

Stock Update

Softening input prices to propel margins ahead

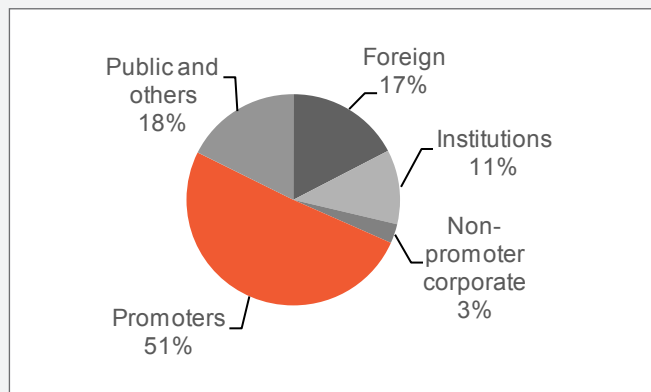
Britannia Industries

Reco: Buy | CMP: Rs4,360

Company details

Price target:	Rs4,665
Market cap:	Rs52,346 cr
52-week high/low:	Rs4415/2772
NSE volume: (No of shares)	1.3 lakh
BSE code:	500825
NSE code:	BRITANNIA
Sharekhan code:	BRITANNIA
Free float: (No of shares)	5.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.9	16.5	28.7	25.6
Relative to Sensex	2.9	14.3	20.5	10.9

Key points

- ♦ **Key input prices correcting from high; Will support margins in the coming quarters:** Key input prices (including milk and sugar) have shown a declining trend due to higher production, which will benefit dairy and packaged food manufacturing companies such as Britannia Industries (Britannia) in the near future. Dairy procurement prices declined by 11% in recent times on account of higher supply. The same is expected to remain stable over the next two quarters because of better supply. On the other hand, sugar prices have corrected by 6% from their high and have remained flat on YoY basis. Sugar production is expected to be higher by 20-25% in the current season on account of better rainfall, which will further help prices to soften in the domestic market. Further, extended monsoon in most of the country bodes well for rabi crops (wheat production is expected to be higher), as it will help in softening rabi crop prices. If prices of key inputs remain soft in the coming quarters, we expect Britannia's gross margins to improve by 50-80BPS in H2FY2018.
- ♦ **Ban on sale of FMCG products in cigarette shops will not have a major impact:** Britannia would be less impacted if government decides to ban the sale of FMCG products in cigarette shops, as it leverages more on small retail outlets and modern trade. Moreover, biscuits costing more than Rs.10 are sold less through these shops, as consumers prefer quick bites priced at Rs.5/Rs.10 per pack. Hence, the ban will have marginal hit on revenue for a short span. However, we expect the company to enhance trade through small retailers to mitigate the impact of the ban.
- ♦ **Q2FY2018 will be one-off quarter due to GST implementation:** We expect Britannia's revenue to grow by ~4% in Q2FY2018, with sales volume standing flat during the quarter. Revenue growth is expected to be lower compared to Q1FY2018 mainly on account of short-term disruption caused due to GST implementation. Gross margins are expected to be lower by 70-80BPS mainly on account of higher input prices. However, OPM is expected to decline by just 30BPS due to better operating efficiencies. PAT is expected to remain almost flat. We believe Q2 will be one off quarter as most trade channels are back in business. Hence, we expect H2FY2018 to be much better than H1FY2018. In addition, expected reduction in input prices augurs well for the company in the near term.

- ♦ **Maintain Buy as future growth levers are intact:** The event such as GST will have a short-term impact on sales, but it is positive in the long run as we expect shift from unorganised to organised categories (especially in the bakery and dairy segments) in the near to medium term. Further, new product addition and distribution

enhancement coupled with focus on the international business will help the company to post steady earnings growth in the coming years. The stock is currently trading at 42x its FY2019E earnings. We maintain our Buy recommendation on the stock with an unchanged price target of Rs.4,665.

Valuation (consolidated)

				Rs cr
Particulars	FY2016	FY2017	FY2018E	FY2019E
Net Sales	8626.2	9324.1	10505.3	11995.0
OPM(%)	14.2	13.7	14.1	14.9
Adjusted PAT	831.3	884.5	1024.0	1245.6
EPS (Rs.)	69.3	73.7	85.3	103.8
P/E(x)	62.9	59.2	51.1	42.0
EV/EBIDTA (x)	42.5	40.9	35.3	29.1
RoE (%)	49.9	36.9	34.2	33.6
RoCE (%)	69.5	69.3	52.0	47.7

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