August 16, 2021

Britannia Industries Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	1,000.00	1,000.00	[ICRA]AAA (Stable); reaffirmed
Commercial Paper Programme	1,279.00	1,279.00	[ICRA]A1+; reaffirmed
Total	**2,279.00**	**2,279.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings factor in Britannia Industries Limited's (BIL) established market position in the Indian biscuits industry with a presence across various product categories and strong brands, which has helped improve its market share steadily over the last few years. The ratings also consider BIL's strong last-mile distribution network and its healthy financial profile characterised by strong cash and investment balances, robust debt protection metrics and minimal working capital intensity. ICRA has also taken note of the company's focus on diversification and innovation, reflected in its foray into multiple new categories, and its premiumisation efforts, which are expected to support its long-term business prospects.

The company witnessed ~11% YoY volume growth and 13.3% YoY revenue growth in FY2021 on the back of a robust H1 performance. It had witnessed high growth of ~27% in Q1 FY2021 supported by the spike in 'in-home' consumption (during the nationwide lockdown following the onset of the Covid-19 pandemic in India). In Q1 FY2021, BIL followed the 80-20 rule and selectively focused on products where it had inventory and maximised the portfolio mix. However, growth was normalised with the commencement of full production {across multiple product lines and stock keeping units (SKUs)} from Q2 FY2021 and improved availability of competitor products in the market. Further, amidst panic buying in Q1 FY2021, consumers bought higher volume packets (higher SKU) with higher margins, which improved the margin profile during the period though the same has normalised at present.

BIL's revenues remained largely flat in Q1 FY2022 (0.5% degrowth) despite the higher base in Q1 FY2021 (~27% revenue YoY growth) wherein it witnessed 1% volume growth with a marginally lower price/mix. The operating margin (OPM) contracted 469 bps (YoY) to 16.3% in Q1 FY2022 from 19.1% in Q1 FY2021 owing to the negative operating leverage vis-à-vis Q1 FY2021, which had seen higher sales of higher SKU products coupled with inflation in key raw material prices.

The company issued bonus debentures of Rs. 698.5 crore in June 2021 to the existing shareholders and had cash outflow of over ~Rs. 1,744 crore towards the dividend in Q1 FY2022. Despite the sizeable cash outflow towards dividend and the increase in the overall debt, ICRA expects BIL's credit profile to remain healthy supported by its expected healthy cash accruals.

The ratings also consider the intense competition in the domestic FMCG industry characterised by the presence of several large and established players across product segments. Given the price-sensitive nature of customers, BIL's margins are exposed to fluctuations in raw material prices. ICRA also notes that the inter-corporate deposits (ICDs) placed by BIL with other Wadia Group companies ([The Bombay Burmah Trading Corporation Limited (ultimate holding company of BIL) and Bombay Dyeing & Manufacturing Company Limited] reduced to Rs. 470 crore as on June 30, 2021 from Rs. 790 crore as on March 31, 2021. Going forward, a material increase in the ICDs, leading to a significant deterioration in the company's liquidity and credit profile, will also remain a key monitorable.

The Stable outlook reflects ICRA's expectations that BIL will continue to benefit from its established market position in the domestic FMCG industry, strong last-mile network, healthy financial profile, and its focus on innovation and diversification into other segments. Although the recent raw material price increases impacted its gross margins to a certain extent in Q1 FY2022, the company's cost efficiency measures and price increases are likely to support the margins going forward.

Key rating drivers and their description

Credit strengths

Established market position in domestic FMCG industry – BIL has an established market position in the Indian biscuits industry with a market-leading presence across categories like cookies, Marie and milk biscuits supported by strong brands such as Good Day, Marie Gold, Tiger, Milk Bikis and NutriChoice. This has helped the company improve its market share steadily over the last few years. In addition to biscuits, BIL has a healthy market position in the cake, rusk, bread and cream wafers segments, further supporting its business prospects.

The company is also currently focusing on developing its international business by capitalising on its manufacturing footprint in Oman, Dubai and Nepal. BIL has a healthy market share in Nepal and is currently in talks to establish facilities in Uganda and Egypt to cater to the needs of neighbouring countries and in turn enhance its international business prospects.

Strong last-mile distribution network – BIL had direct access to 2.08 million retail outlets as on June 30, 2021 against 0.73 million outlets as of FY2014 end, which has supported the improvement in its market share over the last few years. However, the same was marginally lower than 2.37 million outlets as on March 31, 2021 primarily owing to the impact of the second wave of the pandemic. Rural markets account for a sizeable share of the demand for biscuits in the country and the company increased its access to about 23,000 rural preferred dealers (RPDs) as on June 30, 2021 from 7,000 RPDs as on March 31, 2015. This has also supported the company's revenue growth and increased the contribution from rural areas, which account for a significant portion of the market.

Going forward, while BIL will continue to expand its distribution reach, it is also expected to focus on improving its market position in newer categories/offerings like milk shakes, salty snacks, croissants and cream wafers, etc., by improving its visibility and launching these products across various states.

Improving focus on diversification/innovation – Biscuits currently contribute ~75% to the company's revenues while the balance is derived from other categories such as bread, cake, rusk, dairy (~5%) and newer categories like cream wafers, croissants, milk shakes and salted snacks, providing the company with diversification benefits. In Q1 FY2022, BIL relaunched Milk Bikis 100% Atta and is looking to expand it pan-India presence (vs. current concentration in South Indian states). The brand was relaunched with a focus to expand its target market segment from milk biscuit consumers to the larger milk + glucose segment. BIL has planned one of the largest visibility programmes in its history for the Milk Bikis relaunch. Further, it is currently focusing on product innovation and new launches to drive sales in its premium categories.

Strong financial profile characterised by healthy cash balances, robust debt protection metrics, minimal working capital intensity and strong free cash flows – BIL had cash balances and liquid investments of Rs. 1,604.6 crore and long-term investments of Rs. 1,596.3 crore in non-Group companies as on March 31, 2021. Its debt increased to Rs. 2,105.7 crore as on March 31, 2021 from Rs. 1,537.6 crore as on March 31, 2020 primarily due to higher working capital utilisation, higher issuance of commercial paper (CP) to support the increase in the scale of operations and issuance of bonus debentures (Issue 1 – Rs. 721.0 crore) to its shareholders (declared in FY2020). The company also issued bonus debentures (Issue 2 – Rs. 698.5 crore) on June 3, 2021 to its shareholders.

In Q1 FY2022, the company had cash outflow of over ~Rs. 1,744 crore towards dividend payout. Despite the sizeable cash outflow towards dividend and the increase in the overall debt, ICRA expects BIL's credit profile to remain healthy supported by its expected healthy cash accruals.

Credit challenges

Intense competition – Even though BIL is the industry leader in the domestic biscuits segment, it faces intense competition from both large and organised players and the fragmented unorganised market. While the company has a strong market share in some categories in the biscuits segment, like cookies, milk and Marie, the competitive intensity in other categories like glucose and creams is high. Even in categories where the company has a market leadership position, pricing flexibility may be restricted because of intense competition and the price-sensitive nature of consumers.

Going forward, the company intends to gain market share in premium segments, which, in turn, would support its revenues as well as margins. Further, BIL has relaunched one of its premium brand Milk Bikis (100% Atta) in North India to cater to the larger glucose + milk biscuit segment. While the company has a strong market position in some of its non-biscuit portfolios like bread, cake and rusk, it has entered newer categories like salty snacks where incumbents already have a strong market presence. BIL's strategy was to focus on volume growth, given the uncertainty regarding demand and consumption, and thus it did not take any price increases. However, given the high inflation, the company has recently initiated price increases to partially offset the raw material (RM) price impact.

Profit margins exposed to fluctuations in raw material prices – The company's major raw materials are wheat flour, sugar, milk and RPO. Competition and price-sensitive customers could constrain the pricing flexibility, exposing BIL's margins to fluctuations in raw material prices. The gross margin contracted 296 bps YoY (first time after four quarters of expansion) to 38.7% in Q1 FY2022 due to the material inflation in RPO (+49% YoY), milk (13% YoY), fats and crude oil prices. Further, to mitigate the raw material cost pressure, the company has been taking up internal cost efficiency measures, which have supported its margins. To partially offset the impact of RM price inflation, BIL has also initiated price hikes which are being rolled out.

However, ICRA notes that the OPM contracted 469 bps (YoY) to 16.3% in Q1 FY2022 from 19.1% in Q1 FY2021 owing to the negative operating leverage vis-à-vis Q1 FY2021, which had seen higher sales of higher SKU products along with inflation in key raw material prices. Although the recent raw material increases impacted BIL's gross margins to a certain extent in Q1 FY2022, the cost efficiency measures and price increases undertaken by the company are likely to support the margins going forward.

Liquidity position: Strong

BIL's liquidity is **strong** with cash balances and liquid investments of Rs. 1,604.6 crore and long-term investments of Rs. 1,596.3 crore in non-Group companies as on March 31, 2021. In FY2021 and Q1 FY2022, the company had a cash outflow of Rs. 2,823.8 crore and over ~Rs. 1,744 crore towards dividend payout. Despite the sizeable cash outflow towards dividend and the increase in the overall debt, ICRA expects the company's credit profile to remain healthy supported by its expected healthy cash accruals.

ICRA understands that the ICDs to Group companies (The Bombay Burmah Trading Corporation Limited and Bombay Dyeing & Manufacturing Company Limited) stood at ~Rs. 470 crore as on June 30, 2021 (down from Rs. 790 crore as on March 31, 2021). Going forward, a material increase in ICDs resulting in significant deterioration of company's liquidity and credit profile will remain a key monitorable.

In terms of debt repayment obligations, the company has a repayment of Rs. 721.0 crore for Issue 1 in FY2023. Further, it will have a repayment of Rs. 698.5 crore towards Issue 2 in FY2025 in addition to minimal repayments at the subsidiary level. BIL has planned a capex outlay of ~Rs. 600-700 crore in FY2022, which is expected to be funded through internal cash accruals. ICRA expects the Group to meet its near-and-medium-term commitments through internal sources of cash and incremental debt.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on BIL's ratings could arise if there is a significant deterioration in its margins and if debt-funded capex or acquisitions lead to the weakening of the company's credit profile with net debt/OPBDITA>1.0x on a sustained basis. A material increase in the ICDs, resulting in a significant deterioration in the company's liquidity and credit profile, could also lead to pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the FMCG industry
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of BIL. Details are enlisted in Annexure-2.

About the company

Established in 1892, BIL is one of the largest FMCG players in the country. While it derives the majority of its revenues from the biscuits segment, the company has diversified into other segments over the years like bread, dairy products, cakes, snacks, milk shakes, croissants, wafers and rusk. Some of the company's popular brands include *Good Day, Marie Gold, Tiger, NutriChoice* and *Milk Bikis,* etc. BIL has 10 manufacturing plants across the country. In addition to manufacturing at its own plants, the company has established relationships with several contract manufacturers across the country. It also supplies its products to various export markets and has a manufacturing footprint in Oman, Dubai and Nepal outside India. As on March 31, 2021, 50.55% of BIL's shareholding was held by the Wadia Group while the balance was held by various institutions and the public.

Key financial indicators (audited)

BIL (consolidated)	FY2020	FY2021
Operating Income (Rs. crore)	11,599.6	13,136.1
PAT (Rs. crore)	1,393.2	1,849.8
OPBDIT/OI (%)	16.1%	19.1%
PAT/OI (%)	12.0%	14.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.8	1.2
Total Debt/ OPBDIT (times)	0.8	0.8
Interest Coverage (times)	24.3	22.6

Source: *Company, ICRA Research; All calculations are as per ICRA Research*
PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jun 30, 2021 (Rs. crore)	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					Aug 16, 2021	Sep 3, 2020	Jan 16, 2020 Mar 19, 2020	--
1	Non-convertible Debentures	Long Term	1,000.00	698.50	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**NA**	**NA**
2	Commercial Paper	Short Term	1,279.00	1,000.00	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**NA**

Complexity level of the rated instrument

Instrument	Complexity Indicator
Non-convertible Debentures	Simple
Commercial Paper Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN/Banker Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE216A08027	NCD	Jun 3, 2021	5.50%	Jun 3, 2024	698.50	[ICRA]AAA (Stable)
NA	NCD (proposed)	NA	NA	NA	301.50	[ICRA]AAA (Stable)
INE216A14140	Commercial Paper	Aug 12, 2020	3.90%	Aug 11, 2021	300.00	[ICRA]A1+
INE216A14181	Commercial Paper	Mar 19, 2021	3.90%	Dec 23, 2021	500.00	[ICRA]A1+
INE216A14173	Commercial Paper	Mar 19, 2021	4.19%	Mar 17, 2022	200.00	[ICRA]A1+
NA	Commercial Paper	Not placed	NA	NA	279.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Boribunder Finance and Investments Private Limited	100.00%	Full Consolidation
Flora Investments Company Private Limited	40.53%	Full Consolidation
Gilt Edge Finance and Investments Private Limited	46.13%	Full Consolidation
Ganges Valley Foods Private Limited	98.66%	Full Consolidation
International Bakery Products Limited	100.00%	Full Consolidation
J B Mangharam Foods Private Limited	100.00%	Full Consolidation
Manna Foods Private Limited	100.00%	Full Consolidation
Sunrise Biscuit Company Private Limited	99.16%	Full Consolidation
Britannia and Associates (Mauritius) Private Limited	100.00%	Full Consolidation
Britannia and Associates (Dubai) Private Co. Limited	100.00%	Full Consolidation
Britannia Bangladesh Private Limited	100.00%	Full Consolidation
Al Sallan Food Industries Co. SAOG - Oman	65.46%	Full Consolidation
Strategic Food International Co. LLC, Dubai	100.00%	Full Consolidation
Strategic Brands Holding Company Limited	100.00%	Full Consolidation
Britannia Dairy Private Limited	100.00%	Full Consolidation
Britannia Dairy Holdings Private Limited - Mauritius	100.00%	Full Consolidation
Britannia Nepal Private Limited	100.00%	Full Consolidation
Britchip Foods Limited	60.00%	Full Consolidation
Britannia Egypt LLC - Egypt	100.00%	Full Consolidation
Strategic Foods Uganda Limited	100.00%	Full Consolidation
Nalanda Biscuits Company Limited	35.00%	Equity method
Sunandaram Foods Private Limited	26.00%	Equity method

Source: *FY2021 annual report and Q1 FY2022 results disclosure*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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