

September 03, 2020

Britannia Industries Limited: Long-term rating assigned; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debentures	-	1,000.00	[ICRA]AAA (Stable); assigned
Commercial Paper Programme	800.00	1,279.00	[ICRA]A1+; assigned to enhanced limits
Total	800.00	2,279.00	

*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 ratings factor 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 ratings also consider BIL's strong last-mile distribution network and its healthy financial profile characterized 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 reflecting in its foray into multiple new categories and premiumization efforts which are expected to support the company's long-term business prospects.

BIL witnessed volume growth of ~21% and revenue growth of ~27% during Q1 FY2021 supported by the spike in "in-home" consumption during the nationwide lockdown following the Covid-19 outbreak in India. This was largely because of the brand equity of the company and its ability to make products available in stores even as many other companies faced supply chain issues. Further, the company's OPMs also expanded to 21.0% in Q1 FY2021 from 14.6% in Q1 FY2020 and 15.8% in Q4 FY2020 supported by the significant decline in raw material costs, operating leverage benefits and relatively lower ad spends.

The company had recently announced a dividend pay-out of ~Rs. 2,000 crore. Further, the company has also announced a bonus debenture issuance of ~Rs. 1,000 crore (issuance of which will happen post receipt of regulatory approvals). While the cash outflow towards the dividend has already happened, the structure and terms of the bonus debenture issuance are yet to be crystallized. Post funding the dividend account, ICRA expects the company's cash balances to be healthy given the ramp up in accruals in the current fiscal.

The rating also considers 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 placed inter-corporate deposits (ICDs) of Rs. 820 crore (with other Wadia group companies [The Bombay Burmah Trading Corporation Limited, (Ultimate holding company of Britannia Industries Limited) & Bombay Dyeing & Manufacturing Company Limited]). Going forward, ICRA expects the group company ICD exposure to not materially increase from the current levels.

The company owns 10 manufacturing plants in the country and has been continuously upgrading capacities at its plants. Currently, the entire dairy manufacturing operations of the company are outsourced. BIL also intends to shift the entire

dairy manufacturing (with focus on value-added dairy lines like cheese, milk shakes etc.) in-house at its Ranjangaon plant over the next two to three years at a cost of about Rs. 500 crore. Going forward, the company intends to set up new plants for its bakery products over the next 2-3 years to cater to the increasing demand. Overall, the company is expected to incur capex of Rs. 300-400 crore during FY2021.

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 cake, 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. During Q1 FY2021, supported by its strong market position and relatively higher availability of products, the company witnessed healthy revenue growth. \

Strong last-mile distribution network: BIL has direct access to ~2.15 million retail outlets as on June 30, 2020 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 22,000 rural preferred dealers (RPDs) as on June 30, 2020 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 categories/offerings like milk shakes, salty snacks, croissants and cream wafers etc. by improving visibility and launching the same across various states.

Improving focus on diversification and innovation: Biscuits currently contribute to ~75-80% of the company's revenues while the balance is derived from other categories such as bread, cake, rusk, dairy and newer categories like cream wafers, croissants, milk shakes and salted snacks (newer categories account for ~2% of BIL's revenues) 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, and minimal working capital intensity. The company had cash and liquid investments of over Rs. 1,100 crore and long-term investments of over Rs. 2,500 crore in non-group companies as on March 31, 2020. BIL's debt increased to Rs. 1,537.6 crore as on March 31, 2020 from Rs. 156 crore as on March 31, 2019 further to issuance of bonus debentures (Issue 1, Rs. 721.0 crore) to its shareholders and increase in working capital borrowings. During H1 FY2021, the company had cash outflow of ~Rs. 2,839 crore towards dividend payout (Interim dividend for FY2020 & FY 2021). Despite the significant cash outflow, the company's net debt metrics continue to remain healthy on the back of strong ramp up in accruals during FY2021. That said, ICRA notes that the company will have subsequent significant repayment of ~Rs. 1,000 crore towards the bonus debentures (Issue 2) which are likely to be issued to the shareholders once regulatory approvals are received. This is in addition to the repayment of Rs. 721 crore for Issue 1 in FY2023.

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 may be 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, cake and rusk, it has entered into newer categories like 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 refined palm oil. Competition and price-sensitive customers could constrain the pricing flexibility exposing BIL's margins to fluctuations in the raw material prices. Despite the increase in raw material prices, the company's operating margins during FY2020 stood at 16.1% on the back of the company's commodity hedging practices.. Further, 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 also notes that the company's operating margins improved to 21% during Q1 FY2021 on the back of robust volume growth and consequent operating leverage. However, with commencement of full production (across multiple product lines and SKUs) from Q2 FY2021 and with improved availability of competitor products in the market, the company's operating margins may contract from Q1 FY2021 levels going forward.

Liquidity position: Strong

The company had cash and liquid investments of over Rs. 1,100 crore and long-term investments of over Rs. 2,500 crore in non-group companies as on March 31, 2020. During H1 FY2021, the company had cash outflow of ~Rs. 2,839 crore towards dividend payout (final dividend for FY2020 and interim dividend during FY2021). Despite the significant cash outflow, the company's cash balances continue to remain strong at ~Rs. 2,600 crore on the back of healthy ramp up in accruals during FY2021.

ICRA understands that ICDs to group companies [The Bombay Burmah Trading Corporation Limited, (Ultimate holding company of Britannia Industries Limited) & Bombay Dyeing & Manufacturing Company Limited] are at about Rs. 820 crore. Going forward, ICRA expects the group company ICD exposure to not materially increase from the current levels. This will be a key rating monitorable.

In terms of debt repayment obligations, the company has Rs. 721 crore repayment for Issue 1 in FY2023. Further, the company will have subsequent repayment of ~Rs. 1,000 crore towards Issue 2 depending on the date of issuance once regulatory approvals are received.

Capex is estimated at Rs.300-400 crores annually, which is likely to be funded through internal cash accruals.

Rating sensitivities

Positive triggers – Not applicable

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 debt/OPBDITA>1.0x on a sustained basis; material increases in ICDs (currently at Rs. 820 crore) 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 June 30, 2020, ~50.61% 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)

	FY2019	FY2020
Operating Income (Rs. crore)	11,054.7	11,599.6
Adjusted PAT (Rs. crore)	1,156.4	1,393.2
OPBDIT/OI (%)	15.9%	16.1%
RoCE (%)	46.4%	37.6%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.8
Total Debt/OPBDIT (times)	0.1	0.8
Interest Coverage (times)	193.5	24.3

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, 2020	Month-year & Rating	Month-year & Rating in FY2020		Month-year & Rating in FY2019	Month- year & Rating in FY2018
					September 03, 2020	March 19, 2020	January 16, 2020		
1	NCD	LT	1,000.0	-	[ICRA]AAA (Stable)	NA	NA	NA	NA
2	Commercial Paper Programme	ST	1,279.0	500.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	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 [click here](#)

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	Proposed NCD	NA	NA	NA	1,000.0	[ICRA]AAA (Stable)
NA	Commercial Paper Programme	NA	NA	NA	1,279.0	[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 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. SAOC	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	100.00%	Full Consolidation
Britannia Nepal Private Limited	100.00%	Full Consolidation
Britchip Foods Limited	60.00%	Full Consolidation
Nalanda Biscuits Company Limited	35.00%	Full Consolidation
Sunandaram Foods Private Limited	26.00%	Full Consolidation

Source: the company's FY2020 annual report

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