

BRITANNIA INDUSTRIES LTD.

Industry
Bloomberg
BSE Code
NSE Code

Con. Staples
BRIT IN
500825
BRITANNIA

22 May 2018

RATING	ACCUMULATE
CMP	5525
Price Target	6150
Previous Target	5355
Potential Upside	11%

Stock Info

52wk Range H/L	5677/3372
Mkt Capital (Rs Cr)	66331
Free float (%)	49%
Avg. Vol 1M (,000)	95
No. of Shares (Crore)	12
Promoters Pledged %	NA

Distribution expansion led growth ahead

Key Highlights

- ✔ Britannia's number for Q4FY18 was better than our estimates. Sales for this quarter grew by 13% YoY to Rs 2538 cr (Vs our estimates Rs 2464 cr) led by strong base business volume growth.
- ✔ Britannia's base business volume for this quarter grew by double digit on account of investment in brands and widening distribution reach in rural and weak states.
- ✔ International business has reported double digits growth in Q4FY18 despite slowdown in Middle East and Africa region.
- ✔ Gross margin expanded by 47 bps YoY(but declined 21 bps QoQ) to 38.5% while EBITDA margin for this quarter improved by 192 bps to 15.6%.
- ✔ **FY18 Result:** Sales grew by 9% YoY to Rs 9914 cr. Gross and EBITDA margin improved by 12 and 103 bps YoY respectively. PAT grew by 13% to Rs 1004 cr.

4Q FY18 Result:

Sales for this quarter grew by 13% YoY to Rs 2538 cr (Vs our estimates Rs 2464 cr) led by strong base business volume growth. EBITDA for this quarter grew by 29% YoY to RS 397 cr. Gross margin expanded by 47 bps YoY (but declined 21 bps QoQ) to 38.5% while EBITDA margin improved by 192 bps to 15.6% led by decline in COGS (By 47 bps) and Other Expenses (by 173 bps) YoY respectively. Employee expenses went up by 28 bps YoY due to Rs 14 cr of provisioning for celebration /bonus on the completion of 100 years of the company. The company has reported PAT growth of 25% to Rs 263 cr(Vs our expectation of Rs 262 cr). Provisioning for tax has been increased by 199 bps to 33.6%. Recently company has launched "Milk Bikis Good Morning", "Nutri Choice Oats Chocolate & Almond", "50-50 Jeera" and revamped its Tiger Cookies portfolio.

View and Valuation

Britannia's number for Q4FY18 was better than our estimates. Sales for this quarter grew by 13% YoY to Rs 2538 cr led by strong base business volume growth. Base business volume grew by double digit in this quarter led by expansion in distribution reach in rural and Hindi Speaking belt. Going forward, we expect strong volume growth to continue on the back of new product launches, bouncing back of category growth and distribution expansion. Margin is also expected to improve backed by premiumization, commissioning of new technological superior plants & increase contribution of inhouse manufacturing and company's cost efficiency measures. The company targets Rs 240 cr of cost saving in FY19. Considering all, we remain positive on Britannia and recommend to ACCUMULATE with the target price of Rs 6150(48 times of FY20e's EPS).

Key Risks to our rating and target

- ◆ Any sharp increase in the key input prices.
- ◆ Slow down in biscuit category growth going forwards.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	8626	9054	9914	11438	13383
EBITDA	1214	1278	1502	1853	2237
EBIT	1101	1159	1360	1680	2038
PAT	825	885	1004	1265	1533
EPS (Rs)	69	74	84	105	128
EPS growth (%)	20%	7%	13%	26%	21%
ROE (%)	39%	33%	29%	31%	31%
ROCE (%)	50%	41%	38%	39%	40%
BV	174	225	284	343	409
P/B (X)	15	17	20	16	14
P/E (x)	39	51	67	52	43

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4Q FY 18 Results

Better than expectation

Financials	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	2,244	2,264	2,545	2,567	2,538	13.1%	-1.2%	9,054	9,914	9.5%
Other Income	34	35	51	36	44	32.5%	23.6%	151	166	10.5%
COGS	1,392	1,387	1,584	1,574	1,561	12.2%	-0.8%	5,589	6,107	9.3%
Gross Margin	38%	39%	38%	39%	38%	0.5%	-0.2%	38%	38%	0.1%
Employee Cost	90	93	107	94	108	20.9%	15.8%	353	402	13.9%
Other Expenses	455	455	477	501	471	3.4%	-6.0%	1835	1904	3.8%
EBITDA	308	329	378	398	397	28.9%	-0.3%	1278	1502	17.5%
EBITDA Margin	14%	15%	15%	16%	16%	1.9%	0.1%	14%	15%	1.0%
Depreciation	32	33	34	33	42	31.5%	28.8%	119	142	19.1%
EBIT	276	295	344	365	355	28.6%	-2.9%	1,159	1,360	17.3%
Interest	1	1	1	3	2	79.5%	-7.1%	5	8	39.3%
PBT	308	329	393	399	396	28.6%	-0.7%	1,304	1,518	16.4%
Exceptional										
Tax	97	113	133	135	133	36.7%	-1.8%	420	514	22.5%
PAT	211	216	261	264	263	24.8%	-0.1%	885	1,004	13.5%
PAT Margin	9%	10%	10%	10%	10%	1.0%	0.1%	10%	10%	0.4%

Increase in the penetration in rural and Hindi speaking belt derived volume growth.

The company clocked double digit volume growth in Q4FY18 backed by growth in Hindi speaking belt. Hindi speaking belt continues to grow faster than other territories. Penetration led by expansion in company's direct reach is helping in garnering strong volume growth. Rajasthan, MP, UP and Gujarat have grown at the rate 27%, 15%, 15% and 16% respectively in this quarter. Company's direct reach went up to 1.9mn outlets from 1.75 mn in Q3FY18. Going forward, we expect strong volume growth for Britannia led by bounce back of category growth and distribution expansion by the company.

Accelerated cost efficiency program helped in margin expansion.

Gross margin expanded by 47 bps YoY (but declined 21 bps QoQ) to 38.5% while EBITDA margin for this quarter improved by 192 bps YoY to 15.6%. Margin improvement was majorly due to accelerated cost efficiency program by the company. The company saved Rs 225 cr in FY18 and it is targeting to save Rs 240 cr in FY19. Input prices have also gone down but it still is showing marginal inflation led by RPO. RPO increased by 11% in this quarter led by increase in import duty from 7.5% to 48% while other raw material like flour, sugar and milk declined by 3%, 8% and 19% respectively.

Premiumization continues

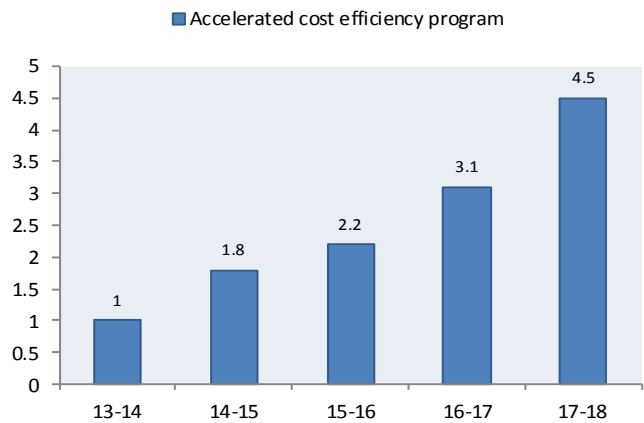
Britannia has bigger presence in the premium segment. Core and premium segment is ~85% of company's total products portfolio. Continuing its spree, the company launched "Milk Bikis Good Morning", "Nutri Choice Oats Chocolate & Almond", "50-50 Jeera". It has also revamped Tiger Cookies portfolio.

Britannia's Q4FY18 Result Concall Update:

- ✓ Momentum in category growth is back.
- ✓ Company's direct reach went up to 1900000 outlets.
- ✓ Entire Hindi speaking region is growing faster than other territories. Rajasthan, MP, UP and Gujarat have grown at the rate 27%, 15%, 15% and 16% respectively.
- ✓ Guwahati & Mundra units have been commercialized in Q4FY18 which will lead further cost efficiency for the company.
- ✓ Input price to remain stable for at least next three quarters.
- ✓ The company is targeting Rs 240 cr of cost saving in FY19.
- ✓ Inter Corporate deposits to the group companies for FY18 : Rs 350 cr vs Rs 450 cr (in FY17).
- ✓ FY19 is to remain bench mark year for the company as far as innovation and premiumization is concern.

Exhibit: Company's cost efficiency initiatives

The company targets to save Rs 240 cr in FY19 Vs Rs 225 cr saving in FY18.



Note:Nos indexed to FY 13-14.

Exhibit: Direct Reach – 2.5x increase

Company's direct reach went up to 1.9 mn outlets from 1.75 mn in Q3FY18.

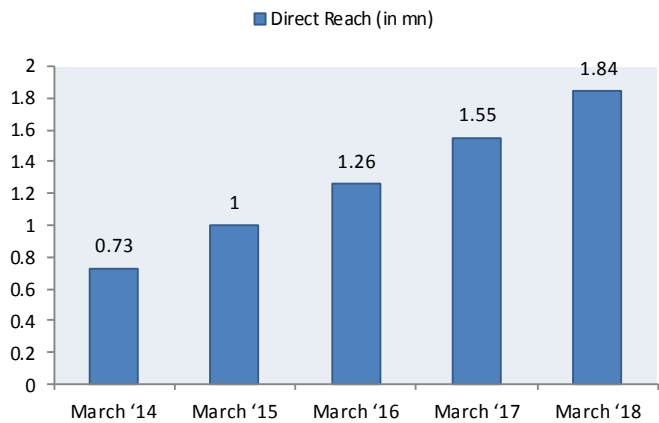


Exhibit: Sales and Sales growth

Sales for this quarter grew by 13% YoY to Rs 2538 cr led by strong base business volume growth.

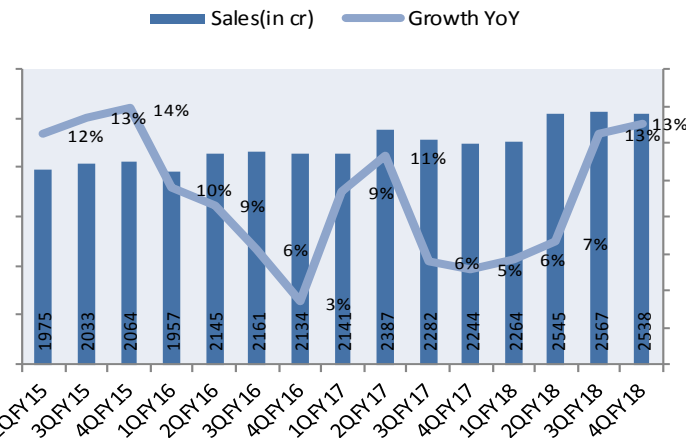


Exhibit: Gross and EBITDA Margin

Gross margin expanded by 47 bps YoY to 38.5% while EBITDA margin improved by 192 bps to 15.6%.

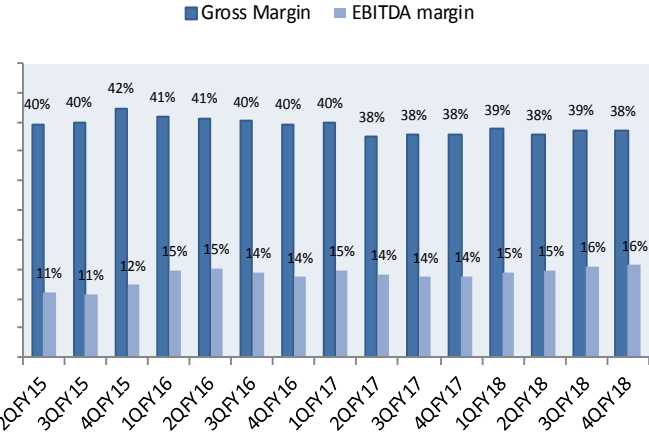


Exhibit: Overall cost remained 3% higher Vs previous year.

RPO increased by 11% in this quarter led by increase in import duty on RPO from 7.5% to 48% .

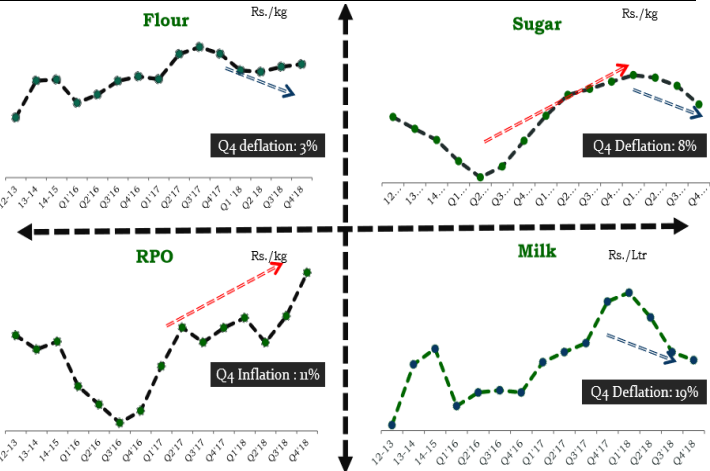
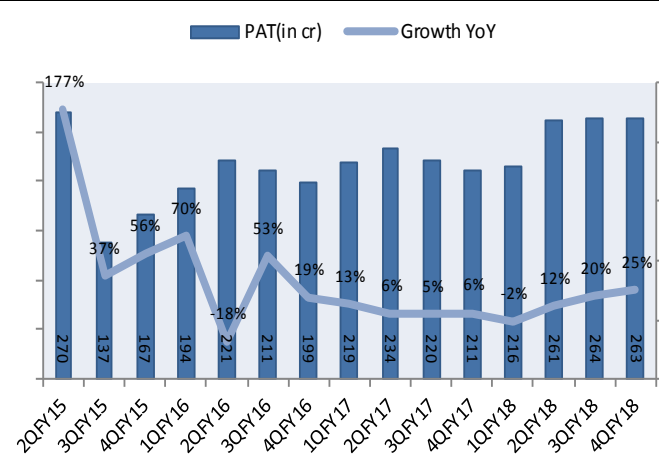


Exhibit: PAT (in cr.) and PAT growth

PAT margin improved by 97 bps YoY to 10.4%. PAT grew by 25% to Rs 263 cr.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	24	24	24	24	24	24	24	24
Reserves	527	770	1,218	2,068	2,672	3,382	4,094	4,891
Networth	551	794	1,242	2,092	2,696	3,406	4,118	4,915
Debt	341	148	140	124	116	178	171	168
Other Non Current Liab	37	32	26	7	8	9	9	9
Total Capital Employed	892	942	1,382	2,215	2,812	3,584	4,288	5,083
Net Fixed Assets (incl CWIP)	785	848	782	924	1,047	1,405	1,400	1,568
Non Current Investments	35	35	77	371	310	220	220	220
Other Non Current Assets	201	178	262	217	312	237	237	237
Non Current Assets	1,021	1,061	1,120	1,770	1,770	2,037	2,031	2,200
Inventory	375	420	404	441	661	653	464	539
Debtors	123	109	136	171	179	305	351	411
Cash & Bank	103	109	226	65	56	130	1,056	1,527
Other Current Assets	262	408	907	416	175	857	900	1,000
Current Assets	862	1,046	1,673	1,724	2,339	3,151	4,099	5,031
Creditors	394	557	703	769	757	994	1,147	1,342
Provisions	274	328	417	175	182	179	206	242
Other Current Liabilities	277	242	259	91	92	89	103	120
Curr Liabilities	945	1,126	1,380	1,244	1,261	1,554	1,793	2,098
Net Current Assets	(83)	(80)	293	480	1,078	1,597	2,306	2,932
Total Assets	1,883	2,107	2,793	3,494	4,109	5,188	6,130	7,230

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	6,185	6,913	7,858	8,626	9,054	9,914	11,438	13,383
Change (%)		12%	14%	10%	5%	9%	15%	17%
EBITDA	421	627	864	1,214	1,278	1,502	1,853	2,237
Change (%)		49%	38%	41%	5%	17%	23%	21%
Margin (%)	7%	9%	11%	14%	14%	15%	16%	17%
Depr & Amor.	73	83	144	113	119	142	172	199
EBIT	347	544	719	1,101	1,159	1,360	1,680	2,038
Int. & other fin. Cost	41	8	4	5	5	8	8	8
Other Income	52	34	88	124	151	166	245	294
EBT	358	569	804	1,220	1,304	1,518	1,918	2,324
Exp Item	-	-	146	-	-	-	-	-
Tax	99	174	261	396	420	514	652	790
Minority Int & P/L share of Ass.	0	0	0	-	-	-	-	-
Reported PAT	260	396	689	825	885	1,004	1,265	1,533
Adjusted PAT	260	396	590	825	885	1,004	1,265	1,533
Change (%)		52%	49%	40%	7%	13%	26%	21%
Margin(%)	4%	6%	8%	10%	10%	10%	11%	11%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	47%	50%	55%	39%	33%	29%	31%	31%
ROCE	39%	58%	52%	50%	41%	38%	39%	40%
Asset Turnover	3.3	3.3	2.8	2.5	2.2	1.9	1.9	1.9
Debtor Days	7.2	5.7	6.3	7.2	7.2	11.2	11.2	11.2
Inv Days	22.1	22.2	18.8	18.6	26.7	24.0	14.8	14.7
Payable Days	23.2	29.4	32.7	32.5	30.5	36.6	36.6	36.6
Int Coverage	8	66	186	226	213	179	203	251
P/E	24.1	15.9	17.2	38.7	50.7	67.3	52.4	43.2
Price / Book Value	11.4	7.9	9.5	15.3	16.6	19.8	16.1	13.5
EV/EBITDA	14.7	9.9	13.5	26.3	35.0	45.0	35.3	29.0
FCF per Share	7.9	46.8	38.9	59.0	6.8	64.9	121.7	109.9
Div Yield	2%	2%	2%	0%	1%	0%	1%	1%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT	358	569	950	1,220	1,304	1,518	1,918	2,324
(inc)/Dec in Working Capital	(16)	226	25	133	(451)	125	181	(55)
Non Cash Op Exp	51	68	(52)	77	70	142	172	199
Int Paid (+)	(25)	8	4	5	5	8	8	8
Tax Paid	(89)	(186)	(301)	(403)	(397)	(514)	(652)	(790)
others	(25)	(14)	(41)	(72)	(90)	-	-	-
CF from Op. Activities	320	671	584	959	441	1,279	1,627	1,686
(inc)/Dec in FA & CWIP	(225)	(110)	(118)	(251)	(360)	(500)	(167)	(368)
Free Cashflow	95	561	467	708	82	779	1,460	1,318
(Pur)/Sale of Inv	165	(74)	(113)	(210)	367	(682)	(43)	(100)
others	89	(62)	(220)	(245)	(157)	163	-	-
CF from Inv. Activities	28	(246)	(450)	(705)	(150)	(1,018)	(210)	(468)
inc/(dec) in NW	4	14	-	-	-	-	-	-
inc/(dec) in Debt	(227)	(243)	17	-	-	-	-	-
Int. Paid	(42)	(9)	(3)	(5)	(6)	(8)	(8)	(8)
Div Paid (inc tax)	(118)	(119)	(168)	(231)	(288)	(317)	(531)	(736)
others	5	-	(27)	(10)	(1)	73	(8)	(3)
CF from Fin. Activities	(378)	(357)	(181)	(246)	(295)	(251)	(547)	(747)
Inc(Dec) in Cash	(30)	69	(47)	8	(4)	9	870	471
Add: Opening Balance	52	22	90	43	51	121	186	1,056
Closing Balance	22	90	43	51	47	130	1,056	1,527

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