March 19, 2020

Britannia Industries Limited: Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper Programme	500.00	800.00	[ICRA]A1+; assigned to enhanced limits
Total	**500.00**	**800.00**	

**Instrument details are provided in Annexure-1*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of Britannia Industries Limited (BIL/the company) along with its subsidiaries since all its subsidiaries operate in the same line of business and have operational and financial linkages with BIL.

The assigned rating factors in BIL's established market position in the Indian biscuits industry with presence across various product categories and strong brands which has helped the company improve its market share steadily over the last few years. The rating also takes into account BIL's strong last-mile distribution network and its healthy financial profile characterized by substantial cash and investment balances, robust debt protection metrics, minimal working capital intensity and strong free cash flows. ICRA has also taken note of the company's focus on diversification and innovation reflecting in its foray into multiple new categories and premiumization efforts which are expected to support the company's long-term business prospects.

The rating also takes into account the intense competition in the domestic FMCG industry characterized by 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 BIL has lent inter-corporate deposits (ICDs, 11% and 6% of total assets as on March 31, 2019 and September 30, 2019 respectively) to other Wadia group companies. Going forward, ICRA expects the group company ICD exposure to be maintained within acceptable limits. This will be a key rating monitorable.

The company currently owns 10 manufacturing plants in the country and has continuously upgraded capacities at its plants over the years incurring a cumulative capex of ~Rs. 1,440 crore over the four fiscals ending FY2019. The company started setting up a greenfield integrated mega food park in Ranjangaon, Maharastra during FY2018 and commenced operations at the same during FY2019. Currently, the entire dairy manufacturing operations of the company are outsourced. BIL intends to in-house the entire dairy manufacturing (with focus on value-added dairy lines like cheese, milk shakes etc.) at its Ranjangaon plant over the next two years at a total cost of Rs. 500 crore. In addition to the greenfield dairy capex, the company is also expected to incur capex of Rs. 400-500 crore per annum to maintain, upgrade and enhance capacities at its existing plants. While the dairy capex is expected to be partially funded through debt, the regular maintenance capex will be funded through internal accruals.

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 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* which has helped the company improve its market share steadily over the last few years. In addition to biscuits, the company also has a healthy market position in the rusk, bread and cream wafers segments further supporting its business prospects. The company is also currently focusing on developing its international business by capitalizing on its manufacturing footprint in Oman, Dubai and Nepal. BIL intends to enter one new geography every year to enhance its international business prospects.

Strong last-mile distribution network: BIL currently has direct access to ~2.13 million retail outlets as against 0.73 million outlets as of FY2014 end which has supported improvement in its market share over the last few years. Rural markets account for more than 40% of the biscuits demand in the country and the company has increased its access to about 20,000 rural preferred dealers (RPDs) as on September 30, 2019 as against 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 the company will continue to expand its distribution reach, it is also expected to focus on improving its market position in newer offerings like milk shakes, salty snacks, crossaints and cream wafers etc. by improving visibility and launching the same across various states country.

Improving focus on diversification and innovation: Biscuits currently contribute to ~75% of the company's revenues while 25% is derived from other categories such as bread, rusk, dairy, cakes and newer categories like cream wafers, crossaints, milk shakes and salted snacks providing the company with diversification benefits. Further, the company is also currently focusing on product innovation and new launches to drive sales in its premium categories.

Strong financial profile characterized by substantial cash and investment balances, robust debt protection metrics, minimal working capital intensity and strong free cash flows. The company had cash and liquid investments of over Rs. 800 crore and long-term investments of over Rs. 1,400 crore in non-group companies as on September 30, 2019. BIL's debt increased to Rs. 1,372.5 crore as on September 30, 2019 from Rs. 156 crore as on March 31, 2019 further to issuance of bonus debentures (Rs. 721.0 crore) to its shareholders and placement of a commercial paper of Rs. 500 crore towards purchase of wheat during April 2019 (repaid during December 2019). BIL's debt protection metrics are healthy with gearing of 0.4x, net debt/OPBDITA of 0.3x as on September 30, 2019 and interest coverage of 33.8x during H1 FY2020. Further, in line with industry trends, the company's working capital intensity continues to remain low while its cash flows remain strong supported by healthy margins.

Credit challenges

High competitive intensity: Even while BIL is the industry leader in the domestic biscuits segment, it faces intense competition from both large and organized players and the fragmented unorganized market. Under the biscuits segment, while the company has a strong market share in some categories 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, the pricing flexibility is restricted because of intense competition and price-sensitive nature of consumers. Going forward, the company intends to gain market share in premium segments which in turn would support both the company's revenues and margins. While the company has a strong market position in some of its non-biscuit portfolio like bread and rusk, it has entered into newer categories like cream wafers, milk shakes, crossaints and salty snacks where incumbents already have a strong market presence.

Margins are exposed to raw material price fluctuations: The company's major raw materials are wheat flour, sugar, milk and red palm oil. Competition and price-sensitive customers constrain the pricing flexibility exposing BIL's margins to fluctuations in the raw material prices. While the company has seen high inflation levels in flour in the recent quarters, overall inflation has been in the range of 3-4% over the last five quarters. The company's operating margins during 9m FY2020 stood at 15.9% in line with FY2019 levels. To mitigate the raw material cost pressures, the company has been taking up internal cost efficiency measures which have supported the company's margins. ICRA expects the same to continue going forward.

Liquidity position: Superior

The company had cash and liquid investments of over Rs.800 crore and long-term investments of over Rs.1,400 crore in non-group companies as on September 30, 2019. Further, the company also has significant unutilized credit lines of more than Rs.500 crore in addition to strong cash accruals which are expected to be upwards of Rs.900 crore during FY2020. The company had outstanding inter-corporate deposits (ICDs) to group companies like Bombay Dyeing & Manufacturing Co.Limited and Go Airlines (India) Limited of Rs. 450 crore as on September 30, 2019. Going forward, quantum of ICDs to group companies will be a key rating monitorable and ICRA expects the exposure to be maintained within acceptable limits.

The company has debt repayments of Rs. 17.7 crore each year (till FY2022) towards term loans availed by its subsidiaries. The bonus debentures issued to shareholders during FY2020 would be due for repayment during H1 FY2023 and BIL is likely to fund the same from its internal accruals and strong cash and liquid balances.

On the back of its strong accruals, robust cash and investment balances and sizeable unutilized credit lines, the company's liquidity is **superior**.

Rating sensitivities

Negative triggers – Negative pressure on BIL's ratings could arise if there is any deterioration in margins and, debt-funded capex or acquisitions lead to weakening of the company's credit profile with net TD/OPBDITA>0.5x on a sustained basis. Significant increases in ICDs to group companies can also lead to pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating methodology for the FMCG industry
Parent/Group Support	NA
Consolidation/Standalone	The ratings are based on the consolidated financial statements of the issuer

About the company

Established in 1892, Britannia Industries Limited (BIL) is one of the largest FMCG players in the country. While it derives majority of its revenues from the biscuits segment**,** over the years, the company has also diversified into other segments 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. The company has 10 manufacturing plants across the country. In addition to manufacturing at its own plants, the company also has established relationships with several contract manufacturers across the country. The company also supplies its products to various export markets and has manufacturing footprint in Oman, Dubai and Nepal outside India. As on December 31, 2019, ~50.63% of the company's shareholding was held by the Wadia group while the balance was held by various institutions and public.

Key financial indicators (Consolidated)

	FY2018	FY2019
Operating Income (Rs. crore)	9,913.7	11,054.6
Adjusted PAT (Rs. crore)	1,004.1	1,156.4
OPBDIT/OI (%)	15.4%	15.9%
RoCE (%)	50.4%	46.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.5
Total Debt/OPBDIT (times)	0.1	0.1
Interest Coverage (times)	200.8	193.5

Source: Britannia Industries Limited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

S.No	Name of Instrument	Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
		Type	Rated amount	O/s amount as on March 31, 2019	Month-year & Rating		Month-year & Rating in FY2019	Month-year & Rating in FY2018	Month- year & Rating in FY2017
					March 19, 2020	January 16, 2020			
1	Commercial Paper Programme	ST	800.0	-	[ICRA]A1+	[ICRA]A1+	NA	NA	NA

Amount in Rs. crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Commercial Paper Programme	NA	NA	NA	800.0	[ICRA]A1+

Source: the 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 Vally Foods Private Limited	97.20%	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. SAOC	65.46%	Full Consolidation
Strategic Food International Co. LLC, Dubai	100.00%	Full Consolidation
Strategic Brands Holding Company Limited	100.00%	Full Consolidation
Daily Bread Gourmet Foods (India) Private Limited	100.00%	Full Consolidation
Britannia Dairy Private Limited	100.00%	Full Consolidation
Britannia Dairy Holdings Private Limited	100.00%	Full Consolidation
Britannia Nepal Private Limited	100.00%	Full Consolidation
Britchip Foods Limited	60.00%	Full Consolidation
Klassik Foods Private Limited	26.02%	Full Consolidation
Nalanda Biscuits Company Limited	35.00%	Full Consolidation
Sunandaram Foods Private Limited	26.00%	Full Consolidation

Source: the company's FY2019 annual report

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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.

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