

# Britannia Industries Limited

Industry Consumer staples  
Bloomberg BRIT IN  
BSE CODE 500825

## Slowdown persists; Innovation & distribution expansion will help in navigating it.

RATING	ACCUMULATE
CMP	3195
Price Target	3509
Potential Upside	10%

Rating Change	↓
Estimate Change	↔
Target Change	↔

### Stock Info

52wk Range H/L	3444/2302
Mkt Capital (Rs Cr)	76836
Free float (%)	49%
Avg. Vol 1M (,000)	478
No. of Shares (Cr)	24
Promoters Pledged %	NA

### Research Analyst

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### 2QFY20 Result update

- ❑ Britannia's number for 2QFY20 remained largely inline with our estimates, sales were up by 6% YoY to Rs 3049 cr( vs expec. Rs 3078 cr) impacted by sluggishness in the economy.
- ❑ Domestic volume grew by 3% on the back of distribution expansion, gaining traction from new products and market share gain.
- ❑ The company sustain direct reach at 2.13 mn outlets while its count of rural preferred dealers (RPD) went up to 20000(vs 18000 in March'19).
- ❑ Gross margin expanded by 12 bps YoY but declined by 24 bps QoQ to 40.2% impacted by input inflation(up by ~3%) while EBITDA margin improved by 31 bps YoY and 1.53 bps QoQ to 16.1% on the back of lower conversion cost and benefits of operating leverage.
- ❑ EBITDA growth for the quarter remained 8% to Rs 492 cr( vs expec. Rs 500 cr).
- ❑ PAT grew by 33% YoY to Rs 403 cr (vs expec. Rs 424 cr)due to expansion in margin, lower provisioning of Taxes as percentage of PBT (by 14.8% to 19.13% vs 33.97% in 2QFY19) and higher other income( up by 55% to Rs 68 cr).

### View and Valuation

Britannia's numbers for 2QFY20 remained largely in line, volume growth for the quarter was 3%impacted by slowdown in general demand. Going forward, we expect company's thrust on distribution expansion, new product launches and category expansion with premiumization to drive growth. We continue to like Britannia but keeping view of near-term inflation in input prices, we have reduced our PAT estimate for FY20 by ~6% (as it would not be easy for the company to increase prices in a sluggish economy) while keeping FY21, sales and PAT estimates largely the same. Considering recent run up in stock price, we have changed our rating from BUY to ACCUMULATE with the previous target price of Rs 3509.

### Key Risks to our rating and target

- ❑ Prolonged slowdown in demand across market.
- ❑ Spurt in key inputs i.e. milk, SMPand wheat.

Fig in Rs cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	9054	9914	11055	11841	13317
EBITDA	1278	1502	1733	1843	2214
EBIT	1159	1360	1572	1667	2023
PAT	885	1004	1155	1367	1734
EPS (Rs)	37	42	48	57	72
EPS growth (%)	7%	13%	15%	18%	27%
ROE (%)	33%	29%	27%	33%	33%
ROCE (%)	42%	39%	36%	34%	34%
BV	112	142	177	174	216
P/B (X)	16.6	19.8	15.7	18.4	14.8
P/E (x)	50.7	67.3	57.9	56.1	44.3

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## 2QFY20 Results

## Largely inline

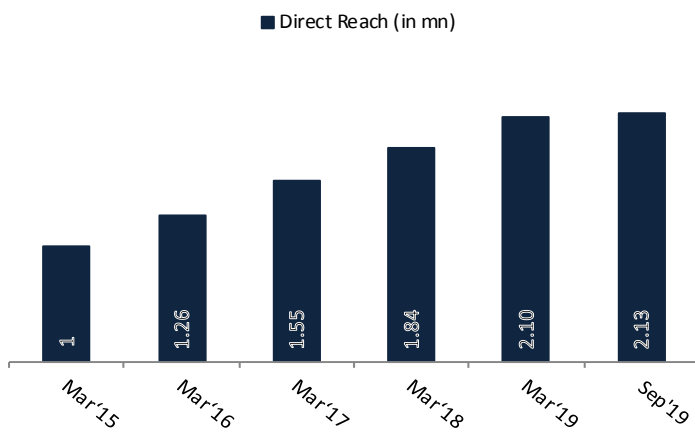
Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	Fig in Rs cr
										YoY %
Net Sales	2,870	2,842	2,799	2,700	3,049	6.2%	12.9%	9,914	11,055	11.5%
Other Income	44	60	62	67	68	55.0%	1.0%	166	206	24.1%
COGS	1,720	1,669	1,646	1,609	1,824	6.0%	13.4%	6,107	6,561	7.4%
Gross Margin	40%	41%	41%	40%	40%	0.1%	-0.2%	38%	41%	2.2%
Empl. Cost	108	117	108	121	124	14.4%	2.5%	402	442	10.0%
Other Exp.	587	605	608	576	609	3.8%	5.7%	1,904	2,318	21.8%
EBITDA	454	452	437	395	492	8.3%	24.7%	1,502	1,733	15.4%
EBITDA Mar.	16%	16%	16%	15%	16%	0.3%	1.5%	15%	16%	0.5%
Depreciation	37	42	47	45	45	21.5%	0.2%	142	162	13.9%
EBIT	417	409	390	350	447	7.2%	27.9%	1,360	1,572	15.6%
Interest	2	3	1	10	16	566.9%	59.8%	8	9	19.8%
PBT	459	466	450	407	499	8.8%	22.6%	1,518	1,769	16.5%
Exceptional	-	-	-	16	1	-	-	-	-	-
Tax	156	166	156	143	96	-38.7%	-33.2%	514	612	19.1%
PAT	303	300	294	249	403	32.9%	62.0%	1,004	1,155	15.1%
PAT Margin	11%	11%	11%	9%	13%	2.6%	4.0%	10%	10%	0.3%

## Concall Highlights

- Management didn't see any recovery in the last quarter. Sluggish environment continues, expects recovery in 9-12 months.
- For the company, rural grew ahead of the urban led by expansion of footprint in rural but as per industry, rural growth remained slower than the urban.
- The company has gained market share not only to second player but also smaller players.
- Total industry growth remained less than 5% in this quarter. The company (wholesale contribution ~33%) is witnessing wholesale pain across the country.
- Domestic volume growth for the company remained 3% in this quarter. Revenue break up (Biscuit and non Biscuit):75%:25%. The company plans to move biscuit revenue contribution to 70% in next two year.
- Input inflation remained 3% led by Milk(up by 37%) and Flour(up by 14%).
- ICD with group companies: Rs 450 cr with the interest rate of 10%.
- International business: Middle East & Africa business continues to be challenging while America growing at double digits. The company is doing well in Nepal and gained seep market share.
- Inventory build up due to opportunistic buying of raw material.
- The percentage of inhouse manufacturing is ~60% for the company.
- The company has postponed new launches seeing slow down in the economy.
- Dairy business: the company is increasing contribution of value added products and reducing commoditised dairy product which has impacted the growth in this quarter.
- Limited edition of Treat Tiramisu and Red Velvet launched while Test launched Little Heart Strawberry in the West. Relaunched Nutrchoice Cream Cracker, Goodday and Nutrchoice Arrowroot.
- Wafers: launched few quarters earlier, witnessing better traction and became no. 3 brand with double digit market share in the category.
- Salty snacks: The Company launched Salted Snacks in West and getting good response.
- Milk Shakes: launched few quarters earlier; showing better traction and gained market share above 20% and became no.2 brand.
- Croissant: The Company launched it in West Bengal and Tamilnadu (Test marketed).
- Ranjangaon food park become fully operational with 12 Lines with the total capacity of 140,000 TPA. Presently it has 8 biscuits lines, 2 cake lines, 1 Croissant line and 1 salty snack line.
- Input inflation remains moderate while mgt envisages that it may go up to 4-4.5%. To counter inflation, the company is taking price hike selectively and will take more to counter inflation going ahead.
- Cost saving target: The Company will achieve its Rs 250 cr target of cost saving this year. It will accelerate its cost saving initiatives seeing tough macroeconomic scenario.
- The company has raw material cover till Feb 2020.

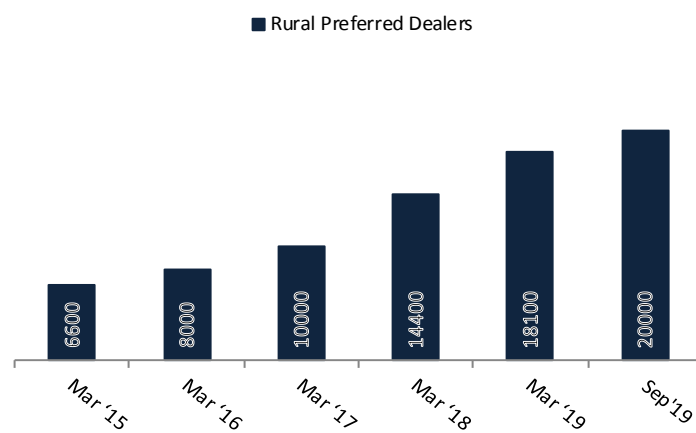
## Exhibit: Direct Reach

The company sustains its direct reach to 2.13 mn outlets.



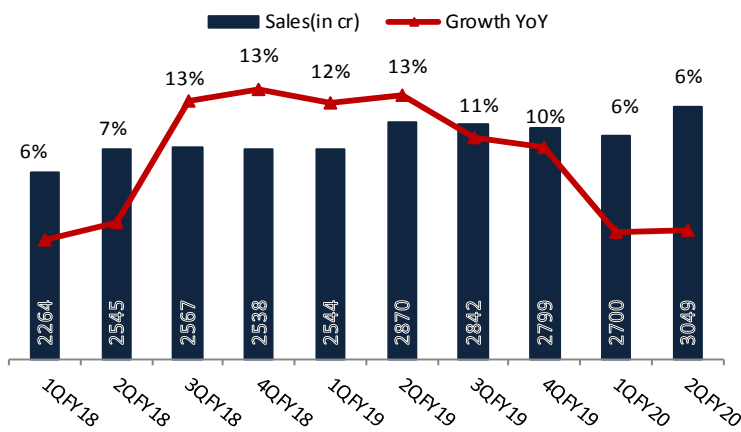
## Exhibit: Rural Reach

The company's count of rural preferred dealers went up to 20000.



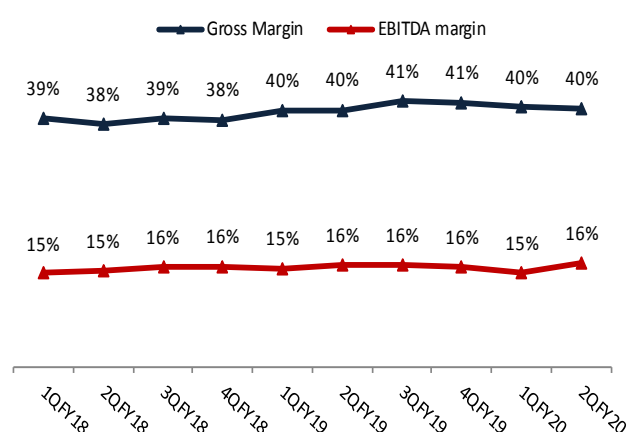
## Exhibit: Sales and Sales Growth

Sales grew by 6% YoY led by domestic volume growth of 3% impacted by slowdown in general demand.



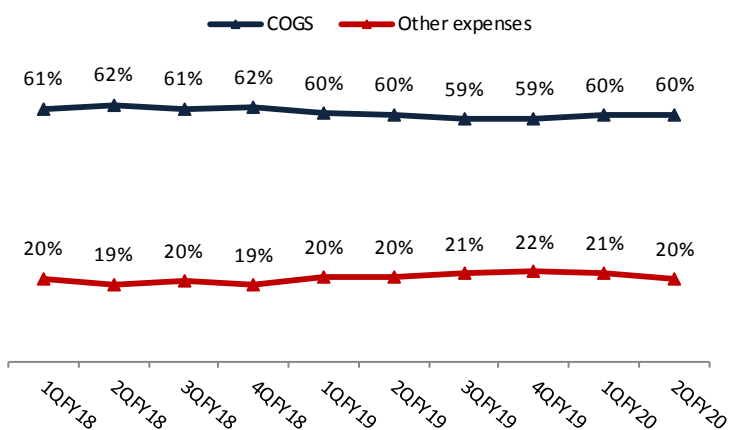
## Exhibit: Gross and EBITDA Margin

Gross margin was impacted by higher input prices, expanded by 12 bps YoY but declined by 24 bps QoQ.



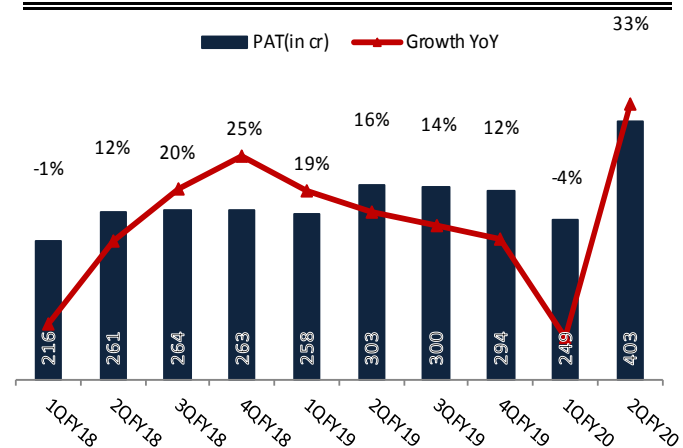
## Exhibit: COGS and other expenses

Lower COGs and other expenses by 12 and 47 bps YoY led to EBITDA margin expansion of 31 bps YoY.



## Exhibit: PAT and PAT Growth

Expansion in margin and lower provisioning of Taxes with higher other income led to strong growth in PAT.



## 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	4,154	5,157
<b>Networth</b>	<b>794</b>	<b>1,242</b>	<b>2,092</b>	<b>2,696</b>	<b>3,406</b>	<b>4,253</b>	<b>4,178</b>	<b>5,181</b>
Debt	148	140	124	116	178	138	855	852
Other Non Current Liab	32	26	7	8	9	15	11	11
<b>Total Capital Employed</b>	<b>942</b>	<b>1,382</b>	<b>2,215</b>	<b>2,812</b>	<b>3,584</b>	<b>4,391</b>	<b>5,033</b>	<b>6,033</b>
Net Fixed Assets (incl CWIP)	848	782	924	1,047	1,405	1,644	1,692	1,675
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
<b>Non Current Assets</b>	<b>1,061</b>	<b>1,120</b>	<b>1,770</b>	<b>1,770</b>	<b>2,037</b>	<b>2,715</b>	<b>3,262</b>	<b>3,245</b>
Inventory	420	404	441	661	653	781	498	551
Debtors	109	136	171	179	305	394	422	475
Cash & Bank	109	226	65	56	130	60	226	675
Other Current Assets	408	907	416	175	857	750	1,000	1,500
<b>Current Assets</b>	<b>1,046</b>	<b>1,673</b>	<b>1,724</b>	<b>2,339</b>	<b>3,151</b>	<b>3,526</b>	<b>3,743</b>	<b>4,998</b>
Creditors	557	703	769	757	994	1,141	1,222	1,374
Provisions	328	417	175	182	179	197	210	237
Other Current Liabilities	242	259	91	92	89	95	102	115
<b>Curr Liabilities</b>	<b>1,126</b>	<b>1,380</b>	<b>1,244</b>	<b>1,261</b>	<b>1,554</b>	<b>1,775</b>	<b>1,902</b>	<b>2,139</b>
<b>Net Current Assets</b>	<b>(80)</b>	<b>293</b>	<b>480</b>	<b>1,078</b>	<b>1,597</b>	<b>1,751</b>	<b>1,842</b>	<b>2,859</b>
<b>Total Assets</b>	<b>2,107</b>	<b>2,794</b>	<b>3,494</b>	<b>4,109</b>	<b>5,188</b>	<b>6,242</b>	<b>7,006</b>	<b>8,243</b>

## 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	11,841	13,317
Change (%)	12%	14%	7%	8%	9%	12%	7%	12%
<b>EBITDA</b>	<b>627</b>	<b>864</b>	<b>1,214</b>	<b>1,278</b>	<b>1,502</b>	<b>1,733</b>	<b>1,843</b>	<b>2,214</b>
Change (%)	0	0	0	5%	17%	15%	6%	20%
Margin (%)	9%	11%	14%	14%	15%	16%	16%	17%
Depr & Amor.	83	144	113	119	142	162	176	192
<b>EBIT</b>	<b>544</b>	<b>719</b>	<b>1,101</b>	<b>1,159</b>	<b>1,360</b>	<b>1,572</b>	<b>1,667</b>	<b>2,023</b>
Int. & other fin. Cost	8	4	5	5	8	9	78	64
Other Income	34	88	124	151	166	206	276	360
<b>EBT</b>	<b>569</b>	<b>804</b>	<b>1,220</b>	<b>1,304</b>	<b>1,518</b>	<b>1,769</b>	<b>1,865</b>	<b>2,318</b>
Exp Item	-	146	-	-	-	-	(17)	-
Tax	174	261	396	420	514	612	480	584
Minority Int & P/L share of Ass.	0	0	-	-	-	-	-	-
Reported PAT	396	689	825	885	1,004	1,155	1,367	1,734
<b>Adjusted PAT</b>	<b>396</b>	<b>590</b>	<b>825</b>	<b>885</b>	<b>1,004</b>	<b>1,155</b>	<b>1,380</b>	<b>1,734</b>
Change (%)	52%	74%	20%	7%	13%	15%	18%	27%
Margin(%)	6%	9%	10%	10%	10%	10%	12%	13%

## Financial Details

## Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	50%	55%	39%	33%	29%	27%	33%	33%
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	21	32
P/E	16	17	39	51	67	58	56	44
Price / Book Value	8	10	15	17	20	16	18	15
EV/EBITDA	5	7	13	18	22	39	42	35
FCF per Share	47	43	59	7	69	31	70	73
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	1,848	2,318
(inc)/Dec in Working Capital	226	25	133	(451)	228	(2)	271	(69)
Non Cash Op Exp	74	(9)	77	70	95	113	176	192
Int Paid (+)	8	4	5	5	8	9	78	64
Tax Paid	(186)	(301)	(403)	(397)	(496)	(596)	(480)	(584)
others	(14)	(41)	(72)	(90)	(104)	(137)	-	-
<b>CF from Op. Activities</b>	<b>677</b>	<b>628</b>	<b>959</b>	<b>441</b>	<b>1,249</b>	<b>1,156</b>	<b>1,893</b>	<b>1,922</b>
(inc)/Dec in FA & CWIP	(110)	(118)	(251)	(360)	(423)	(401)	(223)	(175)
Free Cashflow	567	510	708	82	826	755	1,670	1,747
(Pur)/Sale of Inv	(74)	(113)	(210)	367	(536)	(332)	(250)	(500)
others	(62)	(220)	(245)	(157)	2	(757)	(500)	-
<b>CF from Inv. Activities</b>	<b>(246)</b>	<b>(450)</b>	<b>(705)</b>	<b>(150)</b>	<b>(956)</b>	<b>(856)</b>	<b>(973)</b>	<b>(675)</b>
inc/(dec) in NW	14	-	-	-	15	30	-	-
inc/(dec) in Debt	(243)	17	-	-	-	-	-	-
Int. Paid	(9)	(3)	(5)	(6)	(7)	(9)	(78)	(64)
Div Paid (inc tax)	(119)	(168)	(231)	(288)	(317)	(354)	(576)	(731)
others	-	(27)	(10)	(1)	78	(42)	(150)	(3)
<b>CF from Fin. Activities</b>	<b>(357)</b>	<b>(181)</b>	<b>(246)</b>	<b>(295)</b>	<b>(232)</b>	<b>(353)</b>	<b>(804)</b>	<b>(797)</b>
Inc(Dec) in Cash	74	(4)	8	(4)	61	(53)	116	450
<b>Add: Opening Balance</b>	<b>22</b>	<b>90</b>	<b>43</b>	<b>51</b>	<b>47</b>	<b>108</b>	<b>110</b>	<b>226</b>
Closing Balance	96	86	51	47	108	59	226	675

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