8,741	9,819
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(133)	(88)	(23)	(13)	(15)
Reported net profit	18,639	15,248	23,112	23,645	26,562
Adjustments	6	10	(3,756)	0	0
Adjusted net profit	18,645	15,258	19,356	23,645	26,562

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Accounts payables	13,148	12,871	16,015	17,372	18,982
Other current liabilities	1,405	1,267	2,061	1,653	1,814
Provisions	3,875	4,851	5,046	6,327	6,944
Debt funds	20,872	24,655	28,416	28,116	27,816
Other liabilities	4,949	5,656	5,714	7,169	7,803
Equity capital	241	241	241	241	241
Reserves & surplus	35,599	25,615	35,139	42,246	50,229
Shareholders' fund	35,840	25,856	35,380	42,487	50,470
Total liab. and equities	80,088	75,156	92,632	1,03,123	1,13,829
Cash and cash eq.	1,427	1,181	9,516	16,023	23,266
Accounts receivables	2,573	3,319	6,753	7,577	8,315
Inventories	10,915	13,675	15,208	16,497	18,026
Other current assets	15,349	13,193	12,494	13,430	14,134
Investments	27,949	17,763	14,254	14,454	14,654
Net fixed assets	16,343	15,841	20,198	20,397	20,440
CWIP	1,165	5,357	8,789	8,789	8,789
Intangible assets	1,444	1,552	1,625	1,625	1,625
Deferred tax assets, net	97	517	535	674	740
Other assets	2,825	2,759	3,260	3,656	3,840
Total assets	80,088	75,156	92,632	1,03,123	1,13,829

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash flow from operations	25,083	18,864	32,182	35,278	38,807
Capital expenditures	(2,405)	(5,502)	(10,004)	(2,500)	(2,500)
Change in investments	4,675	12,495	2,869	(200)	(200)
Other investing cash flows	2,086	2,116	1,935	1,375	1,679
Cash flow from investing	4,356	9,109	(5,200)	(1,325)	(1,021)
Equities issued/Others	1,032	0	0	0	0
Debt raised/repaid	5,690	(3,387)	3,760	(300)	(300)
Interest expenses	(1,013)	(1,186)	(1,751)	(1,866)	(1,846)
Dividends paid	(28,238)	(24,848)	(13,611)	(16,552)	(18,594)
Other financing cash flows	104	6,963	18	13	15
Cash flow from financing	(22,425)	(22,458)	(11,584)	(18,704)	(20,725)
Chg in cash & cash eq.	686	(353)	8,335	6,508	7,242
Closing cash & cash eq.	1,427	1,181	9,516	16,023	23,266

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23E	FY24E	FY25E
Reported EPS	77.4	63.3	95.9	98.2	110.3
Adjusted EPS	77.4	63.3	80.3	98.2	110.3
Dividend per share	118.0	74.5	56.5	68.7	77.2
Book value per share	148.8	107.3	146.9	176.4	209.5

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23E	FY24E	FY25E
EV/Sales	8.4	7.8	6.7	6.0	5.4
EV/EBITDA	43.9	50.0	38.9	31.8	28.4
Adjusted P/E	59.1	72.2	56.9	46.6	41.5
P/BV	30.7	42.6	31.1	25.9	21.8

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23E	FY24E	FY25E
Tax burden (Net profit/PBT)	74.2	73.4	76.7	73.0	73.0
Interest burden (PBT/EBIT)	80.6	76.2	88.4	73.1	73.2
EBIT margin (EBIT/Revenue)	17.6	14.2	15.9	17.5	17.9
Asset turnover (Rev./Avg TA)	164.0	188.1	177.4	178.8	177.8
Leverage (Avg TA/Avg Equity)	2.2	2.9	2.6	2.4	2.3
Adjusted ROAE	52.0	59.0	65.3	55.7	52.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23E	FY24E	FY25E
YoY growth (%)					
Revenue	13.2	7.6	16.2	12.2	9.7
EBITDA	36.1	(12.3)	28.5	22.4	11.9
Adjusted EPS	32.7	(18.2)	51.6	2.3	12.3
Profitability & Return ratios (%)					
EBITDA margin	19.1	15.6	17.2	18.8	19.1
EBIT margin	17.6	14.2	15.9	17.5	17.9
Adjusted profit margin	14.2	10.8	11.8	12.8	13.1
Adjusted ROAE	52.0	59.0	65.3	55.7	52.6
ROCE	40.8	39.6	41.0	45.8	46.4
Working capital days (days)					
Receivables	7	9	15	15	15
Inventory	52	57	57	57	57
Payables	63	54	60	60	60
Ratios (x)					
Gross asset turnover	1.5	1.6	1.5	1.5	1.5
Current ratio	1.2	1.0	1.2	1.3	1.5
Net interest coverage ratio	20.8	13.9	14.9	17.3	19.7
Adjusted debt/equity	0.6	1.0	0.8	0.7	0.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

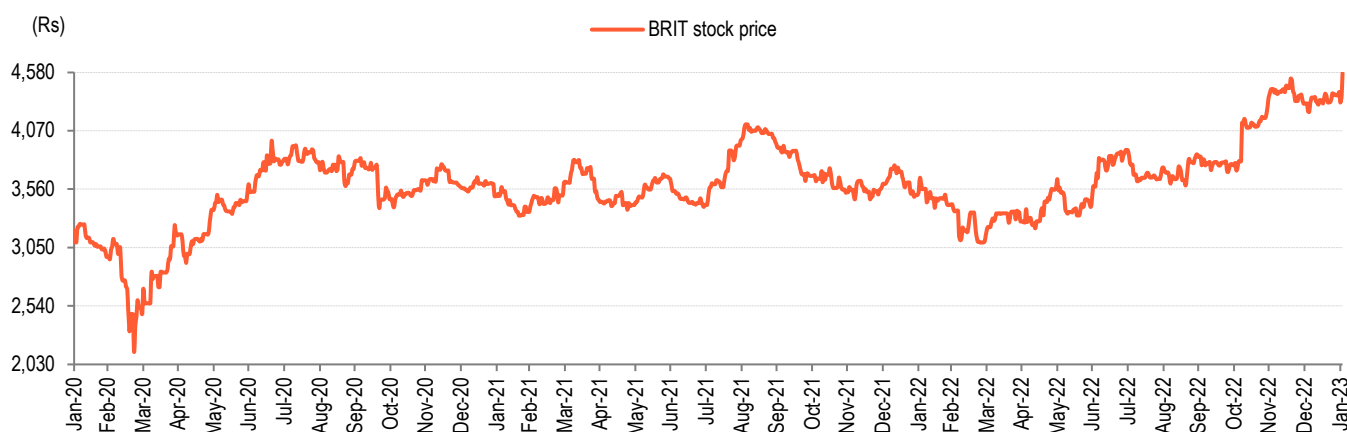
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BRITANNIA INDUSTRIES (BRIT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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