

Industry	Cons. Staples
Bloomberg	BRIT IN
BSE CODE	500825

Result mixed, tepid growth in wholesale impacted the volume

RATING	HOLD
CMP	3113
Price Target	3283
Potential Upside	5%

Rating Change	↔
Estimate Change	↑
Target Change	↑

Stock Info

52wk Range H/L	3472/2276
Mkt Capital (Rs Cr)	74821
Free float (%)	49%
Avg. Vol 1M (,000)	243
No. of Shares (Crs)	24
Promoters Pledged %	NA

Research Analyst

RAJEEV ANAND

rajeev.anand@narnolia.com

+91-22-62701229

3QFY19 Result update

- BRITANNIA's revenue remained in line with our expectation, posting a growth of 10.71% YoY to Rs 2842 Cr (vs. expectation of Rs 2850 Cr) with volume and pricing growth at 7% and 4% respectively backed by strong rural and modern trade(MT) growth.
- The company clocked volume growth of 7% (expectation of 9%) impacted by subdued growth in wholesale and cash & carry channels.
- The Company's direct reach stood at 2.08 mn outlets with rural reach at 17900 rural preferred distributors(RPDs) while Hindi belt continue to grow faster than overall growth of the company with Rajasthan, MP, UP and Gujarat growing at 25.1%, 21.3%, 18.6% and 16.7% respectively on year to date basis.
- Gross margin improved by 261 bps to 41.29% YoY (vs. expectation of 39.7% YoY) on account of change in business model(bread) and cost efficiency measures.
- Despite of higher improvement in gross margin, EBITDA margin improved by 38 bps to 15.9% YoY(vs. expectation of 16.2% YoY) on account of increase in other expenses and employee expense by 177 bps and 47 bps YoY due to business model change and addition of new business units.
- The company has posted a PAT growth of 14% YoY to Rs 300 Cr (vs expectation of Rs 313 Cr) due to high incidence of tax to the extent of 1.60% (as % of PBT) on account shift of production in India due to maintenance in Middle East factories which created extra tax burden for the company.

View and Valuation

Britannia has reported mixed set of numbers for Q3FY19, sales were up by 11% to Rs 2842 cr(expec. Rs 2850 cr) while PAT grew by 14% to Rs 300 cr(expec. Rs 313 cr). Volume growth for this quarter remained 7% (expec. 9%). Employee cost was high due to addition of new units and increments while other expenses went up due to change in business model (bread) and inflation in fuel and labor cost in Q3FY19. Factoring higher other expenses and employee expenses ,we have reduced PAT for FY19e by 2% while increased FY20e's PAT estimates by 2% taking account of change in products mix(premiumization) and expected price hike in FY20e. On volume front we are factoring 9%volume growth in FY20e on the back of new products launches, continued thrust on expansion of direct reach(went up to 2.08 mn outlets in Q3FY19 with 17900 rural preferred dealers) and improvement in rural demand on the back of government stimulus. But near term we are slightly watchful considering management commentary about wholesale and cash & carry business. We maintain our HOLD rating on Britannia with the target price of Rs 3283(52x FY20e's eps).

Key Risks to our rating and target

- Exceptional increase in prices of flour and milk
- Steep increase in other expenses backed by innovation and new launches.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	8626	9054	9914	11086	12941
EBITDA	1214	1278	1502	1759	2214
EBIT	1101	1159	1360	1603	2018
PAT	825	885	1004	1165	1503
EPS (Rs)	34	37	42	49	63
EPS growth (%)	20%	7%	13%	16%	29%
ROE (%)	39%	33%	29%	29%	31%
ROCE (%)	52%	42%	39%	39%	41%
BV	87	112	142	170	203
P/B (X)	15.3	16.6	19.8	18.3	15.4
P/E (x)	38.7	50.7	67.3	64.1	49.7

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3QFY19 Results

Mixed Performance

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	2,567	2,538	2,544	2,870	2,842	10.7%	-0.9%	9,054	9,914	9.5%
Other Income	36	44	42	44	60	66.9%	36.5%	151	166	10.5%
COGS	1,574	1,561	1,526	1,720	1,669	6.0%	-3.0%	5,589	6,107	9.3%
Gross Margin	39%	38%	40%	40%	41%	2.6%	1.2%	38%	38%	0.1%
Empl. Exp.	94	108	109	108	117	25.0%	8.3%	353	402	13.9%
Other Exp.	501	471	520	587	605	20.7%	3.1%	1,835	1,904	3.8%
EBITDA	398	397	389	454	452	13.4%	-0.6%	1,278	1,502	17.5%
EBITDA Mar.	16%	16%	15%	16%	16%	0.4%	0.1%	14%	15%	1.0%
Depreciation	33	42	36	37	42	28.9%	14.8%	119	142	19.1%
EBIT	365	355	354	417	409	12.0%	-1.9%	1,159	1,360	17.3%
Interest	3	2	2	2	3	16.9%	23.1%	5	8	39.3%
PBT	399	396	393	459	466	16.9%	1.6%	1,304	1,518	16.4%
Exceptional	-	-	-	-	-	-	-	-	-	-
Tax	135	133	135	156	166	22.4%	6.3%	420	514	22.5%
PAT	264	263	258	303	300	13.9%	-1.0%	885	1,004	13.5%
PAT Margin	10%	10%	10%	11%	11%	0.3%	0.0%	10%	10%	0%

Growth led by new launches, Premiumisation and higher penetration

Britannia is concentrating on new launches as well as innovating the existing product portfolio. The innovation contribution in last 24 months stood at 3.5-4.5% of revenues (new innovation). The Company has commercialized 2 cake line and 2 biscuit line at Ranjangaon. In its Biscuit category the company launched Whole wheat Vita marie gold, Goodday Cashew Almond while re-launched 50-50. In Cake category the company launched layer cake, brownie and Swiss roll at an affordable price prints with Attractive packaging. On the other hand the company has entered into new category wherein have launched wafers under treat brand in South India and are in process of scaling it up to west, North and east of India. The Company's direct reach stood at 2.08mn with rural reach at 17900 rural preferred distributors which indicates that the company is also expanding their footprints in through all the important channels of distribution.

Gross mar. expansion led by business model change (bread) & cost efficiency measure

Britannia's Gross margin expanded by 261 bps to 41.29% YoY (vs expect. 39.7% YoY) mainly on account of business model change in bread and cost efficiency measures to the extent of 2% (which got shifted to other expense) and 3% respectively. The Company also witnessed overall inflation in commodity to the extent of ~4% wherein sugar and milk showed deflation to the extent of 14% and 12% while Flour and RPO posted inflation to the extent of 9% and 10% respectively. The inflation in RPO was on account of increase in custom duty from 30% to 48%. Going further, despite of an increase in other expense by 177 bps and employee expenses by 47 bps YoY the Company's EBITDA margin improved by 38bps to 15.9% YoY.

Concall Highlights

- Rural and modern trade (MT) continues to clock strong growth.
- The Company's growth was led by rural as well as modern retail in Q3FY19 while wholesale and Cash & carry growth remained sluggish post Diwali.
- The Company expects price hike in a range of 3-4% in coming quarter to mitigate the impact of input inflation.
- The Company is looking at disruptive innovation in Rusk category.
- Nutri choice oats cookies and Choco lust are doing well post re-launch.
- The Company expects cake growth to be 300-400bps more than what they used to be on a base business in 3yrs.
- Pricing growth for domestic business stood at 4% wherein pricing growth and mixed improvement contributed 2% each.
- The Company's International Business is doing well and witnessed strong double digit growth in Middle East region.
- Nepal plant will be ready for commercial production in another 30 days.
- The Company commercialized 2 cake line and 2 biscuit line at Ranjangaon and are building more lines.
- The Company plans to save in the range of Rs 225-230 Cr to the bottom line this year.
- The Company expects commodity inflation in a range of 4-5% in coming quarters led by higher inflation in flour and milk products while expects deflation in sugar and oil.

Exhibit: Direct Reach

The company continues to expand its direct reach, it went to 2.08 mn outlets in Q3FY19.

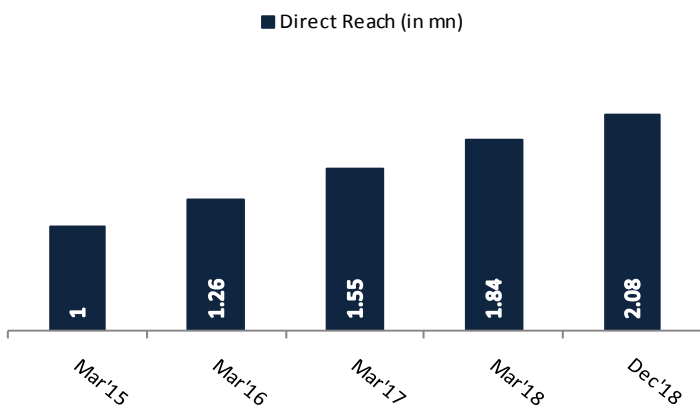


Exhibit: Rural Reach

Britannia's rural reach in terms of Rural Preferred Dealers (RPD) have been increasing at the rate of double digits.

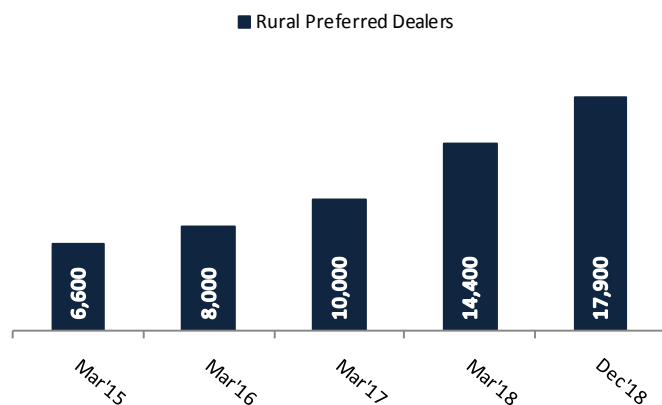


Exhibit: Sales and Sales Growth

Posted a top line growth of 11% YoY backed by growth in both rural and modern trade(MT).

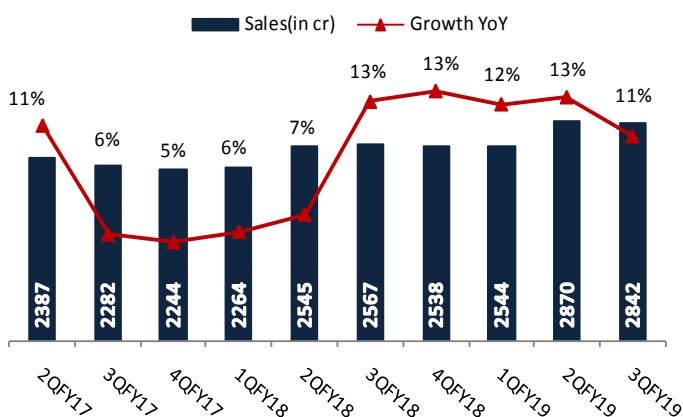


Exhibit: Gross and EBITDA Margin

Gross margin improved on account of business model change in bread and cost efficiency measures.

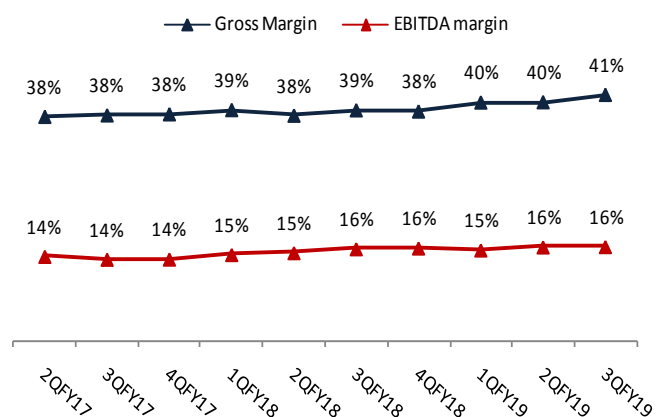


Exhibit: COGS and other expenses

Other expenses includes expense on business model change(bread) which got shifted from COGS.

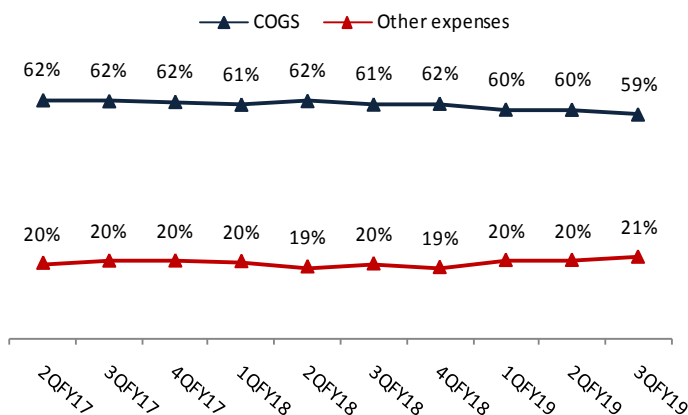
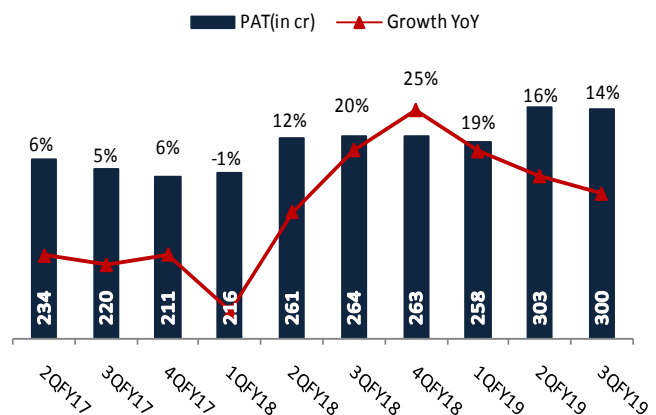


Exhibit: PAT and PAT Growth

The company has posted a PAT growth of 14% YoY to Rs 300 Cr (vs expectation of Rs 313 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	4,058	4,840
Networth	551	794	1,242	2,092	2,696	3,406	4,082	4,864
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	4,253	5,031
Net Fixed Assets (incl CWIP)	785	848	782	924	1,047	1,405	1,511	1,685
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	2,142	2,316
Inventory	375	420	404	441	661	653	434	498
Debtors	123	109	136	171	179	305	341	398
Cash & Bank	103	109	226	65	56	130	937	1,396
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	3,898	4,793
Creditors	394	557	703	769	757	994	1,112	1,298
Provisions	274	328	417	175	182	179	200	234
Other Current Liabilities	277	242	259	91	92	89	99	116
Curr Liabilities	945	1,126	1,380	1,244	1,261	1,554	1,738	2,029
Net Current Assets	(83)	(80)	293	480	1,078	1,597	2,160	2,764
Total Assets	1,883	2,107	2,793	3,494	4,109	5,188	6,040	7,109

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	11,086	12,941
Change (%)		12%	14%	10%	5%	9%	12%	17%
EBITDA	421	627	864	1,214	1,278	1,502	1,759	2,214
Change (%)		49%	38%	41%	5%	17%	17%	26%
Margin (%)	7%	9%	11%	14%	14%	15%	16%	17%
Depr & Amor.	73	83	144	113	119	142	156	197
EBIT	347	544	719	1,101	1,159	1,360	1,603	2,018
Int. & other fin. Cost	41	8	4	5	5	8	10	10
Other Income	52	34	88	124	151	166	190	270
EBT	358	569	804	1,220	1,304	1,518	1,782	2,277
Exp Item	-	-	146	-	-	-	-	-
Tax	99	174	261	396	420	514	617	774
Minority Int & P/L share of Ass.	0	0	0	-	-	-	-	-
Reported PAT	260	396	689	825	885	1,004	1,165	1,503
Adjusted PAT	260	396	590	825	885	1,004	1,165	1,503
Change (%)		52%	74%	20%	7%	13%	16%	29%
Margin(%)	4%	6%	9%	10%	10%	10%	11%	12%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	47%	50%	55%	39%	33%	29%	29%	31%
ROCE	60%	66%	56%	52%	42%	39%	39%	41%
Asset Turnover	3	3	3	2	2	2	2	2
Debtor Days	7	6	6	7	7	11	11	11
Inv Days	22	22	19	19	27	24	14	14
Payable Days	23	29	33	33	31	37	37	37
Int Coverage	8	66	186	226	213	179	154	197
P/E	12	8	9	19	25	34	64	50
Price / Book Value	6	4	5	8	8	10	18	15
EV/EBITDA	7	5	7	13	18	22	42	33
FCF per Share	8	47	39	59	7	69	54	54
Div Yield	3%	5%	3%	0%	1%	1%	1%	1%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	358	569	950	1,220	1,304	1,518	1,782	2,277
(inc)/Dec in Working Capital	(16)	226	25	133	(451)	228	231	(46)
Non Cash Op Exp	51	68	(52)	77	70	95	156	197
Int Paid (+)	41	8	4	5	5	8	10	10
Tax Paid	(89)	(186)	(301)	(403)	(397)	(496)	(617)	(774)
others	(25)	(14)	(41)	(72)	(90)	(104)	-	-
CF from Op. Activities	320	671	584	959	441	1,249	1,563	1,664
(inc)/Dec in FA & CWIP	(225)	(110)	(118)	(251)	(360)	(423)	(262)	(371)
Free Cashflow	95	561	467	708	82	826	1,301	1,293
(Pur)/Sale of Inv	165	(74)	(113)	(210)	367	(536)	(43)	(100)
others	89	(62)	(220)	(245)	(157)	2	-	-
CF from Inv. Activities	28	(246)	(450)	(705)	(150)	(956)	(305)	(471)
inc/(dec) in NW	4	14	-	-	-	15	-	-
inc/(dec) in Debt	(227)	(243)	17	-	-	-	-	-
Int. Paid	(42)	(9)	(3)	(5)	(6)	(7)	(10)	(10)
Div Paid (inc tax)	(118)	(119)	(168)	(231)	(288)	(317)	(489)	(721)
others	5	-	(27)	(10)	(1)	78	(8)	(3)
CF from Fin. Activities	(378)	(357)	(181)	(246)	(295)	(232)	(507)	(734)
Inc(Dec) in Cash	(30)	69	(47)	8	(4)	61	750	459
Add: Opening Balance	52	22	90	43	51	47	186	937
Closing Balance	22	90	43	51	47	108	937	1,396

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

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