

Britannia Industries

BSE Sensex
26,103

S&P CNX
7,792

CMP: INR1,188
TP: INR1,320
Buy

Stock Info

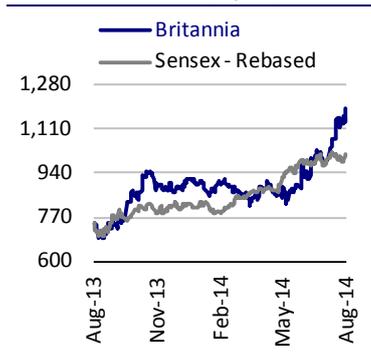
Bloomberg	BRIT IN
Equity Shares (m)	119.9
52-Week Range (INR)	1,199/658
1, 6, 12 Rel. Per (%)	17/3/23
M.Cap. (INR b)	142.5
M.Cap. (USD b)	2.3

Financial Snapshot (INR Million)

Y/E Mar	2015E	2016E	2017E
Net Sales	71,470	82,683	98,062
EBITDA	7,047	8,369	10,117
Adj PAT	4,596	5,452	6,398
EPS (INR)	38.5	45.6	53.6
Growth (%)	24.3	18.6	17.4
BV/Sh. (INR)	91.5	110.6	133.0
RoE (%)	46.1	45.2	44.0
RoCE (%)	56.8	58.1	61.5
P/E (x)	30.1	25.3	21.6
P/BV (x)	12.6	10.5	8.7

Shareholding pattern % (Jun-14)

	Jun-14	Mar-14	Jun-13
Promoter	50.8	50.8	50.9
DII	8.5	8.4	9.9
FII	20.5	20.1	19.5
Others	20.3	20.7	19.8

Notes: FII includes depository receipts
Stock Performance (1-year)


Pressing the right buttons

Low hanging fruits plucked; innovation and distribution to drive growth

Britannia's (BRIT) analyst meet reinforced our bullish stance on the stock. Following are the key takeaways:

BRIT is outperforming industry: In a challenging macro environment, which has impacted industry growth, BRIT is growing well ahead of the market and gaining shares in the desired segments. Focus on robust Go-To-Market levers, sustained cost containment, driving efficiencies in supply chain and overheads and leveraging premium portfolio are facilitating this. Going forward, we expect more aggression on innovation/new launches and distribution expansion.

Pricing is not the "only" lever to expand margins: BRIT is prioritizing volume growth and does not intend to pull pricing lever excessively to expand margins at least in the near term, till industry growth stabilizes. Pricing will be judicious and inflation-less productivity gains. This is reflected in 1QFY15 results; gross margin declined 230bp but EBITDA margin expanded 50bp to 8.8%.

Premiumization strategy delivers: Despite Biscuits category slowing down from 15% in January 2013 to 5.5% in June 2014, premium segment of the industry is growing as well, as per management. BRIT has delivered healthy 15% revenue growth, with underlying 10% volume growth. We note that the four key power brands – *Good Day*, *Marie Gold*, *Milk Bikis* and *Nutri Choice* – have all grown in strong double digits in 1QFY15.

Distribution expansion, deepening and widening: In urban areas, BRIT is increasing the depth of its portfolio and following split route strategy which has delivered healthy gains (lines sold increased by 25%). In rural, it is looking at increased width of distribution via hub and spoke model. Total direct coverage has increased by 10% and it plans to increase it by another 40% in a couple of years. Total direct coverage has increased from 0.65m outlets in FY13 to 0.8m in FY14 and it targets to reach 1m by FY15.

Strong innovation funnel: Company has a good line-up of innovations slated to hit the markets in next 6-12 months, as per management. A key change versus the earlier strategy is a greater emphasis on organoleptic profile of the product and strict internal KPI fulfillment before the product is rolled out in the market.

Reiterate Buy: Visible improvement in business fundamentals (operating margins, return on equity and cash flow from operations) and responsive management (more proactive in the market) has driven BRIT's re-rating over the past 18 months. We expect this re-rating to sustain and gather steam as it premiumizes portfolio and drives cost efficiencies, aiding further margin expansion (margins are still 300bp below historical peak). As emphasized in our earlier notes, the key change for BRIT compared to three years ago, is the ability to defend margins despite unfavorable RM movement. Maintain **Buy** with a target price of INR1,320 (28x standalone EPS + 14x subsidiary EPS). Spike in RM cost is a key risk.

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Investors are advised to refer through disclosures made at the end of the Research Report.

Detailed takeaways

- **Britannia for Britannians:** Management is focused on developing a passionate and motivated team with greater emphasis on “promoter from within” (Britannia for Britannians) culture. Almost half of the senior management talent has been promoted from within (with more than 10 years of experience in Britannia). It is focusing on creating a leaner and more accountable team, while providing them with greater cross functional exposure.
- **Go-To-Market:** Split route strategy in urban market has yielded dividends – number of lines sold has increased by 25%. The number of cities implementing this strategy has gone up from 11 in FY13 to 25 in FY15 and is expected to touch 50 cities in FY15.
- **Supply chain:** BRIT has increased the salience of in-house manufacturing from one-third to 46% in two years. Presently, it operates 11 factories and two more are expected to be operational in the next 18 months.
- **Product quality:** Improving the organoleptic profile of products to impress the consumer has been BRIT’s key focus area. It has improved stock freshness in Biscuits, Cakes and Rusks as products with more than 2/3rd of shelf life has increased.
- **SKU rationalization:** It has rationalized nearly 100 SKUs (60 in Biscuits, 40 in Dairy) to drive a sharper focus on profitable and scalable portfolio.
- **Cost leadership:** Continued focus on driving cost containment has been crucial for driving margin expansion in the past 18 months. a) BRIT has been using biomass as a fuel to conserve energy. It is also using energy efficient ovens and has even patented them. b) Waste reduction with better control on operating norms. c) Driving manufacturing efficiency through automation and several productivity enhancing tools like Kaizen, TQM. d) Moved manufacturing units closer to consumption clusters and reduced the overall distance travelled by over 20% in three years.
- **Innovation:** BRIT has built a good innovation funnel and should see the roll-out in the next 6-12 months, especially in premium segments. This should result in higher brand spends in subsequent quarters (ad spends declined 7% in 1QFY15, down 170bp to 7.3% as percentage of sales).
- **Gross margin:** Company’s raw material basket witnessed 9% inflation in 1QFY15, bulk of which was driven by milk prices, up 30% YoY. BRIT will use pricing as a limited tool, while focusing on productivity enhancements to drive margins. Management deliberated on pricing = inflation – productivity equation to reiterate its focus on maintaining volume growth in the current challenging macro backdrop.
- **Market share:** BRIT gained share in Biscuits category overall despite losing in some sub-segments, especially Cream Biscuits. It had lost significant share in Cream segment two to three years ago, as per management. Though it is gaining share, still has a long way to go before reclaiming the erstwhile share. Management highlighted Cream segment share as a long term area to be addressed. It does not intend to undercut pricing to gain share from rivals.
- **Dairy:** Dairy portfolio suffered in 1QFY15 due to a sharp inflation in milk prices. It is working on developing long term Dairy business strategy.

Valuations and view: Visible improvement in business fundamentals (operating margins, return on equity and cash flow from operations) and responsive management (more proactive in the market) has driven BRIT's re-rating over the past 18 months. We expect this re-rating to sustain and gather steam as it premiumizes portfolio and drives cost efficiencies, aiding further margin expansion (margins are still 300bp below historical peak). As emphasized in our earlier notes, the key change for BRIT compared to three years ago, is the ability to defend margins despite unfavorable RM movement. Maintain Buy with a target price of INR1,320 (28x standalone EPS + 14x subsidiary EPS). Spike in RM cost is a key risk.

SOTP target price of INR1,320

SOTP	FY16 PAT	FY16 EPS	Multiple	Value/Share
Stand-alone	5,451	46	28	1,278
Subsidiary	367	3	14	43
Total	5,818	49		1,321
TP				1,321
CMP				1,188
Upside				11%

Source: MOSL, Company

Financials and valuation

Income statement				(INR Million)		
Y/E Mar	2012	2013	2014	2015E	2016E	2017E
Net Sales	49,742	55,644	62,321	71,470	82,683	98,062
Change (%)	17.8	11.9	12.0	14.7	15.7	18.6
EBITDA	2,970	3,710	5,961	7,047	8,369	10,117
EBITDA Margin (%)	6.0	6.6	9.5	9.7	10.0	10.2
Depreciation	473	571	634	723	828	986
EBIT	2,497	3,140	5,328	6,324	7,541	9,131
Interest	381	377	54	43	39	32
Other Income	578	560	353	380	400	450
Extraordinary items	0	0	0	0	0	0
PBT	2,694	3,322	5,626	6,661	7,901	9,549
Tax	655	983	1,795	2,065	2,449	3,151
Tax Rate (%)	24.3	29.6	31.9	31.0	31.0	33.0
Reported PAT	2,039	2,339	3,832	4,596	5,452	6,398
Adjusted PAT	2,228	2,339	3,698	4,596	5,451	6,397
Change (%)	53.4	5.0	58.1	24.3	18.6	17.4
Min. Int. & Assoc. Share	0	0	0	0	0	0
Adj Cons PAT	2,039	2,339	3,832	4,596	5,452	6,398

Balance sheet				(INR Million)		
Y/E Mar	2012	2013	2014	2015E	2016E	2017E
Share Capital	239	239	239	239	239	239
Reserves	5,322	7,277	8,761	10,687	12,970	15,650
Net Worth	5,561	7,516	9,000	10,926	13,209	15,889
Debt	4,345	803	843	1,501	308	308
Deferred Tax	-82	4	4	4	4	4
Total Capital Employed	9,906	8,319	9,843	12,427	13,517	16,197
Gross Fixed Assets	6,393	7,643	8,893	10,143	11,643	13,643
Less: Acc Depreciation	-3,372	-3,919	-4,556	-5,279	-6,107	-7,093
Net Fixed Assets	3,021	3,724	4,337	4,864	5,536	6,550
Capital WIP	797	250	250	250	250	250
Investments	5,676	4,554	3,799	6,123	6,675	8,425
Current Assets	6,619	6,728	9,952	11,340	12,811	14,803
Inventory	3,731	3,134	5,037	5,718	6,201	7,355
Debtors	521	771	908	1,026	1,180	1,391
Cash & Bank	425	722	1,744	2,151	2,800	3,200
Loans & Adv, Others	1,942	2,101	2,264	2,446	2,630	2,858
Curr Liabs & Provns	6,126	6,940	8,499	10,154	11,758	13,835
Curr. Liabilities	4,946	5,450	6,043	6,968	7,978	9,330
Provisions	1,180	1,490	2,456	3,187	3,780	4,505
Net Current Assets	493	-212	1,453	1,186	1,053	968
Total Assets	9,906	8,319	9,843	12,427	13,517	16,197

E: MOSL Estimates

Financials and valuation

Ratios

Y/E Mar	2012	2013	2014	2015E	2016E	2017E
Basic (INR)						
EPS	18.7	19.6	31.0	38.5	45.6	53.6
Cash EPS	21.0	24.4	37.4	44.5	52.6	61.8
Book Value	46.6	62.9	75.3	91.5	110.6	133.0
DPS	8.5	8.5	14.8	19.2	22.8	26.8
Valuation (x)						
Payout (incl. Div. Tax.)			53.7	58.1	58.1	58.1
P/E			37.4	30.1	25.3	21.6
Cash P/E			30.9	26.0	22.0	18.7
Price / Book Value			15.4	12.6	10.5	8.7
EV/Sales			2.1	1.8	1.6	1.3
Profitability Ratios (%)						
EV/EBITDA	46.8	36.5	22.7	18.9	15.6	12.7
Dividend Yield (%)	0.7	0.7	1.3	1.7	2.0	2.3
Turnover Ratios						
RoE	40.5	35.8	46.4	46.1	45.2	44.0
RoCE	26.7	34.5	58.7	56.8	58.1	61.5
Leverage Ratio						
Asset Turnover (x)	5.3	6.2	6.9	6.5	6.4	6.7

Cash flow statement

(INR Million)

Y/E Mar	2012	2013	2014	2015E	2016E	2017E
OP/(Loss) before Tax	2,517	2,726	4,637	5,590	6,795	8,439
Depreciation	446	473	571	634	723	828
Others	578	560	353	380	400	450
Interest	381	377	54	43	39	32
Direct Taxes Paid	636	983	1,795	2,065	2,449	3,151
(Inc)/Dec in Wkg Cap	70	-1,003	644	-674	-782	-485
CF from Op. Activity	2,454	3,401	3,068	5,171	6,212	7,019
(Inc)/Dec in FA & CWIP	1,138	703	1,250	1,250	1,500	2,000
(Pur)/Sale of Invt	226	-1,122	-755	2,324	551	1,751
Others	-189	0	133	0	1	1
CF from Inv. Activity	1,175	-419	629	3,574	2,052	3,752
Inc/(Dec) in Net Worth	0	0	0	0	0	0
Inc / (Dec) in Debt	31	-3,542	40	658	-1,193	0
Interest Paid	0	0	0	0	0	0
Divd Paid (incl Tax)	902	1,180	1,189	2,058	2,670	3,168
CF from Fin. Activity	-1,142	-3,523	-1,418	-1,189	-3,510	-2,868
Inc/(Dec) in Cash	137	298	1,021	408	649	400
Add: Opening Balance	287	425	722	1,744	2,151	2,800
Closing Balance	425	722	1,744	2,151	2,800	3,200

E: MOSL Estimates

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BRITANNIA INDUSTRIES

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No

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