

Stock Update

Growth levers in place; Provide better earnings visibility ahead

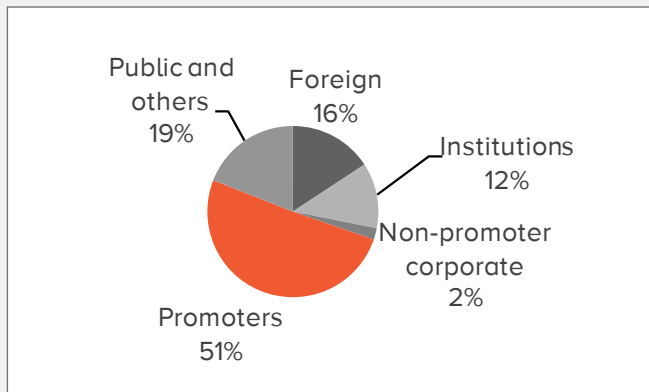
Britannia Industries

Reco: Buy | CMP: Rs2,786

Company details

Price target:	Rs3,475
Market cap:	Rs66,953 cr
52-week high/low:	Rs3472/2610
NSE volume: (No of shares)	3.0 lakh
BSE code:	500825
NSE code:	BRITANNIA
Sharekhan code:	BRITANNIA
Free float: (No of shares)	11.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-6.1	-9.4	2.6	5.5
Relative to Sensex	-7.0	-16.0	-9.7	-6.2

Key points

- ♦ **Volume growth stood at 7%; OPM remains flat; PAT grew by 13%:** For Q4FY2019, Britannia reported revenue growth of 10.3% y-o-y to Rs. 2,799 crore, slightly better than our expectation of Rs. 2,756.3 crore. Revenue of the India business (standalone) grew by 11.7% in Q4FY2019. Volume growth stood at 7% and improvement in revenue mix/price hike led to 4.6% realisation growth, resulting in overall revenue growth during the quarter. Gross margin increased by ~273 BPS y-o-y to 41%, as cost inflation stood at just 3%, offset by change in the business model of the bread's business, resulting in cost saving and buying efficiencies. Due to rise in other expenditure (by ~177 BPS y-o-y), OPM stood flat at 15.6%. There was one-off element of write-off of goodwill of the daily bread business and scale up in the capacity of categories such as croissants and wafer biscuits. Operating profit grew by 9.9% y-o-y to Rs. 436.6 crore. Other income grew by 39.1% y-o-y to Rs. 61.8 crore. Adjusted PAT grew by ~12% to Rs. 294.6 crore (largely in-line with our expectation of Rs. 293 crore).
- ♦ **Domestic business grew in double digits; Adjacencies gained momentum:** Domestic business of Britannia grew in double digits, driven by double-digit growth in rural India, which stood ahead of urban India (growth was in high single digit) in Q4FY2019. Hindi-speaking states such as Rajasthan, MP, UP and Gujarat continued to do well and grew in strong double digits of 22.1%, 19.0%, 17.0% and 14.7%, respectively, during FY2019. Britannia's direct distribution reached increased by 2.8x from March 2014 to December 2018 to 21 lakh outlets (rural distribution has gone up by 3,700 to 18,100 dealers with a number of rural preferred dealers). Britannia's dairy business is gaining momentum with double-digit growth on account of good traction to recently launched milk shakes and cheese getting better response on promotional activities. Bread grew in double digits and substantial improvement in profitability has been seen. International business posted single-digit growth with slowdown in the Middle East region. Operations of Nepal facility would help in improving the growth prospects of the international business.

♦ **Outlook – Volume growth will moderate to 7-8%; Better revenue mix, operating efficiencies would result in sustained improvement in OPM:**

Britannia's management has indicated slowdown in some of the key markets, which resulted in moderation in growth in the past six months. However, expectation of better monsoon and stable government at the centre would improve the demand environment gradually in the near term. This along with the company's sustained innovation (contributes ~5% to revenue) coupled with distribution expansion would aid the company to achieve 7-8% volume growth in the near to medium term. Raw-material cost inflation stood at 3% in Q4FY2019. Management expects raw-material cost inflation to be moderate at mid-single digit. On the cost-efficiency front, the company has targeted cost saving of Rs. 230 crore-270 crore for FY2020 through various cost-saving initiatives such as reducing distance to the market, decreasing wastage, increased

in-house production and efficient purchase of key inputs. We expect steady improvement in OPM to sustain in the coming quarters.

♦ **Trim estimates to factor in softness in sales volume; Maintain Buy with a revised PT of Rs. 3,475:**

We have trimmed our earnings estimates by 3.7% and 4.4% for FY2020 and FY2021, respectively, to factor in lower-than-earlier expected volume growth and little higher other expenses. Sustained innovation in core categories/adjacencies, deep penetration in the Hindi speaking belt, growth in the international market and profitability through cost efficiencies remain growth levers for the company in the near to medium term. We retain our Buy recommendation on the stock with a revised price target (PT) of Rs. 3,475 (in-line with reduction in earnings estimates). Britannia remains one of our top picks in the large FMCG space.

Valuation (Consolidated)

	Rs cr				
Particulars	FY2017	FY2018	FY2019	FY2020E	FY2021E
Net Sales (Rs cr)	9054.1	9914.0	11054.7	12395.5	13947.3
OPM(%)	14.1	15.1	15.7	16.7	17.4
Adjusted PAT (Rs cr)	884.5	1002.2	1154.5	1418.9	1701.3
EPS (Rs.)	36.9	41.7	48.1	59.1	70.9
P/E(x)	75.6	66.7	57.9	47.1	39.3
EV/EBIDTA (x)	52.3	44.6	38.8	32.1	27.3
RoE (%)	36.9	32.9	30.2	29.9	28.9
RoCE (%)	69.3	52.0	47.4	42.6	40.9

Results (Consolidated)

	Rs cr				
Particulars	Q4FY19	Q4FY18	yoy %	Q3FY19	qoq %
Total revenue	2799.0	2537.5	10.3	2842.4	-1.5
Total expenditure	2362.4	2140.4	10.4	2390.7	-1.2
Operating profit	436.6	397.1	9.9	451.8	-3.4
Other income	61.8	44.4	39.1	60.0	3.0
Interest expenses	1.3	2.4	-47.3	3.0	-58.1
Depreciation	46.9	42.4	10.7	42.4	10.6
Profit Before tax	450.2	396.8	13.5	466.4	-3.5
Tax	155.7	133.0	17.0	165.8	-6.1
Adjusted PAT	294.6	263.8	11.7	300.7	-2.0
Extraordinary gain / Loss	0.0	-0.6	-	-0.6	-
Reported PAT	294.6	263.2	11.9	300.1	-1.8
Adjusted EPS (Rs.)	24.6	22.0	11.7	12.5	96.3
Gross margin (%)	41.2	38.5	273	41.3	-9
OPM (%)	15.6	15.6	-5	15.9	-30

Britannia Q4FY2019 other key highlights

- ♦ **Innovation remains the core of growth strategy:** Britannia continued its thrust on innovation and premiumisation during the quarter with the launch of Treat Burst, Treat Star and Milk Bikis Choco Cream in the biscuit category. The company relaunched its cake portfolio and forayed into a new category – salted snacks (extruded), only one format was launched in Tamil Nadu this quarter and three more formats are expected to be launched in the coming quarter. Salted snacks were launched at price points of Rs. 5, Rs. 10 and Rs. 20 (in line with the industry) with profitability of Rs. 5 in each price point. The company expects to reach a revenue target of Rs. 500 in the next five years for the category. New launches - Cream Wafers and Flavoured Milk Shakes in Tetra Packs - have received positive response in the market. The company also launched croissants in two flavours (chocolate and vanilla) in Q4FY2019 at a competitive price point of Rs. 15. The launch of croissants is done in limited markets of east and modern trade. Moreover, Britannia is going to continue with its innovations and new launches in line with its strategy of being a 'global total foods company.'
- ♦ **Distribution momentum continues:** In-line with its strategy to widen the distribution reach, Britannia has increased its direct reach by 2.9x from March 2014 to March 2019 with direct reach to 21 lakh outlets in Q4FY2019 as against 18.4 lakh outlets in FY2018. The rural sector's distribution is growing in double digits and currently stands at 18,100 preferred dealers (from 14,400 dealers in FY2018). Management's focus on Hindi-speaking states has resulted in the Hindi belt growing faster, with Rajasthan, MP, UP and Gujarat growing by 22.1%, 19%, 17% and 14.7%, respectively, in FY2019.
- ♦ **Increasing input prices; Not a threat as better revenue mix and price hike would mitigate the impact:** On the commodity front, Britannia witnessed marginal inflation of ~3% in key raw-material prices during Q4FY2019, driven mainly by increasing flour prices. However, the cost-efficiency programme and endeavour to leverage fixed costs have helped in curtailing overall inflation. Flour prices have witnessed inflation of 9% during Q4FY2019. However, sugar, refined palm oil and milk have seen deflation of 8%, 5% and 9%, respectively, during the quarter, which has helped the company to curtail the commodity cost. Going ahead, management is sighting an increase in input cost (4-5%) for FY2020. The company is planning to take a price hike, not all at once but gradually based on different categories and geographies in the coming quarters. In addition to this, better revenue mix and launch of premium products across categories would help mitigate the impact of high input cost.
- ♦ **Bread and dairy business gaining momentum:** The bread and dairy business has started to gain good traction. The dairy business recorded double-digit growth during the quarter on account of positive response to the milk shake category and growth in the cheese business. Management believes the dairy industry provides ample scope for growth. The bread business also recorded double-digit growth and the company is looking for expansion in the southern market. Profitability of the bread and dairy business has improved on a y-o-y basis in FY2019 and is expected to see gradual improvement in the coming years.
- ♦ **International business – Slowdown in Middle East:** Britannia is present in 70 countries through exports of products and reported single-digit growth for the international market due to slowdown in Middle East in Q4FY2019. The Greenfield unit in Nepal started production by the end of the quarter and soon products are expected to hit the market, giving Britannia local presence in the country. The company is targeting one country per year with local manufacturing and enhanced distribution and is currently working out to tap into the next country.
- ♦ **Exposure to group companies through inter-corporate deposits:** The company management has indicated an exposure to group companies through inter corporate deposits (25% of total financial assets (including investments and loans & advances).

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