

May 23, 2016

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Rating	BUY
Price	Rs2,681
Target Price	Rs3,115
Implied Upside	16.2%
Sensex	25,230
Nifty	7,731

(Prices as on May 23, 2016)
Trading data

Market Cap. (Rs bn)	320.6
Shares o/s (m)	119.6
3M Avg. Daily value (Rs m)	35.4

Major shareholders

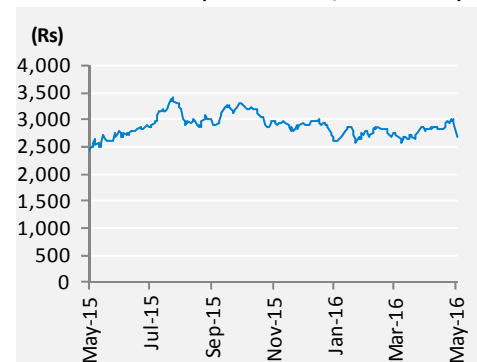
Promoters	50.74%
Foreign	19.79%
Domestic Inst.	8.83%
Public & Other	20.64%

Stock Performance

(%)	1M	6M	12M
Absolute	(5.0)	(10.0)	10.3
Relative	(2.6)	(7.8)	20.0

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2017	71.4	83.5	-14.4
2018	83.2	99.5	-16.4

Price Performance (RIC: BRIT.BO, BB: BRIT IN)


Source: Bloomberg

We are cutting BRIT's FY16-18 EPS estimates by 3.5-5% due to management guidance of tepid demand conditions in 1HFY17. BRIT is expecting 5-5.5% inflation in input costs, however selective price increases and cost savings will enable the company mitigate the impact. Strong brands, increasing distribution network in Hindi heartland and rural India and product innovation will enable the company gain from any uptick in consumer demand. We estimate 70bps decline in gross margins but 50bps higher EBITDA margins over FY16-18 led by cost savings. We believe that the threat from Patanjali in biscuits is limited given its poor distribution and indulgence nature of the product. We estimate 15.5% PAT CAGR over FY16-18 and ROE and ROCE of 36% and 61% respectively. We expect steady returns post re-rating of past 3 years. Retain 'BUY'

■ **Concall Takeaways:** **1)** Tepid demand conditions and low single digit category growth has impacted sales for BRIT, demand conditions are unlikely to change in 1HFY17 **2)** BRIT is expecting a 5% inflation in its basket of inputs for FY17, it has already initiated measures to pass on the cost increase to consumers **3)** Mix-led growth was ~2% in FY16 as premium categories in biscuits grew at healthy double digits while the value segment growth was flat to negative **4)** Rural sales for BRIT have grown at 30% (distribution expansion) while urban growth rates are in low single digits **5)** BRIT's growth in number of packs sold has been 12-13% (tonnage volumes up 10.7%), due to higher sales of small packs **6)** weak states have seen high double digit growth rates in Rajasthan, Gujarat and MP, UP has been slow with just 9% sales growth **7)** BRIT has done savings of Rs1.2b in various costs, it intends to higher amount of savings in FY17 **8)** Dairy business has reported higher margins due to low milk prices, UAE business has achieved No2 share in Biscuits **9)** BRIT has gained 150bps Value market share in FY16 **10)** BRIT has increased its direct distribution reach to 1.3mn outlets (0.5m in FY13) **11)** BRIT has reduced the distribution gap with market leader by 0.4m outlets to 1.2mn outlets **12)** BRIT has reduced planned capex from Rs9b to Rs6b over FY15-17 due to poor demand conditions, FY17 capex is expected to be Rs4b

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	71,760	79,480	87,981	101,113
Growth (%)	13.8	10.8	10.7	14.9
EBITDA (Rs m)	7,715	11,207	12,741	14,753
PAT (Rs m)	5,097	7,483	8,567	9,979
EPS (Rs)	42.5	62.4	71.4	83.2
Growth (%)	30.8	46.8	14.5	16.5
Net DPS (Rs)	16.0	20.0	25.0	30.0

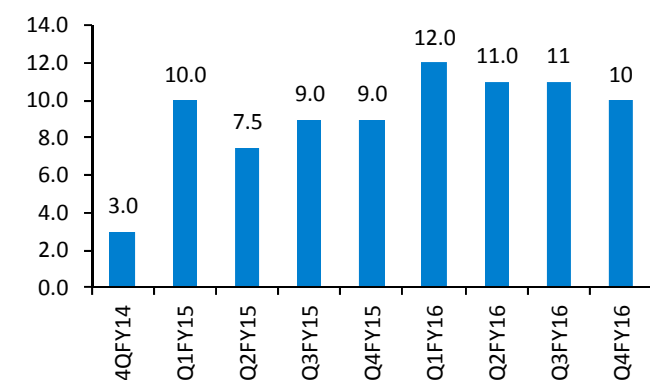
Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	10.8	14.1	14.5	14.6
RoE (%)	48.6	51.0	44.1	40.4
RoCE (%)	48.2	50.6	43.8	40.2
EV / sales (x)	4.3	3.9	3.5	3.0
EV / EBITDA (x)	40.5	27.5	24.0	20.3
PE (x)	63.1	43.0	37.5	32.2
P / BV (x)	26.0	19.0	14.7	11.7
Net dividend yield (%)	0.6	0.7	0.9	1.1

Source: Company Data; PL Research

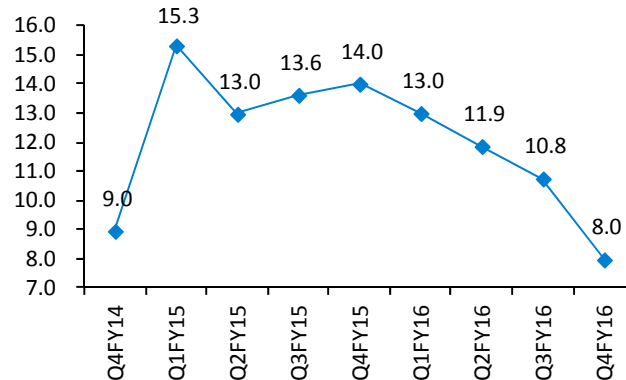
Exhibit 1: Q4FY16 Result Overview (Rs m); Sales growth @7.8% on 10% volume growth, EBITDA margins up by 150bps

Y/e March	Q4FY16	Q4FY15	YoY gr. (%)	Q3FY15	FY16	FY15	YoY gr. (%)
Net Sales	20,181	18,720	7.8	20,497	79,479	71,760	10.8
Gross Profit	8,352	7,798	7.1	8,589	33,256	28,592	16.3
<i>Margins (%)</i>	<i>41.4</i>	<i>41.7</i>		<i>41.9</i>	<i>41.8</i>	<i>39.8</i>	
Other Exp	5,674	5,586	1.6	5,675	22,045	20,877	5.6
<i>% of Sales</i>	<i>28.1</i>	<i>29.8</i>		<i>27.7</i>	<i>27.7</i>	<i>29.1</i>	
EBITDA	2,678	2,212	21.1	2,915	11,211	7,714	45.3
<i>Margins (%)</i>	<i>13.3</i>	<i>11.8</i>		<i>14.2</i>	<i>14.1</i>	<i>10.8</i>	
Depreciation	241	421	(42.8)	213	869	1,173	(25.9)
Interest	3	3	19.2	3	13	12	3.3
Other Income	243	290	(16.3)	260	986	876	12.5
PBT	2,677	2,079	28.8	2,958	11,316	7,406	52.8
Tax	835	641	30.2	1,024	3,825	2,309	65.7
<i>Tax Rate (%)</i>	<i>31.2</i>	<i>30.9</i>		<i>34.6</i>	<i>33.8</i>	<i>31.2</i>	
Adjusted PAT	1,842	1,437	28.2	1,935	7,491	5,097	47.0
Extraordinary (Income)	-	27		-	-	1,127	
Reported PAT	1,842	1,410	30.6	1,935	7,491	6,224	20.4

Source: Company Data, PL Research

Exhibit 2: Volume growth sustained in double-digits


Source: Company Data, PL Research

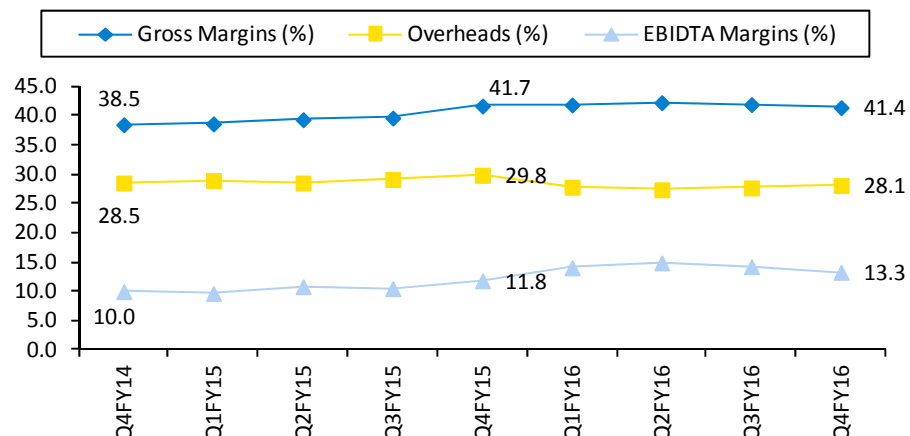
Exhibit 3: Sales growth dip below double digits after 7 quarters


Source: Company Data, PL Research

Input cost gains peaked; Volumes up 10% on 7.8% sales growth: Sales increased 7.8% led by 10% volume growth as demand conditions remains impacted by slowdown. Gross margins declined 30bps to 41.4%. EBITDA margins expanded by 150bps to 13.3% as 10bps increase in staff cost was more than neutralised by 40bps lower other expenses, 60bps lower ad-spends and 90bps lower conversion cost. EBITDA increased 21%; PBT increased 29% aided by 43% lower depreciation even as other income was lower by 16%. Adj PAT was up by 28% to Rs1.8bn as tax rate was higher by 30bps. Subsidiaries reported 1% higher sales but 74% decline in profit due to slow growth in dairy business.

Gross Margins are down by 30bps, indicating that gross margins have peaked in the near term; BRIT is looking at 2.5-3% price increase in the coming months

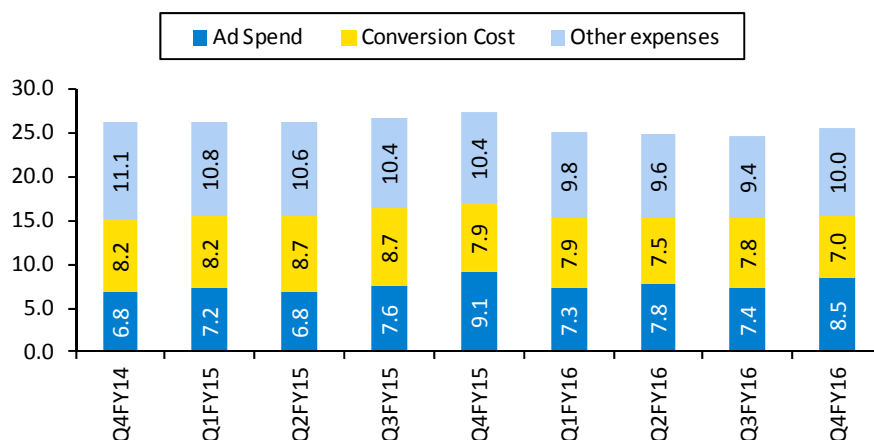
Exhibit 4: Gross margins declined 30bps as input costs move up sharply in Q4FY16



Source: Company Data, PL Research

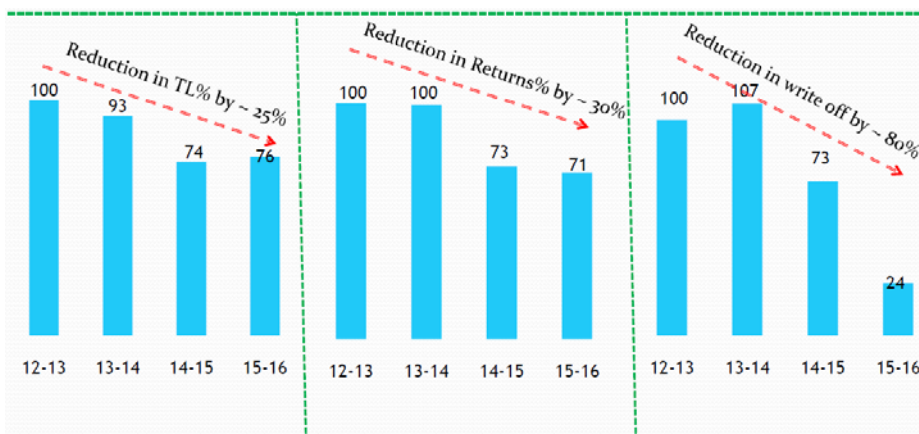
Lower Conversion cost, overheads and ad-spend enable higher, EBITDA margin expansion of 150bps in Q4FY16

Exhibit 5: Conversion cost, Adspend and overheads down 90bps, 60bps and 40bps



Source: Company Data, PL Research

Exhibit 6: Trade incentives, stock returns and stock write offs have lowered overheads



Source: Company Data, PL Research

Exhibit 7: Britannia gave higher volumes to consumers in FY16 to pass on the input cost benefits

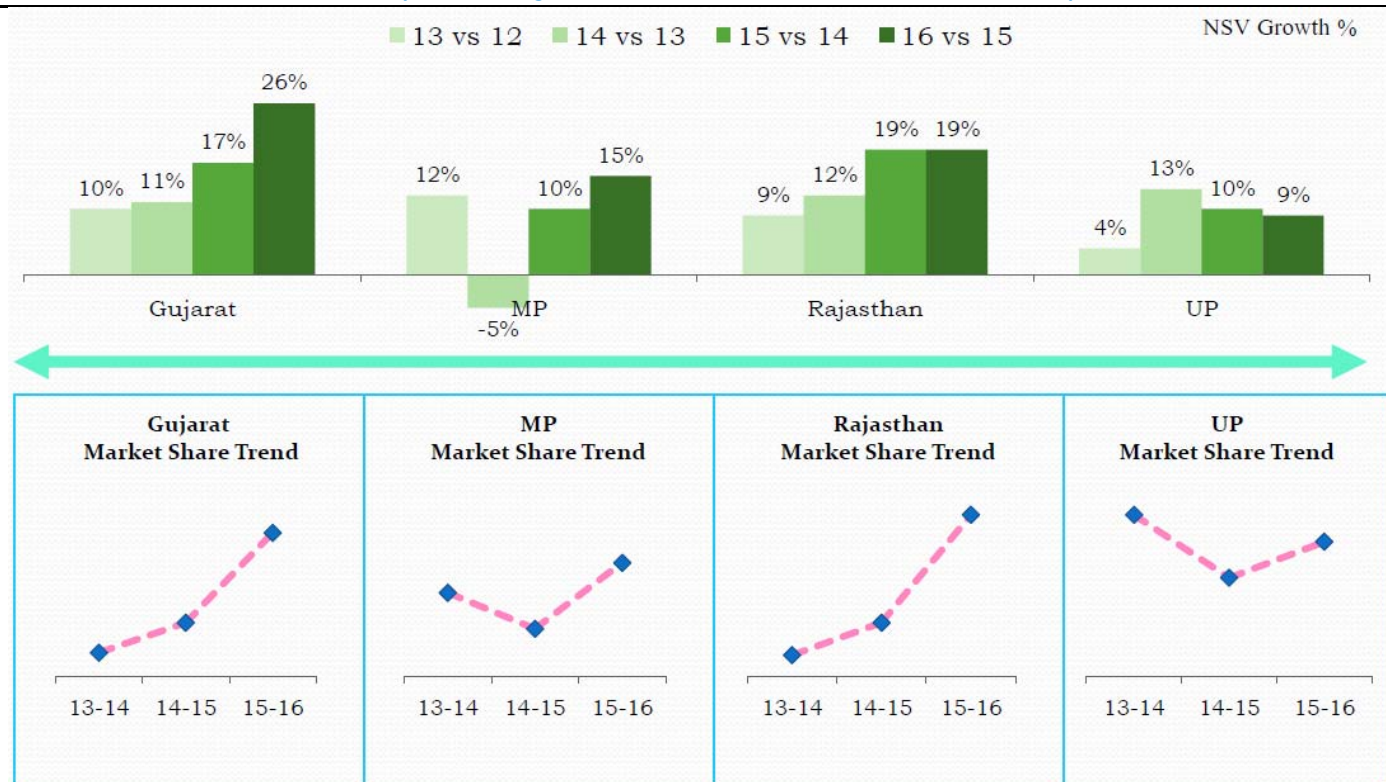


Source: Company Data, PL Research

Exhibit 8: Britannia re-staged whole array of brands in FY16, Goodday has been a phenomenal success post re-launch



Source: Company Data, PL Research

Exhibit 9: Weak states have seen sharp increase in growth rates and market share, UP has been a weak spot


Source: Company Data, PL Research

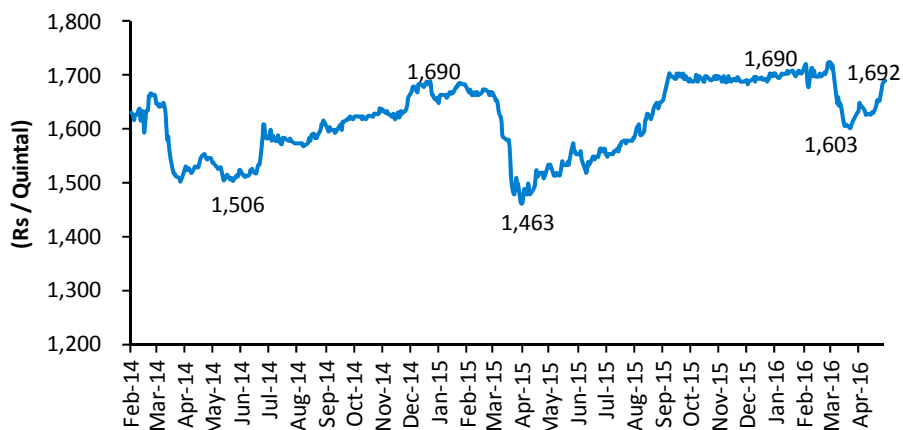
Palm Oil Prices (17% of the total raw material cost) are up 54.5% from low

Exhibit 10: Q4FY16 Palm Oil Prices down 2.5% YoY and up 14% QoQ


Source: Bloomberg, PL Research

Wheat (27% of raw materials) have corrected post a seasonal spurt in prices

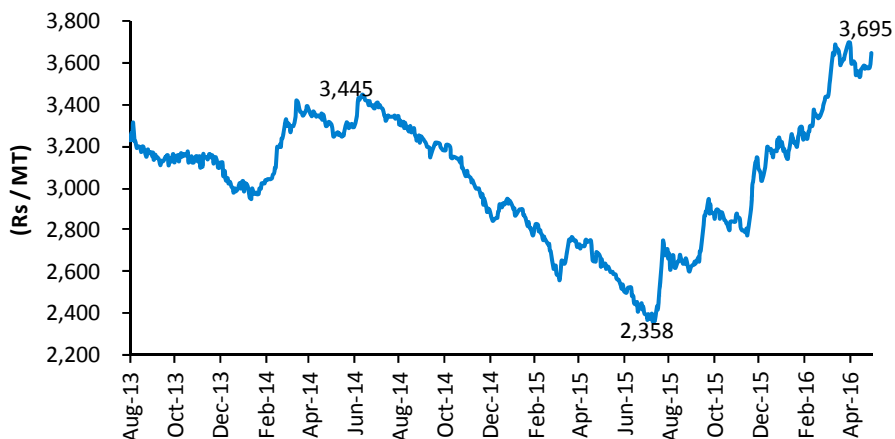
Exhibit 11: Wheat Prices up 2.1% YoY and flat% QoQ in Q4FY16



Source: Bloomberg, PL Research

Sugar prices are up 50% from the lows of Rs2,358/MT

Exhibit 12: Sugar Prices down 16.6% YoY & up 14% QoQ in Q4FY16



Source: Bloomberg, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	71,760	79,480	87,981	101,113
Raw Material Expenses	49,187	52,211	57,549	66,216
Gross Profit	22,573	27,269	30,432	34,898
Employee Cost	1,768	2,195	2,353	2,706
Other Expenses	13,090	13,866	15,338	17,439
EBITDA	7,715	11,207	12,741	14,753
Depr. & Amortization	1,173	869	1,087	1,315
Net Interest	(863)	(970)	(1,347)	(1,704)
Other Income	875	982	1,359	1,717
Profit before Tax	7,405	11,308	13,000	15,142
Total Tax	2,309	3,825	4,433	5,163
Profit after Tax	5,097	7,483	8,567	9,979
Ex-Od items / Min. Int.	2,254	—	—	—
Adj. PAT	5,097	7,483	8,567	9,979
Avg. Shares O/S (m)	120.0	120.0	120.0	120.0
EPS (Rs.)	42.5	62.4	71.4	83.2

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	8,322	8,793	10,558	12,412
C/F from Investing	8,131	5,955	6,851	7,956
C/F from Financing	(481)	(3,076)	(19,101)	(22,608)
Inc. / Dec. in Cash	15,972	11,672	(1,692)	(2,240)
Opening Cash	640	349	257	349
Closing Cash	349	112	204	179
FCFF	7,963	6,511	6,623	10,488
FCFE	8,046	6,507	6,622	10,488

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	13.8	10.8	10.7	14.9
EBITDA (%)	29.3	45.3	13.7	15.8
PAT (%)	30.8	46.8	14.5	16.5
EPS (%)	30.8	46.8	14.5	16.5
Profitability				
EBITDA Margin (%)	10.8	14.1	14.5	14.6
PAT Margin (%)	7.1	9.4	9.7	9.9
RoCE (%)	48.2	50.6	43.8	40.2
RoE (%)	48.6	51.0	44.1	40.4
Balance Sheet				
Net Debt : Equity	(0.8)	(0.8)	(0.7)	(0.8)
Net Wrkng Cap. (days)	(16)	(14)	(14)	(14)
Valuation				
PER (x)	63.1	43.0	37.5	32.2
P / B (x)	26.0	19.0	14.7	11.7
EV / EBITDA (x)	40.5	27.5	24.0	20.3
EV / Sales (x)	4.3	3.9	3.5	3.0
Earnings Quality				
Eff. Tax Rate	31.2	33.8	34.1	34.1
Other Inc / PBT	11.8	8.7	10.5	11.3
Eff. Depr. Rate (%)	11.7	7.1	6.7	7.2
FCFE / PAT	157.9	86.9	77.3	105.1

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	12,392	16,949	21,902	27,545
Total Debt	139	134	133	133
Other Liabilities	—	—	—	—
Total Liabilities	12,531	17,083	22,035	27,678
Net Fixed Assets	5,742	7,139	10,101	10,686
Goodwill	—	—	—	—
Investments	1,904	1,904	1,904	1,904
Net Current Assets	4,675	7,814	9,738	14,720
<i>Cash & Equivalents</i>	<i>9,573</i>	<i>13,170</i>	<i>16,063</i>	<i>22,239</i>
<i>Other Current Assets</i>	<i>7,190</i>	<i>8,282</i>	<i>9,135</i>	<i>10,449</i>
<i>Current Liabilities</i>	<i>12,089</i>	<i>13,638</i>	<i>15,459</i>	<i>17,968</i>
Other Assets	211	227	292	368
Total Assets	12,531	17,083	22,035	27,678

Quarterly Financials (Rs m)

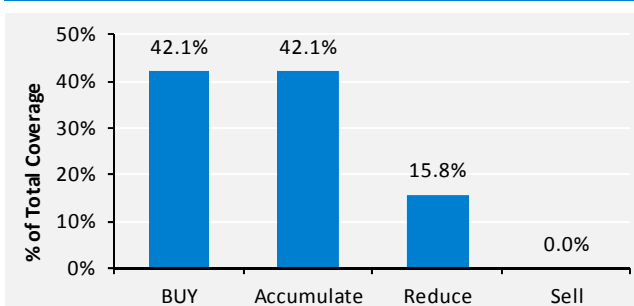
Y/e March	Q1FY16	Q2FY16	Q3FY16	Q4FY16
Net Revenue	18,471	20,329	20,497	20,181
EBITDA	2,595	3,024	2,915	2,678
% of revenue	14.0	14.9	14.2	13.3
Depr. & Amortization	209	206	213	241
Net Interest	3	3	3	3
Other Income	183	300	260	243
Profit before Tax	2,566	3,115	2,958	2,677
Total Tax	888	1,078	1,024	835
Profit after Tax	1,678	2,037	1,935	1,842
Adj. PAT	1,678	2,037	1,935	1,842

Source: Company Data, PL Research.

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Accumulate	: Outperformance to Sensex over 12-months
Reduce	: Underperformance to Sensex over 12-months
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Trading Sell	: Over 10% absolute decline in 1-month
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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