

Industry
Bloomberg
BSE CODE

Cons. Staples
BRIT IN
500825

Distribution expansion to ensure volume growth going ahead.

RATING	ACCUMULATE
CMP	3155
Price Target	3482
Potential Upside	10%

Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	3444/2302
Mkt Capital (Rs Cr)	75871
Free float (%)	49%
Avg. Vol 1M (,000)	356
No. of Shares (Crs)	24
Promoters Pledged %	NA

3QFY20 Result Update

- Britannia's number for 3QFY20 remained better than our expectations. The company posted a sales growth of 5% to Rs 2983 cr (vs our expectation of Rs 3013 cr) on the back of domestic volume growth backed distribution expansion and market share gain despite sluggish demand environment.
- The company continue to ramp up direct reach, company's direct reach remained around 2.17 mn outlets. It has by and large bridged the distribution gap with the largest distributed competitor. No. of rural distributors remained 21000 in this quarter which helped the company is gaining market share considerably.
- Gross margin deteriorated by 44 bps YoY to 40.85% on the back of higher input prices. The company witnessed input inflation in the range of 3 - 4% led by Flour, Sugar and Milk which grew by 7%, 3% and 42% while RPO has declined by 5%.
- Company's cost saving initiatives and flat advertisement expenses led to EBITDA margin expansion of 94 bps YoY to 16.8%. Other expenses declined by 134 bps YoY to 19.9%.
- Expansion in EBITDA margin and lower provisioning of Taxes led to PAT growth which grew by 23% to Rs 370 cr (vs our expectation of Rs 357 cr). PAT margin expanded by 184 bps YoY to 12.4%. Provisioning for taxes remained 25.6% for the quarter vs 35.5% in 3QFY20.

View and Valuation

Britannia has posted numbers better than our expectations. Positive for the quarter was EBITDA margin expansion in spite of inflation in key raw materials prices. Cover on input prices and company's cost saving initiatives with flat advertisement expenses helped in expansion in EBITDA margin. Going forward, we expect company's thrust on distribution expansion and category expansion with premiumization to drive growth. While judicious pricing and strategic input buying with cost saving measures will help in better margins. Considering government rural initiatives, we are optimistic of bouncing back of demand in few quarters time. We have kept our estimates for FY20 and FY21 largely unchanged. We maintain an accumulate rating with the previous target price of Rs 3482.

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	9054	9914	11055	11685	13143
EBITDA	1278	1502	1733	1844	2222
EBIT	1159	1360	1572	1660	2023
PAT	885	1004	1155	1369	1736
EPS (Rs)	37	42	48	57	72
EPS growth (%)	7%	13%	15%	18%	27%
ROE (%)	33%	29%	27%	33%	33%
ROCE (%)	42%	39%	36%	33%	34%
BV	112	142	177	174	216
P/B (X)	16.6	19.8	15.7	18.1	14.6
P/E (x)	50.7	67.3	57.9	55.3	43.7

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3QFY20 Results Better than expectation

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	2,842	2,799	2,700	3,049	2,983	4.9%	-2.2%	9,914	11,055	11.5%
Other Income	60	62	67	68	65	8.6%	-4.4%	166	206	24.1%
COGS	1,669	1,646	1,609	1,824	1,764	5.7%	-3.3%	6,107	6,561	7.4%
Gross Margin	41%	41%	40%	40%	41%	-0.4%	0.7%	38%	41%	2.2%
Empl. Exp.	117	108	121	124	122	3.9%	-1.6%	402	442	10.0%
Other Exp.	605	608	576	609	595	-1.7%	-2.3%	1,904	2,318	21.8%
EBITDA	452	437	395	492	502	11.1%	2.0%	1,502	1,733	15.4%
EBITDA Mar.	16%	16%	15%	16%	17%	0.9%	0.7%	15%	16%	0.5%
Depreciation	42	47	45	45	47	10.1%	4.1%	142	162	13.9%
EBIT	409	390	350	447	455	11.2%	1.8%	1,360	1,572	15.6%
Interest	3	1	10	16	24	694.3%	46.7%	8	9	19.8%
PBT	466	450	407	499	497	6.5%	-0.5%	1,518	1,769	16.5%
Exceptional Item	-	-	16	1	-	-	-	-	-	-
Tax	166	156	143	96	127	-23.2%	33.3%	514	612	19.1%
PAT	300	294	249	403	370	23.3%	-8.2%	1,004	1,155	15.1%
PAT Margin	11%	11%	9%	13%	12%	1.8%	-0.8%	10%	10%	0.3%

Concall Highlights

- Rural market is growing at the much slower pace than urban.
- Wholesale both urban and rural remained muted. At company level, rural wholesale was slightly better as company is increasing its penetration there.
- Medium and Premium part of biscuit segment is growing.
- The company has reduced inventory. The company is implementing programme called zero day inventory. The company hasn't extended credit days.
- Difference between volume and revenue for the quarter was 1% due to price hike taken by the company last year and product mix.
- The company faced moderate input inflation of 3-4% due to position taken on key raw materials. Marked to market gain, year till date (YTD) this year remained at Rs 125 cr.
- Modern trade (MT) and ecommerce has grown at double digits. Currently, it is contributing 10-11% of overall business.
- Wafers, Milk Shakes, Salted Snacks and Croissant, presently contributes around ~1-1.5% of the company's growth.
- High other operating income was due to fiscal benefits company got for two plant Ranjangaon and Guwahati . It will continue going forward (more than 5 yrs).
- Adjacent Business: Dairy business witnessed a considerable increase in milk prices which impacted profitability.
- International business: Environment remains challenging in Middle East while company witnessed high double digits growth from Nepal. Current Capacity of Nepal plant is 600 tons with little investment it can go up to 1200 tons / months.
- The company continue to ramp up direct reach, company's direct reach remained around 2.17 mn outlets. No. of rural distributors remained 21000 in this quarter which helped company is gaining market share considerably.
- Britannia's overall distribution is about 5.5 mn outlets, company plans to expand it at 6 mn in next 3 years.
- The company will issue Commercial Paper up to Rs. 800 Cr time to time for the Strategic buying of wheat and other commodity.
- The company plans to save~ 2.1% revenue from cost efficiency programme for FY20& Fy21.
- Input inflation is expected to be in range of 4-5%. The company will take judicious pricing action in selective brands to mitigate inflation.
- The company has made a conscious decision to not push products in the channel on the contrary to its competitors.

Exhibit: Direct Reach

The company continues to expand its direct reach, it went to 2.17 mn outlets in 3QFY20.

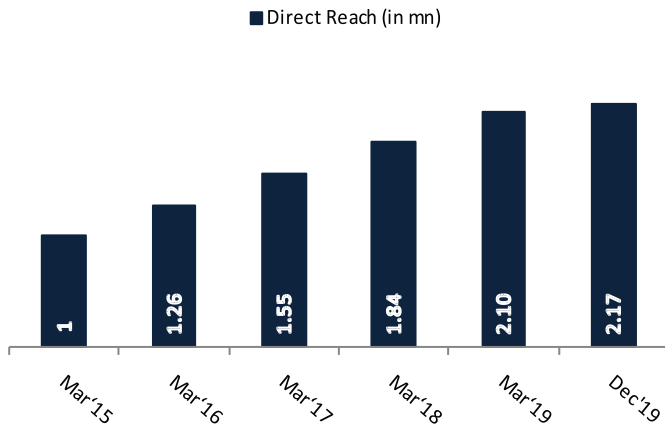


Exhibit: Rural Reach

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

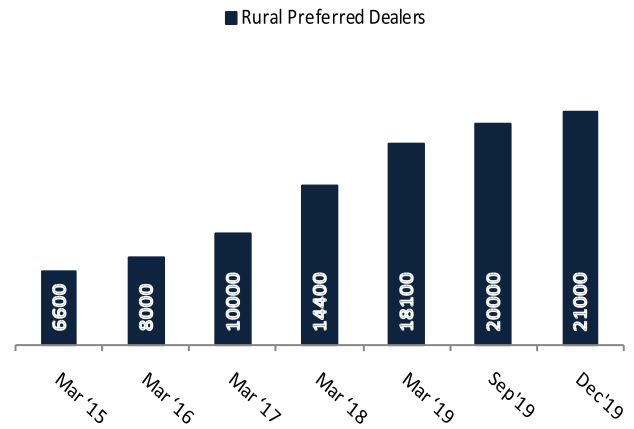


Exhibit: Sales and Sales Growth

Sales grew by 5% led by distribution expansion and investment behind brand.

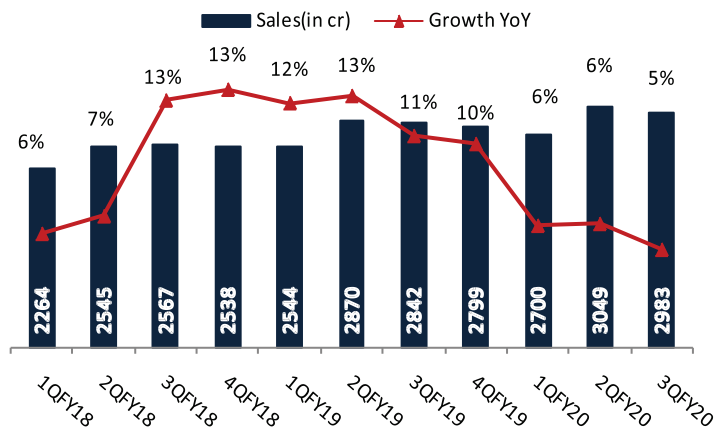


Exhibit: Gross and EBITDA Margin (%)

Gross margin deteriorated by 44 bps YoY on the back of inflation in key input price by 3-4%.

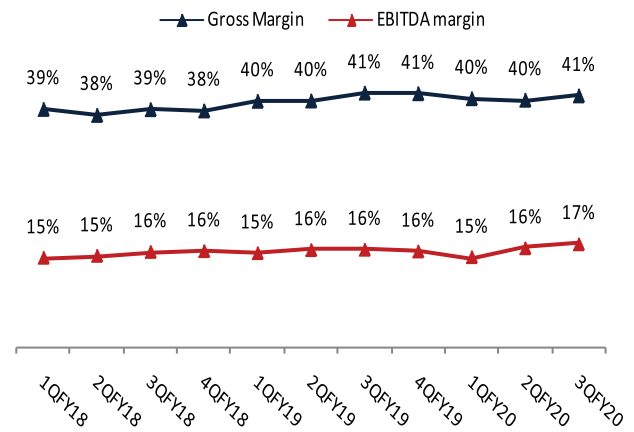


Exhibit: COGS and other expenses

Advertisement expenses remained flat in this quarter while company continues to save cost on accelerated speed.

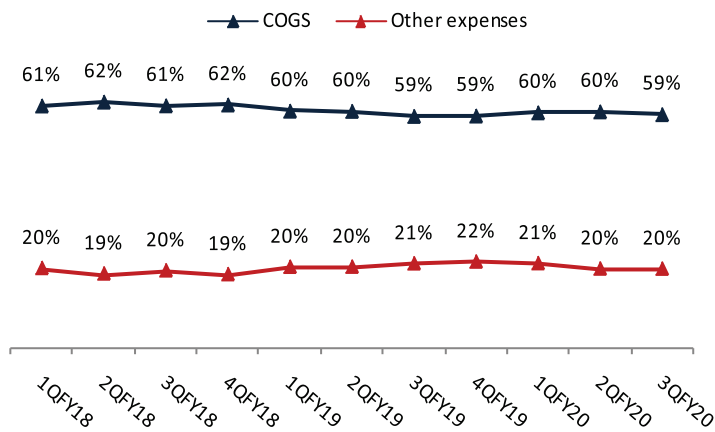
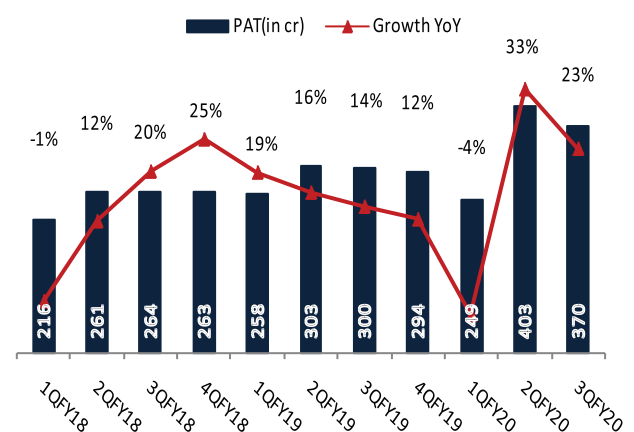


Exhibit: PAT and PAT Growth (%)

Higher EBITDA margin and lower provisioning of taxes led to profits growth of 23%.



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	4,155	5,159
Networth	794	1,242	2,092	2,696	3,406	4,253	4,179	5,183
Debt	148	140	124	116	178	138	855	852
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	5,034	6,035
Net Fixed Assets (incl CWIP)	848	782	924	1,047	1,405	1,644	1,684	1,660
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	3,255	3,230
Inventory	420	404	441	661	653	781	491	544
Debtors	109	136	171	179	305	394	417	469
Cash & Bank	109	226	65	56	130	60	243	701
Other Current Assets	408	907	416	175	857	750	1,000	1,500
Current Assets	1,046	1,673	1,724	2,339	3,151	3,526	3,727	4,987
Creditors	557	703	769	757	994	1,141	1,206	1,356
Provisions	328	417	175	182	179	197	208	234
Other Current Liabilities	242	259	91	92	89	95	101	113
Curr Liabilities	1,126	1,380	1,244	1,261	1,554	1,775	1,877	2,111
Net Current Assets	(80)	293	480	1,078	1,597	1,751	1,850	2,876
Total Assets	2,107	2,794	3,494	4,109	5,188	6,242	6,981	8,217

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	11,685	13,143
Change (%)	12%	14%	7%	8%	9%	12%	6%	12%
EBITDA	627	864	1,214	1,278	1,502	1,733	1,844	2,222
Change (%)	49%	38%	41%	5%	17%	15%	6%	21%
Margin (%)	9%	11%	14%	14%	15%	16%	16%	17%
Depr & Amor.	83	144	113	119	142	162	183	199
EBIT	544	719	1,101	1,159	1,360	1,572	1,660	2,023
Int. & other fin. Cost	8	4	5	5	8	9	68	64
Other Income	34	88	124	151	166	206	278	362
EBT	569	804	1,220	1,304	1,518	1,769	1,870	2,321
Exp Item	-	146	-	-	-	-	(17)	-
Tax	174	261	396	420	514	612	483	584
Minority Int & P/L share of Ass.	0	0	-	-	-	-	-	-
Reported PAT	396	689	825	885	1,004	1,155	1,369	1,736
Adjusted PAT	396	590	825	885	1,004	1,155	1,382	1,736
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%	33%	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	25	32
P/E	16	17	39	51	67	58	55	44
Price / Book Value	8	10	15	17	20	16	18	15
EV/EBITDA	5	7	13	18	22	39	41	34
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	1,853	2,321
(inc)/Dec in Working Capital	226	25	133	(451)	228	(2)	279	(68)
Non Cash Op Exp	74	(9)	77	70	95	113	183	199
Int Paid (+)	8	4	5	5	8	9	68	64
Tax Paid	(186)	(301)	(403)	(397)	(496)	(596)	(483)	(584)
others	(14)	(41)	(72)	(90)	(104)	(137)	-	-
CF from Op. Activities	677	628	959	441	1,249	1,156	1,900	1,932
(inc)/Dec in FA & CWIP	(110)	(118)	(251)	(360)	(423)	(401)	(223)	(175)
Free Cashflow	567	510	708	82	826	755	1,677	1,757
(Pur)/Sale of Inv	(74)	(113)	(210)	367	(536)	(332)	(250)	(500)
others	(62)	(220)	(245)	(157)	2	(757)	(500)	-
CF from Inv. Activities	(246)	(450)	(705)	(150)	(956)	(856)	(973)	(675)
inc/(dec) in NW	14	-	-	-	15	30	-	-
inc/(dec) in Debt	(243)	17	-	-	-	-	-	-
Int. Paid	(9)	(3)	(5)	(6)	(7)	(9)	(68)	(64)
Div Paid (inc tax)	(119)	(168)	(231)	(288)	(317)	(354)	(577)	(731)
others	-	(27)	(10)	(1)	78	(42)	(150)	(3)
CF from Fin. Activities	(357)	(181)	(246)	(295)	(232)	(353)	(794)	(798)
Inc(Dec) in Cash	74	(4)	8	(4)	61	(53)	133	459
Add: Opening Balance	22	90	43	51	47	108	110	243
Closing Balance	96	86	51	47	108	59	243	701

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