Narnolia™

Britannia Industries Ltd.

Industry	Cons. Staples
Bloomberg	BRIT IN
BSE CODE	500825

Revenue in line while scaling up newer categories and change in business model dent margin

RATING	BUY
CMP	2786
Price Target	3217
Potential Upside	15%

Rating Change	↑
Estimate Change	⟷
Target Change	⟷

4QFY19 Result Update

- Britannia's numbers remained mixed with our expectations wherein revenue grew by 10.3% YoY to Rs. 2799 Cr (vs. expect. of Rs. 2796 Cr) with domestic volume and pricing growth at 7% and 3% respectively backed by distribution expansion and premiumization despite slowdown in rural.
- The Company's direct reach stood at 2.1 mn outlets with rural reach at 18100 rural preferred dealers(RPD) while Hindi belt continues to grow faster than overall growth of the company with Rajasthan, MP, UP and Gujarat growing at 22%, 19%, 17% and 14.7% respectively in FY19.
- The Company launched innovative products in biscuits category while launched croissant in modern trade channels and in Eastern regions.The Company has also entered into salted snacks category with its Timepass brand.
- Gross margin improved by 273 bps to 41.20% YoY (vs. expect. of 40.8% YoY) on account of change in business model (bread) and cost efficiency measures.
- EBITDA margin declined by 5 bps YoY to 15.6% YoY (vs. expect. of 16.3% YoY) on account of increase in other expenses by 318 bps due to scaling up of manufacturing capacities in snacks, croissant & wafers business and change in business model.
- The Company has reported PAT growth of 11.82% YoY to Rs. 294 cr (vs. expect. Rs. 306 Cr cr) while PAT margin improved by 14 bps to 10.5% YoY.
- In FY19, The Company posted a sales growth of 12% to Rs. 11055 Cr led by continuous thrust on premiumization,innovative launches and distribution ramp up. Gross margin improved by 225 bps to 40.6% led by change in business model of bread and cost saving measures while EBITDA margin remained impacted on account of new launches but improved by 53 bps to 15.7% .PAT grew by 15% to Rs. 1155 Cr.

View and Valuation

Britannia’s numbers for Q4FY19 remained mixed, sales were up by 10% to Rs 2799 cr (vs expect. Rs 2796cr) while EBITDA margin declined by 5 bps YoY to 15.6% (vs expect. 16.3%). The domestic business volume grew by 7% (vs expec. 6.5%) in this quarter. Going forward, we expect strong new product (contri. 4.5% of the sales in FY19) pipeline and distribution expansion (grown 2.8x in last 5 years) to drive volume growth while higher saliency of premium product in mix and judicious price hike will help in expanding margin. Considering this, we largely maintain our sales and PAT estimates for FY20e and recommend BUY with the previous target price of Rs 3217 (52xFY20e’s eps).

Key Risks to our rating and target

- Exceptional increase in prices of flour and milk.
- Rural remains subdued for longer duration.

Stock Info

52wk Range H/L	3472/2610
Mkt Capital (Rs Cr)	66941
Free float (%)	49%
Avg. Vol 1M (,000)	406
No. of Shares (Crs)	24
Promoters Pledged %	NA

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	8397	9054	9914	11055	12802
EBITDA	1214	1278	1502	1733	2156
EBIT	1101	1159	1360	1572	1955
PAT	825	885	1004	1155	1472
EPS (Rs)	34	37	42	48	61
EPS growth (%)	20%	7%	13%	15%	27%
ROE (%)	39%	33%	29%	27%	29%
ROCE (%)	52%	42%	39%	36%	39%
BV	87	112	142	177	209
P/B (X)	15.3	16.6	19.8	16.9	14.3
P/E (x)	38.7	50.7	67.3	62.2	48.8

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4QFY19 Results Mixed

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	2,538	2,544	2,870	2,842	2,799	10.3%	-1.5%	9,914	11,055	11.5%
Other Income	44	42	44	60	62	39.1%	3.0%	166	206	24.1%
COGS	1,561	1,526	1,720	1,669	1,646	5.4%	-1.4%	6,107	6,561	7.4%
Gross Margin	38%	40%	40%	41%	41%	2.7%	-0.1%	38%	41%	2.2%
Empl. Exp.	108	109	108	117	108	-0.2%	-7.5%	402	442	10.0%
Other Exp.	471	520	587	605	608	29.2%	0.6%	1,904	2,318	21.8%
EBITDA	397	389	454	452	437	9.9%	-3.4%	1,502	1,733	15.4%
EBITDA Mar.	16%	15%	16%	16%	16%	-0.1%	-0.3%	15%	16%	0.5%
Depreciation	42	36	37	42	47	10.7%	10.6%	142	162	13.9%
EBIT	355	354	417	409	390	9.8%	-4.8%	1,360	1,572	15.6%
Interest	2	2	2	3	1	-47.3%	-58.1%	8	9	19.8%
PBT	396	393	459	466	450	13.6%	-3.5%	1,518	1,769	16.5%
Exceptional	-	-	-	-	-	-	-	-	-	-
Tax	133	135	156	166	156	17.0%	-6.1%	514	612	19.1%
PAT	263	258	303	300	294	11.8%	-1.9%	1,004	1,155	15.1%
PAT Margin	10%	10%	11%	11%	11%	0.1%	0.0%	10%	10%	0.3%

Growth led by Premiumization, innovation and higher penetration

The Company will continue concentrating on new launches, newer categories as well as will continue making required renovation in the existing product portfolio. The company clocked 7% volume growth in Q4FY19. The innovation contribution in FY19 stood at 4.5% and targets to take the same to 9% in FY20. In Biscuit category, the company has launched Treat Burst, Treat Stars in premium segment while launched whole wheat marie and Milk Bikis Choco Cream in value segment. The company also entered into salty snacks category with the launch of one format of salty snacks under its Timepass brand in South in 4QFY19.Re-staged the packing of the cake portfolio and also launched new formats of cake which include swiss rolls, layer cake, brownie and veg muffils in FY19. Going forward the company will commercialize 3 lines in next 4 month at Ranjangaon Plant and will come up with innovation in premium cookies, crackers, premium creams, health, dairy and adjacent business in FY20.

Gross margin expanded while EBITDA margin declined

Britannia's Gross margin expanded by 273 bps to 41.20% YoY (vs. expect. 40.8% YoY) mainly on account of business model change in bread and cost efficiency measures. The Company witnessed an overall inflation to the extent of ~3% wherein prices of flour increased by 9% while Sugar, RPO and milk posted deflation to the extent of 8%, 5% and 9% respectively. EBITDA margin declined by 5 bps to 15.6% YoY on account of higher other expense due to expenses incurred in scaling up manufacturing capacities of newer categories, goodwill write off of daily bread business and change in business model while employee expense remained flat on account of bonus to the extent of Rs 13 Cr which was given in previous corresponding quarter.

Concall Highlights

- The Company witnessed slowdown of about 500 bps in last 6 months in the overall categories under which it operates led by higher slowdown in rural and slight slowdown from urban.
- The Company has witnessed market share growth in last 4 months despite slower growth in category.
- Pricing growth for domestic business stood at 3% wherein Price growth and mix contributed 1.5% each.
- The Company expects double digit volume growth in future led by revival in rural demand on the back of elections and better monsoon.
- The Company targets to increase the savings through cost efficiency program to Rs 270 Cr in FY20 as compared to Rs 230 Cr in FY19.
- The Company will come up with innovative products in premium cookies, crackers, premium creams, health, dairy and adjacent business in FY20e.
- The Company will take price hike in Q1FY20 to overcome the input inflation.
- The Company expects 3% or slightly higher inflation in FY20 which is manageable.
- The Company's bread business grew by double digit and management plans it to expand in South.
- The Company will commercialize 3 lines in next 4 month at Ranjangaon Plant.
- Expected CAPEX for FY20e- Rs 400-450 Cr.

Exhibit: Direct Reach

The company continues to expand its direct reach, it went to 2.1 mn outlets in 4QFY19.

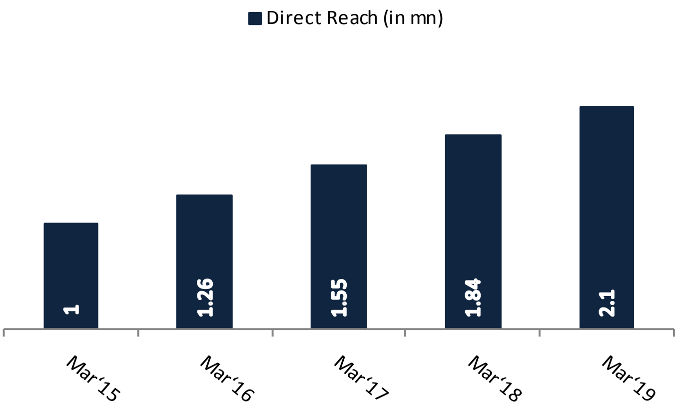


Exhibit: Rural Reach

Britannia's rural reach in terms of Rural Preferred Dealers (RPD) is growing consistently.

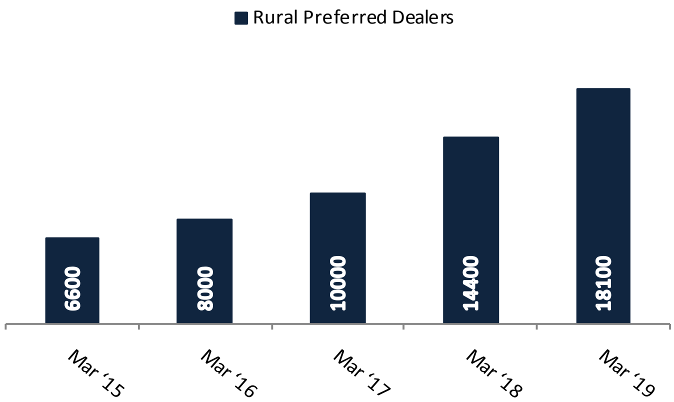


Exhibit: Sales and Sales Growth

The company witnessed top line growth of 10% YoY led by premiumization,new launches and distribution expansion .

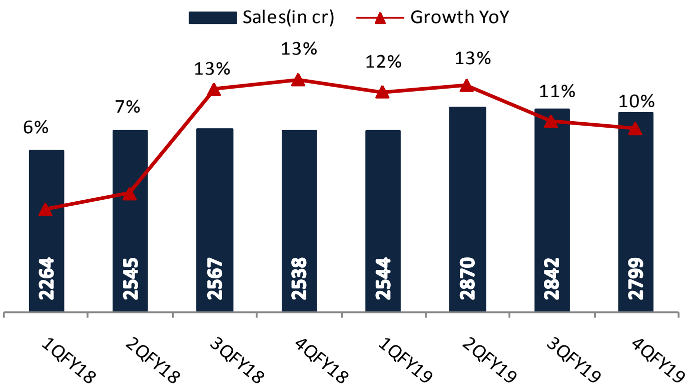


Exhibit: Gross and EBITDA Margin

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

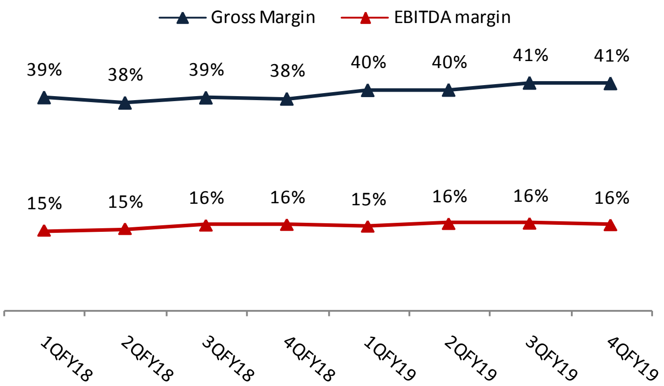


Exhibit: COGS and other expenses

Increase in other expen. by 318 bps YoY due to scaling up of manufacturing capacities and change in business model.

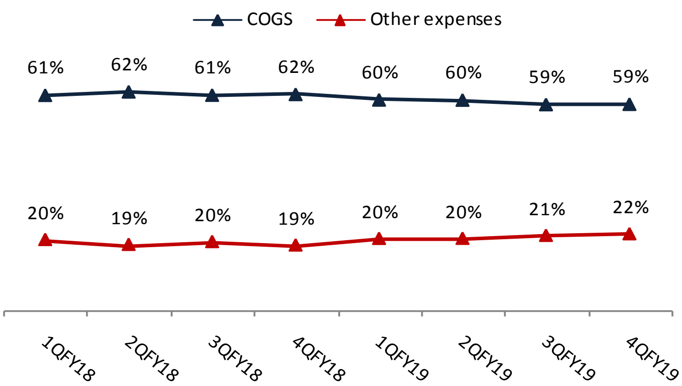
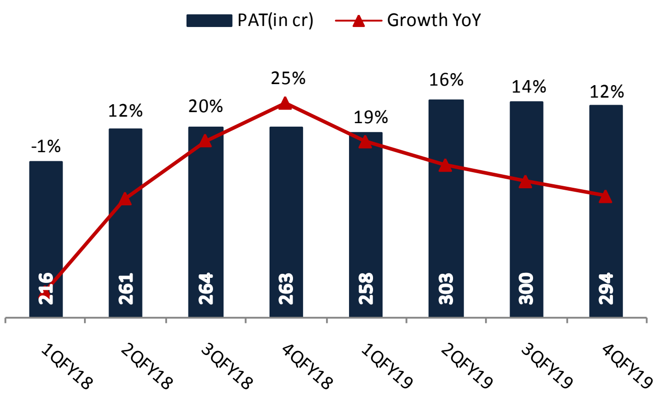


Exhibit: PAT and PAT Growth

The company posted a PAT growth of 11.82% YoY to Rs 294 Cr (vs. expect. of Rs 306 Cr).



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	24	24	24	24	24	24	24	24
Reserves	527	770	1,218	2,068	2,672	3,382	4,229	4,995
Networth	551	794	1,242	2,092	2,696	3,406	4,253	5,019
Debt	341	148	140	124	116	178	138	135
Other Non Current Liab	37	32	26	7	8	9	15	11
Total Capital Employed	892	942	1,382	2,215	2,812	3,584	4,391	5,154
Net Fixed Assets (incl CWIP)	785	848	782	924	1,047	1,405	1,644	1,714
Non Current Investments	35	35	77	371	310	220	725	1,225
Other Non Current Assets	201	178	262	217	312	237	245	245
Non Current Assets	1,021	1,061	1,120	1,770	1,770	2,037	2,715	3,285
Inventory	375	420	404	441	661	653	781	489
Debtors	123	109	136	171	179	305	394	393
Cash & Bank	103	109	226	65	56	130	60	324
Other Current Assets	262	408	907	416	175	857	750	1,255
Current Assets	862	1,046	1,673	1,724	2,339	3,151	3,526	3,947
Creditors	394	557	703	769	757	994	1,141	1,284
Provisions	274	328	417	175	182	179	197	231
Other Current Liabilities	277	242	259	91	92	89	95	115
Curr Liabilities	945	1,126	1,380	1,244	1,261	1,554	1,775	2,007
Net Current Assets	(83)	(80)	293	480	1,078	1,597	1,751	1,940
Total Assets	1,883	2,107	2,794	3,494	4,109	5,188	6,242	7,232

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	**6,185**	**6,913**	**7,858**	**8,397**	**9,054**	**9,914**	**11,055**	**12,802**
Change (%)		12%	14%	7%	8%	9%	12%	16%
EBITDA	**421**	**627**	**864**	**1,214**	**1,278**	**1,502**	**1,733**	**2,156**
Change (%)		49%	38%	41%	5%	17%	15%	24%
Margin (%)	7%	9%	11%	14%	14%	15%	16%	17%
Depr & Amor.	73	83	144	113	119	142	162	201
EBIT	**347**	**544**	**719**	**1,101**	**1,159**	**1,360**	**1,572**	**1,955**
Int. & other fin. Cost	41	8	4	5	5	8	9	8
Other Income	52	34	88	124	151	166	206	285
EBT	**358**	**569**	**804**	**1,220**	**1,304**	**1,518**	**1,769**	**2,231**
Exp Item	-	-	146	-	-	-	-	-
Tax	99	174	261	396	420	514	612	759
Minority Int & P/L share of Ass.	0	0	0	-	-	-	-	-
Reported PAT	260	396	689	825	885	1,004	1,155	1,472
Adjusted PAT	**260**	**396**	**590**	**825**	**885**	**1,004**	**1,155**	**1,472**
Change (%)		52%	74%	20%	7%	13%	15%	27%
Margin(%)	4%	6%	9%	10%	10%	10%	10%	11%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	47%	50%	55%	39%	33%	29%	27%	29%
ROCE	60%	66%	56%	52%	42%	39%	36%	39%
Asset Turnover	3	3	3	2	2	2	2	2
Debtor Days	7	6	6	7	7	11	13	11
Inv Days	22	22	19	19	27	24	26	14
Payable Days	23	29	33	33	31	37	38	37
Int Coverage	8	66	186	226	213	179	173	237
P/E	12	8	9	19	25	34	62	45
Price / Book Value	6	4	5	8	8	10	17	13
EV/EBITDA	7	5	7	13	18	22	41	31
FCF per Share	8	47	39	59	7	69	28	81
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	1,769	2,231
(inc)/Dec in Working Capital	(16)	226	25	133	(451)	228	(248)	525
Non Cash Op Exp	51	68	(52)	77	70	95	162	201
Int Paid (+)	41	8	4	5	5	8	9	8
Tax Paid	(89)	(186)	(301)	(403)	(397)	(496)	(612)	(759)
others	(25)	(14)	(41)	(72)	(90)	(104)	-	-
CF from Op. Activities	**320**	**671**	**584**	**959**	**441**	**1,249**	**1,079**	**2,207**
(inc)/Dec in FA & CWIP	(225)	(110)	(118)	(251)	(360)	(423)	(401)	(271)
Free Cashflow	95	561	467	708	82	826	678	1,937
(Pur)/Sale of Inv	165	(74)	(113)	(210)	367	(536)	107	(505)
others	89	(62)	(220)	(245)	(157)	2	(522)	(500)
CF from Inv. Activities	**28**	**(246)**	**(450)**	**(705)**	**(150)**	**(956)**	**(772)**	**(1,276)**
inc/(dec) in NW	4	14	-	-	-	15	-	-
inc/(dec) in Debt	(227)	(243)	17	-	-	-	-	-
Int. Paid	(42)	(9)	(3)	(5)	(6)	(7)	(9)	(8)
Div Paid (inc tax)	(118)	(119)	(168)	(231)	(288)	(317)	(433)	(706)
others	5	-	(27)	(10)	(1)	78	8	(3)
CF from Fin. Activities	**(378)**	**(357)**	**(181)**	**(246)**	**(295)**	**(232)**	**(433)**	**(718)**
Inc(Dec) in Cash	(30)	69	(47)	8	(4)	61	(126)	214
Add: Opening Balance	**52**	**22**	**90**	**43**	**51**	**47**	**186**	**110**
Closing Balance	22	90	43	51	47	108	60	324

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Analyst's ownership of the stocks mentioned in the Report	NIL

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