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# Britannia Industries Ltd.

## CMP: Rs. 4,488| Target: Rs. 5,473 Upside: 22%

- **Britannia Industries Ltd (BIL)** is one of the leading food companies in India which has a 130-year legacy of creating snacks. It has a wide product portfolio that caters to Biscuits, Snacking, Breads, Cakes, Rusk and Dairy products and its operations are spread across ~80 countries. Good Day, Tiger, NutriChoice, Milk Bikis and Marie Gold are some of its key brands.

- **Innovation and marketing to remain key growth drivers:** BIL expects growth from its new categories (Wafers, Croissants, Snacking and Drinks) and new product launches. During FY23, the company brought 24 innovations considering consumers' needs. It entered into i) a new category of crackers by launching the BisCafe, potazos, ii) NutriChoice launched 3 new products- Nutrichoice Seeds, Herbs and Protein Cookies, iii) forayed into the western snacking space with the launch of all new Treat Croissant (a popular European Snack made available to Indian consumers), iv) Winkin' Cow brand released a new advertisement for its Thick Shakes products, iv) Britannia's JV with Bel SA would enable the company to offer its cheese products to Indian consumers, the same would be produced at its plant located at Ranjangaon, Maharashtra. **In terms of marketing,** it continued to focus on its core brands with advertising campaigns such as Good Day, Bourbon, Pure Magic. Also, it has been doing campaigns on key brands like Marie, Milk Bikis, 50-50, Treat Croissant and milkshakes. Overall advertising expenses were increased from ~3% in FY22 to 4%-4.2% in FY23 which is expected to be in the same range in FY24.

**Emerging adjacent businesses driving the overall momentum:** BIL has delivered robust growth in its adjacent businesses i.e. Bakery, Dairy (Nov'22- formed JV with Bel SA), Croissant (2018- formed JV with Chipita) and its International markets. Its 'Winkin Cow' brand for beverages continues to grow backed by distribution and it has further launched "Britannia the Laughing Cow" Cheese in dairy segment during Q1FY24. In Bakery segment, it has observed profitable growth in Breads while growth recovery in Rusk led by strengthened portfolio in regional markets and Cakes with innovation. In FY23, it has entered into new geographies such as Egypt, Kenya, Uganda and Nepal to expand its international presence. Kenya business is being stabilized where it has acquired 51% stake in Kenya based Kenafric Biscuits Limited in July'22. Middle East & Africa, Nepal and Egypt has delivered high double digit growth with improved margins in FY23 while Rest of India business grew by double digit profitable growth.

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- **Front-runner in market share driven by strengthened distribution:** Britannia Industries has gained market share since FY17 and remained a leader when compared with its largest and 2nd largest competitors despite increased competition. Distribution expansion remained a key strategy for company's overall growth where it mainly focused to develop its deep rural presence. So far, it has reached rural market with 28.2K rural preferred dealers (~7x in 10 years). Also, it has expanded its direct coverage with 26.7 lakh direct outlets (~4x in 10 years). In terms of states, it is focusing on Rajasthan, Gujarat, Madhya Pradesh & Uttar Pradesh as a part of its growth strategy where it is growing faster compared to growth witnessed in rest of India.

- **Emphasis on bringing cost efficiencies resulted into improved profitability:** During FY23, BIL has further expanded its in-house manufacturing capacity by adding manufacturing lines of Biscuit and Rusk in Khurda and Ranjangaon factories. BIL's own manufacturing has increased from 35% in 2012-13 to 65% in 2022-23 with the addition of 9 manufacturing units across India and one in Nepal. It has commissioned two large greenfield factories in Tirunelveli, TN and Barabanki, UP. In order to expand its International Business, BIL commenced its local manufacturing operations in Kenya with the aim to cater Eastern Africa region. Egypt saw an upsurge in revenues through local contract manufacturing operations and it further aims to scale up the volumes. The strategy was in execution since a decade ago as a structural shift towards bringing cost efficiencies.

  In continuation to this, BIL has initiated several cost reduction initiatives through improvements in supply chain operations, material sourcing etc. The company has set a target to achieve 7x cost reduction compared to FY14 levels which was reported at 5x in FY21. As a result, operating margins have seen substantial improvement from 10%-11% in FY14-15 to 17%-19% in FY23.

- **Valuation:** A market leader in the food segment and its ability to compete in the domestic as well as international market, makes BIL a prominent player in the industry. Revenue / Adj PAT grew by 12% / 11% CAGR between FY20-23 which reported at Rs. 16,301 cr / Rs. 1,941 cr, respectively. FY23 Operating margins improved at 17% (+179 bps yoy) and ROE stood at 76% vs 50% in FY22.

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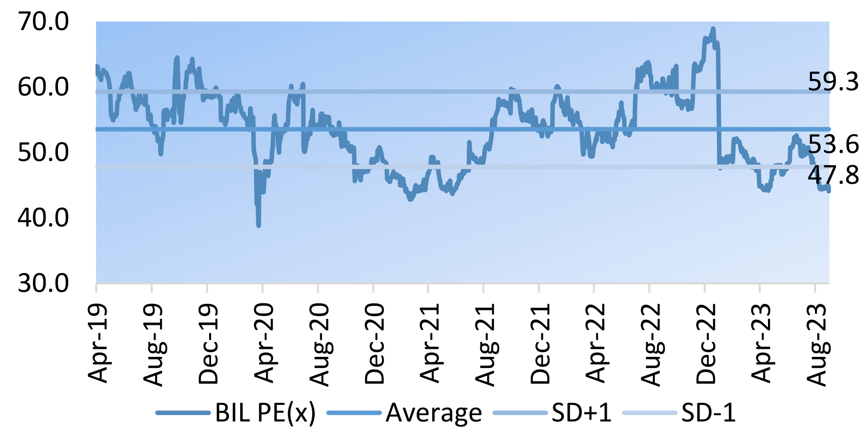
Recently, the stock price has seen correction of ~16% from its peak levels. BIL has delivered muted performance in Q1FY24 this was largely due to i) flat volumes amid sluggish demand, ii) reduction in input costs intensified competition from local players, iii) sequential margins contraction of ~250 bps due to company's correction in product prices and grammage addition during the quarter end. Company's profitability improved on yoy basis on account of company's cost saving initiatives and decline in commodity prices.

BIL aims to maintain or improve its market share with its price correction strategy to drive the volume growth. The same will improve company's profitability in the upcoming quarters with expected stability in raw material prices despite possible threat from local competition. We remain positive on company's growth strategies of i) innovation in its core as well as adjacent businesses, ii) distribution expansion and iii) its manufacturing capabilities which will drive the robust business growth with healthy profits. **We value the stock at 52x PE to FY25E EPS to arrive at a target of Rs. 5,473/share with an upside of 21.9%.**

**BIL PE Valuation Trend**




Source: Ace Equity, NirmalBang Equity Research

*Figures in Rs Cr*

| Year | Revenues | Growth | EBITDA | Margin | Adj. PAT | Growth | EPS | PE | ROE |
|---|---|---|---|---|---|---|---|---|---|
| FY22 | 14,136 | 7.6% | 2,202 | 15.6% | 1,517 | -18.1% | 62.97 | 50.9 | 59.60% |
| FY23 | 16,301 | 15.3% | 3,263 | 20.0% | 1,941 | 27.9% | 80.56 | 53.7 | 65.70% |
| FY24E | 17,570 | 7.8% | 3,092 | 17.6% | 2,196 | 13.2% | 91.17 | 49.2 | 56.54% |
| FY25E | 19,502 | 11.0% | 3,530 | 18.1% | 2,535 | 15.4% | 105.24 | 42.6 | 56.15% |

# RESEARCH TEAM



## FUNDAMENTAL TEAM

| Name | Sectors | E-mail | Numbers |
|---|---|---|---|
| Sunil Jain | Head Equity Research - Retail | sunil.jain@nirmalbang.com | 6273 8195/96 |
| Jehan Bhadha | Banks & NBFC, Auto, Capital Goods | jehankersi.bhadha@nirmalbang.com | 6273 8174 |
| Akansha Jain | IT, Logistics, Media | akansha.jain@nirmalbang.com | 6273 8034 |
| Priyanka Baliga | Chemicals, FMCG | priyanka.baliga@nirmalbang.com | 6273 8177 |
| Archi Jain | Associate | archi.jain@nirmalbang.com | 6273 8149 |
| Palak Jain | Management Trainee | palak.jain@nirmalbang.com | 6273 8171 |
| Shivani Walam | Database Management | Shivani.walam@nirmalbang.com | 6273 8091 |
| Saurav Motivaras | Database Management | Saurav.Motivaras@nirmalbang.com | 6273 8054 |
| Darxit Jain | Database Management | darxit.jain@nirmalbang.com | 6273 8054 |

## TECHNICAL AND DERIVATIVES TEAM

| | | | |
|---|---|---|---|
| Vikas Salunkhe | Sr. AVP-Technical Analyst | vikas.salunkhe@nirmalbang.com | 6273 8254 |
| Swati Hotkar | AVP - Technical Analyst | swati.hotkar@nirmalbang.com | 6273 8255 |
| Nirav Chheda | AVP- Derivatives & Technical Analyst | nirav.chheda@nirmalbang.com | 6273 8199 |
| Amit Bhuptani | Derivatives & Technical Analyst | amit.bhuptani@nirmalbang.com | 6273 8242 |
| Ayush Mehta | Technical Analyst | ayush.mehta@nirmalbang.com | 6273 8061 |

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**Nirmal Bang Research (Division of Nirmal Bang Securities Pvt. Ltd.)**
B-2, 301/302, Marathon Innova,
Opp. Peninsula Corporate Park
Off. Ganpatrao Kadam Marg
Lower Parel (W), Mumbai-400013
Board No. : 91 22 6723 8000/8001
Fax. : 022 6723 8010