




Britannia Industries Ltd

Industry Consumer staples
Bloomberg BRIT IN
BSE CODE 500825

Numbers below expectations, margin remained dampener

RATING	HOLD
CMP	2587
Price Target	2767
Potential Upside	7%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	3472/2524
Mkt Capital (Rs Cr)	62175
Free float (%)	49%
Avg. Vol 1M (,000)	372
No. of Shares (Crs)	24
Promoters Pledged %	NA

Research Analyst

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1QFY20 Result update

- ❑ Britannia's number for Q1FY20 remained below than our expectations, sales grew by 6% YoY to Rs 2700 cr(vs expec. Rs 2798 cr) on the back of sluggishness across the market especially in rural.
- ❑ Volume grew by 3% (vs expect. 5%) while realization growth for the quarter was around 3%. Volume was impacted by tapering of rural growth which earlier used to be 1.5x of urban. Now it is growing similar or slightly lower than the Urban.
- ❑ Gross margin has shown improvement of 41 bps YoY to 40.41% while EBITDA margin declined by 69 bps to 14.6%(vs expec. 15.6%) on the back of higher employee (up by 20 bps YoY) and other expenses(up by 91 bps).
- ❑ The company recorded an exceptional item of Rs 16 cr on the back of cost related to the voluntary retirement of most of workers of Ganges Vally Foods Private (closing of an inefficient subsidiary).
- ❑ PAT declined by 4% YoY to Rs 249 cr(vs expect. 294 cr) led by deterioration of EBITDA margin, excepti. item and higher interest outgo (Rs 10 cr vs Rs 2 cr in Q1FY19).
- ❑ International business(IB): The company has commercialized Nepal operations in Apr'19 which is growing in double digits while plans to foray into another South East Asian country soon.

View and Valuation

Britannia's number for Q1FY20 remained below than our expectations, sales were up by 6% YoY to Rs 2700 cr(vs expec. Rs 2798 cr) while PAT declined by 4% YoY to Rs 249 cr(vs expec. Rs 294 cr). Volume growth remained 3% (vs expec. 5%) impacted by slowdown across market especially rural. Growth in Hindi speaking belt, which used to be company's growth driver, remained subdued. Going forward, we expect this slow down to continue for 2-3 quarters considering tepid food category growth, tight liquidity and time lag between government initiatives & visible result at grass root. While positives remain company's continued investment in brand, new product launches and distribution expansion. Considering dismal outlook in the near term, we have reduced our sales estimates for FY20/FY21e by 4%/3% and taking account of rising input prices we have reduced FY20e EBITDA margin by 20 bps which translated into reduction of PAT estimates of FY20e by 6%. We continue to value Britannia at 52 times of FY20e's EPS which translates into the target price of Rs 2767. company's new launches, investment behind brands & distribution expansion makes us positive about long term, hence we recommend HOLD rating on it.

Key Risks to our rating and target

- ❑ Slowdown in demand across market.
- ❑ Higher prices of key inputs i.e. milk, SMPand wheat.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	9054	9914	11055	12125	13617
EBITDA	1278	1502	1733	1895	2215
EBIT	1159	1360	1572	1719	2017
PAT	885	1004	1155	1265	1540
EPS (Rs)	37	42	48	53	64
EPS growth (%)	7%	13%	15%	9%	22%
ROE (%)	33%	29%	27%	25%	26%
ROCE (%)	42%	39%	36%	34%	34%
BV	112	142	177	208	245
P/B (X)	16.6	19.8	15.7	12.5	10.6
P/E (x)	50.7	67.3	57.9	49.1	40.4

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1QFY20 Results

Below than our expectation

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	Fig in Rs Cr
										YoY %
Net Sales	2,544	2,870	2,842	2,799	2,700	6.2%	-3.5%	9,914	11,055	11.5%
Other Income	42	44	60	62	67	60.6%	9.2%	166	206	24.1%
COGS	1,526	1,720	1,669	1,646	1,609	5.4%	-2.2%	6,107	6,561	7.4%
Gross Margin	40%	40%	41%	41%	40%	0.4%	-0.8%	38%	41%	2.2%
Empl. Cost	109	108	117	108	121	11.0%	11.4%	402	442	10.0%
Other Exp.	520	587	605	608	576	10.9%	-5.3%	1,904	2,318	21.8%
EBITDA	389	454	452	437	395	1.4%	-9.6%	1,502	1,733	15.4%
EBITDA Mar.	15%	16%	16%	16%	15%	-0.7%	-1.0%	15%	16%	0.5%
Depreciation	36	37	42	47	45	25.6%	-4.5%	142	162	13.9%
EBIT	354	417	409	390	350	-1.1%	-10.2%	1,360	1,572	15.6%
Interest	2	2	3	1	10	313.9%	708.0%	8	9	19.8%
PBT	393	459	466	450	407	3.5%	-9.5%	1,518	1,769	16.5%
Exceptional	-	-	-	-	16	-	-	-	-	-
Tax	135	156	166	156	143	5.8%	-8.1%	514	612	19.1%
PAT	258	303	300	294	249	-3.7%	-15.5%	1,004	1,155	15.1%
PAT Margin	10%	11%	11%	11%	9%	-0.9%	-1.3%	10%	10%	0.3%

Volume impacted by slowing down of growth across market especially rural

Britannia's volume grew by 3% YoY in the quarter impacted by lower rural growth. Growth in Hindi belt remained subdued impacted by rural distress while company continue to gain market share. Positive side is that company continues to launch products and expand its distribution reach. Newly launched Wafers, Milk Shakes and Baked Salted Snacks is doing well for the company while faced some problem regarding sourcing of flour for Croissant which is now sorted out and ready for launch in Pan India. Presently these four categories contributing 2-2.5% of the sales. On distribution side, company has expanded its direct reach to 21.3 lakh (vs 21 lakh in Mar'19) and Rural distribution to 19000 RPD's (vs 18100 in Mar'19). On IB, commercialized a plant in Nepal in Apr'19 and looking for other expansion in another South East Asian country soon.

Lower margin on the back of higher other and employee expenses.

Gross margin has shown improvement of 41 bps YoY to 40.41% while EBITDA margin declined by 69 bps to 14.6% (vs expec. 15.6%) on the back of higher employee (up by 20 bps YoY) and other expenses (up by 91 bps). Ad expenses went up from Rs 107 cr to Rs 130 cr in Q1FY20. The Commodity inflation at the company level remained 4% on the back of long position taken by the company on flour, SMP and butter. Flour and Milk prices went up by 11% and 10% respectively while RPO declined by 15% with flat (up by a percent) Sugar prices. The company continues to work on cost saving initiatives while keep investing behind the brand. Management plans to save Rs 265 cr in FY20.

Concall Highlights

- Category growth has slowed down to 1-2%. Witnessing turmoil at the grass root level.
- Management is seeing some signs of coming back of Hindi speaking belt.
- Company's dairy business recorded double digit growth backed by Milk Shakes while inflation in milk prices impacted profitability.
- The company witnessed a moderate 4% commodity inflation in Q1FY20 on the back of long position in different commodity like flour, SMP and butter.
- ICD: repayment of Rs 185 cr which led to balance coming from Rs 685 cr to ~ Rs 500 cr. The company plans to reduce it further by Rs 150 cr in a year.
- The company increased its debt by Rs 500 cr (April) for purchase of wheat worth Rs 700 cr covering wheat requirement till Q3. Plans to pay debt in 9 months so it will not come in the annual balance sheet.
- Nepal plant has been commercialized in Apr'19 and witnessing a growth of double digits. As company launched plant in Nepal, import duty in Nepal went up by 40%.
- Closed a subsidiary (Ganges Vally Foods Private) which was inefficient plant with highest cost among plants and given voluntary retirement to most of workers which cost company Rs 15.6 cr (accounted as exceptional item).
- Cost saving target for FY20: Rs 265 cr, while management will look for more opportunity to cut cost.
- The company is now in position of ramping up Croissant business and ready for pan India launch soon.

Exhibit: Direct Reach

The company continues to expand its direct reach. It went up to 21.3 lakh outlets.

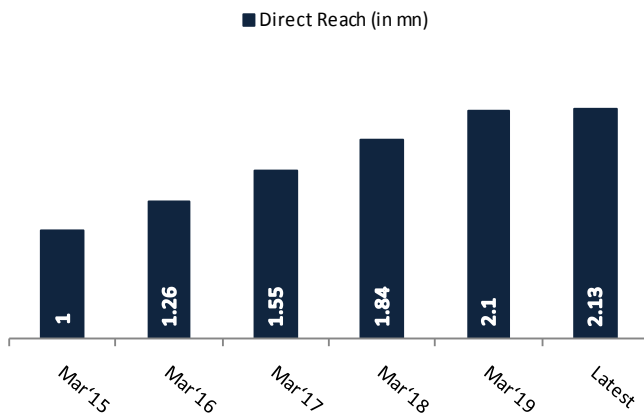


Exhibit: Rural Reach

The company has added 900 more rural preferred dealers in its rural reach.

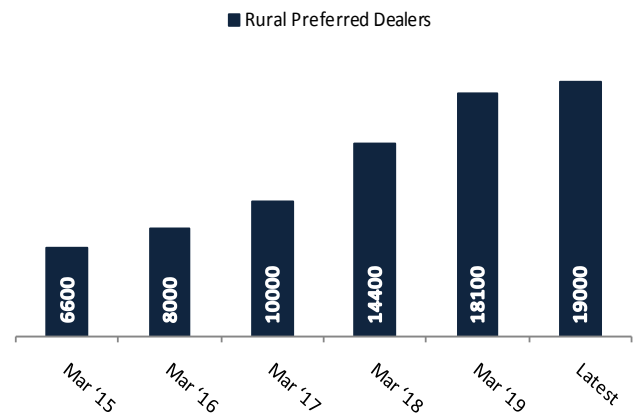


Exhibit: Sales and Sales Growth

sales grew by 6% YoY impacted by sluggishness across the market especially in rural.

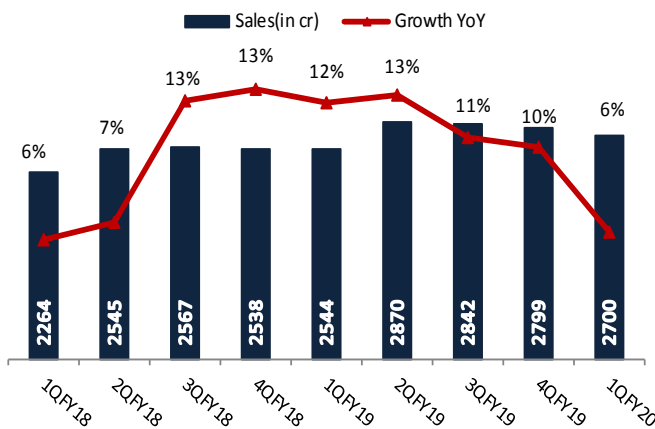


Exhibit: Gross and EBITDA Margin

EBITDA margin declined by 69 bps led by mainly higher other exp. (up by 91 bps) due to rise in ad expen.

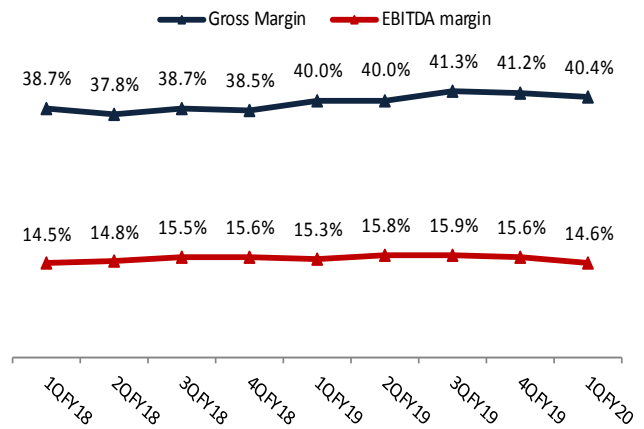


Exhibit: COGS and other expenses

COGS for the quarter declined by 41 bps YoY backed by long position taken by the company on different commodities.

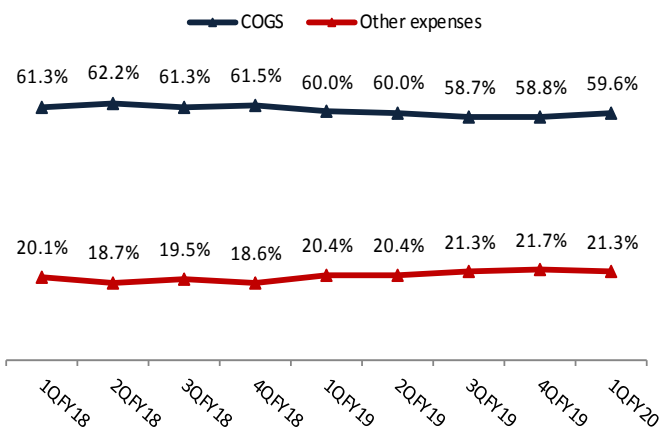
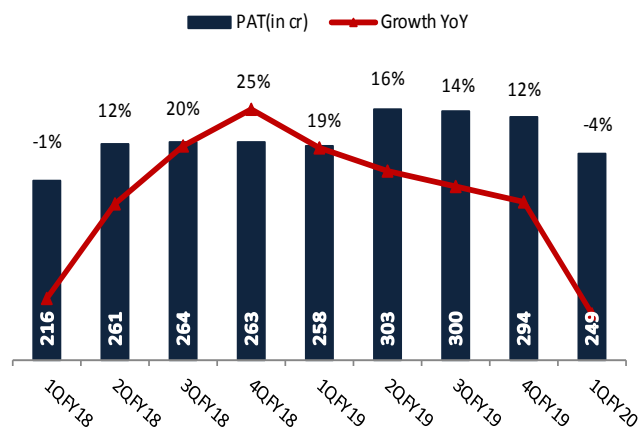


Exhibit: PAT and PAT Growth

PAT declined due to deterioration in EBITDA margin, exceptional item and higher interest outgo.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	24	24	24	24	24	24	24	24
Reserves	770	1,218	2,068	2,672	3,382	4,229	4,961	5,852
Networth	794	1,242	2,092	2,696	3,406	4,253	4,985	5,876
Debt	148	140	124	116	178	138	135	132
Other Non Current Liab	32	26	7	8	9	15	11	11
Total Capital Employed	942	1,382	2,215	2,812	3,584	4,391	5,120	6,008
Net Fixed Assets (incl CWIP)	848	782	924	1,047	1,405	1,644	1,742	1,719
Non Current Investments	35	77	371	310	220	725	1,225	1,225
Other Non Current Assets	178	262	217	312	237	245	245	245
Non Current Assets	1,061	1,120	1,770	1,770	2,037	2,715	3,312	3,290
Inventory	420	404	441	661	653	781	502	559
Debtors	109	136	171	179	305	394	432	486
Cash & Bank	109	226	65	56	130	60	157	95
Other Current Assets	408	907	416	175	857	750	1,100	2,000
Current Assets	1,046	1,673	1,724	2,339	3,151	3,526	3,826	4,977
Creditors	557	703	769	757	994	1,141	1,251	1,405
Provisions	328	417	175	182	179	197	216	242
Other Current Liabilities	242	259	91	92	89	95	104	117
Curr Liabilities	1,126	1,380	1,244	1,261	1,554	1,775	1,947	2,187
Net Current Assets	(80)	293	480	1,078	1,597	1,751	1,879	2,790
Total Assets	2,107	2,794	3,494	4,109	5,188	6,242	7,139	8,267

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	6,913	7,858	8,397	9,054	9,914	11,055	12,125	13,617
Change (%)	12%	14%	7%	8%	9%	12%	10%	12%
EBITDA	627	864	1,214	1,278	1,502	1,733	1,895	2,215
Change (%)	0	0	0	5%	17%	15%	9%	17%
Margin (%)	9%	11%	14%	14%	15%	16%	16%	16%
Depr & Amor.	83	144	113	119	142	162	176	197
EBIT	544	719	1,101	1,159	1,360	1,572	1,719	2,017
Int. & other fin. Cost	8	4	5	5	8	9	32	8
Other Income	34	88	124	151	166	206	259	326
EBT	569	804	1,220	1,304	1,518	1,769	1,946	2,335
Exp Item	-	146	-	-	-	-	(16)	-
Tax	174	261	396	420	514	612	664	794
Minority Int & P/L share of Ass.	0	0	-	-	-	-	-	-
Reported PAT	396	689	825	885	1,004	1,155	1,265	1,540
Adjusted PAT	396	590	825	885	1,004	1,155	1,275	1,540
Change (%)	52%	74%	20%	7%	13%	15%	9%	22%
Margin(%)	6%	9%	10%	10%	10%	10%	10%	11%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	50%	55%	39%	33%	29%	27%	25%	26%
ROCE	66%	56%	52%	42%	39%	36%	34%	34%
Asset Turnover	3	3	2	2	2	2	2	2
Debtor Days	6	6	7	7	11	13	13	13
Inv Days	22	19	19	27	24	26	15	15
Payable Days	29	33	33	31	37	38	38	38
Int Coverage	66	186	226	213	179	173	53	250
P/E	16	17	39	51	67	58	49	40
Price / Book Value	8	10	15	17	20	16	12	11
EV/EBITDA	5	7	13	18	22	39	33	28
FCF per Share	47	43	59	7	69	31	61	62
Div Yield	5%	3%	0%	1%	1%	0%	1%	1%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	569	950	1,220	1,304	1,518	1,769	1,930	2,335
(inc)/Dec in Working Capital	226	25	133	(451)	228	(2)	264	(73)
Non Cash Op Exp	74	(9)	77	70	95	113	176	197
Int Paid (+)	8	4	5	5	8	9	32	8
Tax Paid	(186)	(301)	(403)	(397)	(496)	(596)	(664)	(794)
others	(14)	(41)	(72)	(90)	(104)	(137)	-	-
CF from Op. Activities	677	628	959	441	1,249	1,156	1,738	1,673
(inc)/Dec in FA & CWIP	(110)	(118)	(251)	(360)	(423)	(401)	(273)	(175)
Free Cashflow	567	510	708	82	826	755	1,465	1,498
(Pur)/Sale of Inv	(74)	(113)	(210)	367	(536)	(332)	(350)	(900)
others	(62)	(220)	(245)	(157)	2	(757)	(500)	-
CF from Inv. Activities	(246)	(450)	(705)	(150)	(956)	(856)	(1,123)	(1,075)
inc/(dec) in NW	14	-	-	-	15	30	-	-
inc/(dec) in Debt	(243)	17	-	-	-	-	-	-
Int. Paid	(9)	(3)	(5)	(6)	(7)	(9)	(32)	(8)
Div Paid (inc tax)	(119)	(168)	(231)	(288)	(317)	(354)	(533)	(649)
others	-	(27)	(10)	(1)	78	(42)	(3)	(3)
CF from Fin. Activities	(357)	(181)	(246)	(295)	(232)	(353)	(568)	(660)
Inc(Dec) in Cash	74	(4)	8	(4)	61	(53)	47	(62)
Add: Opening Balance	22	90	43	51	47	108	110	157
Closing Balance	96	86	51	47	108	59	157	95

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