

Accumulate

Volume acceleration continues

Q2FY19 results came marginally ahead of our estimate. The company posted 12% volume growth in the base biscuit business – double digit volume growth in the fourth consecutive quarter. 230/100bps expansion in GM/EBITDA margin was driven by deflation in key commodity prices. In addition, strong double digit growth in the IB was encouraging. We believe that the company is on the right track to grow the business and improve profitability with expanding distribution reach, increasing in-house manufacturing and controlling operational overheads. Furthermore, better monsoon this season and changing macros should help. We have tweaked our FY19E and FY20E earnings estimate at ₹ 99.3 and ₹ 122.1 respectively to factor in Q2 performance and increase in RM prices. Continue to value at 52x FY20E EPS to arrive at a TP of ₹ 6,350. Maintain Accumulate.

Operating performance exceed our estimate

Net revenues jumped 12.7% YoY to ₹ 28.7bn – came marginally ahead of our estimates. The company posted double digit volume growth (12%) on the back of investment in brands and widening distribution network through focus on direct reach, rural market and weak states. IB posted strong double digit growth driven by recovery in Middle East and robust growth in Africa. GM expanded by 230bps to 40% as key RM prices remained stable during the quarter. While employee cost declined 40bps, other expenses jumped 170bps. Consequently, EBITDA margin expanded 100bps to 15.8%- highest Q2 margin since FY13. EBITDA jumped by 20.3% YoY to ₹ 4.5bn – came ahead of our estimate of ₹ 4.3bn. APAT grew by 16.1% YoY to ₹ 3.0bn- came ahead of our estimate of ₹ 2.9bn.

Commodity deflation continues

During Q2FY19, Britannia's GM expanded by 230bps due to decline in key RM like sugar (-17%) and Milk (-22%). However, increase in flour (+7%), palm oil (+22%) and crude oil prices (+43%) restricted expansion in GM and EBITDA. Over last three years Britannia has improved its operating efficiency significantly and recorded +450bps expansion. Going ahead, we believe that the margins would remain high as the company is expected to take calibrated price hikes (+3-3.5%) to mitigate the increase in RM prices.

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	28,696	25,453	12.7	25,438	12.8
Total Expense	24,152	21,676	11.4	21,545	12.1
EBITDA	4,544	3,777	20.3	3,894	16.7
Depreciation	369	336	9.8	356	3.6
EBIT	4,174	3,440	21.3	3,537	18.0
Other Income	440	508	(13.5)	420	4.6
Interest	24	14	72.9	24	(0.8)
EBT	4,590	3,934	21.3	3,933	16.7
Tax	1,559	1,326	17.6	1,352	15.3
RPAT	3,030	2,611	16.1	2,582	17.3
APAT	3,093	2,620	18.1	2,634	17.5
			(bps)		(bps)
Gross Margin (%)	40.0	37.8	228	40.0	5
EBITDA Margin (%)	15.8	14.8	100	15.3	53
NPM (%)	10.6	10.3	30	10.2	41
Tax Rate (%)	34.0	33.7	27	34.4	(41)
EBIT Margin (%)	14.5	13.5	103	13.9	64

CMP	₹ 5,830
Target / Upside	₹ 6,350 / 9%
BSE Sensex	34,813
NSE Nifty	10,482

Scrip Details

Equity / FV	₹ 240mn / ₹ 2
Market Cap	₹ 700bn
	US\$ 10bn
52-week High/Low	₹ 6,934/₹ 4,400
Avg. Volume (no)	181,189
NSE Symbol	BRITANNIA
Bloomberg Code	BRIT IN

Shareholding Pattern Sep'18(%)

Promoters	50.7
MF/Banks/FIs	13.0
FIIIs	17.6
Public / Others	18.7

Valuation (x)

	FY18A	FY19E	FY20E
P/E	69.7	58.7	47.7
EV/EBITDA	46.6	38.2	30.5
ROE (%)	32.9	31.1	30.3
RoACE (%)	28.1	26.9	26.7

Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	99,140	111,947	128,635
EBITDA	15,017	18,164	22,403
PAT	10,040	11,924	14,670
EPS (₹)	83.6	99.3	122.2

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Growth levers in place

We believe that it is still not too late for long term investors. Our optimism is based on (1) A wide and durable portfolio of brands, (2) Narrowing of the distribution gap between Britannia (+4mn outlets) and Parle (6mn outlets), (3) Emerging growth in Britannia's non-biscuit portfolio, (4) Increase in rural penetration and co's focus on weak geographies like the Hindi belt (where Britannia has a mere 15% market share), and (5) Premiumization of the Tiger brand, which has a market size 1/5th of Parle-G.

Conference call Highlights

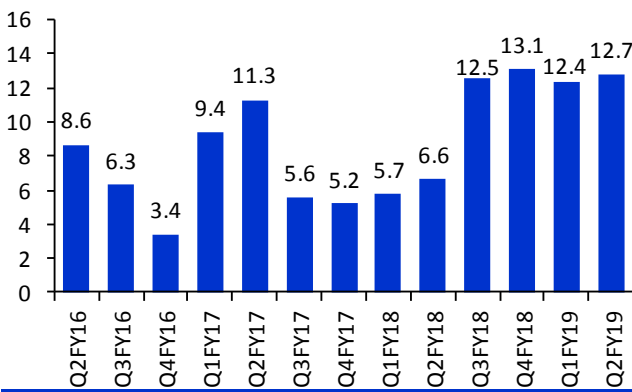
- Rural growth outpaced urban growth during the quarter. As urban contribution has always been higher compared to rural, Britannia is aiming for both, rural and urban share to be equal.
- Direct reach has increased to ~2 mn outlets. Company expects to add 200-250K outlets every year.
- Strong growth witnessed in weak states like Gujarat (+19%), UP (+17%), Rajasthan (+23%) and MP (+24%). Market share of Hindi belts is in teens with revenue contribution of 30-35%.
- The company was able to restrict overall inflation to ~4% as it took long position in certain commodities coupled with cost saving measures.
- Britannia expects to incur ~₹ 5bn capex in FY19E of which ~₹ 2bn was spent in H1FY19.
- Biscuits account for 70% of revenue while non-biscuits food products constitute the balance 23% whereas remaining is IB. Britannia expects its non-biscuit business to be equal to its biscuits business in the next few years.
- Capacity build up for croissant category is 200mn pieces/year. Ranjangaon plant capacity is 1,30,000 tonnes pa translating to 11-12% of total capacity. This will be completed in two years.
- Other expenses increased significantly mainly due to high A&SP and change in business model for bread. A&SP spends increased 20% YoY during Q2 mainly due to new launches and 100-year activation celebration.
- Premiumization is expected to boost sales going forward. Industry growth in value segment (< ₹ 100/kg) has come down to 40% from 50% earlier.
- Cost saving during FY18 was at ₹ 2.25bn and is targeted at similar level in FY19E. This will be driven by cost saving initiatives on distance travelled, fuel, labor, raw material efficiencies.
- The management aims to add one new international geography annually to strengthen international business. Project work at the Greenfield unit in Nepal is progressing and is expected to be commissioned in Q4FY19.
- The company clocked double digit volume growth in cheese. It also launched flavoured milkshake in tetrapacks and Dairy whitener. Market size of Dairy whitener is ₹ 30bn.
- Revenue from new products /innovation is 5% of sales.
- Britannia enjoys 50-60% market share (value) in South whereas in North, market share is in teens.
- ₹ 5 pack of Good day launched in Q2 is receiving good response.
- Currently, in-house production in volume and value terms is ~55% and ~60% respectively.

Exhibit 1: Change in estimate

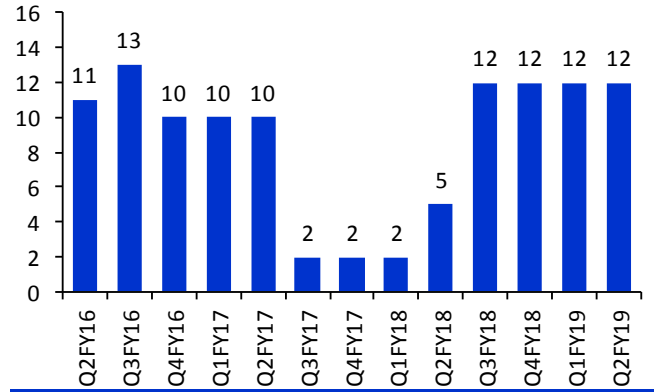
₹ Mn	FY19E			FY20E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	111,947	113,860	(1.7)	128,635	131,819	(2.4)
EBITDA	18,164	18,544	(2.1)	22,403	23,071	(2.9)
EBITDA Margin (%)	16.2	16.3	-10bps	17.4	17.5	-10bps
PAT	11,924	12,173	(2.0)	14,670	15,111	(2.9)
EPS (₹)	99.3	101.3	(2.0)	122.2	125.8	(2.9)

Source: DART, Company

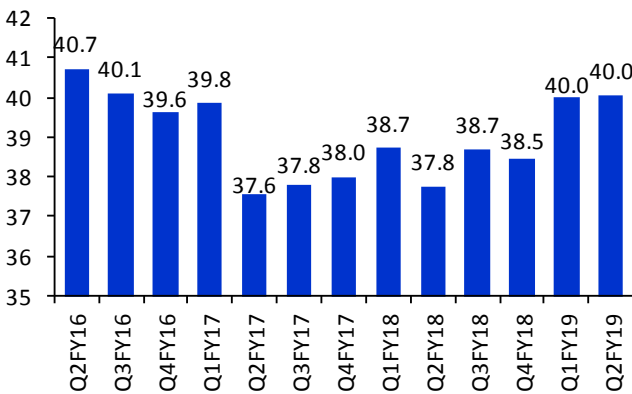
We have revised our FY19E estimates to factor in Q2 performance, increase in RM and lower than anticipated growth in the dairy segment. Also, we have downward revised our FY20E estimates to factor in delays in revamp of dairy business.

Exhibit 2: Trend in Revenue Growth (YoY %)


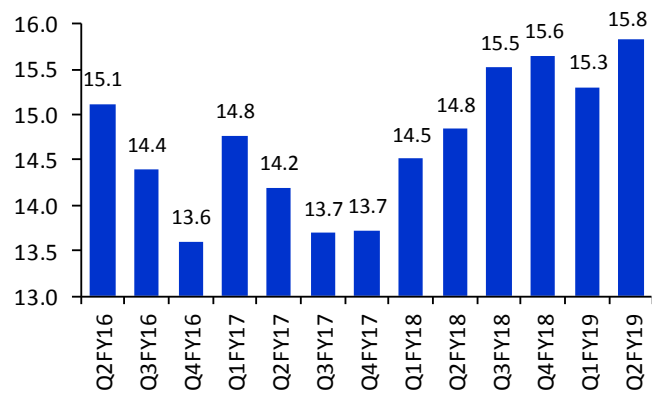
Source: DART, Company

Exhibit 3: Trend in Domestic Volume Growth (YoY %)


Source: DART, Company

Exhibit 4: Trend in Gross Margins (%)


Source: DART, Company

Exhibit 5: Trend in EBITDA Margins (%)


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Revenue	90,541	99,140	111,947	128,635
Total Expense	77,759	84,123	93,783	106,232
COGS	55,887	61,071	68,426	77,917
Employees Cost	3,526	4,016	4,528	5,153
Other expenses	18,346	19,036	20,829	23,163
EBIDTA	12,782	15,017	18,164	22,403
Depreciation	1,193	1,421	1,738	2,046
EBIT	11,589	13,596	16,426	20,357
Interest	55	76	89	89
Other Income	1,505	1,664	1,726	1,964
Exc. / E.O. items	0	0	0	0
EBT	13,040	15,184	18,063	22,232
Tax	4,197	5,142	6,138	7,560
RPAT	8,846	10,040	11,924	14,670
Minority Interest	(3)	2	2	2
Profit/Loss share of associates	0	0	0	0
APAT	8,846	10,040	11,924	14,670

Balance Sheet

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	240	240	240	240
Minority Interest	(3)	2	2	2
Reserves & Surplus	26,724	33,822	42,449	53,763
Net Worth	26,964	34,062	42,690	54,003
Total Debt	1,246	2,007	2,007	2,007
Net Deferred Tax Liability	(231)	(254)	(254)	(254)
Total Capital Employed	28,005	35,946	44,574	55,887

Applications of Funds

Net Block	11,600	13,456	14,768	15,773
CWIP	301	2,028	2,028	2,028
Investments	5,021	10,772	11,772	12,272
Current Assets, Loans & Advances	23,935	25,040	31,696	43,328
Inventories	6,615	6,528	5,880	6,701
Receivables	1,792	3,046	1,624	1,851
Cash and Bank Balances	1,208	1,864	8,788	18,412
Loans and Advances	12,030	11,507	13,308	14,268
Other Current Assets	2,291	2,096	2,096	2,096
Less: Current Liabilities & Provisions	12,852	15,350	15,690	17,513
Payables	7,884	9,940	9,936	11,242
Other Current Liabilities	4,969	5,410	5,754	6,271
Net Current Assets	11,083	9,690	16,005	25,815
Total Assets	28,005	35,946	44,574	55,887

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Gross Profit Margin	38.3	38.4	38.9	39.4
EBIDTA Margin	14.1	15.1	16.2	17.4
EBIT Margin	12.8	13.7	14.7	15.8
Tax rate	32.2	33.9	34.0	34.0
Net Profit Margin	9.8	10.1	10.7	11.4
(B) As Percentage of Net Sales (%)				
COGS	61.7	61.6	61.1	60.6
Employee	3.9	4.1	4.0	4.0
Other	20.3	19.2	18.6	18.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.1	0.0	0.0
Interest Coverage	212.6	179.1	185.3	229.7
Inventory days	27	24	19	19
Debtors days	7	11	5	5
Average Cost of Debt	4.3	4.7	4.4	4.4
Payable days	32	37	32	32
Working Capital days	45	36	52	73
FA T/O	7.8	7.4	7.6	8.2
(D) Measures of Investment				
AEPS (₹)	73.7	83.6	99.3	122.2
CEPS (₹)	83.6	95.5	113.8	139.2
DPS (₹)	24.0	26.4	27.5	28.0
Dividend Payout (%)	32.6	31.6	27.6	22.9
BVPS (₹)	224.6	283.7	355.6	449.8
RoANW (%)	37.0	32.9	31.1	30.3
RoACE (%)	31.6	28.1	26.9	26.7
RoAIC (%)	48.6	44.7	47.0	55.6
(E) Valuation Ratios				
CMP (₹)	5830	5830	5830	5830
P/E	79.1	69.7	58.7	47.7
Mcap (₹ Mn)	699,944	699,944	699,944	699,944
MCap/ Sales	7.7	7.1	6.3	5.4
EV	699,982	700,087	693,163	683,539
EV/Sales	7.7	7.1	6.2	5.3
EV/EBITDA	54.8	46.6	38.2	30.5
P/BV	26.0	20.5	16.4	13.0
Dividend Yield (%)	0.4	0.5	0.5	0.5
(F) Growth Rate (%)				
Revenue	7.8	9.5	12.9	14.9
EBITDA	5.3	17.5	21.0	23.3
EBIT	5.3	17.3	20.8	23.9
PBT	6.8	16.4	19.0	23.1
APAT	7.3	13.5	18.8	23.0
EPS	7.3	13.5	18.8	23.0
Cash Flow				
(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	3,351	12,668	14,359	16,619
CFI	(70)	(9,585)	(4,050)	(3,550)
CFF	(2,950)	(2,427)	(3,385)	(3,445)
FCFF	(167)	8,457	11,309	13,569
Opening Cash	877	1,208	1,864	8,788
Closing Cash	1,208	1,864	8,788	18,412

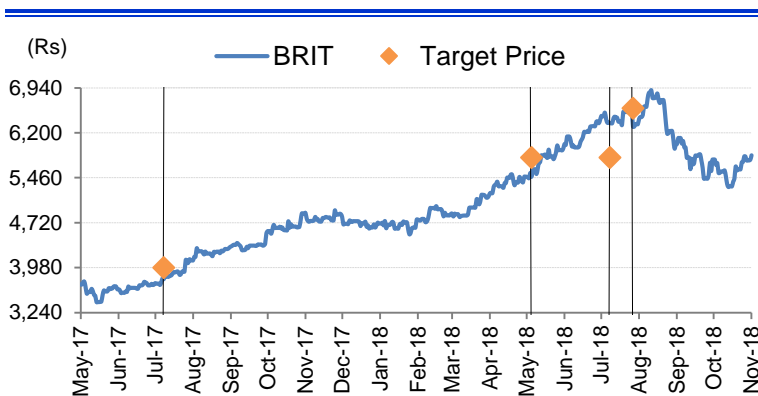
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Jul-17	Accumulate	3,984	3,791
May-18	Accumulate	5,793	5,477
Jul-18	Accumulate	5,793	6,358
Aug-18	Accumulate	6,608	6,301

*Price as on Recommendation Date

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