

Institutional Equity Research

Britannia Industries

FMCG | India

1QFY18 Result Update | August 10, 2017

CMP* (Rs)	4,175
Upside/ (Downside) (%)	13
Bloomberg Ticker	BRIT IN
Market Cap. (Rs bn)	501
Free Float (%)	49
Shares O/S (mn)	120

BUY 

Target Price: Rs4,732

Strong Performance in Challenging Environment

Britannia Industries has reported a strong set of numbers in 1QFY18 despite adverse impact of trade pipeline correction before GST roll-out (500bps impact). Consolidated net sales grew by 5.6% YoY to Rs22.2bn on the back of 3% YoY volume growth in core business. EBITDA rose by 2.8% YoY to Rs2.9bn, while net profit marginally declined by 1.5% YoY to Rs2.2bn.

Volume growth in the context of GST roll-out is an encouraging sign, in our view. We expect the momentum to improve further in coming quarters with the trade up-stocking, good monsoons and other favourable macro factors. Though a short-term hiccup, we believe that the implementation of GST will increase the pace of conversion from unorganised to organised players and Britannia being the market leader would benefit the most. **Expecting revenue and earnings CAGR of 14.7% and 19.7%, respectively through FY17-19E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs4,732.**

Core Business – Volume Growth Tops Our Estimate

Volume growth in domestic core business came in at ~3% compared to our estimate of 0-1%. New product introductions, increasing direct distribution reach and focus on the Hindi belt along with the rural markets aided Britannia's volumes. The Management stated that the rural markets witnessed double-digit growth during the quarter. The Management also added that in dairy business, the focus would be only on driving profitability, which suggests that it has pared down expansion plans in dairy business.

Gross Margins Contract but Cost Optimisation Strategy Working Well

Consolidated gross margins declined by 120bps YoY to 37.6%. While average flour prices remained moderate, there was double-digit inflation in other commodities i.e. sugar (up 17% YoY), palm oil (up 11% YoY) and milk (up 24% YoY). While employee cost remained flat, other expenses declined 90bps YoY to 20.5%. The Management has guided for overall cost saving to the tune of Rs2.5bn in FY18 (Rs1.5bn in FY17). While Britannia's overall distribution reach stood at 4.7mn outlets, its direct reach stood at 1.6mn, which is expected to increase by 0.2mn outlets annually, going forward.

Outlook & Valuation

We expect GST to have a major positive impact on Britannia as it would make it significantly difficult for the unorganised players to maintain their price advantage without tax compliance. Apart from this, encouraging new product funnel, increasing premiumisation, cost rationalisation and focus on increasing direct reach would further aid Britannia's growth in coming years. We expect the Company to post consolidated revenues of Rs102.7bn and Rs118bn and net profit of Rs10.5bn and Rs12.7bn in FY18E and FY19E, respectively. We are raising our target multiple to 42x, which is at a 10% premium to its three year average forward multiples. **The stock currently trades at 39.5x FY19E earnings. We maintain our BUY recommendation on the stock with a revised and rolled over Target Price of Rs4,732 (based on 42x June'19 earnings).**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	83,254	89,623	102,667	117,984
EBITDA	11,426	11,864	14,143	17,216
Net profit	8,246	8,846	10,447	12,676
EPS (Rs)	68.7	73.7	87.1	105.6
DPS (Rs)	20.0	22.0	24.0	26.0
P/E (x)	60.8	56.6	48.0	39.5
P/B (x)	24.0	18.6	14.8	11.7
EV/EBITDA (x)	43.2	41.8	34.8	28.2
ROE (%)	46.1	37.0	34.3	33.0
Dividend yield (%)	0.5	0.5	0.6	0.6

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	11.0	11.2	33.0
Relative to Nifty	10.1	6.4	18.0

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	50.7	50.7
Public	49.3	49.3

1 Year Stock Price Performance



Note: * CMP as on Aug 10, 2017

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Risks to the view

- ▶ Any significant rise in competitive intensity by both, large organised and unorganised regional players.
- ▶ Sharp rise in the price of key inputs without commensurate increase in product prices could dampen our earnings estimates.
- ▶ Churn at the Top management level.

Exhibit 1: Consolidated Sales growth

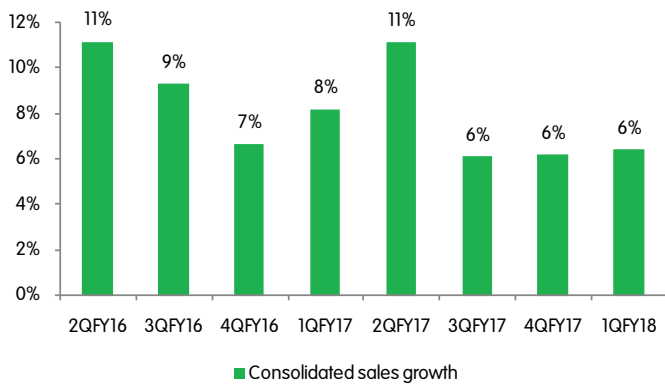
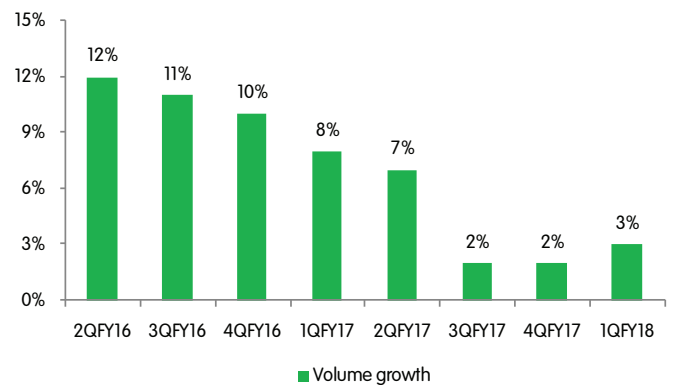


Exhibit 2: Domestic Volume growth



Source: Company, RSec Research

Exhibit 3: Trend in Gross Profit Margin

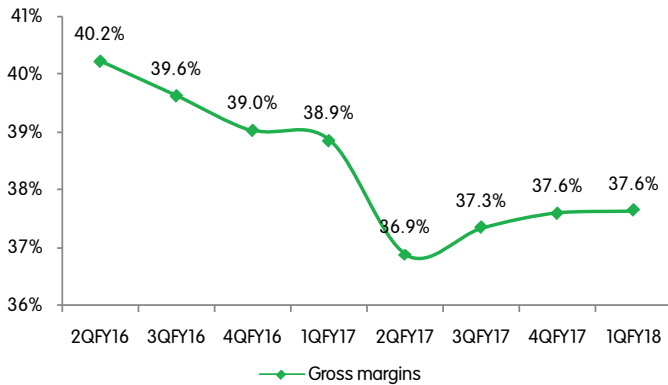
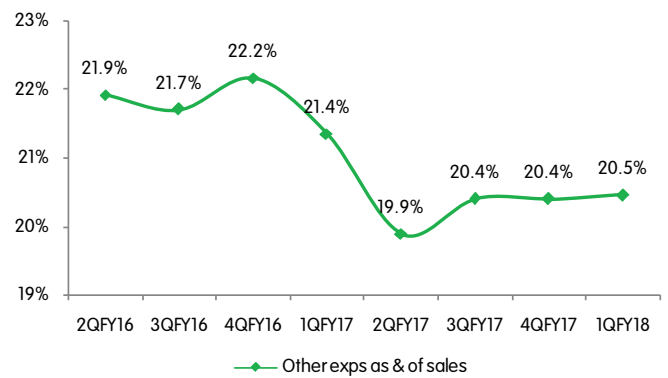


Exhibit 4: Trend in Other Expenses & of sales



Source: Company, RSec Research

Exhibit 5: NPM

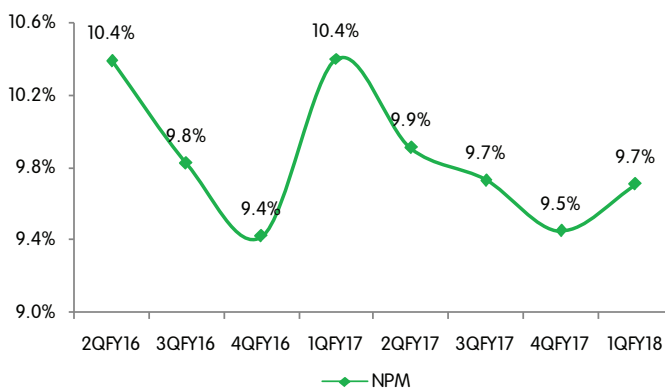
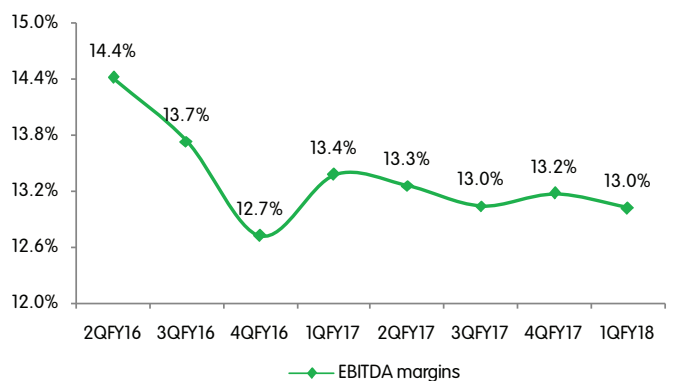


Exhibit 6: Trend in consolidated EBITDA margins



Source: Company, RSec Research

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Exhibit 7: Quarterly Performance

Y/E March (Rs mn)	1QFY18	1QFY17	% yoy	4QFY17	% yoy	FY17	FY16	% chg
Net Sales	22,248	21,063	5.6	22,300	(0.2)	89,623	83,254	7.6
Consumption of RM	13,873	12,879	7.7	13,915	(0.3)	55,887	50,127	11.5
(% of Sales)	100.0	100.0		100.0		100.0	100.0	
Staff Costs	926	868	6.8	897	3.3	3,526	3,414	3.3
(% of Sales)	6.7	6.7		6.4		6.3	6.8	
Other Expenses	4,553	4,499	1.2	4,551	0.0	18,346	18,288	0.3
(% of Sales)	32.8	34.9		32.7		32.8	36.5	
Total Expenditure	19,352	18,246	6.1	19,363	(0.1)	77,759	71,828	8.3
Operating Profit	2,896	2,817	2.8	2,938	(1.4)	11,864	11,426	3.8
OPM	20.9	21.9		21.1		21.2	22.8	
Depreciation	332	279	19.1	322	3.0	1,193	1,134	5.2
EBIT	2,564	2,539	1.0	2,615	(1.9)	10,671	10,292	3.7
Interest	13	15	(15.3)	13	(3.8)	55	49	11.9
Other Income	741	739	0.3	479	54.8	2,424	1,961	23.6
PBT	3,293	3,263	0.9	3,081	6.9	13,040	12,205	6.8
(% of Sales)	23.7	25.3		22.1		23.3	24.3	
Provision for Taxation	1,133	1,071	5.8	973	16.4	4,197	3,961	6.0
(% of PBT)	34.4	32.8		31.6		32.2	32.5	
PAT (recurring)	2,160	2,192	(1.5)	2,108	2.5	8,843	8,244	7.3
Extr. Income/(Expense)				-				
Reported PAT	2,160	2,192	(1.5)	2,108	2.5	8,843	8,244	7.3
PATM	15.6	17.0		15.1		15.8	16.4	
Minority interest								
Net profit	2,160	2,192	(1.5)	2,108	2.5	8,843	8,244	7.3
Equity shares (mn)	120	120		120		120	120	
EPS (Rs)	18.0	18.3	(1.5)	17.6	2.5	73.7	68.7	7.3

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net Sales	83,254	89,623	102,667	117,984
Total operating income	83,254	89,623	102,667	117,984
% chg	5.9	7.6	14.6	14.9
Total Expenditure	71,828	77,759	88,523	100,768
Cost of Materials	50,127	55,887	64,184	73,531
Personnel	3,414	3,526	3,879	4,267
A&P Spends	4,461	3,850	4,230	4,862
Others	13,827	14,496	16,231	18,109
EBITDA	11,426	11,864	14,143	17,216
% chg	32.3	3.8	19.2	21.7
(% of Net Sales)	13.7	13.2	13.8	14.6
Depreciation& Amortisation	1,134	1,193	1,462	1,639
EBIT	10,292	10,671	12,681	15,578
% chg	43.1	3.7	18.8	22.8
(% of Net Sales)	12.4	11.9	12.4	13.2
Interest & other Charges	49	55	45	36
Other Income	1,961	2,424	2,723	3,095
(% of PBT)	16.1	18.6	17.7	16.6
Recurring PBT	12,205	13,040	15,359	18,637
% chg	51.9	6.8	17.8	21.3
PBT (reported)	12,205	13,040	15,359	18,637
Tax	3,961	4,197	4,915	5,964
(% of PBT)	32.5	32.2	32.0	32.0
PAT (recurring)	8,244	8,843	10,444	12,673
% chg	52.0	7.3	18.1	21.3
(% of Net Sales)	9.9	9.9	10.2	10.7
Minority interest	2	3	3	3
Net profit	8,246	8,846	10,447	12,676
Basic EPS (Rs)	68.7	73.7	87.1	105.6
Fully Diluted EPS (Rs)	68.7	73.7	87.1	105.6
% chg	19.7	7.3	18.1	21.3

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Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Share capital	240	240	240	240
Reserves	20,677	26,724	33,715	42,647
Net worth	20,917	26,964	33,955	42,887
Total borrowings	1,238	1,157	957	757
Minority Interest	25	26	26	26
Deferred tax	(444)	(231)	(231)	(231)
Total liabilities	21,736	27,916	34,707	43,439
Gross block	10,413	13,278	16,278	19,278
Less: Acc. depreciation	910	1,678	3,140	4,779
Net block	9,502	11,600	13,138	14,499
CWIP	901	301	301	301
Investments	7,884	4,869	5,847	6,847
Current assets	16,208	24,088	30,246	38,828
Inventories	4,407	6,615	7,577	8,708
Debtors	1,706	1,792	2,052	2,359
Cash	877	1,208	4,036	8,708
Other CA	2,296	5,603	6,418	7,376
Loans and advances	6,923	8,871	10,163	11,679
Current liabilities	10,941	11,040	12,647	14,534
Provisions	1,819	1,901	2,177	2,502
Net current assets	3,449	11,147	15,422	21,793
Total Assets	21,736	27,916	34,707	43,439

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Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net profit	8,246	8,846	10,447	12,676
Depn and w/o	1,134	1,193	1,462	1,639
Deferred tax	10	213	0	0
Change in working cap	(3,283)	(7,367)	(1,447)	(1,699)
Operating cash flow	6,106	2,884	10,463	12,616
Capital expenditure	(1,972)	(2,865)	(3,000)	(3,000)
Investments	(2,592)	3,015	(978)	(1,000)
Investing cash flow	(4,564)	150	(3,978)	(4,000)
Free cash flow	4,134	19	7,463	9,616
Dividend	(2,879)	(3,168)	(3,456)	(3,744)
Debt/Preference shares	(72)	(81)	(200)	(200)
Financing cash flow	(2,952)	(3,249)	(3,656)	(3,944)
Others	22	545	0	0
Net change in cash	(1,387)	331	2,828	4,672
Opening cash	2,263	877	1,208	4,036
Closing cash	877	1,208	4,036	8,708

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
Valuation Ratio (x)				
P/E (on FDEPS)	60.8	56.6	48.0	39.5
P/CEPS	53.4	49.9	42.1	35.0
P/BV	24.0	18.6	14.8	11.7
Dividend yield (%)	0.5	0.5	0.6	0.6
EV/Sales	5.9	5.5	4.8	4.1
EV/EBITDA	43.2	41.8	34.8	28.2
Per Share Data (Rs)				
EPS (Basic)	68.7	73.7	87.1	105.6
Core EPS	68.7	73.7	87.1	105.6
Cash EPS	78.1	83.6	99.2	119.3
DPS	20.0	22.0	24.0	26.0
Book Value	174.3	224.7	283.0	357.4
Returns (%)				
RoCE	65.3	52.7	49.2	47.8
RoE	46.1	37.0	34.3	33.0
Turnover ratios (x)				
Asset Turnover (Gross Block)	4.4	3.6	3.3	3.0
Inventory / Sales (days)	19	27	27	27
Receivables (days)	7	7	7	7
Payables (days)	56	52	52	53
Cash conversion cycle (days)	(29)	(18)	(18)	(18)

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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