

On ground situation improves, Innovative products restart



Britannia Consolidated Q1FY22 better than expectations
QoQ Revenues +8.7% and EBIDTA margins +20bps
despite higher RM

- Revenue were flat -0.5% YoY to Rs 34035mn (+8.7% QoQ). Volume growth stood at 1%
- EBIDTA** declined 22.8% YoY to Rs 5538mn (+9.6% QoQ) || EBIDTA margins 16.3% v/s 21% YoY and 16.1% QoQ
- PAT (adj) declined** 28.6% YoY to Rs 3896mn (+7% QoQ) || tax rate 27.2% v/s 26.4% YoY (26.9% QoQ)

Other Details

- Raw Materials** to Revenue stood 61.3% v/s 58.3% (59.5% QoQ).
- Employee cost** rose 1.7% YoY to Rs 1393.2mn (+12% QoQ)
- Other Expenses to Revenue** stood at 18.3% v/s 16.7% (20.4% QoQ)
- PBT** declined by 28% YoY to Rs 5309.7mn (+7.9% QoQ)

Outlook:

Cautious price increase to cover-up the inflation is expected to continue, EBIDTA margins in FY21 were exceptional @ 19.1%, aim would be to remain above the normalized historic margins of 15.9% i.e. FY20.

Q3FY21 had tapered off due to Rural however this year is expected to be better as things are better managed. Innovative and adjacent (on-the-go) products is expected to pick-up speed as pandemic issues reduces.

On the balance sheet side **ICD exposure towards group companies -41% @ Rs 4.7bn**

Financial Summary

Y/E Mar (Rs)	FY19	FY20	FY21	FY22E	FY23E
Net sales	1,10,547	1,15,996	1,31,361	1,36,568	1,48,255
EBIDTA	17,334	18,432	25,092	22,737	25,982
Margins	15.7	15.9	19.1	16.6	17.5
PAT (adj)	11,591	14,155	18,643	16,910	19,997
growth (%)	15.4	22.1	31.7	(9.3)	18.3
EPS	48.2	58.9	77.4	70.2	83.0
P/E (x)	72.6	59.5	45.3	49.9	42.2
P/B (x)	19.8	19.1	23.8	19.2	15.6
EV/EBITDA (x)	47.8	45.0	33.4	36.7	31.8
RoE (%)	27.3	32.1	52.6	38.5	37.1
ROCE (%)	35.5	27.9	40.8	32.0	33.4

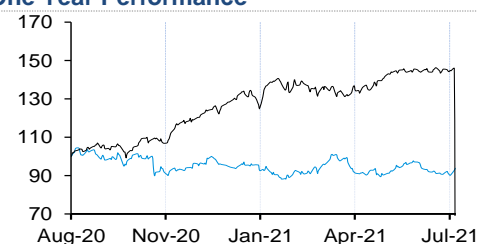
Source: Dalal and Broacha

Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	3735	7

Market data

Current price	Rs	3504
Market Cap (Rs.Bn)	(Rs Bn)	844
Market Cap (US\$ Mn)	(US\$ Mn)	11335
Face Value	Rs	1
52 Weeks High/Low	Rs	4004/3318
Average Daily Volume	('000)	23
BSE Code		500825
Bloomberg		BRIT:IN
Source: Bloomberg		

One Year Performance



— Britannia Industries Ltd — Nifty Index

Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	50.55	50.55
Public	49.45	49.45
Others	0.00	0.00
Total	100	100

Source: BSE

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Conference Call KTA's continue

- **Q1FY22 highlights**
 - **July-21** was reasonably stable
 - Volume growth Q1FY22 @ 1% || Q1FY21 Britannia was producing only 3 brands || Q1FY22 product mix was higher
 - Market share gained in Q1FY22 as well
 - Adjacent business i.e. out of home suffered and “home consumption” did well
 - International business suffered due to container shortage
 - Inflation YoY basis: Milk +13% || RPO +49% || flour -5% || Sugar -2% (on an overall level was 6-7%, including fuel price would be 1-2% higher)
 - Ad Spends increased, brands returned on Air
- **Network & Distribution highlights**
 - **Direct Reach:** 20.8 lac outlets v/s 23.7lac in March-21 (network getting back at base levels) || 90% of front-end is back now || 92% employees vaccinated with 1st dose
 - **Rural distribution** @ 23k distributors flat v/s March-21 || coming back as situation improves
 - Focus state growth was 1.33x of country average
 - E-commerce sales contribution increased from 0.4% of sales to 2% (aim is to take it to 5%)
 - Growth in channels is back @ 1.12x of FY20 (was 0.96x in FY21)|| modern trade, e-commerce and other channels expected to improve further
- **Tech & Process improvement:** S4 HANA, Arteria (for dealer management) & Ariba (procurement system) implemented || aided reducing inventory @ distributor level by 25%
- **Launches:**
 - Relunched Goodday Chocochips (reponse is good)
 - **50:50 Potazos** Two in one format of Potato Chip and Biscuit ||started with N. East will launch in other states as well
 - **Milk Bikis atta** launched pan India with new commercials || advertisement spends remains at high levels supported by **above average growth in this product**
 - **Innovations:** had taken a back-seat on a/c of limited trial available
 - **Pipeline launches:**
Milk Bikki classics (premium product) + health & wellness product in Nutrichoice
- **International business:**
 - Middle East distribution revamped
 - Nepal Sales growth +26% || gained market share || aim to become larger
 - ***Adding Egypt and Uganda to international portfolio.***

- **Adjacent categories (including Milk @ 5% of Sales) contribute ~25bn to full year turnover**

- **Operational highlights**
 - Flat wafers and Rolls plant in Tamil Nadu commercialized
 - Milk collection now 2x YoY at 50K a day
 - Ranjangaon 8 lines operational (110% incentives from state govt) || plant is now 10% of overall company's production || Dairy would be ready by Q3FY22 || YTD investment @ Rs 6.5bn (current turnover @ Rs1bn) @ full utilization will generate Rs 15bn revenue
 - **CAPEX:** planned @ Rs 1.3bn for FY22 (Gurgoan+Tamil Nadu+UP+Ranjangaon included)

Quarterly Financials

Particulars (Rs Mns) Consolidated	Q1FY22	Q1FY21	Growth	Q4FY21	Growth
Net Sales	33,519.4	33,844.6	-1.0%	30,381.3	10.3%
Other Op Income	515.2	362.1	42.3%	926.2	-44.4%
Total OP Income	34,034.6	34,206.7	-0.5%	31,307.5	8.7%
Add: O. Income	604.7	936.8	-35.5%	631.9	-4.3%
Total Income	34,639.3	35,143.5	-1.4%	31,939.4	8.5%
RAW MATERIALS	(20,865.1)	(19,959.0)	4.5%	(18,636.2)	12.0%
Employee Cost	(1,393.2)	(1,369.5)	1.7%	(1,242.0)	12.2%
O. Exps	(6,238.5)	(5,708.9)	9.3%	(6,375.4)	-2.1%
EBIDTA	6,142.5	8,106.1	-24.2%	5,685.8	8.0%
EBIDTA Less O. Inc	5,537.8	7,169.3	-22.8%	5,053.9	9.6%
Less Int	(342.1)	(256.1)	33.6%	(236.9)	44.4%
Less Deprn	(490.7)	(479.6)	2.3%	(528.2)	-7.1%
<i>Less Exceptional</i>	-	(0.9)		-	
PBT Before Exceptic	5,309.7	7,370.4	-28.0%	4,920.7	7.9%
PBT	5,309.7	7,369.5	-28.0%	4,920.7	7.9%
Less Tax	(1,441.7)	(1,943.7)	-25.8%	(1,325.8)	8.7%
Share of Profit/Loss from Associate	2.1	1.0	110.0%	5.8	-63.8%
Minority Interest	-	-		-	
PAT Reportd	3,870.1	5,426.8	-28.7%	3,600.7	7.5%
PAT Adjusted Owner Share	3,895.5	5,457.9	-28.6%	3,643.2	6.9%
Equity	240.7	240.6		240.7	
EPS (Adjusted PAT)	16.2	22.7		15.1	
OPM	16.3%	21.0%		16.1%	
NPM	11.2%	15.4%		11.3%	
Tax Rate	-27.2%	-26.4%		-26.9%	
% to Operating Income					
RAW MATERIALS	-61.3%	-58.3%		-59.5%	
Employee Cost	-4.1%	-4.0%		-4.0%	
O. Exps	-18.3%	-16.7%		-20.4%	
Total	-83.7%	-79.0%		-83.9%	

Source: Dalal & Broacha Research, Company

Valuation

Britannia is expected to report better sales going forward, also in Q3 and Q4 (last year) rural hinterland which was impacted on account of pandemic is expected to bounce back.

With on-ground sales force getting back pace post vaccination and product mix improving trend going forward should be positive.

At CMP of Rs 3503 Britannia trades at 50x FY22e EPS of Rs 70.2 and 42.5x FY23e EPS of Rs 83. We maintain **Accumulate with a price target of Rs 3735**.

Financials

P&L (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Operating Income	1,10,546.7	1,15,995.5	1,31,361.4	1,36,568.0	1,48,255.5
Raw materials	(65,614.6)	(69,274.7)	(76,261.0)	(81,564.9)	(87,026.0)
Employee costs	(4,418.2)	(4,866.9)	(5,273.8)	(5,695.7)	(6,208.3)
Other Expenses	(23,179.7)	(23,422.1)	(24,734.3)	(26,570.6)	(29,039.2)
Cost of sales	(93,212.5)	(97,563.7)	(1,06,269.1)	(1,13,831.2)	(1,22,273.5)
Operating Profit	17,334.2	18,431.8	25,092.3	22,736.8	25,982.0
Depreciation	(1,618.8)	(1,848.1)	(1,978.5)	(2,175.5)	(2,411.8)
PBIT	15,715.4	16,583.7	23,113.8	20,561.3	23,570.2
Other income	2,064.5	2,794.0	3,129.3	3,191.0	3,789.9
Interest	(90.9)	(769.0)	(1,109.0)	(1,362.4)	(865.7)
Profit before tax	17,689.0	18,608.7	25,134.1	22,389.9	26,494.3
Extraordinary Items / Exce	-	(170.1)	-	-	-
Profit before tax (post Exc)	17,689.0	18,438.6	25,134.1	22,389.9	26,494.3
Provision for tax	(6,124.7)	(4,507.0)	(6,630.2)	(5,635.5)	(6,668.6)
Reported PAT	11,564.3	13,931.6	18,503.9	16,754.3	19,825.7
Share of Pft and Loss of Associates and Minority Int	26.9	94.7	141.2	155.3	170.9
Adjusted PAT	11,591.2	14,154.8	18,643.5	16,909.7	19,996.6

Cash Flow St. (Rs. mn)	FY19	FY20	FY21E	FY22E	FY23E
Net Profit	11,591.2	14,026.3	18,639.0	16,909.7	19,996.6
Add: Dep. & Amort.	1,618.8	1,848.1	1,978.5	2,175.5	2,411.8
Cash profits	13,210.0	15,874.4	20,617.5	19,085.1	22,408.4
(Inc)/Dec in					
-Sundry debtors	(896.4)	738.8	630.9	(102.0)	(228.9)
-Inventories	(1,285.9)	404.2	(3,505.3)	1,186.8	(832.5)
-Loans/advances	(2,829.7)	(1,507.3)	786.8	(509.4)	(545.1)
-Sundry creditors	1,464.2	(242.3)	1,984.7	(633.4)	599.4
-Others	772.5	872.4	2,534.4	313.4	329.0
Change in working capital	(2,775.3)	265.8	2,431.5	255.3	(678.0)
CF from Oper. activities	10,434.7	16,140.2	23,049.0	19,340.4	21,730.4
CF from Inv. activities	(8,000.0)	(17,299.5)	(770.5)	(5,000.0)	(5,500.0)
CF from Fin. activities	(3,200.7)	1,289.6	(21,393.6)	(9,308.4)	(13,837.2)
Cash generated/(utilise)	(766.0)	130.3	884.9	5,032.0	2,393.1
Cash at start of the year	1,864.2	1,098.2	1,228.5	2,113.4	7,145.4
Cash at end of the year	1,098.2	1,228.5	2,113.4	7,145.4	9,538.5

Balance Sheet	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	240.3	240.5	240.9	240.9	240.9
Reserves	42,292.2	43,787.8	35,235.7	43,690.5	53,688.8
Net worth	42,532.5	44,028.3	35,476.6	43,931.4	53,929.7
Def. Tax Liab.+Minority Int	326.8	356.5	363.4	509.8	670.9
Secured loans	619.2	7,660.6	7,477.5	6,477.5	4,477.5
Unsecured loans	761.0	7,479.9	13,394.2	13,394.2	11,394.2
Total debt	1,380.2	15,140.5	20,871.7	19,871.7	15,871.7
CAPITAL EMPLOYED	44,239.5	59,525.3	56,711.7	64,312.9	70,472.3
Gross block	20,294.0	23,954.9	25,111.8	27,611.8	30,611.8
Accumulated depreciatio	(4,714.7)	(6,562.8)	(8,541.3)	(10,716.8)	(13,128.6)
Net block	15,579.3	17,392.1	16,570.5	16,895.0	17,483.2
Capital WIP	1,012.4	395.5	1,165.2	1,165.2	1,165.2
Total fixed assets	16,591.7	17,787.6	17,735.7	18,060.2	18,648.4
Goodwill	1,303.7	1,389.7	1,359.0	1,359.0	1,359.0
Investments	14,762.8	28,932.3	27,806.9	30,306.9	32,806.9
Inventories	7,813.8	7,409.6	10,914.9	9,728.1	10,560.7
Sundry debtors	3,942.4	3,203.6	2,572.7	2,674.7	2,903.6
Cash & bank	1,098.2	1,228.5	2,113.4	7,145.4	9,538.5
Loans & advances	12,229.4	13,130.6	10,211.4	10,211.4	10,211.4
Other current assets	4,538.7	5,144.8	7,277.2	7,786.6	8,331.7
Sundry creditors	(11,405.1)	(11,162.8)	(13,147.5)	(12,514.1)	(13,113.5)
O. Current Liabilities	(4,655.3)	(5,563.1)	(6,267.0)	(6,580.4)	(6,909.4)
Provisions	(2,079.6)	(2,044.2)	(3,874.7)	(3,874.7)	(3,874.7)
Working capital	11,482.5	11,347.0	9,800.4	14,577.1	17,648.3
Deferred Tax Assets	98.8	68.7	9.7	9.7	9.7
Miscellaneous exp.	-	-	-	-	-
CAPITAL DEPLOYED	44,239.5	59,525.3	56,711.7	64,312.9	70,472.3

Ratios	FY19	FY20	FY21E	FY22E	FY23E
OPM	15.7	15.9	19.1	16.6	17.5
NPM	10.3	11.9	13.9	12.1	13.2
Tax rate	(34.6)	(24.4)	(26.4)	(25.2)	(25.2)
Growth Ratios (%)					
Net Sales	11.5	4.9	13.2	4.0	8.6
Operating Profit	15.4	6.3	36.1	(9.4)	14.3
PAT	15.4	22.1	31.7	(9.3)	18.3
Per Share (Rs.)					
Net Earnings (EPS)	48	59	77.4	70.2	83.0
Cash Earnings (CPS)	55	66	86	79	93
Dividend	15.0	35.0	145.0	35.1	41.5
Book Value	177.0	183.1	147.3	182.4	223.9
Free Cash Flow	10.13	(4.82)	92.48	59.53	67.37
Valuation Ratios					
P/E(x)	72.6	59.5	45.3	49.9	42.2
P/B(x)	19.8	19.1	23.8	19.2	15.6
EV/EBIDTA(x)	47.8	45.0	33.4	36.7	31.8
Div. Yield(%)	0.4	1.0	4.1	1.0	1.2
FCF Yield(%)	0.3	(0.1)	2.6	1.7	1.9
Return Ratios (%)					
ROE	27.3	32.1	52.6	38.5	37.1
ROCE	35.5	27.9	40.8	32.0	33.4

Source: Dalal & Broacha Research, Company

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