

November 14, 2018

Britannia Industries

Q2FY19 Result Update

Growth momentum sustains

Britannia Industries (BIL) continued its growth trajectory with a 13% YoY growth in revenue to INR 2870cr for the quarter. This was primarily driven by a double-digit volume growth (12% YoY) on the back of increased distribution network by focusing on direct reach (19.9 lakh outlets by Q2FY19) and rural markets.

Cost optimization and premiumization improves margins

The company reported an EBITDA of INR 454cr up by 20% YoY and 17% QoQ, leading to an EBITDA margin of 15.8% (+99bps YoY). A higher focus on premiumization through new product variants and flavours have helped BIL to offset inflation in its key raw materials and increase margins.

Goal to become “Total Foods Company” on track

BIL aims to transform from a biscuit focused company (~80% of sales) to a broader F&B player by launching 50 new products by Q4FY20. The company's on track with 15-16 new variants introduced in FY18 and 4 new launches in the quarter. BIL also launched a new category, wafers, and renovated its existing portfolio of 50/50 and Bourbon biscuits. The JV with Chipita to launch croissants, is expected to start operations in H2FY19.

Valuation

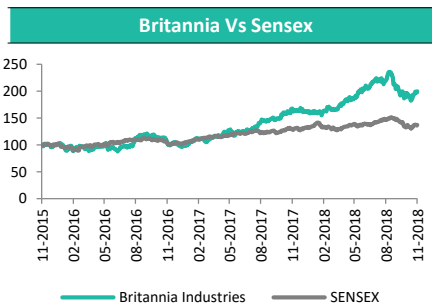
We believe the company is on the right track for its next leg of expansion by diversifying its product portfolio and geographical distribution (higher rural penetration and one new geography annually) as well as significantly scaling up its operations at the Ranjangaon facility (commissioned this quarter). Also, a strict control on fixed costs and increasing thrust towards back-end integration will further boost margins and in turn, profitability. We expect the company's revenue to grow at a CAGR of 12.2% and earnings to grow at 13.6% from FY18-21E and value the company at 55x FY20 EPS of INR 118 to arrive at a target price of INR 6476.

BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	5812	6476	
		11%▲	

Market Data	
Industry	FMCG
Sensex	35144
Nifty	10583
Bloomberg Code	BRIT:IN
Eq. Cap. (INR Crores)	24
Face Value (INR)	2
52-w H/L	4400/6934
Market Cap (INR Crores)	69308

Valuation Data	FY18	FY19E	FY20E
OPM	15.1%	15.4%	15.5%
NPM	10.1%	10.5%	10.7%
P/E (x)	69.5	57.8	49.4
EV/EBITDA (x)	46.4	39.4	34.1
EV/Net Sales (x)	7.0	6.1	5.3



Shareholding Pattern			
	Sep'18	Jun'18	Sep'17
Promoters	50.66	50.7	50.7
FIs	16.29	17.26	17.39
DIs	13.01	12.28	11.76
Retail	20.04	19.76	20.15
	100.0	100.0	100.0

(INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Revenue	9054	9914	11494	13218	14011
Growth%	5%	9%	16%	15%	6%
EBITDA	1278	1502	1772	2051	2210
Growth%	5%	17%	18%	16%	8%
Adjusted PAT	884	1004	1206	1412	1503
Growth%	9%	14%	20%	17%	6%
EPS (INR)	73.7	83.6	100.6	117.7	125.3
EV/EBITDA (x)	54.5	46.4	39.4	34.1	31.6
EV/Net Sales (x)	7.7	7.0	6.1	5.3	5.0
P/E (x)	78.8	69.5	57.8	49.4	46.4

Source: NSPL Research

* Read last page for disclaimer & rating rationale


Q2FY19 Result Analysis

(INR Crores)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y	Q-o-Q
Net Revenue	2870	2545	2544	12.7%	12.8%
COGS	1720	1584	1526	8.6%	12.7%
Employee Expenses	108	107	109	1.0%	-0.5%
Other Expenses	587	477	520	23.1%	12.9%
Total Expenses	2415	2168	2154	11.4%	12.1%
EBITDA	454	378	390	20.3%	16.7%
Depreciation	37	34	36	9.8%	3.6%
Other Income	44	51	42	-13.5%	4.6%
EBIT	461	395	396	16.9%	16.6%
Finance Cost	2.42	1.4	2.44	72.9%	-0.8%
PBT	459	393	393	16.7%	16.7%
Taxes	156	133	135	17.6%	15.3%
Net Profit	303	261	258	16.2%	17.4%

Source: NSPL Research

- The company's net revenue grew 12.7% y-o-y (from INR 2545cr in Q2FY18) and 12.8% q-o-q (from INR 2544cr in Q1FY19) to INR 2870cr in Q2FY19.
- EBITDA for the company stood at INR 454cr up from INR 378cr (20.3% Y-o-Y) and INR 390cr (16.7% Q-o-Q) with EBITDA Margins at 15.8% as against 14.8% in Q2FY18 and 15.3% in Q1FY19. The rise in margins was due to input cost optimization as well as the continued premiumization showcased through the launches of new products such as "Pure Magic Chocolush", "Good Cashew Almond" & "Tiger Choco Cookies".
- Reported PAT stood at INR 303cr which rose by 16.2% Y-o-Y (from INR 261cr) and 17.4% Q-o-Q (from INR 258cr). PAT Margins stood at 10.6%, down from 10.3% in Q2FY18 and 10.1% in Q1FY19.

Margin Analysis (%)	Q2FY19	Q2FY18	Q1FY19	Y-o-Y (bps)	Q-o-Q (bps)
Gross Margin	40.0	37.8	40.0	227	4
Other Expenses (% of sales)	20.4	18.7	20.4	72	3
EBITDA Margin	15.8	14.8	15.3	99	52
Tax Rate	34.0	33.7	34.4	28	-40
PAT Margin	10.6	10.3	10.1	30	41

Source: NSPL Research

Concall Highlights

- Raw Material Costs:** The company has forward contracts for its key raw materials till mid-Q4FY19 and will help offset cost pressures. This has helped limit the company's overall input cost inflation to 4% for the quarter.
- Ranjangaon facility:** BIL has started cake production in July, and an additional 2 lines is under construction. Post construction activities (expected to complete in 2 years), this facility alone will cater to 8-10% of its total capacity with 130,000 tons per annum. The production of croissants as part of the Chipita JV, will start in 1-1.5 months.
- Distribution:** The company currently has 19.9 lakh outlets in direct reach as of Q2FY19 as is adding 2-2.5 lakh outlets annually. The delta between Parle (largest distribution in place in India) and Britannia is around 8 lakh outlets.
- Other Expenses:** The spike in other expenses was primarily due to three factors; 1) Conversion charges which rise in tandem with volumes 2) A rise in Advertising and Promotional activities as part of BIL's 100 year celebration and 3) Change in business model of bread
- Dairy:** The consumer side of dairy whitener is estimated at an industry size of INR 3000cr with Horeca at least having an industry size of INR ~1500cr. The repackaged dairy whitener jar of BIL will have SKUs ranging from 10 grams to 1kg and will be almost exclusively sold in retail.
- Wafers:** The new product category launched in the quarter, is estimated to have an industry size of INR ~400-500cr and has been growing at a CAGR of 20% historically. Currently, the market is fragmented between local producers and a few modern trade players.
- Market Share:** BIL has a market share of 50-60% in the south and low teens in the Hindi belt. The Hindi belt contributes 30-35% to the company's revenues and BIL is shifting its focus to this region to gain market share. Volume growth for the quarter in Rajasthan was at 23%, MP at 24%, UP at 17% and Gujarat at 19%.
- Production:** Currently, the company does 55% of its production in-house and outsources 45% of its production and targets this ratio to be 65:35 in the future.
- Efficiency:** The INR 225cr cost savings expected for the year comes from the reduction of lead distance, energy savings, labour saving as well as fiscal incentives in the new facility.
- Investments:** The company has a treasury of INR 2200cr and has moved from Mutual funds to better yielding instruments at an average yield of 9%. The inter-corporate deposits to related party, Bombay Dyeing yielded 10%.
- Capex:** Post the recent commissioning of Guwahati facility, the company aims to set up 2 plants in the East and 1 each in the North and South. The FY19 estimated capex of INR ~500cr is likely to remain elevated.

ANALYST

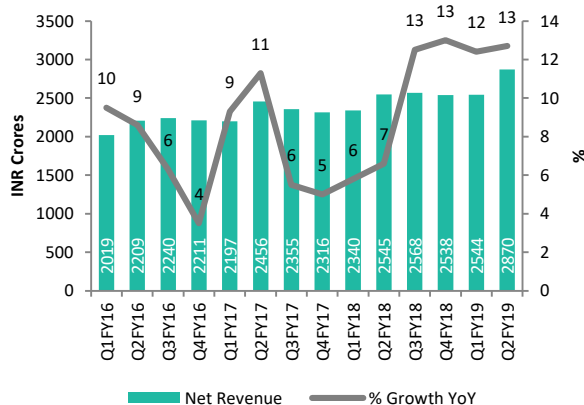
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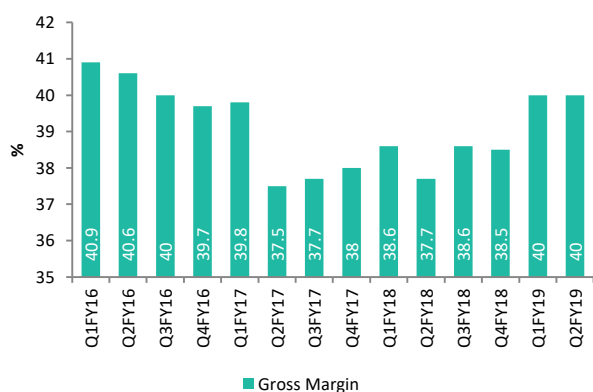
Quarterly Net Revenue



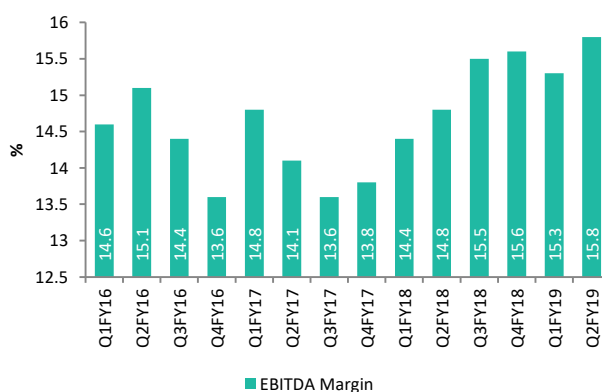
Domestic Volume Growth



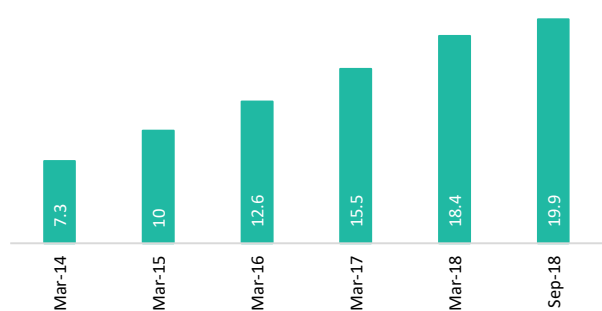
Gross Margin



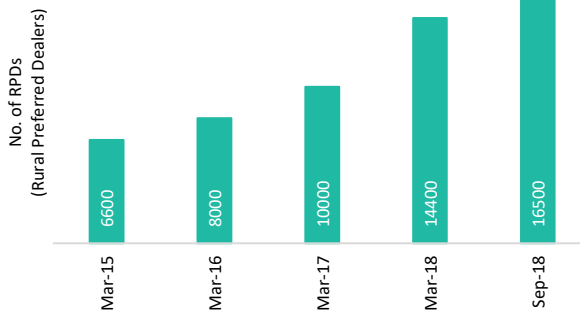
EBITDA Margin



Direct Reach Outlets (In Lakhs)



Rural Distribution Trend



Source: Company, NSPL Research

About the company:

BIL was established in 1892, with an initial investment of INR 265. It began manufacturing biscuits in a small house in Kolkata. Over the span of more than 100 years, the company has diversified into various categories and possesses brands such as Good Day, Tiger, Milk Bikis, Little Hearts and Marie Gold which are household names in India. Britannia’s product portfolio includes Biscuits, Bread, Cakes, Rusk, and Dairy products including Cheese, Beverages, Milk and Yoghurt.

The company’s biscuits are available in the country across 50 lakh outlets (indirect and direct). The company’s Dairy business contributes close to 5% of revenue and Britannia dairy products directly reach 100,000 outlets. Britannia Bread is the largest brand in the organized bread market with an annual turnover of over 1 lac tons in volume and INR 450cr in value. The business operates with 13 factories and 4 franchisees selling close to 1 mn loaves daily across more than 100 cities and towns of India.

The company is also present internationally in over 60 countries. It is the No. 2 biscuit player in the UAE and caters to other Middle East countries through its manufacturing facilities in Oman and UAE. BIL is the market leader in Nepal and is setting up a Manufacturing facility by Q4FY19. The company is also present in North America, Europe, Africa and South East Asia through exports and is investing in a state-of-the-art facility in Mundra, to cater exclusively to the export markets.



Profit & Loss (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	9054.1	9914.0	11494.0	13218.1	14011.2
COGS	5588.7	6107.1	6951.5	8098.5	8563.1
Employee Expenses	352.6	401.6	459.8	526.3	562.0
Other Expenses	1834.6	1903.6	2310.9	2541.8	2676.1
EBITDA	1278.2	1501.7	1771.8	2051.4	2210.0
D&A	119.3	142.1	162.3	187.7	214.7
Other income	150.5	166.4	172.4	221.8	224.2
EBIT	1158.9	1359.6	1609.5	1863.7	1995.3
Interest Expense	5.5	7.6	8.0	8.5	8.9
PBT	1304.0	1518.4	1773.9	2077.1	2210.6
Tax	419.7	514.2	567.6	664.7	707.4
Effective tax rate	32%	34%	32%	32%	32%
PAT	884.3	1004.1	1206.3	1412.4	1503.2

Balance Sheet (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
Share Capital	24.0	24.0	24.0	24.0	24.0
Reserves & Surplus	2672.4	3382.2	4166.2	5084.1	6061.1
Shareholder's Funds	2696.4	3406.2	4190.2	5108.1	6085.1
Minority Interest	4.9	15.1	15.1	15.1	15.1
Long Term Borrowings	31.4	84.6	88.8	93.2	97.9
Long term provisions	7.6	8.9	8.9	8.9	8.9
Other Long Term Liabilities	23.1	25.2	25.2	25.2	25.2
Non-current liabilities	64.4	118.6	122.9	127.3	132.0
Short-term borrowings	84.3	93.7	98.4	103.3	108.5
Trade payables	757.3	994.1	1211.3	1411.2	1492.2
Other current liabilities	276.9	323.7	367.8	423.0	448.4
Short-term provisions	226.8	236.6	344.8	396.5	420.3
Current liabilities	1345.4	1648.0	2022.4	2334.0	2469.3
Total Equity and Liabilities	4108.8	5187.9	6350.5	7584.6	8701.5
Net Fixed Assets	1016.9	1202.4	1567.2	2042.7	2662.5
Capital Work In Progress	30.1	202.8	298.8	335.8	459.5
Goodwill	127.8	128.2	128.2	128.2	128.2
Non-current investments	327.3	237.5	402.3	528.7	630.5
Long term Loans	232.3	243.2	287.3	330.5	350.3
Deferred Tax Assets (Net)	23.1	22.6	22.6	22.6	22.6
Other Non-current Assets	12.1	0.0	23.0	26.4	28.0
Non-current Assets	1769.6	2036.6	2729.4	3414.9	4281.6
Inventories	660.8	652.8	805.8	932.8	989.5
Trade receivables	179.9	304.6	314.9	325.9	345.5
Cash and cash equivalents	120.8	186.4	131.8	55.0	57.6
Current Investments	174.9	856.8	1034.5	1321.8	1401.1
Short term Loans	1203.0	1150.7	1334.1	1534.2	1626.2
Current Assets	2339.2	3151.3	3621.0	4169.7	4419.9
Total Assets	4108.8	5187.9	6350.5	7584.6	8701.5

Source: Company, NSPL Research



Cash Flow (INR Crores)	FY17	FY18	FY19E	FY20E	FY21E
PBT	1304.0	1518.4	1773.7	2076.9	2210.4
Depreciation & Amortization	119.3	142.1	162.3	187.7	214.7
(Incr)/Decr in Working Capital	-451.3	228.3	-44.3	-77.8	-59.6
Cash Flow from Operating	838.0	1745.2	1899.8	2195.3	2374.4
(Incr)/ Decr in Gross PP&E	-366.3	-421.2	-623.1	-700.2	-958.2
(Purchase) / Sales of Investment (Net)	359.3	-537.4	-342.5	-413.8	-181.1
Cash Flow from Investing	-149.9	-956.3	-965.6	-1114.0	-1139.3
(Decr)/Incr in Debt	-6.8	67.3	9.0	9.4	9.8
Dividend Paid	-288.8	-317.4	-422.1	-494.3	-526.1
Finance costs	-5.5	-7.5	-8.0	-8.5	-8.9
Cash Flow from Financing	-295.2	-231.8	-421.2	-493.4	-525.1
Incr/(Decr) in Balance Sheet Cash	-3.7	60.8	-54.6	-76.8	2.6
Cash at the Start of the Year	51.0	47.3	108.1	53.5	-23.3
Cash at the End of the Year	47.3	108.1	53.5	-23.3	-20.7
Overdraft and other bank balances	73.4	78.3	78.3	78.3	78.3

RATIOS	FY17	FY18	FY19E	FY20E	FY21E
Growth (%)					
Total Sales	5.0%	9.5%	15.9%	15.0%	6.0%
EBITDA	5.3%	17.5%	18.0%	15.8%	7.7%
PAT	9.3%	13.5%	20.1%	17.1%	6.4%
Margin (%)					
EBITDA Margin	14.1%	15.1%	15.4%	15.5%	15.8%
NPM	9.8%	10.1%	10.5%	10.7%	10.7%
Return Ratios (%)					
RoE	32.8%	29.5%	28.8%	27.7%	24.7%
RoCE	30.5%	29.2%	27.9%	26.7%	24.5%
Debt Ratios					
Net Debt/Equity	0.0	0.1	0.0	0.0	0.0
Interest Coverage	212.6	179.1	200.0	220.5	224.8
Per share data / Valuation					
EPS (INR.)	73.7	83.6	100.6	117.7	125.3
BPS (INR.)	224.8	284.0	349.3	425.9	507.3
P/E (INR.)	78.8	69.5	57.8	49.4	46.4
EV/EBITDA (x)	54.5	46.4	39.4	34.1	31.6
EV/Net Sales (x)	7.7	7.0	6.1	5.3	5.0

Source: Company, NSPL Research

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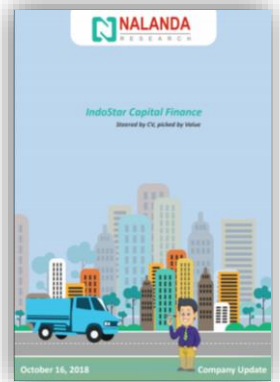
Dalmia Bharat



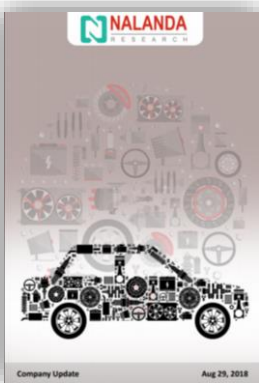
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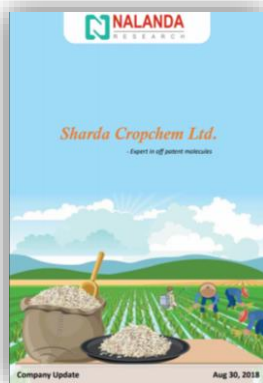
Meghmani Organics



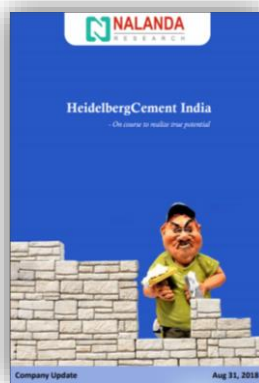
IndoStar Capital



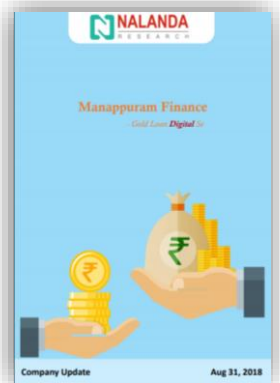
Minda Industries



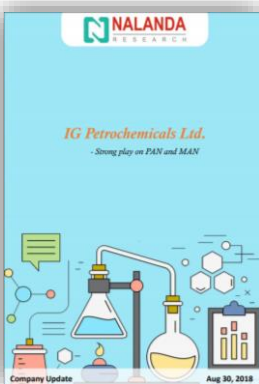
Sharda Cropchem



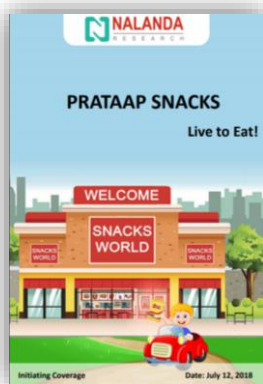
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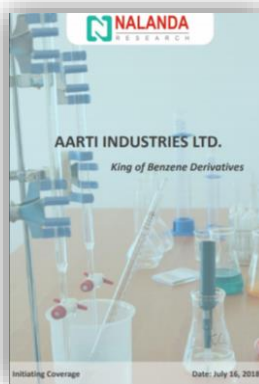
Manappuram Finance



IG Petrochemicals



Prataap Snacks



Aarti Industries



Shriram Transport



Britannia Industries				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
November 14, 2018	5812	6476	Buy	Buy	5% - 15%
				Hold	0 – 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

Disclosure of Interest Statement	
Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI SEBI Registration Number: INH000004617
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
Has research analyst or NSPL or its associates received any compensation from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 month	NO
Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	NO
Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO