Britannia Industries

Best is yet to come: BUY

Q3FY18 Result Update

February 14, 2018

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Rating	**BUY**
Price	Rs4,759
Target Price	Rs5,226
Implied Upside	9.8%
Sensex	34,156
Nifty	10,501

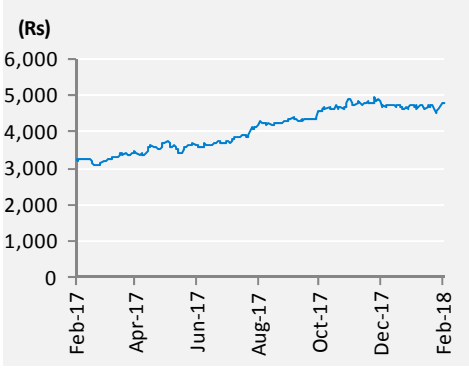
(Prices as on February 14, 2018)

Trading data	
Market Cap. (Rs bn)	569.2
Shares o/s (m)	119.6
3M Avg. Daily value (Rs m)	969.3
Major shareholders	
Promoters	50.70%
Foreign	17.70%
Domestic Inst.	11.82%
Public & Other	19.78%

Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	1.1	14.0	47.8
Relative	2.4	4.6	27.3

How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2019	101.6	102.2	*-0.5*
2020	127.4	123.3	*3.3*

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



Source: Bloomberg

BRIT consistent growth continues and the outlook remains positive given that 1) Rural demand is recovering 2) BRIT is gaining market share from both organised and smaller players 3) weak states continue to grow at 1.5-2.5x the company growth 4) 50 new products/ variants planned for launch in FY19 5) benign input cost environment in Sugar, Wheat and SMP and 6) expected gains from cost efficiency programs across production, distribution and logistics chain. Success of new products/variants from Ranjangaon food park, Chipita JV product rollout and Dairy pilot project will add value in long term only. We expect BRIT to enter new margin trajectory with an expansion of 170bps over FY18-20. We estimate 21% PAT CAGR over FY17-20. We value the stock at 41xFY20 EPS given strong growth outlook and visibility and arrive at a SOTP based target price of Rs5226. We retain BRIT as high conviction BUY in our coverage universe.

- **Concall Takeaways: 1)** BRIT is optimistic on demand as rural demand is also recovering **2)** Organised players are gaining share and BRIT is gaining from smaller players and large players as well **3)** Input cost inflation has been flattish in 3Q, near term outlook is benign and BRIT is unlikely to take price incraese in near term 4**)** Bread and Cake has suatined double digit growth momentum 5**)** Biscuit category growth has been in single digits driven by Premium segment. Glucose segment has seen some resurgance in growth 6**)** BRIT intends to launch 50 new products/variants in FY19 (15 in Fy18) including new segments in bakery and snacking 7**)** Chipita JV unit will roll out first products by Oct18 8**)** Capex Plans are on tracck with Rs 10bn Integrated food park (including floor mill and Dairy unit) at Ranjangaon, Pune, plant in Guwahati and in EOU at Mundra SEZ (early Fy19) and first plant in Nepal by 4QFY19. It is seeking mega project fiscal benefits for Ranjangaon project 9**)** Dairy milk procurement pilot is currently underway and is likley to be complete in another 3 months 10**)** BRIT has cash and cash equivalents of Rs. 18bn of which Rs.4bn has been invested in ICD yeilding ~7% post tax returns. **11)** BRIT continues to enjoys 15% Investment allowance and 200% weighted deduction for its R&D facility

Key financials (Y/e January)	**2017**	**2018E**	**2019E**	**2020E**
Revenues (Rs m)	84,143	96,899	112,779	131,746
Growth (%)	*5.9*	*15.2*	*16.4*	*16.8*
EBITDA (Rs m)	12,041	14,360	17,710	21,774
PAT (Rs m)	8,436	10,079	12,198	15,284
EPS (Rs)	70.3	84.0	101.6	127.4
Growth (%)	*11.1*	*19.5*	*21.0*	*25.3*
Net DPS (Rs)	25.0	30.0	35.0	45.8

Profitability & Valuation	**2017**	**2018E**	**2019E**	**2020E**
EBITDA margin (%)	*14.3*	*14.8*	*15.7*	*16.5*
RoE (%)	*43.3*	*40.6*	*39.1*	*39.1*
RoCE (%)	*43.1*	*40.5*	*38.9*	*39.0*
EV / sales (x)	6.6	5.7	4.8	4.0
EV / EBITDA (x)	46.1	38.2	30.6	24.4
PE (x)	67.7	56.7	46.8	37.4
P / BV (x)	26.0	20.6	16.4	13.1
Net dividend yield (%)	*0.5*	*0.6*	*0.7*	*1.0*

Source: Company Data; PL Research

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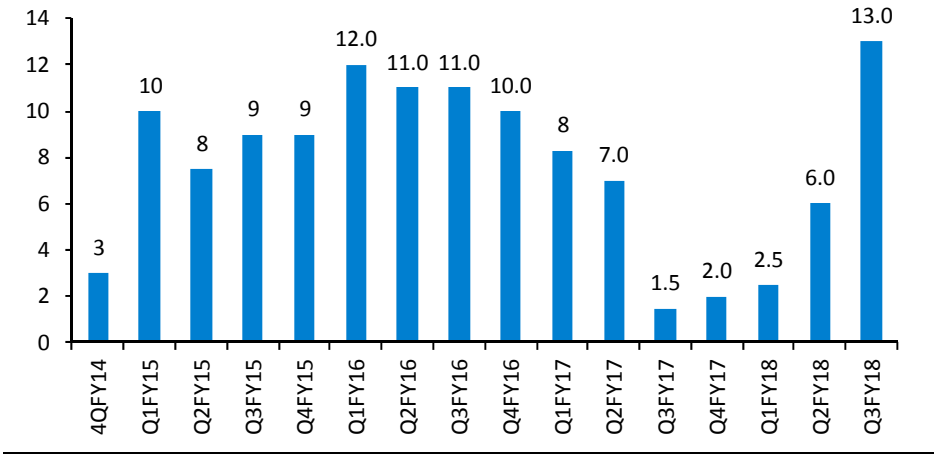
Exhibit 1: Q3FY18 Result Overview (Rs m); Sales up 13.9%, EBITDA up 26.6% led by cost efficiency

Y/e March	Q3FY18	Q3FY17	YoY gr. (%)	Q2FY18	9MFY18	9MFY17	YoY gr. (%)
Net Sales	**24,110**	**21,166**	***13.9***	**23,854**	**69,157**	**63,239**	***9.4***
Gross Profit	9,164	8,009	*14.4*	8,976	26,323	24,251	*8.5*
Margins (%)	*38.0*	*37.8*	*0.2*	*37.6*	*38.1*	*38.3*	
Other Exp	5,418	5,049	*7.3*	5,274	15,747	15,077	*4.4*
% of Sales	*22.5*	*23.9*		*22.1*	*22.8*	*23.8*	
EBITDA	**3,746**	**2,960**	***26.6***	**3,702**	**10,576**	**9,174**	***15.3***
Margins (%)	*15.5*	*14.0*		*15.5*	*15.3*	*14.5*	
Depreciation	275	243	*13.1*	282	835	691	*20.7*
Interest	4	4	*5.6*	4	11	10	*15.2*
Other Income	328	370	*(11.4)*	492	1,160	1,149	*1.0*
PBT	**3,795**	**3,083**	***23.1***	**3,908**	**10,889**	**9,621**	***13.2***
Tax	1,303	968	*34.6*	1,284	3,687	3,127	*17.9*
Tax Rate (%)	*34.3*	*31.4*		*32.9*	*33.9*	*32.5*	
Adjusted PAT	**2,492**	**2,115**	***17.8***	**2,623**	**7,202**	**6,495**	***10.9***

Source: Company Data, PL Research

Exhibit 2: 3QFY18 volumes up 13%, growth broad based

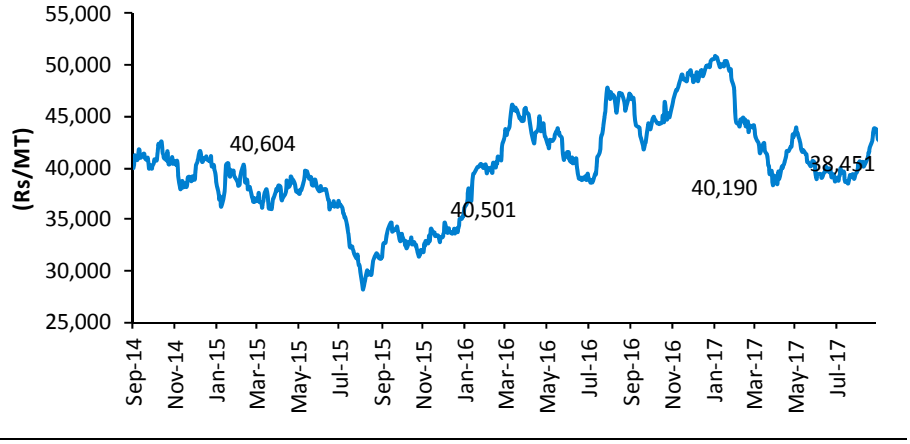


Source: Company Data, PL Research

Standalone Sales up 14.6%, volumes up 13%: Standalone Net sales increased 14.6% YoY to Rs 23.98bn, volume growth at 13%. Gross profit increased to Rs 9.16bn as other operating income declined by 46% YoY to Rs127mn. EBITDA increased to Rs.3.74bn due to 130bps decline in other expenses led by cost efficiency programs which enabled 160bps EBIDTA margin expansion. PBT increased 23% on 17% higher depreciation and 11% decline in other income. Adj. PAT increased 17.8% YoY to Rs.2.49bn as tax rate increased by 290bps to 34.3% **Consolidated sales** increased 13%, Adj PAT increased 20% to Rs19.6%. Imputed **Subsidiary sales** declined 5%, Adj PAT increased 61%. IBD grew slower on account of geo political conditions and currency fluctuations in Middle East and Africa. Dairy business demand is subdued. Guwahati, Assam and Mundra (export Unit) Units are near completion.

Palm Oil Prices (17% of raw material cost) remain benign, higher import duty has curtailed gains

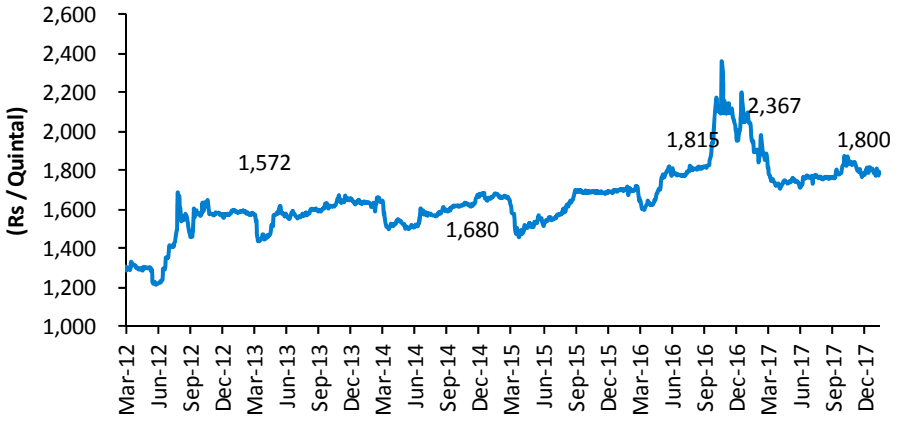
Exhibit 3: 4QFY18 Palm Oil Prices down 17.8% YoY and 2.1% QoQ



Source: Bloomberg, PL Research

Wheat (27% of raw materials), benign prices in slack season a positive, expect trend to continue

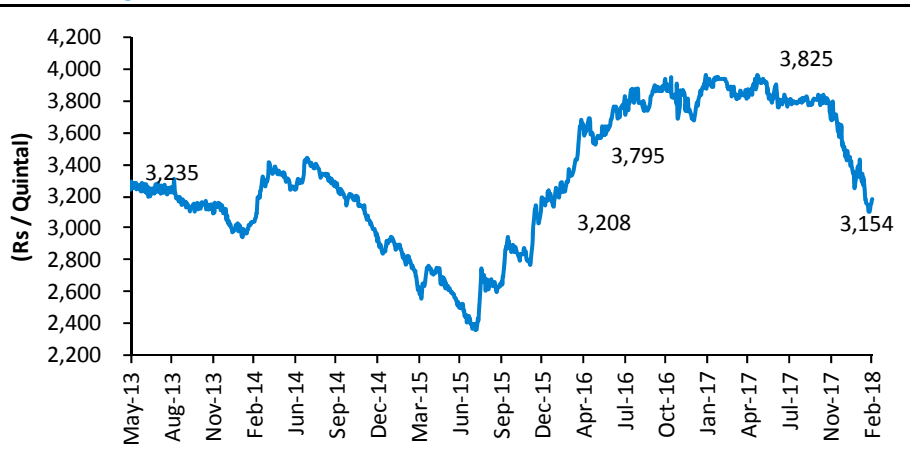
Exhibit 4: Wheat Prices down 0.7% QoQ and down 9.1% YoY in 4QFY18



Source: Bloomberg, PL Research

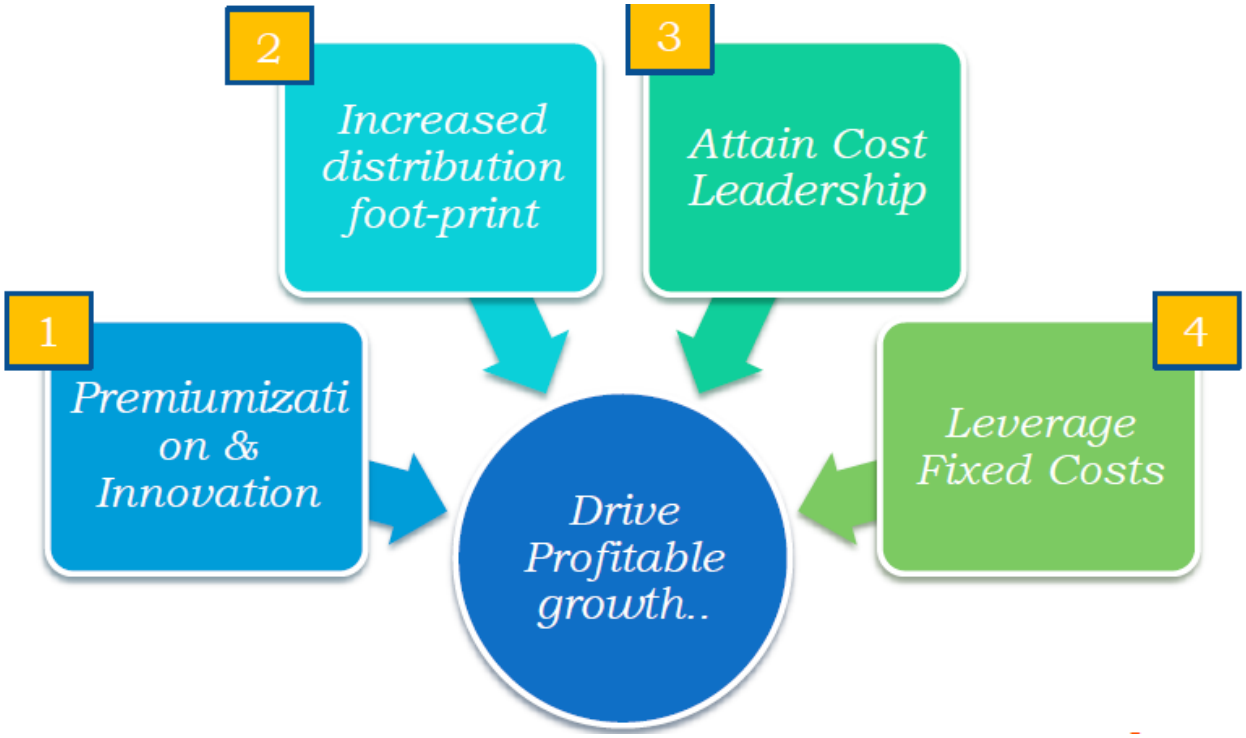
Benign sugar prices to aid margin expansion in coming quarters

Exhibit 5: Sugar Prices down 16.9% YoY & 10.6% QoQ in 4QFY18



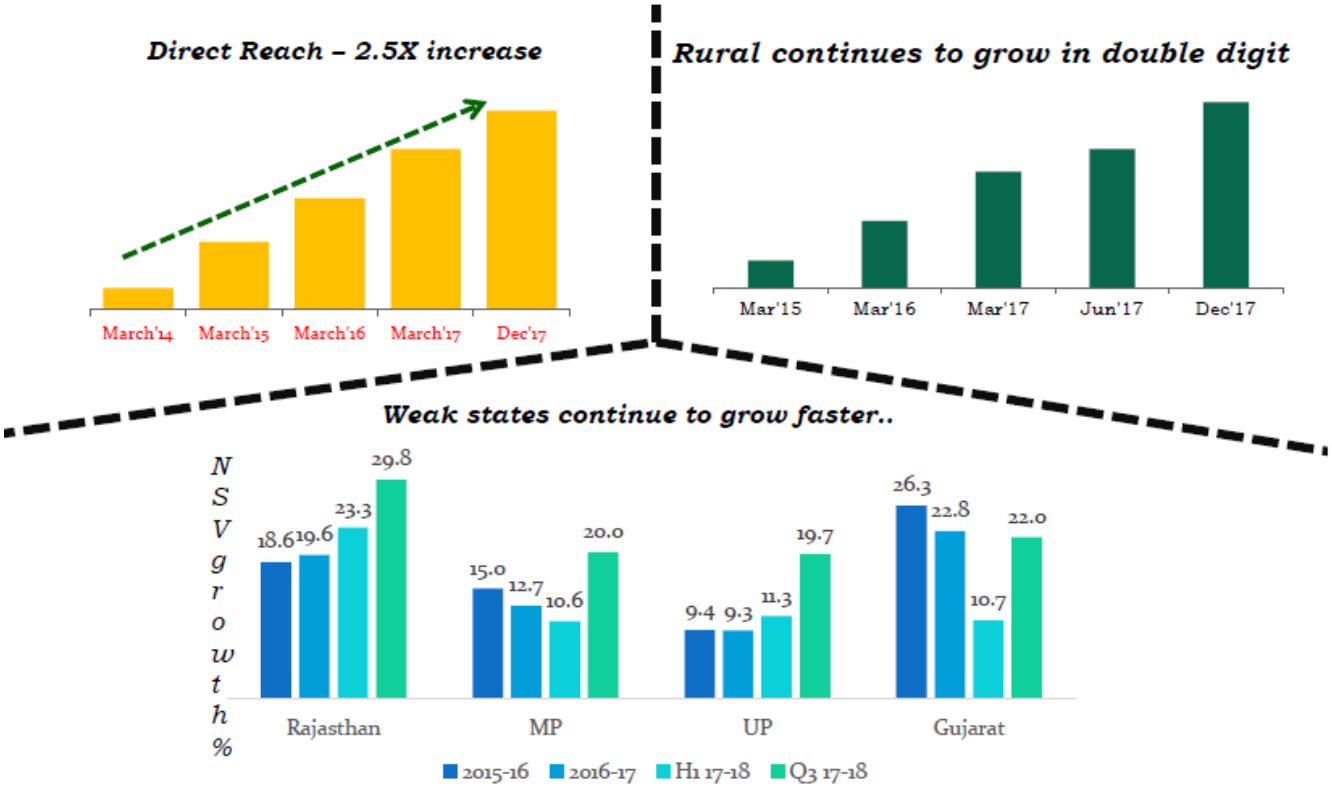
Source: Bloomberg, PL Research

Exhibit 6: Britannia has identified 4 execution focus areas



Source: Company Data, PL Research

Exhibit 7: BRIT's Direct reach at 1.75mn outlets; Weak states have grown at 1.5-2.5x average growth rates



Source: Company Data, PL Research

Exhibit 8: Mega Food Park to have Dairy unit and first in-house floor mill, likely to aid increased pace of innovation

Source: Company Data, PL Research

Exhibit 9: Britannia looking at 50 new launches in Fy19; Chipita JV products likely by Oct18 and Dairy procurement pilot is underway

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e January	2017	2018E	2019E	2020E
Net Revenue	**84,143**	**96,899**	**112,779**	**131,746**
Raw Material Expenses	51,983	64,278	73,796	85,409
Gross Profit	32,160	32,621	38,983	46,337
Employee Cost	2,417	2,444	2,848	3,266
Other Expenses	17,702	15,816	18,426	21,297
EBITDA	**12,041**	**14,360**	**17,710**	**21,774**
Depr. & Amortization	964	1,243	1,440	1,595
Net Interest	(1,434)	(1,726)	(2,239)	(3,015)
Other Income	1,448	1,738	2,252	3,027
Profit before Tax	**12,511**	**14,843**	**18,509**	**23,193**
Total Tax	4,075	4,765	6,312	7,909
Profit after Tax	**8,436**	**10,079**	**12,198**	**15,284**
Ex-Od items / Min. Int.	5	—	—	—
Adj. PAT	**8,436**	**10,079**	**12,198**	**15,284**
Avg. Shares O/S (m)	**120.0**	**120.0**	**120.0**	**120.0**
EPS (Rs.)	**70.3**	**84.0**	**101.6**	**127.4**

Cash Flow Abstract(Rs m)

Y/e January	2017	2018E	2019E	2020E
C/F from Operations	10,689	12,249	14,796	18,959
C/F from Investing	6,805	7,828	9,588	12,236
C/F from Financing	(3,647)	(4,338)	(5,061)	(6,627)
Inc. / Dec. in Cash	13,847	15,740	19,323	24,568
Opening Cash	235	472	555	702
Closing Cash	472	555	702	798
FCFF	6,883	10,123	12,789	17,075
FCFE	6,880	10,123	12,789	17,075

Key Financial Metrics

Y/e January	2017	2018E	2019E	2020E
Growth				
Revenue (%)	5.9	15.2	16.4	16.8
EBITDA (%)	6.4	19.3	23.3	22.9
PAT (%)	11.1	19.5	21.0	25.3
EPS (%)	11.1	19.5	21.0	25.3
Profitability				
EBITDA Margin (%)	14.3	14.8	15.7	16.5
PAT Margin (%)	10.0	10.4	10.8	11.6
RoCE (%)	43.1	40.5	38.9	39.0
RoE (%)	43.3	40.6	39.1	39.1
Balance Sheet				
Net Debt : Equity	(0.8)	(0.8)	(0.9)	(0.9)
Net Wrkng Cap. (days)	(17)	(14)	(14)	(14)
Valuation				
PER (x)	67.7	56.7	46.8	37.4
P / B (x)	26.0	20.6	16.4	13.1
EV / EBITDA (x)	46.1	38.2	30.6	24.4
EV / Sales (x)	6.6	5.7	4.8	4.0
Earnings Quality				
Eff. Tax Rate	32.6	32.1	34.1	34.1
Other Inc / PBT	11.6	11.7	12.2	13.1
Eff. Depr. Rate (%)	6.1	6.9	7.2	7.3
FCFE / PAT	81.6	100.4	104.8	111.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e January	2017	2018E	2019E	2020E
Shareholder's Funds	21,925	27,666	34,803	43,460
Total Debt	116	116	116	116
Other Liabilities	—	—	—	—
Total Liabilities	**22,042**	**27,783**	**34,919**	**43,576**
Net Fixed Assets	9,663	10,620	11,281	11,586
Goodwill	—	—	—	—
Investments	1,953	1,953	1,953	1,953
Net Current Assets	10,135	14,844	21,228	29,464
Cash & Equivalents	*16,631*	*22,342*	*29,977*	*40,408*
Other Current Assets	*8,866*	*10,062*	*11,634*	*13,526*
Current Liabilities	*15,361*	*17,559*	*20,383*	*24,470*
Other Assets	290	364	457	573
Total Assets	**22,042**	**27,783**	**34,919**	**43,576**

Quarterly Financials (Rs m)

Y/e January	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Revenue	**20,893**	**21,193**	**23,854**	**24,110**
EBITDA	**2,861**	**3,128**	**3,702**	**3,746**
% of revenue	*13.7*	*14.8*	*15.5*	*15.5*
Depr. & Amortization	268	278	282	275
Net Interest	4	3	4	4
Other Income	326	340	492	328
Profit before Tax	**2,915**	**3,187**	**3,908**	**3,795**
Total Tax	938	1,061	1,291	1,264
Profit after Tax	**1,977**	**2,126**	**2,616**	**2,531**
Adj. PAT	**1,977**	**2,126**	**2,616**	**2,531**

Source: Company Data, PL Research.

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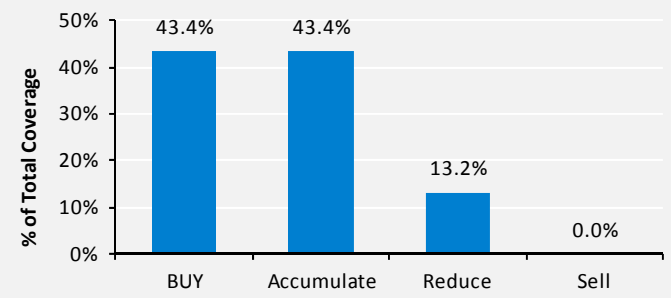

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BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
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