

View: Fast recovery exudes confidence; maintain BUY

- Britannia's revenue and EBITDA were below our estimate, APAT was in line. Domestic volume growth was flattish compared to our estimate of mid-single digit growth. Lockdown due to Covid-19 in March impacted the revenue and net profit growth by ~7-10%.
- Though the sales were significantly impacted due to lockdown, the company was able to improve its overall market share in Q4.
- With ramp up in production, strong supply chain and distribution initiatives and focused marketing campaigns, company exhibited revenue growth of 20% YoY in April'20 and 28% YoY in May'20.
- New product launches and innovations continues to remain the company's focus. We believe its strategy to grow and improve profitability by increasing in-house manufacturing, launching new value-added products, and controlling operational overheads are likely to yield results.
- We have maintained our FY21E and FY22E EPS estimate to Rs 68.9 and Rs 75.9 respectively. We value the stock at 50x FY22E EPS, to arrive at a TP of Rs 3,782. Maintain BUY (Buy on dips).

Revenue and EBITDA below our estimates, APAT in line

Net revenues grew 2.5% YoY to Rs 28.7bn - came below our estimates. Despite increase in demand, supply constraints resulted in lower sales during the quarter. Gross margin declined by 150bps to 39.7%. While employee expenses increased 40bps, other expenses declined by 210bps benefiting from better operating efficiency. Consequently, EBITDA margin expanded 20bps to 15.8%. EBITDA increased by 4.1% YoY to Rs 4.5bn. APAT increased 26.2% YoY to Rs 3,750mn - came in line with our estimates.

Overall commodity inflation was ~4%

During Q4FY20, Britannia's GM declined 150bps, due to inflation in key RMs, such as flour (+2%), sugar (+5%), palm oil (+18%) and milk (+50%). We expect raw material pressure from palm oil and milk to ease in the next few quarters. Moreover, as new launches are GM accretive, and with the cost efficiency program, we expect margins to remain 16%+.

Q4FY20 Result (Rs Mn)

Particulars	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Revenue	28,677	27,990	2.5	29,827	(3.9)
Total Expense	24,134	23,624	2.2	24,806	(2.7)
EBITDA	4,543	4,366	4.1	5,020	(9.5)
Depreciation	485	469	3.3	467	3.8
EBIT	4,058	3,897	4.1	4,553	(10.9)
Other Income	786	618	27.2	652	20.6
Interest	270	13	2059.2	237	14.0
EBT	4,572	4,502	1.5	4,969	(8.0)
Tax	849	1,557	(45.4)	1,273	(33.3)
RPAT	3,748	2,972	26.1	3,726	0.6
APAT	3,750	2,972	26.2	3,726	0.6
			(bps)		(bps)
Gross Margin (%)	39.7	41.2	(152)	40.9	(118)
EBITDA Margin (%)	15.8	15.6	24	16.8	(99)
NPM (%)	13.1	10.6	245	12.5	57
Tax Rate (%)	18.6	34.6	(1600)	25.6	(704)
EBIT Margin (%)	14.2	13.9	23	15.3	(112)

CMP	Rs 3,510
Target / Upside	Rs 3,782 / 8%
BSE Sensex	34,132
NSE Nifty	10,062

Scrip Details

Equity / FV	Rs 241mn / Rs 1
Market Cap	Rs 842bn
	USD 11bn
52-week High/Low	Rs 3,708/Rs 2,100
Avg. Volume (no)	981,316
NSE Symbol	BRITANNIA
Bloomberg Code	BRIT IN

Shareholding Pattern Mar'20(%)

Promoters	50.6
MF/Banks/FIs	13.6
FIs	17.2
Public / Others	18.6

Valuation (x)

	FY20A	FY21E	FY22E
P/E	59.3	50.9	46.2
EV/EBITDA	46.5	40.0	35.5
ROE (%)	32.4	32.8	28.5
RoACE (%)	28.9	27.7	25.2

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	115,996	130,387	145,305
EBITDA	18,432	21,181	23,599
PAT	14,196	16,542	18,219
EPS (Rs.)	59.2	68.9	75.9

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Exhibit 1: Actual V/s Estimates Variance

Rs mn	Actual	Estimates	Variance (%)	Comment
Revenue	28,677	30,099	(4.7)	Variation due to higher than estimated impact of lockdown in March'20.
EBITDA	4,543	4,841	(6.2)	
EBITDA margin %	15.8	16.1	(20)	
APAT	3,750	3,776	(0.7)	

Source: Company, DART

Exhibit 1: Change in estimate

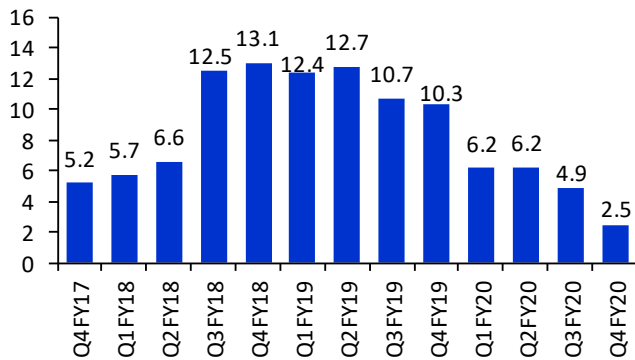
Rs Mn	FY21E			FY22E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	130,387	131,913	(1.2)	145,305	147,073	(1.2)
EBITDA	21,181	21,160	0.1	23,599	23,677	(0.3)
EBITDA Margin (%)	16.2	16.0	20bps	16.2	16.1	10bps
APAT	16,542	16,220	2.0	18,219	18,043	1.0
Adj EPS (Rs)	68.7	67.4	1.9	75.6	75.0	0.9

Source: DART, Company

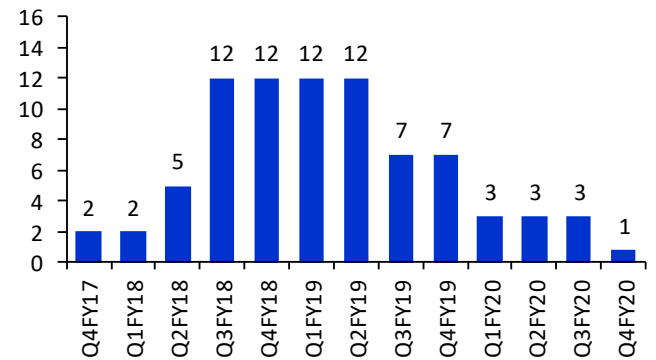
Conference call Highlights

- Direct reach has increased to ~2.22mn outlets (~2.17mn in Q3FY20). Number of distributors in rural increased to ~21K in Feb'20 from 18K in Mar'19. This led to increase in market share in Hindi belt in FY20.
- While Middle East continues to be challenging, Rest of International is growing high double digits.
- Britannia was amongst the first companies to get its operations in place. Moreover, Britannia which is considered a trusted FMCG brand and fear/restrictions on eating out led to higher consumption during lockdown in April/May'2020.
- Britannia was targeting high single digit to low double digit growth in Q4FY20. March started well, lockdown in late March impacted performance.
- Bread witnessed high single digit growth with improvement in profitability. Dairy maintained profitability sequentially despite upsurge in milk prices.
- Company's Bread and Dairy business is currently receiving encouraging response.
- Palm oil and milk prices, which saw high inflation in Q4, are currently trending downwards.
- All factories and depots are currently operating with manpower restrictions.
- Company did direct supplies to distributors from warehouses which was little expensive from cost standpoint. However, it was saving on other costs.
- Distribution reach was 100% within first fortnight of the lockdown.
- Company witnessed acceleration starting January'20. Strong distribution efforts in rural led to revival in rural demand in Jan and Feb 2020. Rural business is less affected than urban which is likely to benefit the company going ahead.
- In terms of mix, company started with focus on 20% products and SKU's which gives 80% volumes, till end of May 2020. From June 2020, company strategy is to get back entire variety of its products in the market.
- Snacks category is still in testing phase in South.

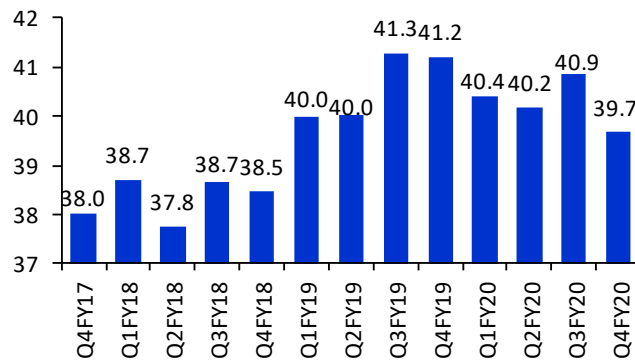
- Croissants are still in test market in Tamil Nadu and West Bengal. Company witnessed setback in production as Ranjangaon factory is in the heart of Pune city which is a severely affected Covid territory. The factory is currently operating at full capacity with limited manpower.
- Company had started to build a factory in Bihar which will come back to steam. It planned a factory in Tamil Nadu as well - being a strong state. Company also plans to build capacity in UP market as it is the largest biscuit market in the country but a weak state for Britannia.
- ICD's in FY20 are at similar levels versus last year at ~Rs 600cr (FY19: Rs 685cr and H1FY20: Rs 450cr).
- 50% of the borrowing is bonus debentures.
- Retail offtake were at similar levels of primary offtake of avg. 24% YoY in April and May'20.
- Capex is expected to be Rs 2.0-3.0bn in FY21E.

Exhibit 2: Trend in revenue growth (YoY %)


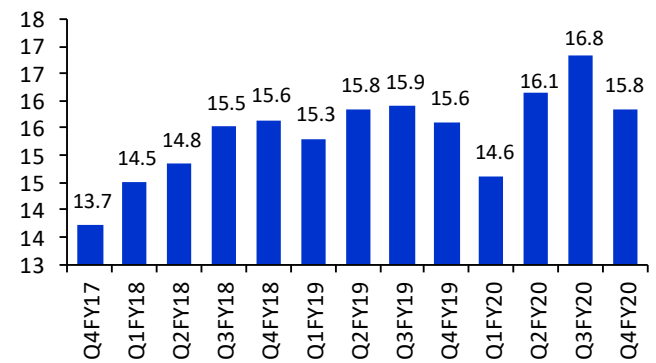
Source: DART, Company

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

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	110,547	115,996	130,387	145,305
Total Expense	93,213	97,564	109,206	121,706
COGS	65,615	69,275	78,010	87,249
Employees Cost	4,418	4,867	5,486	5,915
Other expenses	23,180	23,422	25,710	28,542
EBIDTA	17,334	18,432	21,181	23,599
Depreciation	1,619	1,848	2,044	2,277
EBIT	15,715	16,584	19,137	21,322
Interest	91	769	1,522	1,592
Other Income	2,065	2,794	3,873	3,895
Exc. / E.O. items	0	(170)	0	0
EBT	17,689	18,439	21,488	23,625
Tax	6,125	4,507	4,972	5,432
RPAT	11,591	14,026	16,542	18,219
Minority Interest	(27)	(95)	(26)	(25)
Profit/Loss share of associates	0	0	0	0
APAT	11,591	14,196	16,542	18,219

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	240	241	241	241
Minority Interest	327	357	320	283
Reserves & Surplus	42,292	43,787	56,481	70,732
Net Worth	42,533	44,028	56,722	70,972
Total Debt	1,560	15,139	15,139	15,139
Net Deferred Tax Liability	(99)	(756)	(756)	(756)
Total Capital Employed	44,321	58,767	71,425	85,639

Applications of Funds

Net Block	16,883	18,634	19,641	20,414
CWIP	1,012	396	396	396
Investments	14,763	28,916	30,916	32,916
Current Assets, Loans & Advances	29,622	29,398	40,962	53,206
Inventories	7,814	7,410	7,099	7,850
Receivables	3,942	3,204	4,115	4,539
Cash and Bank Balances	1,098	1,028	9,454	20,364
Loans and Advances	14,910	13,398	15,935	16,094
Other Current Assets	1,858	4,359	4,359	4,359
Less: Current Liabilities & Provisions	17,960	18,577	20,490	21,293
Payables	11,405	11,162	12,678	13,140
Other Current Liabilities	6,555	7,415	7,812	8,152
sub total				
Net Current Assets	11,663	10,821	20,472	31,913
Total Assets	44,321	58,767	71,425	85,639

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	40.6	40.3	40.2	40.0
EBIDTA Margin	15.7	15.9	16.2	16.2
EBIT Margin	14.2	14.3	14.7	14.7
Tax rate	34.6	24.4	23.1	23.0
Net Profit Margin	10.5	12.1	12.7	12.5
(B) As Percentage of Net Sales (%)				
COGS	59.4	59.7	59.8	60.0
Employee	4.0	4.2	4.2	4.1
Other	21.0	20.2	19.7	19.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.3	0.3	0.2
Interest Coverage	172.9	21.6	12.6	13.4
Inventory days	26	23	20	20
Debtors days	13	10	12	11
Average Cost of Debt	5.1	9.2	10.1	10.5
Payable days	38	35	35	33
Working Capital days	39	34	57	80
FA T/O	6.5	6.2	6.6	7.1
(D) Measures of Investment				
AEPS (Rs)	48.3	59.2	68.9	75.9
CEPS (Rs)	55.0	66.9	77.4	85.4
DPS (Rs)	14.8	18.0	16.0	16.5
Dividend Payout (%)	30.6	30.5	23.3	21.8
BVPS (Rs)	177.2	183.4	236.3	295.7
RoANW (%)	30.3	32.4	32.8	28.5
RoACE (%)	29.0	28.9	27.7	25.2
RoAIC (%)	40.6	32.9	32.0	33.5
(E) Valuation Ratios				
CMP (Rs)	3510	3510	3510	3510
P/E	72.7	59.3	50.9	46.2
Mcap (Rs Mn)	842,472	842,472	842,472	842,472
MCap/ Sales	7.6	7.3	6.5	5.8
EV	842,934	856,583	848,157	837,247
EV/Sales	7.6	7.4	6.5	5.8
EV/EBITDA	48.6	46.5	40.0	35.5
P/BV	19.8	19.1	14.9	11.9
Dividend Yield (%)	0.4	0.5	0.5	0.5
(F) Growth Rate (%)				
Revenue	11.5	4.9	12.4	11.4
EBITDA	15.4	6.3	14.9	11.4
EBIT	15.6	5.5	15.4	11.4
PBT	16.5	4.2	16.5	9.9
APAT	15.4	22.5	16.5	10.1
EPS	15.4	22.5	16.5	10.1

Cash Flow

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	12,742	16,730	18,847	21,521
CFI	(9,724)	(16,594)	(5,050)	(5,050)
CFF	(3,784)	(206)	(5,370)	(5,561)
FCFF	8,748	14,289	15,797	18,471
Opening Cash	1,864	1,098	1,028	9,454
Closing Cash	1,098	1,028	9,454	20,364

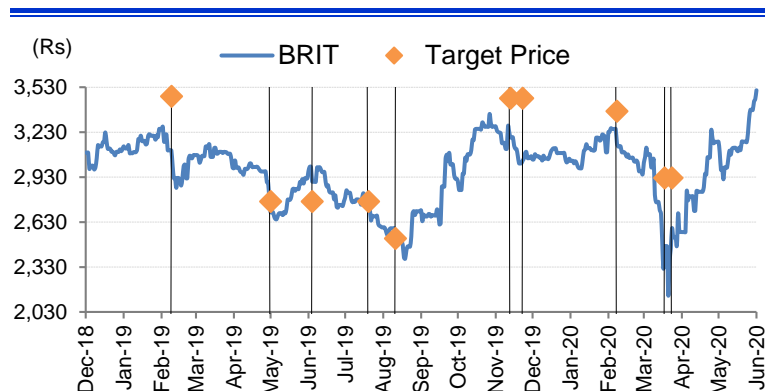
E – Estimates

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 (Rs.)	Price (Rs.)
Feb-19	Accumulate	3,469	3,108
May-19	Reduce	2,767	2,696
Jun-19	Reduce	2,767	2,901
Jul-19	Reduce	2,767	2,735
Aug-19	Reduce	2,521	2,512
Nov-19	Accumulate	3,457	3,196
Nov-19	Accumulate	3,457	3,041
Feb-20	Accumulate	3,370	3,156
Mar-20	Buy	2,925	2,468
Mar-20	Accumulate	2,925	2,588

*Price as on recommendation date

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