August 14, 2023

Britannia Industries Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-Convertible Debentures	698.50	698.50	[ICRA]AAA (Negative); Reaffirmed
Total	**698.50**	**698.50**	

**Instrument details are provided in Annexure-I*

Rationale

The continuation of the Negative outlook on the long-term rating of Britannia Industries Limited (BIL or the company) reflects the sustained pressure on BIL's cash flows and liquidity position on account of sizeable dividend payouts in the last few years. The company had net cash[1] of Rs. 31 crore as on March 31, 2023, against net debt of Rs. 478.0 crore as on March 31, 2022. With cash outflow of ~Rs. 1,735 crore towards dividends during April 2023, the company had cash balances and liquid investments of ~Rs. 125 crore and long-term investments of ~Rs. 1,142 crore in non-Group companies as on June 30, 2023. The liquidity levels have considerably depleted over cash balances and liquid investments of ~Rs. 2,000 crore and long-term investments of ~Rs. 1,028 crore in March 31, 2023.

The rating continues to factor in BIL's established market position in the Indian biscuits industry with presence across various product categories and strong brands, which has helped improve its market share steadily over the last few years. The rating also considers BIL's strong last-mile distribution network with its presence in 2.7 million retail outlets across India as on March 31, 2023, and its focus on diversification and innovation, reflected in its foray into multiple new categories. ICRA also notes its premiumisation efforts, which along with the above factors are expected to support its long-term business prospects. During FY2023, BIL witnessed 15.3% YoY revenue growth, mainly aided by price increases and market share gains despite low single-digit volume growth. BIL's operating profit margin (OPM) improved to 17.4% in FY2023 from 15.6% in FY2022, supported by price increases, grammage reduction, and benefit of cost efficiency measures. During Q1 FY2024, the revenues grew at 8.4% on a YoY basis supported by expansion in its distribution network and transaction growth. The marginal softening of input prices (except for wheat) and benefits from cost efficiency measures resulted in BIL maintaining its OPM at 17.2% in Q1 FY2024. Going forward, the company is expected to witness healthy revenue growth and range-bound margins aided by improvement in volumes and moderation in raw material prices, coupled with cost efficiencies. The volume growth is likely to be supported by price corrections and grammage increases.

The rating also considers the intense competition in the domestic fast-moving consumer goods (FMCG) industry characterised by the presence of several large and established players across product segments. Further, given the price-sensitive nature of customers, BIL's margins are exposed to fluctuations in raw material prices. While the YoY raw material inflation remained high at ~12% during H1 FY2023, the input prices softened during H2 FY2023 except for wheat flour prices, which continued to increase. The company has also witnessed moderation in other commodity prices in Q1 FY2024; however, sustenance of margins remains the key monitorables.

ICRA notes that the credit profiles of its promoter group companies, The Bombay Dyeing & Manufacturing Co. Limited (Bombay Dyeing) and Go Airlines (India) Ltd. (Go Air) have deteriorated in recent years. Further, voluntary insolvency proceedings were initiated by Go Air during May 2023. While BIL has not provided financial support to Go Air, it has provided inter corporate deposits (ICD) to Bombay Dyeing (Rs. 385 crore) and The Bombay Burmah Trading Corporation Limited (Rs. 375 crore) as on

[1] *Gross debt less cash and bank balances, as well as investments, barring those in group companies.*

June 30, 2023. Any material increase in the ICDs or significantly higher-than-expected dividend payouts leading to a significant deterioration of BIL's liquidity and credit profile will remain a key monitorable.

Key rating drivers and their description

Credit strengths

Established market position in the 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 wafer segments, further supporting its business prospects. While international business contributed ~5.5% to BIL's FY2023 revenues, it is focusing on enhancing the same by capitalising on its manufacturing footprint and entering contractual arrangements. BIL has a healthy market share in Nepal, and its international business prospects are further enhanced by catering to other key territories such as West Asia and Africa.

Strong last-mile distribution network – BIL had direct access to 2.67 million retail outlets as on June 30, 2023, against 0.73 million outlets as of FY2014 end, which has supported the improvement in its market share over the last few years. Rural markets account for a sizeable share of the demand for biscuits in the country and the company increased its access to about 28,000 rural preferred dealers (RPDs) as on June 30, 2023, up from 8,000 RPDs as on March 31, 2016. 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, BIL will continue to expand its distribution reach, especially in rural areas and improve its visibility across various states.

Improving focus on diversification/ innovation – Biscuits currently contribute ~77% to the company's revenues while the balance is derived from other categories such as cake, rusk, dairy (~5%), bread and newer categories like cream wafers, croissants, milk shakes and savoury snacks, providing the company with diversification benefits. The company launched several new products across categories during FY2023—Nutrichoice Seeds and Herbs (biscuits), Milk Bikis Classic, Orange Croissant, cheese wafers, coconut water and cupcakes (Rs. 5 variants), to name a few. During FY2023, the company also commercialised operations at its diary plant in Ranjangaon, Maharashtra, which is expected to increase diary revenues over the medium term. Driven by various diversification and innovation across product categories, BIL has been able to maintain a healthy and expanding market share in the biscuits segment, along with increasing presence across other product categories, mainly wafers, snacks, croissants, dairy, etc.

Credit challenges

Intense competition – Though BIL is the industry leader in the domestic biscuits segment, it faces intense competition from both large and organised players as well as the fragmented unorganised market. While the company has a strong market share in some categories in the biscuits segment, like cookies, milk biscuits 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. 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 savoury snacks where incumbents already have a strong market presence. Given the high inflation in the past two years, the company had undertaken price increases and grammage reduction during FY2022 and FY2023, to partially offset the raw material price impact. However, as the commodity prices are moderating, BIL is expected to adopt price corrections and grammage restoration to remain competitive.

Profit margins exposed to fluctuations in raw material prices – The company's major raw materials are wheat flour, sugar, milk and refined palm oil (RPO). Competition and price-sensitive customers could constrain the pricing flexibility, exposing BIL's margins to fluctuations in raw material prices. While the raw material YoY inflation remained high at ~12% during H1

FY2023, input prices stabilised subsequently—refined palm oil (-14% YoY), laminates (-9% YoY) and corrugated boxes (-16% YoY). That said, wheat prices remained high with YoY inflation of 12% in Q4 FY2023 and 3% YoY inflation in Q1 FY2024. The company has witnessed moderation in other commodity prices in Q1 FY2024; however, sustenance of margins in an inflationary environment remains one of the key monitorables.

Cash flows remain constrained by continued sizeable dividend payouts – There has been sustained pressure on BIL's cash flows and liquidity position on account of sizeable dividend payouts in the last few years. The company had net cash of Rs. 31 crore as on March 31, 2023, against net debt of Rs. 478.0 crore as on March 31, 2022. With cash outflow of ~Rs. 1,735 crore towards dividends during April 2023, the company has cash balances and liquid investments of ~Rs. 125 crore and long-term investments of ~Rs. 1,142 crore in non-Group companies as on June 30, 2023. The liquidity levels have considerably depleted over cash balances and liquid investments of ~Rs. 2,000 crore and long-term investments of ~Rs. 1,028 crore in March 31, 2023. Going forward, while cash accruals are expected to remain healthy, significant dividend payouts would further impact the cash flows.

Environment and social risk

Environment considerations: The food processing business (biscuits and adjacencies) remains indirectly exposed to physical climate risks, which could result in variations in availability of raw material (such as grains, sugar, edible oil). Extreme weather conditions like harsh summers or floods can also impact raw material availability, and in turn, may lead to higher input costs in this segment. However, the market leader status of BIL in the domestic market, coupled with its presence across multiple states, provides some comfort. The dairy business remains indirectly exposed to physical climate risks, which could result in variations in availability of fodder for cattle and impact their productivity. The company remains exposed to the impact of changes in environmental norms with respect to the treatment of manufacturing residual discharge/waste. Further, increasing awareness and restrictions on usage of different grades of plastics for packaging and the need to find eco-friendly solutions could impact BIL's cost structure. As per the disclosures in its annual report for FY2023, the company has defined sustainability targets to make it more environment friendly. The company is working on reducing its greenhouse gas (GHG) emissions and increasing usage of renewable energy, while continuously working on innovative packaging, removal of plastic trays from its product portfolio, and recycling and reduction of plastic through Extended Producer Responsibility (EPR) programmes and other measures.

Social considerations: The sector also has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Food and beverages could have health implications on consumers and any quality concerns could impact its brand name and lead to additional costs for the company. As per the disclosures in its annual report for FY2023, the company is working towards inclusive strategies for increasing female employees and also dairy farmer extension programmes that work for the economic empowerment of farmers with technology enabled and sustainable dairy farming solutions. Further, the company has reduced ~2% of sugar per serving, and ~8% of sodium per serving over the last few years and also launched wholegrain product categories, thereby working on nutritional offerings.

Liquidity position: Adequate

The company's liquidity profile is adequate, as evidenced by its free cash and bank balances and liquid investments aggregating to ~Rs. 125 crore, and buffer in the form of undrawn working capital facilities at Rs. 1,700 crore as on June 30, 2023. BIL also had non-current investments of ~Rs. 1,142 crore in non-Group companies as on June 30, 2023. ICRA understands that the ICDs to Group companies stood at Rs. 760 crore as on June 30, 2023 (against Rs. 740 crore as on March 31, 2022). Going forward, material increase in ICDs or significantly higher-than-expected dividend payouts resulting in sizeable deterioration of the company's liquidity and credit profile will remain a key monitorable. In terms of debt repayment obligations, the company has repayment obligations of Rs. 113 crore and Rs. 846.5 crore during FY2024 and FY2025 (including payout for bonus debenture of Rs 698.5 crore), respectively. BIL has planned a capex outlay of ~Rs. 400-500 crore in FY2024, which is expected to be largely funded through internal cash accruals, existing reserves, and long-term debt, if required. ICRA expects the company to meet its near-and-medium-term commitments through internal sources of cash and incremental debt.

Rating sensitivities

Positive factors – The outlook may be revised to Stable if there is significant improvement in BIL's liquidity position on a sustained basis.

Negative factors – Negative pressure on BIL's ratings could arise if there is any significant deterioration in margins and if debt-funded capex or acquisitions or continued high dividend pay-outs result in further weakening of the company's liquidity profile and/or credit profile with net debt/OPBDITA greater than 1.0x on a sustained basis. Any material increase in financial support to Group entities, resulting in a significant deterioration in the company's liquidity profile, would also be a credit negative.

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.

About the company

Established in 1892, BIL is one of the largest FMCG players in the country. While it derives most of its revenues from the biscuits segment, the company has diversified into other segments over the years like breads, dairy products, cakes, snacks, milk shakes, croissants, wafers and rusks. 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 outside India, it has a manufacturing footprint in Oman, Dubai, and Nepal. As on June 30, 2023, 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)

Britannia Consolidated	FY2021	FY2022	FY2023
Operating income	13,136.1	14,136.3	16,300.6
PAT	1,849.8	1,516.2	2,310.9
OPBDIT/OI	19.1%	15.6%	17.4%
PAT/OI	14.1%	10.7%	14.2%
Total outside liabilities/Tangible net worth (times)	1.2	1.9	1.6
Total debt/OPBDIT (times)	0.8	1.1	1.1
Interest coverage (times)	22.6	15.3	16.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore; All amounts as per ICRA calculations

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount Outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Aug 14, 2023	Oct 19, 2022	Aug 16, 2022	Aug 16, 2021	Sept 3, 2020
1	Non-convertible Debentures 1	Long Term	698.50	698.50	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Negative)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
2	Non-convertible Debentures 2	Long Term	-	-	-	[ICRA]AAA (Negative); withdrawn	[ICRA]AAA (Negative)	[ICRA]AAA (Stable)	[ICRA]AAA (Stable)
3	Commercial Paper Programme	Short Term	-	-	-	[ICRA]A1+; withdrawn	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Non-convertible Debentures	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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE216A08027	Non-Convertible Debentures	Jun 3, 2021	5.50%	Jun 3, 2024	698.50	[ICRA]AAA (Negative)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	Biocon 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
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 Egypt LLC	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 Bangladesh Private Limited	100.00%	Full Consolidation
Strategic Foods Uganda Limited	100.00%	Full Consolidation
Kenafric Biscuits Limited	51.00%	Full Consolidation
Catalyst Britania Brands Limited	100.00%	Full Consolidation
Nalanda Biscuits Company Limited	35.00%	Equity method
Sunandaram Foods Private Limited	26.00%	Equity method
Britannia Bel Foods Private Limited [formerly known as Britannia Dairy Private Limited	51.00%	Equity method

Note: Company Annual Report FY2023

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