

Britannia Consolidated Q2FY22 results were below estimates. Gross Margins drop 20 quarter low

- Revenue increased by 6% YoY to Rs 36074mn (+6% QoQ). Volume growth stood at 2% on base of 9%
- EBIDTA** declined by 17.3% YoY to Rs 5583mn (+0.8% QoQ) || EBIDTA margins 15.5% v/s 19.8% YoY and 16.3% QoQ
- PAT (adj) declined 22.9%** YoY to Rs 3842mn (-1.4% QoQ) || tax rate 27% v/s 26.1% YoY (27.2% QoQ). Other Income declined 27% YoY to Rs 534mn

Other Details

- Raw Materials** to Revenue stood 62.5% (20qtr high) v/s 57.5% (61.3% QoQ).
(witnessing unprecedented inflation in market prices of palm oil @ 54%, industrial fuel @ 35% and packaging materials @ 30% leading to an overall inflation in the quarter of ~14%)
- Employee cost** rose 14.2% YoY to Rs 1536mn (+10.3% QoQ)
- Other Expenses to Revenue** stood at 17.8% v/s 18.8% YoY (18.3% QoQ)
- Outlook:** Worst of margin pressure seems to be behind; margins should improve QoQ target to end the fiscal @ Pre-Covid margin levels of 15.9%. Actioned price increases as follows Q1+1%, Q2+4%, Q3e +7.5%, Q4e+10% (1/3rd via MRP almost done and 2/3rd via grammage reduction to follow)

Momentum in demand is decent Britannia's Goodday and MilkBikkis are competing, well with value product of competition.

On the balance sheet side **ICD exposure towards group companies Rs 5.05bn v/s Rs 4.7bn QoQ**

Financial Summary

Y/E Mar (Rs)	FY 19	FY 20	FY 21	FY 22E	FY 23E
Net sales	1,10,547	1,15,996	1,31,361	1,36,154	1,47,780
EBIDTA	17,334	18,432	25,092	21,438	25,657
Margins	15.7	15.9	19.1	15.7	17.4
PAT (adj)	11,591	14,155	18,643	15,291	18,505
growth (%)	15.4	22.1	31.7	(18.0)	21.0
EPS	48.2	58.9	77.4	63.5	76.8
P/E (x)	75.1	61.5	46.8	57.1	47.2
P/B (x)	20.5	19.8	24.6	44.8	28.5
EV/EBITDA (x)	49.4	46.5	34.5	41.3	34.3
RoE (%)	27.3	32.1	52.6	78.5	60.5
ROCE (%)	35.5	27.9	40.6	40.4	42.4

Source: Dalal and Broacha

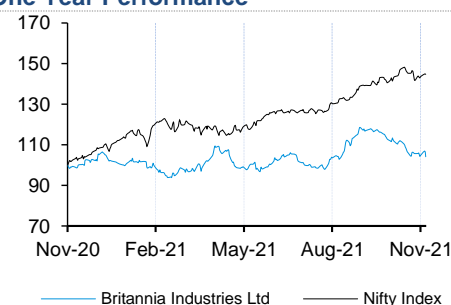
Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	3,840	6

Market data

Current price	Rs	3,622
Market Cap (Rs.Bn)	(Rs Bn)	872
Market Cap (US\$ Mn)	(US\$ Mn)	11,784
Face Value	Rs	1
52 Weeks High/Low	Rs	4,153 / 3,305
Average Daily Volume	('000)	349
BSE Code		500825
Bloomberg		BRIT.IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
Promoters	50.55	50.55
Public	49.45	49.45
Total	100	100

Source: BSE

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Conference Call KTA's continue

A Q2FY22 highlights

- Volume growth Q2FY22 @ 2% on base of 9% YoY || Q1FY22 was 1%. Going forward volume growth for the industry as a whole expected to be low.
- Market share gained in Q2FY22 as well. Gain in rural market share was 2.5x of Urban
- Ooh picking up with treat stix and flat wafers gaining share
- Inflation for Britannia YoY basis: Milk +15% || RPO +46% || flour -7% || Sugar -2% (on an overall level was +14%, including fuel price +35%, laminate +19%, Corrugated Box +46%, freight diesel +20%)
- Inflation for the industry was slightly higher especially in RPO at +54% as compared to Britannia +46%. **Forward covers taken by Britannia help company save ~Rs2.bn**
- Inflation in current year is higher than *cumulative inflation of last 6 years. Annualized inflation would be ~Rs 13bn to be covered by price actions taken*
- Cost efficiency @ Rs 2.5bn annually = 6x of FY14 levels

B. Network & Distribution highlights

- **Direct Reach:** 21.5 lac outlets v/s 20.8 lacs in June -21, coming back to 23.7lacs in March 21
- **Rural distribution @ 25k distributors v/s 23K March-21 ||** Market share in Rural is 70% of overall target to equalize in 3 years.
- **Overall market share gains were higher in Q2FY22**
- Focus state growth was 1.33x of country average
- Modern Trade @ 1.09x of Q2FY20

C. Launches:

- Milk Bikki Classic launched in Tamil Nadu, did extremely well.
- **50:50 Potazos** Two in one format of Potato Chip and Biscuit launched Pan India
- Treat Wafers Stix: Pan India launch with factory in Tamil Nadu.
- Marble Cake launched in East

D. International business:

- Middle East distribution revamped, market share back to peak levels with change in distributor
- Nepal doing well with Revenue now at Rs 1bn, looking at expansion
- Africa expansion plans on track manufacturing in Egypt and Uganda via contract manufacturers

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

- Milk Shake and lassi recorded double digit growth

F. Operational highlights

- Flat wafers and Rolls plant in Tamil Nadu commercialized

Quarterly Financials

Particulars (Rs Mns)	Consolidated Q2FY22	Q1FY21	Growth	Q1FY22	Growth
Net Sales	35,536.8	33,543.5	5.9%	33,519.4	6.0%
Other Op Income	536.9	647.6	-17.1%	515.2	4.2%
Total OP Income	36,073.7	34,191.1	5.5%	34,034.6	6.0%
Add: O. Income	534.0	735.0	-27.3%	604.7	-11.7%
Total Income	36,607.7	34,926.1	4.8%	34,639.3	5.7%
RAW MATERIALS	(22,543.2)	(19,651.4)	14.7%	(20,865.1)	8.0%
Employee Cost	(1,536.1)	(1,344.7)	14.2%	(1,393.2)	10.3%
O. Exps	(6,411.1)	(6,441.1)	-0.5%	(6,238.5)	2.8%
EBIDTA	6,117.3	7,488.9	-18.3%	6,142.5	-0.4%
EBIDTA Less O. Inc	5,583.3	6,753.9	-17.3%	5,537.8	0.8%
Less Int	(389.5)	(298.1)	30.7%	(342.1)	13.9%
Less Deprn	(501.6)	(484.9)	3.4%	(490.7)	2.2%
<i>Less Exceptional</i>	-	(5.2)		-	
PBT Before Exceptic	5,226.2	6,705.9	-22.1%	5,309.7	-1.6%
PBT	5,226.2	6,700.7	-22.0%	5,309.7	-1.6%
Less Tax	(1,410.0)	(1,749.8)	-19.4%	(1,441.7)	-2.2%
Share of Profit/Loss from Associate	2.2	1.1	100.0%	2.1	4.8%
Minority Interest	-	-		-	
PAT Reportd	3,818.4	4,952.0	-22.9%	3,870.1	-1.3%
PAT Adjusted Owner Share	3,842.2	4,986.5	-22.9%	3,895.5	-1.4%
Equity	240.9	240.7		240.7	
EPS (Adjusted PAT)	15.9	20.7		16.2	
OPM	15.5%	19.8%		16.3%	
NPM	10.4%	14.2%		11.2%	
Tax Rate	-27.0%	-26.1%		-27.2%	
% to Operating Income					
RAW MATERIALS	-62.5%	-57.5%		-61.3%	
Employee Cost	-4.3%	-3.9%		-4.1%	
O. Exps	-17.8%	-18.8%		-18.3%	
Total	-84.5%	-80.2%		-83.7%	

Source: Dalal & Broacha Research, Company

Valuation

We have reworked our numbers post concal and revised our estimates downwards.

We believe the increase in raw material prices will impact gross margins for few more quarters, as this time the rise is unprecedented.

At CMP of Rs 3622 Britannia trades at 57x FY22e EPS of Rs 63.5 and 47.2x FY23e EPS of Rs 76.8.

We change our recommendation from Accumulate to **Buy in Dips**. **Target price of Rs 3,840** (i.e.50x FY23)

Financials

P&L (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net Operating Income	1,10,546.7	1,15,995.5	1,31,361.4	1,36,154.1	1,47,779.6
Raw materials	(65,614.6)	(69,274.7)	(76,261.0)	(83,366.0)	(86,746.6)
Employee costs	(4,418.2)	(4,866.9)	(5,273.8)	(6,001.0)	(6,601.1)
Other Expenses	(23,179.7)	(23,422.1)	(24,734.3)	(25,348.7)	(28,774.9)
Cost of sales	(93,212.5)	(97,563.7)	(1,06,269.1)	(1,14,715.7)	(1,22,122.6)
Operating Profit	17,334.2	18,431.8	25,092.3	21,438.4	25,656.9
Depreciation	(1,618.8)	(1,848.1)	(1,978.5)	(2,000.0)	(2,206.1)
PBIT	15,715.4	16,583.7	23,113.8	19,438.4	23,450.8
Other income	2,064.5	2,794.0	3,129.3	2,452.5	2,344.5
Interest	(90.9)	(769.0)	(1,109.0)	(1,600.0)	(1,197.3)
Profit before tax	17,689.0	18,608.7	25,134.1	20,290.9	24,598.1
Extraordinary Items / Exce	-	(170.1)	-	-	-
Profit before tax (post Exc)	17,689.0	18,438.6	25,134.1	20,290.9	24,598.1
Provision for tax	(6,124.7)	(4,507.0)	(6,630.2)	(5,107.2)	(6,191.3)
Reported PAT	11,564.3	13,931.6	18,503.9	15,183.7	18,406.7
Share of Pft and Loss of Associates and Minority Int	26.9	94.7	141.2	107.3	98.4
Adjusted PAT	11,591.2	14,154.8	18,643.5	15,291.0	18,505.1

Cash Flow St. (Rs. mn)	FY19	FY20	FY21	FY22E	FY23E
Net Profit	11,591.2	14,026.3	18,639.0	15,291.0	18,505.1
Add: Dep. & Amort.	1,618.8	1,848.1	1,978.5	2,000.0	2,206.1
Cash profits	13,210.0	15,874.4	20,617.5	17,291.0	20,711.2
(Inc)/Dec in					
-Sundry debtors	(896.4)	738.8	630.9	(411.5)	(254.8)
-Inventories	(1,285.9)	404.2	(3,505.3)	(387.8)	371.0
-Loans/advances	(2,829.7)	(1,507.3)	786.8	1,793.8	(598.5)
-Sundry creditors	1,464.2	(242.3)	1,984.7	(813.9)	737.8
-Others	772.5	872.4	2,363.1	2,055.5	385.0
Change in working capital	(2,775.3)	265.8	2,260.2	2,236.1	640.5
CF from Oper. activities	10,434.7	16,140.2	22,877.7	19,527.1	21,351.7
CF from Inv. activities	(8,000.0)	(17,299.5)	(770.5)	8,413.4	(5,500.0)
CF from Fin. activities	(3,200.7)	1,289.6	(21,222.3)	(24,312.7)	(11,313.5)
Cash generated/utilise	(766.0)	130.3	884.9	3,627.8	4,538.2
Cash at start of the year	1,864.2	1,098.2	1,228.5	2,113.4	5,741.2
Cash at end of the year	1,098.2	1,228.5	2,113.4	5,741.2	10,279.5

Balance Sheet	FY19	FY20	FY21	FY22E	FY23E
Equity capital	240.3	240.5	240.9	240.9	240.9
Reserves	42,292.2	43,787.8	35,235.7	19,227.6	30,330.6
Net worth	42,532.5	44,028.3	35,476.6	19,468.5	30,571.5
Def. Tax Liab.+Minority Int	326.8	356.5	363.4	461.8	550.4
Secured loans	619.2	7,660.6	7,471.5	7,158.5	5,158.5
Unsecured loans	761.0	7,479.9	13,571.5	21,001.5	19,001.5
Total debt	1,380.2	15,140.5	21,043.0	28,160.0	24,160.0
CAPITAL EMPLOYED	44,239.5	59,525.3	56,883.0	48,090.3	55,281.9
Gross block	20,294.0	23,954.9	25,111.8	29,111.8	32,111.8
Accumulated depreciation	(4,714.7)	(6,562.8)	(8,541.3)	(10,541.3)	(12,747.4)
Net block	15,579.3	17,392.1	16,570.5	18,570.5	19,364.4
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	19,735.7	20,529.6
Goodwill	1,303.7	1,389.7	1,359.0	1,373.3	1,373.3
Investments	14,762.8	28,932.3	27,806.9	15,379.2	17,879.2
Inventories	7,813.8	7,409.6	10,914.9	11,302.7	10,931.6
Sundry debtors	3,942.4	3,203.6	2,572.7	2,984.2	3,239.0
Cash & bank	1,098.2	1,228.5	2,113.4	5,741.2	10,279.5
Loans & advances	12,229.4	13,130.6	9,995.0	7,145.0	7,145.0
Other current assets	4,538.7	5,144.8	7,493.6	8,549.8	9,148.3
Sundry creditors	(11,405.1)	(11,162.8)	(13,147.5)	(12,333.6)	(13,071.4)
O. Current Liabilities	(4,655.3)	(5,563.1)	(6,095.7)	(7,699.4)	(8,084.4)
Provisions	(2,079.6)	(2,044.2)	(3,874.7)	(4,326.5)	(4,326.5)
Working capital	11,482.5	11,347.0	9,971.7	11,363.4	15,261.1
Deferred Tax Assets	98.8	68.7	9.7	238.7	238.7
Miscellaneous exp.	-	-	-	-	-
CAPITAL DEPLOYED	44,239.5	59,525.3	56,883.0	48,090.3	55,281.9

Ratios	FY19	FY20	FY21	FY22E	FY23E
OPM	15.7	15.9	19.1	15.7	17.4
NPM	10.3	11.9	13.9	11.0	12.3
Tax rate	(34.6)	(24.4)	(26.4)	(25.2)	(25.2)
Growth Ratios (%)					
Net Sales	11.5	4.9	13.2	3.6	8.5
Operating Profit	15.4	6.3	36.1	(14.6)	19.7
PAT	15.4	22.1	31.7	(18.0)	21.0
Per Share (Rs.)					
Net Earnings (EPS)	48	59	77.4	63.5	76.8
Cash Earnings (CPS)	55	66	86	72	86
Dividend	15.0	35.0	145.0	25.4	30.7
Book Value	177.0	183.1	147.3	80.8	126.9
Free Cash Flow	10.13	(4.82)	91.77	115.98	65.80
Valuation Ratios					
P/E(x)	75.1	61.5	46.8	57.1	47.2
P/B(x)	20.5	19.8	24.6	44.8	28.5
EV/EBIDTA(x)	49.4	46.5	34.5	41.3	34.3
Div. Yield(%)	0.4	1.0	4.0	0.7	0.8
FCF Yield(%)	0.3	(0.1)	2.5	3.2	1.8
Return Ratios (%)					
ROE	27.3	32.1	52.6	78.5	60.5
ROCE	35.5	27.9	40.6	40.4	42.4

Source: Dalal & Broacha Research, Company

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