

## Rating Rationale

November 07, 2023 | Mumbai

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### Britannia Industries Limited

Ratings reaffirmed at 'CRISIL AAA / Stable / CRISIL A1+ '; rated amount enhanced for Bank Debt

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#### Rating Action

<b>Total Bank Loan Facilities Rated</b>	<b>Rs.3000 Crore (Enhanced from Rs.2000 Crore)</b>
<b>Long Term Rating</b>	<b>CRISIL AAA/Stable (Reaffirmed)</b>

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<b>Rs.698.52À Crore Non Convertible Debentures</b>	<b>CRISIL AAA/Stable (Reaffirmed)</b>
<b>Rs.301.48À Crore Non Convertible Debentures</b>	<b>CRISIL AAA/Stable (Reaffirmed)</b>
<b>Rs.1279 Crore Commercial Paper</b>	<b>CRISIL A1+ (Reaffirmed)</b>

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

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#### Detailed Rationale

CRISIL Ratings has reaffirmed its "CRISIL AAA/Stable/CRISIL A1+" ratings on the bank facilities and debt instruments of Britannia Industries Ltd (Britannia).

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The ratings continue to reflect the leading position of Britannia in the biscuits segment, strong operating efficiency and comfortable financial risk profile. These strengths are partially offset by exposure to intense competition and fluctuations in raw material prices.

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The operating performance of the company in fiscal 2024 will be supported by steady volume growth, continued traction from new product launches and expansion in the distribution network, thereby ensuring healthy revenue growth and sustenance of operating margin at ~17%. In the first half of fiscal 2024, revenue grew (on year) 4% to Rs 8,444 crore with operating margin at 18.5%. In fiscal 2023, despite muted volume growth, revenue rose ~15% to Rs 16,301 crore with operating margin improving to 17.4% from 15.6% in fiscal 2022, supported by price hike, internal cost efficiency programmes, growth in the market share and focus on geographical expansion.

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Financial risk profile should remain robust, aided by healthy net cash accrual and strong debt protection metrics. Despite a dividend payout of ~Rs 1,361 crore in fiscal 2023, liquidity remains healthy. Long-term debt stood at Rs 801 crore as on September 30, 2023, reducing from Rs 1,552 crore as on March 31, 2023. The long-term debt funds the ongoing capital expenditure (capex), resulting in gearing of 0.96 time as on September 30, 2023, against 0.87 time on March 31, 2023. High dividend payout of Rs 1,729 crore moderated the networth marginally to Rs 2,848 crore as on September 30, 2023, from Rs 3,534 crore as on March 31, 2023. The company has a strong treasury, with cash and investments over ~Rs 1,900 crore as on October 31, 2023, excluding inter-corporate deposits (ICDs) of Rs 175. These ICDs are extended to The Bombay Burmah Trading Corporation Ltd (BBTCL; ultimate holding company of Britannia).

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There have been ongoing developments and moderation in the credit risk profiles of the ultimate holding company, BBTCL, and other Wadia group companies -- Go Airlines Pvt Ltd (GAPL) and Bombay Dyeing. GAPL has filed for insolvency. BBTCL has taken an impairment in fiscal 2023 on account of its 33% stake in GAPL.

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While Britannia has no significant direct exposure to GAPL, except receivables of ~Rs 7 lakh pertaining to business transactions, it extended ICDs of Rs 335 crore to Bombay Dyeing and Rs 375 crore to BBTCL as on March 31, 2023; ICDs outstanding to BBTCL reduced to Rs 175 crore as on October 31, 2023. Although there may not be any material increase in the direct exposure of Britannia to these entities (to support their repayment) over the medium term, it will remain a key monitorable. Further, the recent disclosure by Bombay Dyeing to sell a land parcel for Rs 5,200 crore and retire most of its debt with the proceeds, is expected to aid its credit risk profile and Bombay Dyeing has consequently repaid most of its debt including ICDs from Britannia. Going forward, pledge of any shareholding of Britannia by the direct and indirect holding companies for raising loans to financially support any other Wadia group companies will remain a key monitorable.

#### Analytical Approach

CRISIL Ratings has combined the business and financial risk profiles of Britannia and its subsidiaries, given their operational and financial linkages.

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Please refer Annexure - List of Entities Consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

#### Key Rating Drivers & Detailed Description

##### Strengths:

##### Established market position in the domestic fast-moving consumer goods (FMCG) industry

Britannia is a leading player in the Indian biscuit industry, with a market share of over a third in value terms. Revenue registered a compound annual growth rate of 10% over the five fiscals through 2023. The company has a diversified portfolio of biscuits across all seven categories (glucose, Marie, cookies, crackers, cream, milk and health) under strong brands such as Good Day, Tiger, Marie, Nutrichoice and Milk Bikis. Market position is further supported by a wide distribution network, in both rural and urban areas. Direct reach has grown substantially to 26.8 lakh outlets in fiscal 2023 from 7.3 lakh in fiscal 2014. The company also launched several new products recently, such as Milk Bikis Classic in Tamil Nadu and an orange-flavoured croissant. It has also added coconut water under its new brand, Come Alive. Britannia aims to build this brand by adding more healthy products under its portfolio.

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### **Healthy operating efficiency**

The company has efficient supply chain management, regular cost engineering and a judicious mix of contract-own manufacturing model, thereby ensuring healthy capacity utilisation. This led to a healthy operating margin of 17.4% in fiscal 2023, further improving to 18.5% in the first half of fiscal 2024 and strong return on capital employed ratio of 50.5% and prudent working capital management over the past few fiscals. A judicious mix of outsourced and in-house facilities has limited dependence on third parties. However, in the last few years, Britannia has increased the proportion of its in-house manufacturing, which improved proximity to consumption markets and reduced overheads, apart from ensuring product freshness and enhancing shelf life (because of the time saved in transportation). Despite rise in input cost, performance has been steady due to price hikes, internal cost efficiency programmes, growth in the market share and focus on geographical expansion. The margin is likely to remain above 17%, led by better distribution reach, product launches and premiumisation.

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### **Strong financial risk profile**

Gearing stood at 0.96 time as on September 30, 2023, from ~1 time as of March 31, 2023 due to healthy cash generation, despite total debt decreasing to Rs 2,761 crore as of September 2023 from Rs 2,981 crore in March 2023. Interest coverage ratio was healthy at over 16 times in fiscal 2023. Due to high dividend payout, net cash accrual is expected at only Rs 400-700 crore annually over the medium term, which will be used primarily (along with external debt) to fund capex of ~Rs 600 crore.

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Britannia has exposure of Rs 175 crore to its ultimate holding company -- BBTCL -- while the ICDs of Rs 335 crore towards Bombay Dyeing have been repaid. Any material increase in direct exposure to these entities is not likely over the medium term and this will remain a key monitorable.

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### **Weaknesses**

#### **Exposure to intense competition in the FMCG industry**

Intense competition has reduced the scope for FMCG players to pass on any hike in raw material prices to end users. Multiple price hikes that Britannia took in fiscal 2023 had to be reversed to maintain market share. Though the company has further strengthened its competitive position and pricing, competition will remain high with fresh product launches from players, especially in the premium segment.

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#### **Susceptibility of profitability to fluctuations in raw material prices**

Prices of key raw materials -- wheat, sugar, milk and refined palm oil -- depend on geoclimatic conditions, international prices and domestic demand-supply situation. In the first half of fiscal 2023, overall commodity inflation was high with year-on-year cumulative inflation of 32% for the portfolio of Britannia. Cumulative inflation reduced significantly in the second half as prices of refined palm oil (-14%), laminates (-9%) and corrugated boxes (-16%) cooled. The management has also taken sufficient pricing actions in the form of absolute price hikes and grammage cuts to offset cost inflation. Continued focus on cost efficiency and price leadership will help the company mitigate the impact of volatility in input prices on the operating margin. However, the ability to pass on the increased cost, while maintaining market share, is a key rating sensitivity factor.

### **Liquidity: Superior**

Cash surplus was estimated at ~Rs 1,900 crore as on October 31, 2023, excluding ICDs to the group company -- BBTCL. Working capital limit of Rs 3,100 crore was utilised at 25-30% for the 12 months through March 2023. Capex spend is expected at Rs 600 crore over the medium term, while debt obligations are likely Rs 100 crore in fiscal 2024 and Rs 800 crore in fiscal 2025. These are expected to be met through a combination of debt and cash accrual as the likely high dividend payout will substantially moderate cash accrual.

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### **ESG profile**

The environmental, social and governance (ESG) profile of Britannia supports its strong credit risk profile.

The FMCG sector has a moderate environmental and social impact, driven by its raw material sourcing strategies, waste-intensive process and direct impact on the health and wellbeing of customers.

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#### **Key ESG highlights**

- Britannia is a plastic-waste neutral company, collecting and processing 100% plastic waste it creates across India. The company processed more than 43,000 tonne of plastic waste in fiscal 2023.
- The company is increasing the share of renewable energy in the mix through power purchase agreements with renewable electricity providers and by using biomass at select plants.
- The corporate social responsibility projects it undertakes are focused on promoting health, growth and development of children from lower socio-economic sections of the society. These projects are linked not just to the national agenda but also to the United Nations sustainable development goals.
- Its governance structure is characterised by 67% of the board comprising independent directors and split in chairman and CEO positions. The company has made adequate financial disclosures.

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There is growing importance of ESG among investors and lenders. The continued commitment of the company to ESG principles will play a key role in enhancing stakeholder confidence.

### **Outlook Stable**

Britannia will continue to maintain its established market position in the biscuit industry, backed by strong brands and a wide distribution network. The company is also expected to sustain healthy operating profitability and robust financial risk profile, notwithstanding high dividend payout.

### **Rating Sensitivity factors**

#### **Downward factors**

- Substantial decline in operating margin, impacting cash generation
- Large, debt-funded capital spend or acquisitions affecting debt metrics; for instance, gearing above 1 time on a sustained basis
- Substantial drop in liquid surpluses to fund acquisitions, capex or support group companies; or higher-than-anticipated dividend payout or buyback

### **About the Company**

About the Company Established in 1892, Britannia is one of the largest players in the Indian biscuit industry. The company has expanded its offerings significantly by adding new products such as dairy items, cakes and rusk. It has diversified overseas by acquiring Strategic Foods International LLC in the United Arab Emirates and Al Sallan Food Industries Co SAOG in Oman. These two companies are regional players in the biscuit and cookies segment in the Middle East. The Mumbai-based Wadia group held more than 50% stake in Britannia as on June 30, 2023.

**Key Financial Indicators(consolidated)**

Â	Unit	2023	2022
Revenue from operations	Rs crore	16301	14136
Profit after tax (PAT)	Rs crore	2316	1516
PAT margin	%	14.2	10.7
Adjusted debt/adjusted networkth	Times	0.87	1.01
Interest coverage (OPBDIT/interest cost)	Times	16.74	15.32

Adjusted by CRISIL Ratings

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**Quarterly results â€”**

Â	Unit	Q2FY24	Q2FY23
Revenue from operations	Rs crore	4433	4379
PAT	Rs crore	586	490
PAT margin	%	13.1	11.1

**Any other information:** Not applicable**Note on complexity levels of the rated instrument:**

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities -Â including those that are yet to be placed -Â based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit [www.crisilratings.com](http://www.crisilratings.com). Users may also call the Customer Service Helpdesk with queries on specific instruments.

**Annexure - Details of Instrument(s)**

ISIN	Name of instrument	Date of allotment	Coupon rate (%)	Maturity date	Issue size (Rs crore)	Complexity level	Rating assigned with outlook
NA	Proposed working capital facility#	NA	NA	NA	2095	NA	CRISIL AAA/Stable
NA	Term loan	NA	NA	31-Jul-27	905	NA	CRISIL AAA/Stable
NA	Commercial paper	NA	NA	7-365 days	1279	Simple	CRISIL A1+
NA	Non-convertible debenture*	NA	NA	NA	301.48	Simple	CRISIL AAA/Stable
INE216A08027	Debentures	03-Jun-21	5.50%	03-Jun-24	698.52	Simple	CRISIL AAA/Stable

#Interchangeable with bank guarantees, working capital demand loan, overdraft and/or cash credit facility

\*Yet to be issued

**Annexure â€” List of entities consolidated**

Name of entities	Extent of consolidation	Rational for consolidation
Boribunder Finance and Investments Pvt Ltd	Full	Strong managerial, operational and financial linkages
Flora Investments Company Pvt Ltd	Full	Strong managerial, operational and financial linkages
Gilt Edge Finance and Investments Pvt Ltd	Full	Strong managerial, operational and financial linkages
International Bakery Products Ltd	Full	Strong managerial, operational and financial linkages
J. B. Mangharam Foods Pvt Ltd	Full	Strong managerial, operational and financial linkages
Manna Foods Pvt Ltd	Full	Strong managerial, operational and financial linkages
Snacko Bisc Pvt Ltd	Full	Strong managerial, operational and financial linkages
Vasana Agrex and Herbs Pvt Ltd	Full	Strong managerial, operational and financial linkages
Sunrise Biscuit Company Pvt Ltd	99.16%	Strong managerial, operational and financial linkages
Britchip Foods Ltd	60.00%	Strong managerial, operational and financial linkages
Ganges Vally Foods Pvt Ltd	98.66%	Strong managerial, operational and financial linkages
Britannia Employees Educational Welfare Association Pvt Ltd	Full	Strong managerial, operational and financial linkages
Britannia Employees General Welfare Association Pvt Ltd	Full	Strong managerial, operational and financial linkages
Britannia Employees Medical Welfare Association Pvt Ltd	Full	Strong managerial, operational and financial linkages
Strategic Food International Co LLC	Full	Strong managerial, operational and financial linkages
Britannia and Associates (Dubai) Pvt Company Ltd	Full	Strong managerial, operational and financial linkages
Strategic Brands Holding Company Ltd	Full	Strong managerial, operational and financial linkages
Britannia and Associates (Mauritius) Pvt Ltd	Full	Strong managerial, operational and financial linkages
		Strong managerial, operational and financial

Britannia Dairy Holdings Pvt Ltd, Mauritius	Full	linkages
Britannia Nepal Pvt Ltd	Full	Strong managerial, operational and financial linkages
Britannia Bangladesh Pvt Ltd	Full	Strong managerial, operational and financial linkages
AL Sallan Food International Co. SAOC	Full	Strong managerial, operational and financial linkages
Nalanda Biscuit Company Ltd	35%	Strong managerial, operational and financial linkages
Sunandaram Foods Pvt Ltd	26%	Strong managerial, operational and financial linkages

#### Annexure - Rating History for last 3 Years

Instrument	Current			2023 (History)		2022		2021		2020		Start of 2020
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
<b>Fund Based Facilities</b>	LT	3000.0	CRISIL AAA/Stable	26-09-23	CRISIL AAA/Stable	21-12-22	CRISIL AAA/Stable	08-09-21	CRISIL A1+ / CRISIL AAA/Stable	25-09-20	CRISIL A1+ / CRISIL AAA/Stable	CRISIL A1+ / CRISIL AAA/Stable
Â	Â	Â	--	12-06-23	CRISIL AAA/Stable	06-07-22	CRISIL AAA/Stable	Â	--	28-08-20	CRISIL A1+ / CRISIL AAA/Stable	--
Â	Â	Â	--	25-05-23	CRISIL AAA/Stable	Â	--	Â	--	31-03-20	CRISIL A1+ / CRISIL AAA/Stable	--
<b>Non-Fund Based Facilities</b>	LT	Â	--	Â	--	21-12-22	CRISIL AAA/Stable	08-09-21	CRISIL A1+	25-09-20	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	Â	--	Â	--	Â	--	28-08-20	CRISIL A1+	--
Â	Â	Â	--	Â	--	Â	--	Â	--	31-03-20	CRISIL A1+	--
<b>Commercial Paper</b>	ST	1279.0	CRISIL A1+	26-09-23	CRISIL A1+	21-12-22	CRISIL A1+	08-09-21	CRISIL A1+	25-09-20	CRISIL A1+	CRISIL A1+
Â	Â	Â	--	12-06-23	CRISIL A1+	06-07-22	CRISIL A1+	Â	--	28-08-20	CRISIL A1+	--
Â	Â	Â	--	25-05-23	CRISIL A1+	Â	--	Â	--	31-03-20	CRISIL A1+	--
<b>Non Convertible Debentures</b>	LT	1000.0	CRISIL AAA/Stable	26-09-23	CRISIL AAA/Stable	21-12-22	CRISIL AAA/Stable	08-09-21	CRISIL AAA/Stable	25-09-20	CRISIL AAA/Stable	CRISIL AAA/Stable
Â	Â	Â	--	12-06-23	CRISIL AAA/Stable	06-07-22	CRISIL AAA/Stable	Â	--	28-08-20	CRISIL AAA/Stable	--
Â	Â	Â	--	25-05-23	CRISIL AAA/Stable	Â	--	Â	--	31-03-20	CRISIL AAA/Stable	--

All amounts are in Rs.Cr.

#### Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
<b>Proposed Working Capital Facility&amp;</b>	<b>1095</b>	<b>Not Applicable</b>	<b>CRISIL AAA/Stable</b>
<b>Proposed Working Capital Facility&amp;</b>	<b>1000</b>	<b>Not Applicable</b>	<b>CRISIL AAA/Stable</b>
<b>Term Loan</b>	<b>905</b>	<b>HDFC Bank Limited</b>	<b>CRISIL AAA/Stable</b>

& - Interchangeable with bank guarantees, working capital demand loan, overdraft and/or cash credit facility

#### Criteria Details

<b>Links to related criteria</b>
<a href="#">CRISILs Approach to Financial Ratios</a>
<a href="#">Rating criteria for manufacturing and service sector companies</a>
<a href="#">CRISILs Bank Loan Ratings - process, scale and default recognition</a>
<a href="#">Rating Criteria for Fast Moving Consumer Goods Industry</a>
<a href="#">CRISILs Criteria for rating short term debt</a>
<a href="#">CRISILs Criteria for Consolidation</a>

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