

INDUSTRY	FMCG		
CMP (as on 15 Nov 2017)	Rs 4,750		
Target Price	Rs 5,226		
Nifty	10,118		
Sensex	32,760		
KEY STOCK DATA			
Bloomberg	BRIT IN		
No. of Shares (mn)	120		
MCap (Rs bn)/(US\$ mn)	570/8,741		
6m avg traded value (Rs mn)	631		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 4,927 / 2,773		
	3M	6M	12M
Absolute (%)	14.2	26.9	62.1
Relative (%)	10.0	18.9	37.6
SHAREHOLDING PATTERN (%)			
Promoters	50.70		
FIs & Local MFs	11.77		
FPIs	17.39		
Public & Others	20.14		
Source : BSE			

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From strength to strength

BRIT's net revenue in 2QFY18 was up 7.4% at Rs 25.4bn vs. expectation of 10%. EBITDA/APAT up by 11/16%.

Domestic business grew by 7%, with ~6% volume growth (in-line). BRIT's strong execution has resulted in 8% growth in EBITDA in 1HFY18 vs. Dabur at -4%, Marico at -7% and Emami at -13%. BRIT adapted to GST implementation better than its peers.

BRIT's focus areas remain the same, i.e. (1) Premiumisation through innovation, (2) Distribution expansion (largely in rural areas and increase in direct reach), (3) Growth acceleration in weak markets (Rajasthan, MP, UP, Gujarat and Chhattisgarh), (4) Foray into new segments, and (5) Cost optimisation (saving of ~Rs 2.5bn in FY18E).

The success of this strategy is reflected in the company's results. Revenue/EBITDA/PAT CAGR came in at 11%/32%/36% respectively during FY13-FY17. Given healthy earnings growth (21% EPS CAGR over FY17-20E), improving core RoCE and FCF generation of Rs 11-12bn in FY19-20E, high valuations are justified.

Financial Summary

(Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenue	25,453	23,870	6.6	22,637	12.4	83,972	90,541	100,752	115,891	133,291
EBITDA	3,777	3,389	11.4	3,285	15.0	12,144	12,782	15,417	18,558	22,150
APAT	2,610	2,340	11.5	2,160	20.9	8,246	8,846	10,296	12,823	15,798
EPS (Rs)	21.8	19.5	11.5	18.0	20.9	68.7	73.7	85.8	106.9	131.6
P/E (x)						69.0	64.4	55.3	44.4	36.0
EV/EBITDA (x)						46.3	44.2	36.1	29.7	24.5
Core RoCE (%)						74.8	44.1	42.9	50.9	54.4

Source: Company, HDFC sec Inst Research

With improving demand (especially in rural areas), benign RM and BRIT's successful execution of various initiatives, we upgrade our target P/E multiple to 42x (40x earlier). We value BRIT based on P/E of 42x Sep-19EPS. Maintain BUY with a TP of Rs 5,226.

Highlights for the quarter

- **In-line volume growth:** BRIT's domestic volume growth of 6% (in-line) was healthy, aided by restocking and recovery in rural consumption (double digit growth). BRIT's "weak states" maintained healthy growth led by Rajasthan 27%, MP 16%, UP 15% and Gujarat 14%.
- **Strong PAT growth:** GM expanded by 20bps, owing to benign commodity prices. Employee expense was up by 22% due to one-time pension expense of Rs 170mn. EBITDA margin (ex-pension cost) was up by 130bps to 15.5%. Higher other income (23%), with elevated depreciation resulted in 16% growth in APAT to Rs 2.7bn, in-line with expectation.
- **Near-term outlook:** Stable RM, revival in demand (especially in rural) and cost optimisation (saving of ~Rs 1.5bn in H2FY18) can drive earnings in the ensuing quarters. The stock can continue to offer an upside.

Like-to-like (adj. for GST) revenue growth was at 7% YoY vs. our expectation of 10%

Gross margin grew by 7% YoY, supported by benign commodity prices

Employee expense includes one-time Rs 170mn pension expense

EBITDA margin (Ex one-time pension) was up by 130bps YoY to 15.5%

Quarterly Financials

Year to March (Rs mn)	2QFY18	2QFY17	YoY (%)	1QFY18	QoQ (%)
Net Revenue	25,453	23,870	6.6	22,637	12.4
Material Expenses	15,840	14,902	6.3	13,873	14.2
Employee Expenses	1,070	880	21.6	926	15.5
Other Operating Expenses	4,766	4,699	1.4	4,553	4.7
EBITDA	3,777	3,389	11.4	3,285	15.0
Depreciation	336	289	16.3	332	1.4
EBIT	3,440	3,100	11.0	2,953	16.5
Other Income	508	412	23.4	352	44.4
Interest Cost	14	15	(8.5)	13	10.2
Exceptional item	-	-	-	-	-
PBT	3,934	3,496	12.5	3,293	19.5
Tax	1,326	1,156	14.7	1,133	17.0
APAT	2,726	2,340	16.5	2,160	26.2
EPS	22.7	19.5	16.5	18.0	26.2

Margin Analysis

Particulars (%)	2QFY18	2QFY17	YoY (bps)	1QFY18	QoQ (bps)
Material Expenses	62.2	62.4	(20)	61.3	95
Employee Expenses	4.2	3.7	52	4.1	11
Other Operating Expenses	18.7	19.7	(96)	20.1	(139)
EBITDA Margin	14.8	14.2	64	14.5	32
Tax Rate	33.7	33.1	63	34.4	(71)
APAT Margin	10.7	9.8	91	9.5	117

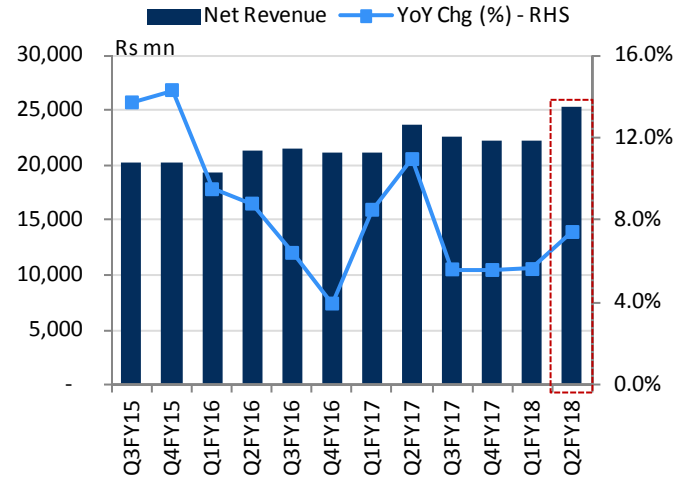
Source: Company, HDFC sec Inst Research

Consolidated net revenue grew 7%, with rural areas growing in double digits

Domestic volume growth picked up to 6%, in-line with our expectations

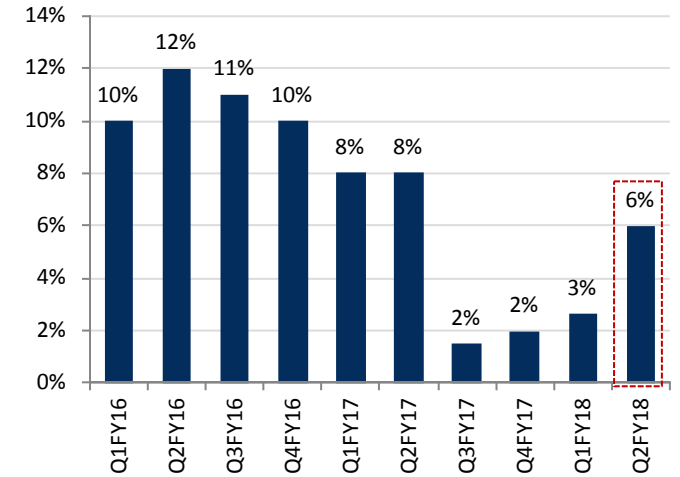
Despite a declining gross margin trajectory, improving EBITDA margin trajectory is impressive

Quarterly Net Revenue



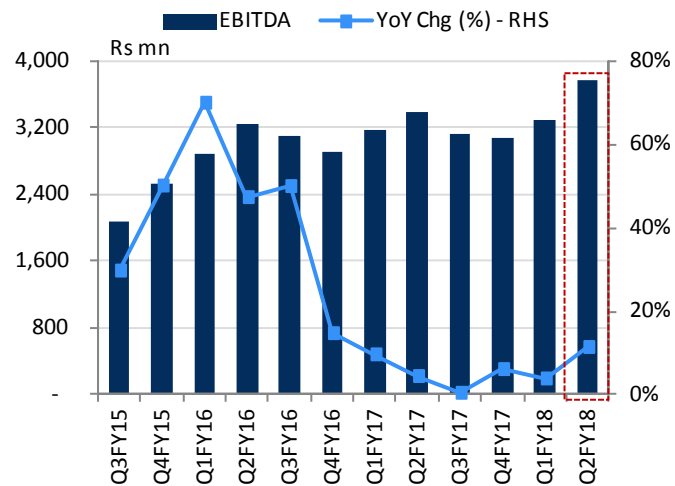
Source: Company, HDFC sec Inst Research

Quarterly Domestic Volume Growth



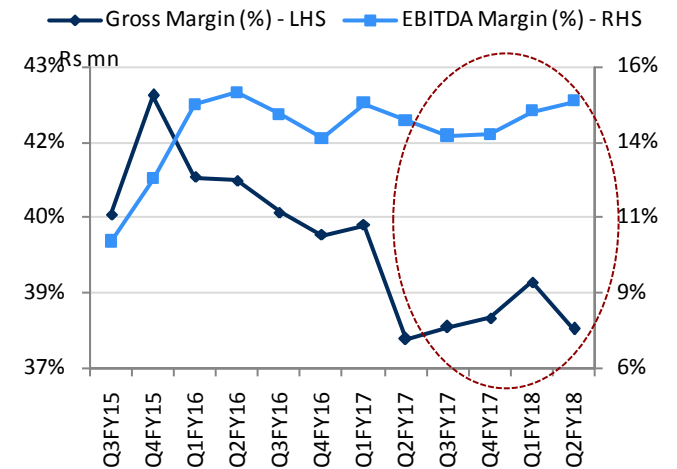
Source: Company, HDFC sec Inst Research

Quarterly EBITDA



Source: Company, HDFC sec Inst Research

Quarterly Gross And EBITDA Margin

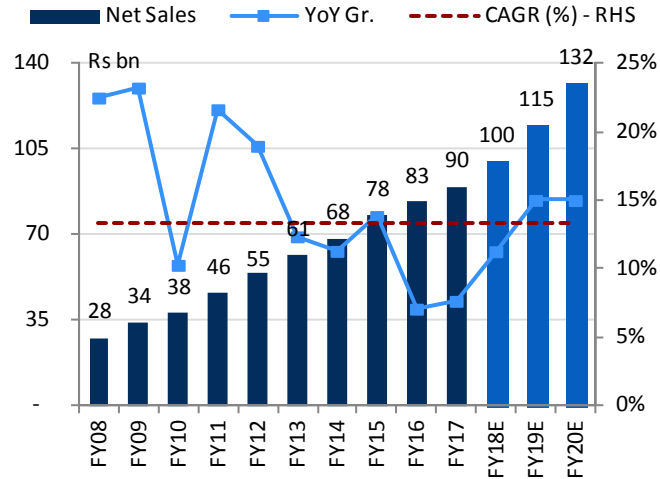


Source: Company, HDFC sec Inst Research

BRIT's FY17 performance was impacted by demonet and high input price inflation. We expect improved performance in FY18

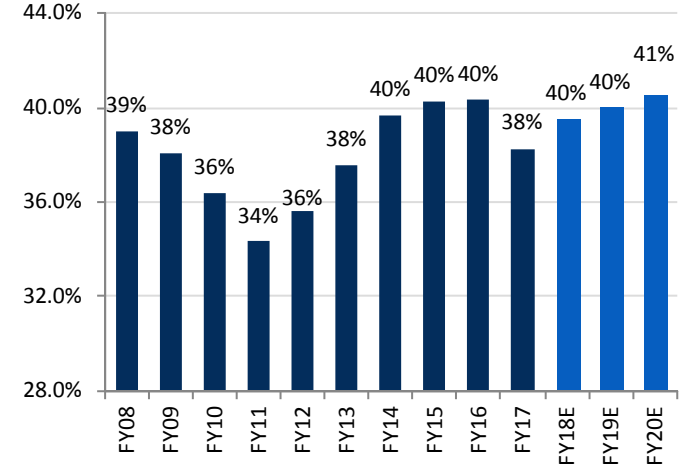
BRIT has recognised Rs 2.5bn cost-saving plan for FY18 (~40% realised in 1HFY18), up from Rs 1.5bn for FY17

Revenue Performance



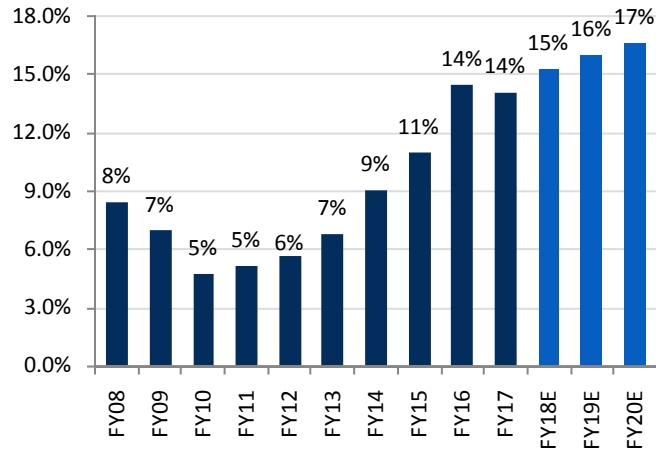
Source: Company, HDFC sec Inst Research

Gross Margin



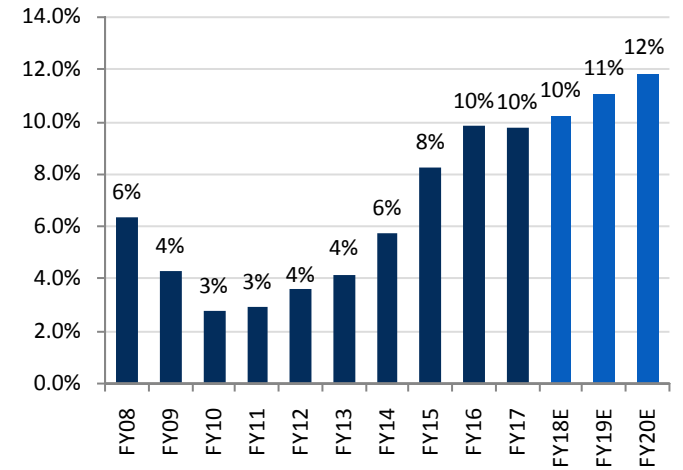
Source: Company, HDFC sec Inst Research

EBITDA Margin



Source: Company, HDFC sec Inst Research

NPM



Source: Company, HDFC sec Inst Research

BRIT continued to report strong traction in Gujarat, MP and Rajasthan

BRIT gained share by 170bps in weak states in Q2FY18, with their market share in low teens

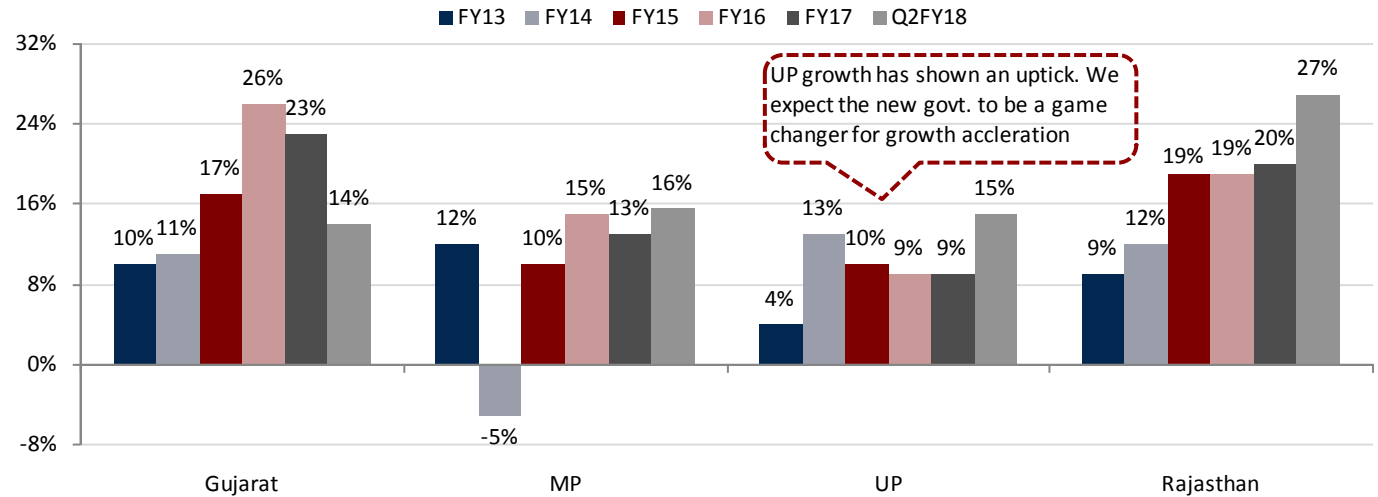
Gujarat, Rajasthan, UP, MP and Chhattisgarh combined comprise ~35% of India's population. Further, gaining traction in these states would spur BRIT's growth momentum

BRIT's market share in Gujarat, Rajasthan, UP and MP is just 1/5th that of market leader Parle

BRIT's direct reach has been 2.3x in the last three years

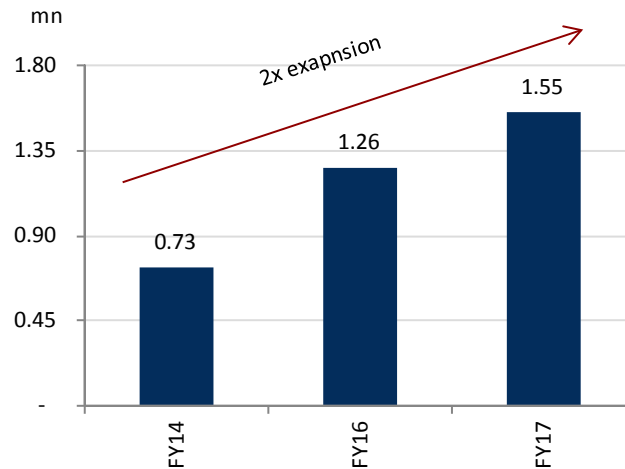
BRIT has ~1.7 million direct outlets as of Q2FY18

Revenue Growth In Weak States



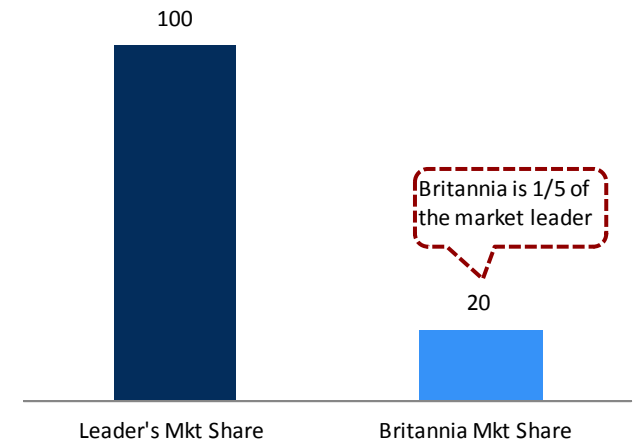
Source: Company, HDFC sec Inst Research

Direct Reach



Source: Company, HDFC sec Inst Research

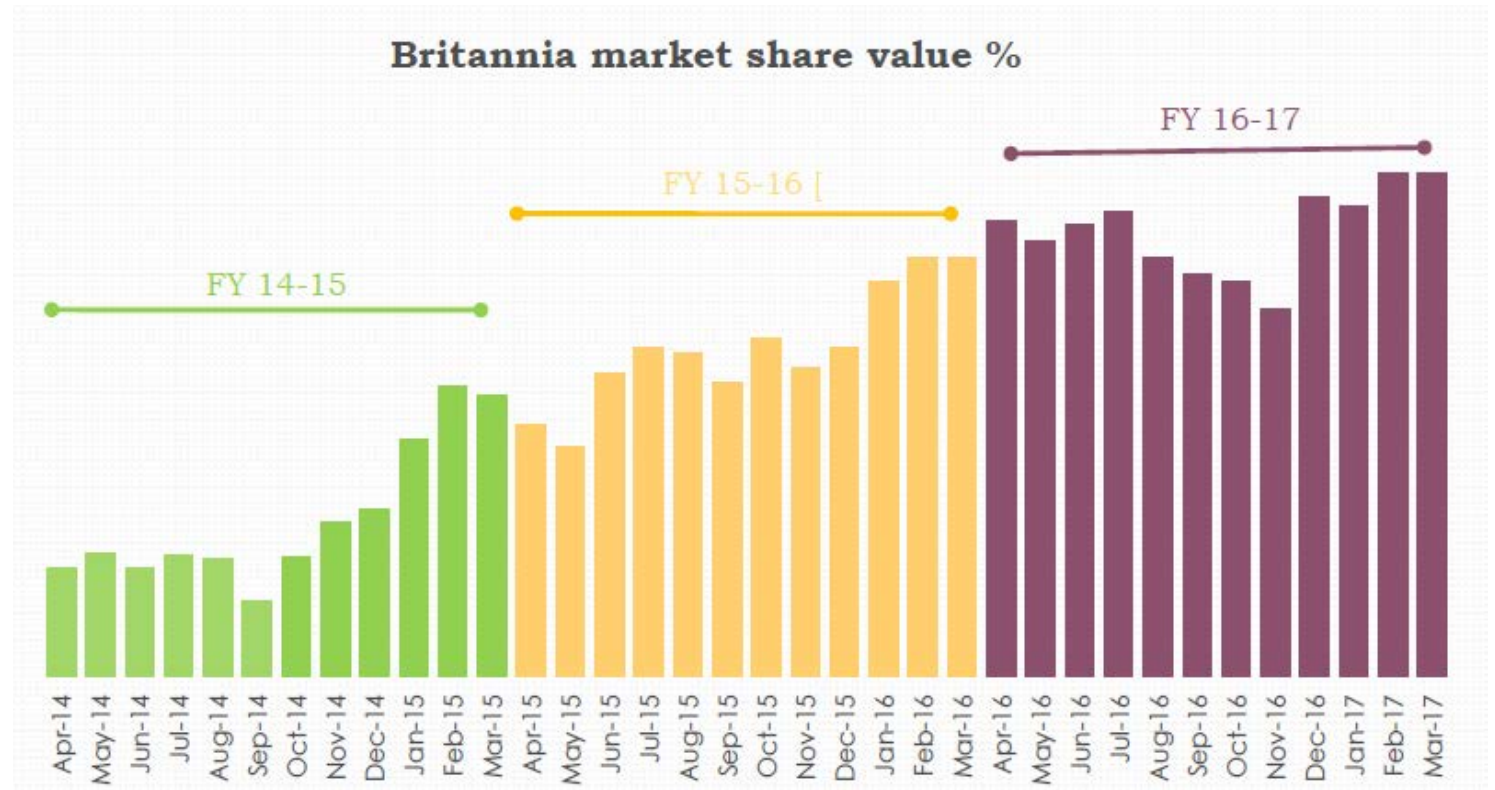
Britannia's Relative Market Share In Weak States



Source: Company, HDFC sec Inst Research

Management's strategies have succeeded in gaining profitable market share in the last two years

BRIT's Market Share



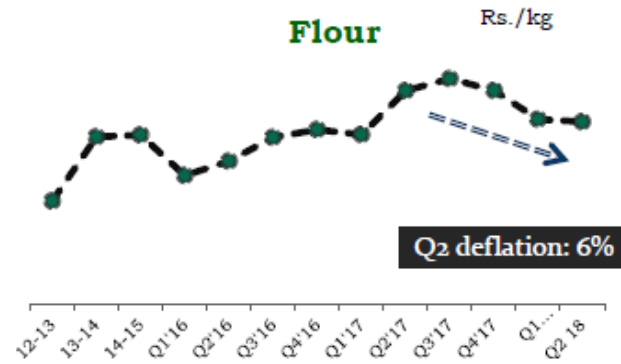
Source: Company, HDFC sec Inst Research

Except sugar and milk prices, other commodity prices are stable; overall inflation in Q2FY18 was 1%

We expect commodity prices to remain stable in the near-term

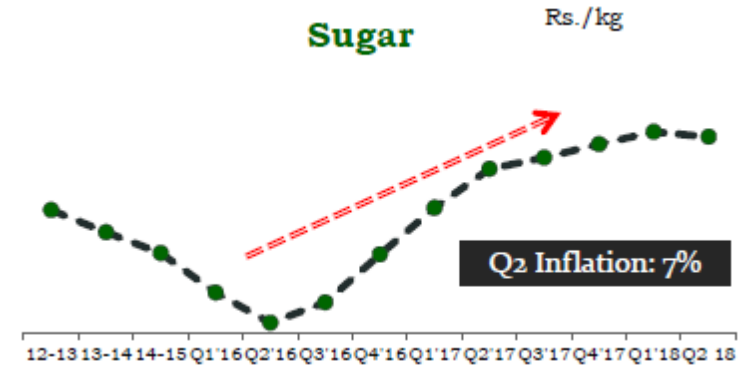
Input Inflation: Stable in 2QFY18

Wheat Flour Prices



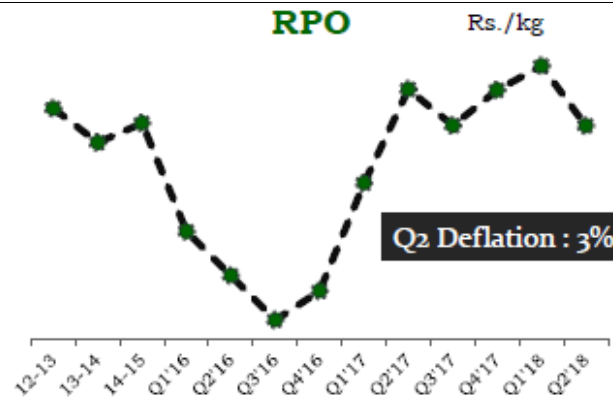
Source: Company, HDFC sec Inst Research

Sugar Prices



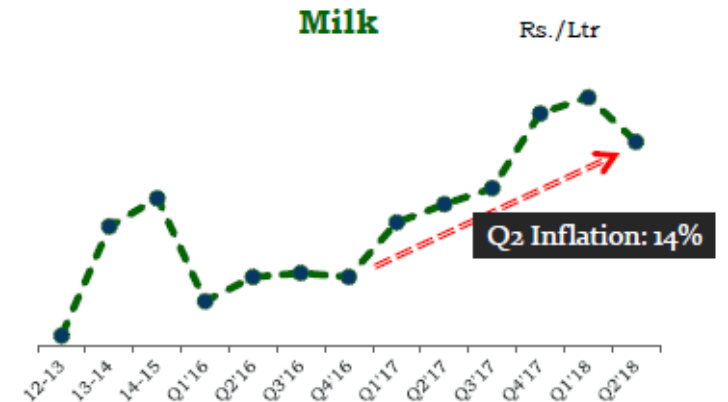
Source: Company, HDFC sec Inst Research

RPO Prices



Source: Company, HDFC sec Inst Research

Milk Prices



Source: Company, HDFC sec Inst Research

Change In Estimates

	FY18E			FY19E			FY20E		
	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)	OLD	NEW	Chg (%)
Sales	102,867	100,752	(2.1)	118,421	115,891	(2.1)	136,311	133,291	(2.2)
EBITDA	15,603	15,417	(1.2)	18,442	18,558	0.6	21,770	22,150	1.7
PAT	10,420	10,296	(1.2)	12,753	12,823	0.5	15,563	15,798	1.5

Source: Company, HDFC sec Inst Research

Key Assumptions

Assumptions	FY16	FY17	FY18E	FY19E	FY20E
Revenue Growth (%)					
<i>Biscuits and high protein food</i>	10.9%	8.0%	11.0%	14.0%	14.0%
<i>Bread, bread toast and rusk</i>	12.2%	8.0%	11.0%	13.0%	13.0%
<i>Cake</i>	18.3%	12.0%	12.0%	18.0%	18.0%
<i>Dairy Business</i>	-2.2%	2.5%	5.0%	5.0%	5.0%
<i>International Business</i>	28.1%	-13.8%	10.0%	15.0%	15.0%
Gross Margin (%)	40.3%	38.3%	39.5%	40.0%	40.5%
ASP (% of sales)	5.3%	4.3%	4.3%	4.5%	4.7%
Distribution (% of sales)	5.1%	4.9%	4.8%	4.6%	4.4%
EBITDA Margin (%)	14.5%	14.1%	15.3%	16.0%	16.6%
Tax Rate (%)	32.5%	32.2%	33.0%	31.0%	30.0%
NPM (%)	9.8%	9.8%	10.2%	11.1%	11.9%

Source: Company, HDFC sec Inst Research

Peer Valuations

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E	FY18E	FY19E	FY20E
ITC	3,110	256	BUY	354	9.6	10.8	11.9	26.7	23.8	21.5	17.1	15.1	13.5	36.7	37.6	38.9
HUL	2,794	1,291	BUY	1,458	24.1	29.7	35.9	53.6	43.4	35.9	36.8	30.4	25.7	72.1	81.0	83.6
Dabur	595	338	BUY	380	8.0	9.7	11.2	42.1	35.0	30.1	34.7	28.8	24.6	50.7	60.0	68.6
Britannia	570	4,750	BUY	5,226	85.8	106.9	131.6	55.3	44.4	36.0	36.1	29.7	24.5	42.9	50.9	54.4
Marico	383	297	NEU	343	6.9	9.0	10.6	42.8	33.1	27.9	30.2	24.6	21.3	50.1	66.2	74.1
Colgate	289	1,063	NEU	1,110	25.1	30.1	35.2	42.4	35.4	30.2	26.1	22.0	19.1	61.3	77.3	94.9
Emami	288	1,254	BUY	1,383	28.0	34.0	40.6	44.7	36.9	30.9	33.5	28.2	23.8	20.1	26.3	33.6
Jub. Food	112	1,702	BUY	1,968	24.1	36.8	46.4	70.6	46.3	36.7	29.1	21.1	17.1	25.4	42.7	60.0
Havells	313	501	BUY	573	11.2	14.2	17.7	44.8	35.2	28.3	29.3	23.6	19.4	30.4	29.3	36.0
Voltas	184	600	BUY	622	17.8	20.4	23.6	31.2	27.1	23.5	22.8	19.6	16.5	43.9	43.9	45.8
Crompton	160	248	BUY	276	5.3	7.1	8.7	46.4	35.2	28.5	28.8	22.3	18.1	48.5	62.5	75.8
V-Guard	97	228	BUY	250	4.4	6.0	7.5	52.0	38.1	30.6	37.9	28.3	22.7	29.9	37.2	41.6

Source: Company, HDFC sec Inst Research

Income Statement

Year End March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Revenues	83,972	90,541	100,752	115,891	133,291
Growth (%)	6.9	7.8	11.3	15.0	15.0
Material Expenses	50,127	55,887	60,955	69,534	79,308
Employee Expense	3,414	3,526	4,091	4,518	4,991
ASP Expense	4,461	3,850	4,284	5,160	6,268
Distribution Expense	4,310	4,459	4,836	5,273	5,798
Other Expense	9,517	10,037	11,169	12,847	14,776
EBITDA	12,144	12,782	15,417	18,558	22,150
EBITDA Growth (%)	40.6	5.3	20.6	20.4	19.4
EBITDA Margin (%)	14.5	14.1	15.3	16.0	16.6
Depreciation & Amortisation	1,134	1,193	1,393	1,593	1,805
EBIT	11,010	11,589	14,024	16,966	20,345
Other Income (Including EO Items)	1,244	1,505	1,393	1,649	2,251
Interest	49	55	50	30	27
PBT	12,205	13,040	15,367	18,584	22,568
Tax	3,961	4,197	5,071	5,761	6,770
RPAT	8,246	8,846	10,296	12,823	15,798
Adjustment	-	-	-	-	-
APAT	8,246	8,846	10,296	12,823	15,798
APAT Growth (%)	27.2	7.3	16.4	24.6	23.2
Adjusted EPS (Rs)	68.7	73.7	85.8	106.9	131.6
EPS Growth (%)	27.1	7.3	16.4	24.6	23.2

Source: Company, HDFC sec Inst Research

Balance Sheet

Year End March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital - Equity	240	240	240	240	240
Reserves	20,739	26,767	33,451	41,942	53,118
Total Shareholders Funds	20,979	27,007	33,691	42,182	53,358
Minority interest	25	26	26	26	26
Long Term Debt	377	314	264	214	164
Short Term Debt	934	922	881	844	809
Total Debt	1,311	1,236	1,145	1,058	973
Net Deferred Taxes	(444)	(231)	(231)	(231)	(231)
Non Current Liabilities	282	307	345	393	448
TOTAL SOURCES OF FUNDS	22,153	28,344	34,976	43,428	54,573
APPLICATION OF FUNDS					
Net Block	8,343	10,322	12,353	14,300	16,035
CWIP	901	301	-	-	-
Goodwill	1,159	1,278	1,278	1,278	1,278
LT Loans & Advances	2,562	834	928	1,068	1,228
Other Non Current Assets	562	1,610	1,791	2,061	2,370
Total Non-current Assets	13,528	14,345	16,351	18,706	20,911
Inventories	4,407	6,615	7,360	8,466	9,738
Debtors	1,706	1,792	1,994	2,293	2,638
Other Current Assets	6,095	12,030	13,387	15,398	17,710
Cash & Equivalents	8,760	6,076	13,460	18,951	26,679
Total Current Assets	20,967	26,512	36,201	45,109	56,765
Creditors	9,827	9,822	14,581	16,944	19,141
Other Current Liabilities	2,516	2,691	2,994	3,444	3,961
Total Current Liabilities	12,343	12,513	17,575	20,388	23,102
Net Current Assets	8,625	14,000	18,626	24,721	33,663
TOTAL APPLICATION OF FUNDS	22,152	28,344	34,976	43,428	54,573

Source: Company, HDFC sec Inst Research

Cash Flow Statement

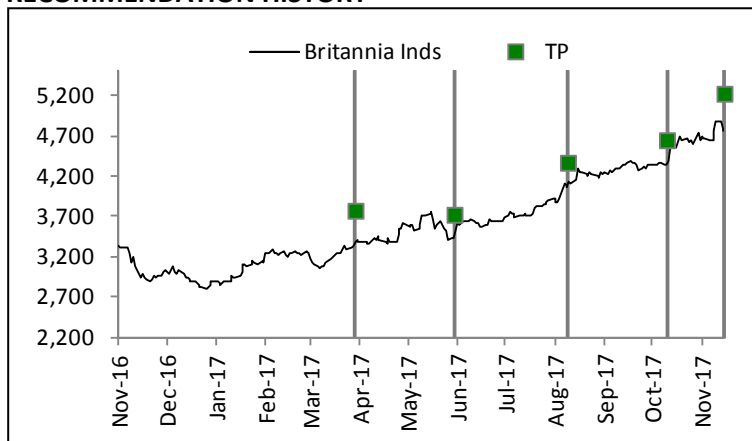
Year ending March (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Reported PBT	11,979	13,040	15,367	18,584	22,568
Non-operating & EO Items	(872)	-	-	-	-
Interest Expenses	49	55	50	30	27
Depreciation	1,134	1,193	1,393	1,593	1,805
Working Capital Change	1,356	(8,072)	2,717	(641)	(1,248)
Tax Paid	(4,032)	(4,197)	(5,071)	(5,761)	(6,770)
OPERATING CASH FLOW (a)	9,614	2,019	14,455	13,805	16,382
Capex	(2,494)	(2,574)	(3,239)	(3,540)	(3,540)
Free Cash Flow (FCF)	7,120	(555)	11,216	10,265	12,842
Investments	(5,967)	3,002	(500)	(500)	(500)
Non-operating Income	1,409	978	(120)	(361)	(415)
INVESTING CASH FLOW (b)	(7,052)	1,406	(3,860)	(4,401)	(4,455)
Debt Issuance/(Repaid)	(168)	(63)	(50)	(50)	(50)
Interest Expenses	(51)	(55)	(50)	(30)	(27)
FCFE	2,343	3,308	10,495	9,324	11,850
Share Capital Issuance	44	-	-	-	-
Dividend	(2,308)	(3,177)	(3,611)	(4,333)	(4,622)
Others	-	-	-	-	-
FINANCING CASH FLOW (c)	(2,483)	(3,295)	(3,711)	(4,413)	(4,699)
NET CASH FLOW (a+b+c)	78	130	6,884	4,992	7,228
EO Items, Others	379	188	(1)	-	-
Closing Cash & Equivalents	889	1,208	8,091	13,083	20,311

Source: Company, HDFC sec Inst Research

Key Ratios

	FY16	FY17	FY18E	FY19E	FY20E
PROFITABILITY (%)					
GPM	40.3	38.3	39.5	40.0	40.5
ASP	5.3	4.3	4.3	4.5	4.7
EBITDA Margin	14.5	14.1	15.3	16.0	16.6
EBIT Margin	13.1	12.8	13.9	14.6	15.3
APAT Margin	9.8	9.8	10.2	11.1	11.9
RoE	49.3	36.9	33.9	33.8	33.1
RoIC (or Core RoCE)	74.8	44.1	42.9	50.9	54.4
RoCE	45.9	35.2	32.6	32.8	32.3
EFFICIENCY					
Tax Rate (%)	32.5	32.2	33.0	31.0	30.0
Fixed Asset Turnover (x)	4.4	4.0	3.9	3.9	4.0
Inventory (days)	19.2	26.7	26.7	26.7	26.7
Debtors (days)	7.42	7.22	7.22	7.22	7.22
Other Current Assets (days)	26.5	48.5	48.5	48.5	48.5
Payables (days)	42.7	39.6	52.8	53.4	52.4
Other Current Liab & Provns (days)	10.9	10.8	10.8	10.8	10.8
Cash Conversion Cycle (days)	(0.6)	31.9	18.7	18.2	19.1
Net D/E (x)	(0.4)	(0.2)	(0.4)	(0.4)	(0.5)
Interest Coverage (x)	226.1	212.6	278.4	561.6	747.7
PER SHARE DATA (Rs)					
EPS	68.7	73.7	85.8	106.9	131.6
CEPS	78.2	83.7	97.4	120.1	146.7
Dividend	20.0	22.0	25.0	30.0	32.0
Book Value	174.8	225.1	280.8	351.5	444.6
VALUATION					
P/E (x)	69.0	64.4	55.3	44.4	36.0
P/BV (x)	27.1	21.1	16.9	13.5	10.7
EV/EBITDA (x)	46.3	44.2	36.1	29.7	24.5
EV/Revenues (x)	6.7	6.2	5.5	4.8	4.1
OCF/EV (%)	1.7	0.4	2.6	2.5	3.0
FCF/EV (%)	1.3	(0.1)	2.0	1.9	2.4
FCFE/Mkt Cap (%)	0.4	0.6	1.8	1.6	2.1
Dividend Yield (%)	0.4	0.5	0.5	0.6	0.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
30-Mar-17	3,391	BUY	3,773
31-May-17	3,419	BUY	3,723
10-Aug-17	4,059	BUY	4,418
10-Oct-17	4,330	BUY	4,649
16-Nov-17	4,750	BUY	5,226

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH
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