

View: Strong all-round performance. Maintain Buy

- Britannia's revenue, EBITDA and APAT were ahead of our estimate. Domestic volume growth at 21.5% was a beat.
- The company has reported highest revenue growth and margins at least in past 10 years.
- With ramp up in production, strong supply chain and distribution initiatives and focused marketing campaigns, the company was able to post unprecedented revenue growth.
- 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 upward revised our FY21E and FY22E EPS estimate to Rs 81.2 and Rs 82.2 respectively. We value the stock at 50x FY22E EPS, to arrive at a TP of Rs 4,097. Maintain Buy (Buy on dips).

Results exceeded our estimates

Net revenues grew 26.7% YoY to Rs 34.2bn-came above our estimates. All the adjacent businesses too delivered a healthy profitable growth. Gross margin increased by 120bps to 41.7%. Employee costs /other expenses declined 50/460 bps respectively benefiting from better operating efficiency. Consequently, EBITDA margin expanded 630bps to 21.0% - exhibiting a record high. EBITDA increased by 81.7% YoY to Rs 7.2bn. APAT increased 104.7% YoY to Rs 5,458mn. Early trends in July suggest that the growth is stable, implies possibility of high growth in the ensuing quarter.

Overall commodity inflation was ~3%

During Q1FY21, Britannia's GM expanded 150bps, inflation in key raw materials was completely offset by price hikes implemented in past few quarters. During the quarter key commodities such as sugar (+4%) and palm oil (+23%) saw inflation while prices of flour (-3%) and milk (-7%) remained benign. We expect raw material pressure from palm oil 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 17%+.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	34,207	27,004	26.7	28,677	19.3
Total Expense	27,037	23,057	17.3	24,134	12.0
EBITDA	7,169	3,947	81.7	4,543	57.8
Depreciation	480	448	7.1	485	(1.1)
EBIT	6,690	3,499	91.2	4,058	64.8
Other Income	937	675	38.9	786	19.2
Interest	256	101	153.6	270	(5.1)
EBT	7,370	3,916	88.2	4,572	61.2
Tax	1,944	1,430	35.9	849	128.9
RPAT	5,457	2,510	117.4	3,748	45.6
APAT	5,458	2,666	104.7	3,750	45.5
			(bps)		(bps)
Gross Margin (%)	41.7	40.4	124	39.7	198
EBITDA Margin (%)	21.0	14.6	634	15.8	512
NPM (%)	16.0	9.3	666	13.1	289
Tax Rate (%)	26.4	36.5	(1014)	18.6	780
EBIT Margin (%)	19.6	13.0	660	14.2	541

CMP	Rs 3,785
Target / Upside	Rs 4,097 / 8%
BSE Sensex	37,114
NSE Nifty	10,902

Script Details

Equity / FV	Rs 241mn / Rs 1
Market Cap	Rs 908bn
	USD 12bn
52-week High/Low	Rs 3,938/Rs 2,100
Avg. Volume (no)	1,012,060
NSE Symbol	BRITANNIA
Bloomberg Code	BRIT IN

Shareholding Pattern Jun'20(%)

Promoters	50.6
MF/Banks/FIs	13.1
FII	14.7
Public / Others	21.6

Valuation (x)

	FY20A	FY21E	FY22E
P/E	64.0	46.6	46.0
EV/EBITDA	50.0	36.7	35.7
ROE (%)	32.4	39.5	33.0
RoACE (%)	28.9	32.8	28.6

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	115,996	134,087	148,383
EBITDA	18,432	24,963	25,490
PAT	14,196	19,479	19,731
EPS (Rs.)	59.2	81.2	82.2

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Exhibit 1: Q1FY32 Actual V/s Estimates Variance

Rs mn	Actual	Estimates	Variance (%)	Comment
Revenue	34,207	32,029	6.8	Variation as distribution reach and consumption demand was higher than our estimate
EBITDA	7,169	4,822	48.7	
EBITDA margin %	21.0	15.1	590	Variation due to lower than estimated RM costs and media spends
APAT	5,458	3,504	55.7	

Source: Company, DART

Exhibit 1: Change in estimate

Rs Mn	FY21E			FY22E		
	New	Previous	Chg. (%)	New	Previous	Chg. (%)
Revenue	134,087	130,387	2.8	148,383	145,305	2.1
EBITDA	24,963	21,177	17.9	25,490	23,603	8.0
EBITDA Margin (%)	18.6	16.2	240bps	17.2	16.2	90bps
APAT	19,479	16,543	17.8	19,731	18,221	8.3
Adj EPS (Rs)	80.9	68.7	17.8	81.9	75.6	8.3

Source: DART, Company

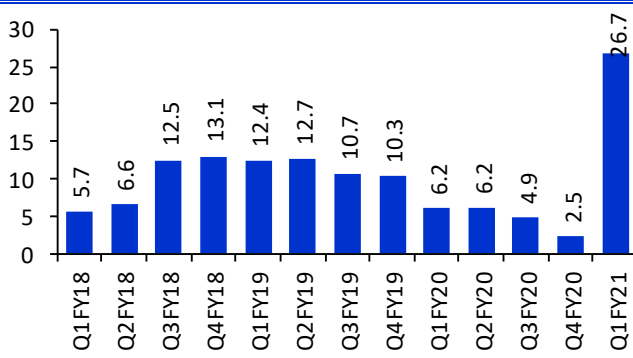
We have upward revised our revenue estimate to factor in higher growth in FY21E. We have increased our EBITDA estimate due to expected better revenue growth, lower A&SP spends and operational efficiencies. In line with growth in EBITDA, we have increased our APAT estimates.

Conference call Highlights

- Direct reach had dropped to 1.97mn outlets as of March'20 (2.1mn outlets in March'19). With continuous efforts, it improved to 2.15mn outlets as of June'20.
- Number of distributors in rural increased to ~22K in June'20 from 19K in Mar'20. This led to increase in market share in Hindi belt.
- Company launched two new products during the quarter- Winkin' cow lassi and Layer cake (Rs 5). Both these products received encouraging response.
- Company rationalized media spends (down 200 bps) considering the constraints of inventories due to higher market demand.
- Impact of product mix on gross margin was ~1%, rest was due to RM deflation.
- Middle East and Africa back to growth trajectory. Rest of International grew in double digits.
- Subsidiaries saw +60% growth led largely by dairy.
- Rusk and Bread grew faster than company's overall growth. Growth in dairy business was driven by strong growth in cheese sales.
- As per the management, rural contributes 37% to the company's topline.
- E-commerce (~1% contribution) surged by 300%.
- Britannia grew ahead of market in terms of growth because of strong executional edge over peers. Category growth in months of Apr and May was in double digit.
- Company may not grow at similar growth rate going ahead. However, it is not seeing significant downtrend in growth currently.
- Out of 26.5% revenue growth, 21.5% was volume growth, 2.5% price growth and 2.5% mix growth. Pricing action was last taken in Q3FY20.

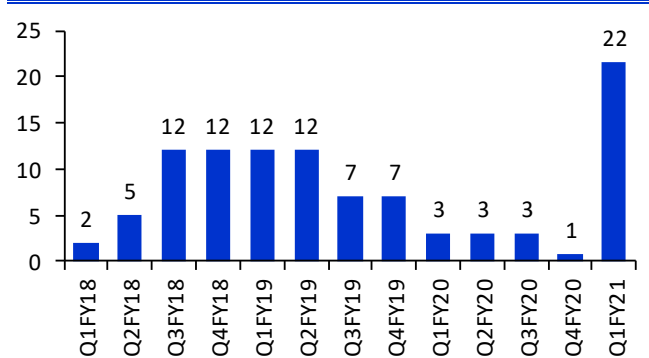
- Company expects to come up with better product mix by Q3FY21E.
- Dairy business is a major priority for Britannia. In 20 months, company is expected to start commercial production of its dairy project.
- Wafers is doing well; however, it took a backseat in first 2 months. It is investing in the wafer category with new production lines.
- Company is test marketing and fine tuning its salty snacks category. Company will come up with better marketing mix in next 6 months.
- Company will continue focus on rural and traditional trade channel.
- Traditional channel grew 30% higher than the overall company growth, as Britannia made significant progress in rural reach. Modern trade was severely hit due to closure of stores and malls.
- Group ICD was in the same range as total investments.
- Company is running a very tight inventory and replenishment system of 2-3 days currently. Earlier company used to have 11 days of stock totaling 40K tonnes in the system.
- Company is planning additional facilities in UP, Bihar, TN, Orissa. In next 2-3 years, company expects additional capex of Rs 7bn for expansion.

Exhibit 2: Trend in revenue growth (YoY %)



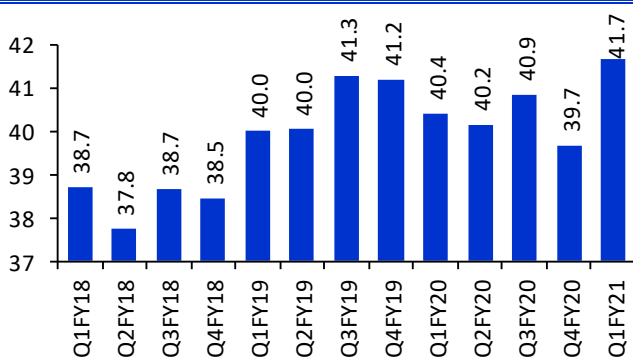
Source: DART, Company

Exhibit 3: Trend in domestic volume growth (YoY %)



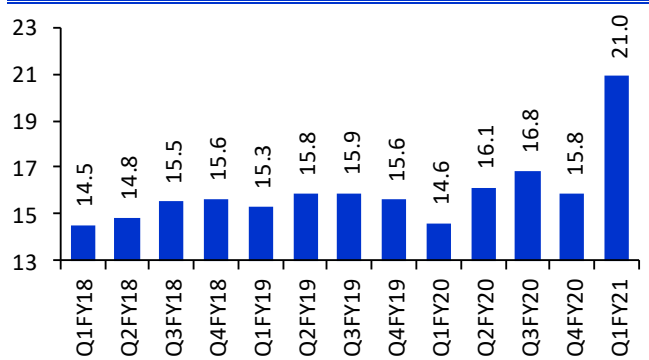
Source: DART, Company

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	134,087	148,383
Total Expense	93,213	97,564	109,124	122,893
COGS	65,615	69,275	80,255	89,121
Employees Cost	4,418	4,889	5,636	6,042
Other expenses	23,180	23,400	23,232	27,730
EBIDTA	17,334	18,432	24,963	25,490
Depreciation	1,619	1,848	2,043	2,277
EBIT	15,715	16,584	22,920	23,214
Interest	91	769	1,523	1,593
Other Income	2,065	2,794	3,873	3,951
Exc. / E.O. items	0	(170)	0	0
EBT	17,689	18,439	25,270	25,572
Tax	6,125	4,507	5,818	5,868
RPAT	11,591	14,026	19,479	19,731
Minority Interest	(27)	(95)	(27)	(27)
Profit/Loss share of associates	0	0	0	0
APAT	11,591	14,196	19,479	19,731

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	240	241	241	241
Minority Interest	327	357	334	312
Reserves & Surplus	42,292	43,788	54,255	64,854
Net Worth	42,533	44,028	54,495	65,094
Total Debt	1,560	15,139	15,139	15,139
Net Deferred Tax Liability	(99)	(756)	(756)	(756)
Total Capital Employed	44,321	58,768	69,213	79,789

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	29,399	38,531	47,441
Inventories	7,814	7,410	7,283	8,003
Receivables	3,942	3,204	4,218	4,624
Cash and Bank Balances	1,098	1,028	6,318	14,235
Loans and Advances	14,910	13,399	16,354	16,221
Other Current Assets	1,858	4,359	4,359	4,359
Less: Current Liabilities & Provisions	17,960	18,577	20,271	21,378
Payables	11,405	11,162	12,584	13,223
Other Current Liabilities	6,555	7,415	7,687	8,155
sub total				
Net Current Assets	11,663	10,822	18,260	26,063
Total Assets	44,321	58,768	69,213	79,789

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	40.6	40.3	40.1	39.9
EBIDTA Margin	15.7	15.9	18.6	17.2
EBIT Margin	14.2	14.3	17.1	15.6
Tax rate	34.6	24.4	23.0	22.9
Net Profit Margin	10.5	12.1	14.5	13.3
(B) As Percentage of Net Sales (%)				
COGS	59.4	59.7	59.9	60.1
Employee	4.0	4.2	4.2	4.1
Other	21.0	20.2	17.3	18.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.3	0.3	0.2
Interest Coverage	172.9	21.6	15.1	14.6
Inventory days	26	23	20	20
Debtors days	13	10	11	11
Average Cost of Debt	5.1	9.2	10.1	10.5
Payable days	38	35	34	33
Working Capital days	39	34	50	64
FA T/O	6.5	6.2	6.8	7.3
(D) Measures of Investment				
AEPS (Rs)	48.3	59.2	81.2	82.2
CEPS (Rs)	55.0	66.9	89.7	91.7
DPS (Rs)	14.8	18.0	37.6	38.1
Dividend Payout (%)	30.6	30.5	46.3	46.3
BVPS (Rs)	177.2	183.5	227.1	271.2
RoANW (%)	30.3	32.4	39.5	33.0
RoACE (%)	29.0	28.9	32.8	28.6
RoAIC (%)	40.6	32.9	38.0	36.1
(E) Valuation Ratios				
CMP (Rs)	3785	3785	3785	3785
P/E	78.4	64.0	46.6	46.0
Mcap (Rs Mn)	908,400	908,400	908,400	908,400
MCap/ Sales	8.2	7.8	6.8	6.1
EV	908,862	922,511	917,221	909,304
EV/Sales	8.2	8.0	6.8	6.1
EV/EBITDA	52.4	50.0	36.7	35.7
P/BV	21.4	20.6	16.7	14.0
Dividend Yield (%)	0.4	0.5	1.0	1.0
(F) Growth Rate (%)				
Revenue	11.5	4.9	15.6	10.7
EBITDA	15.4	6.3	35.4	2.1
EBIT	15.6	5.5	38.2	1.3
PBT	16.5	4.2	37.1	1.2
APAT	15.4	22.5	37.2	1.3
EPS	15.4	22.5	37.2	1.3
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	12,742	15,566	20,875	23,691
CFI	(9,724)	(15,707)	(5,050)	(5,050)
CFF	(3,784)	71	(10,535)	(10,725)
FCFF	8,748	13,125	17,825	20,641
Opening Cash	1,864	1,098	1,028	6,318
Closing Cash	1,098	1,028	6,318	14,235

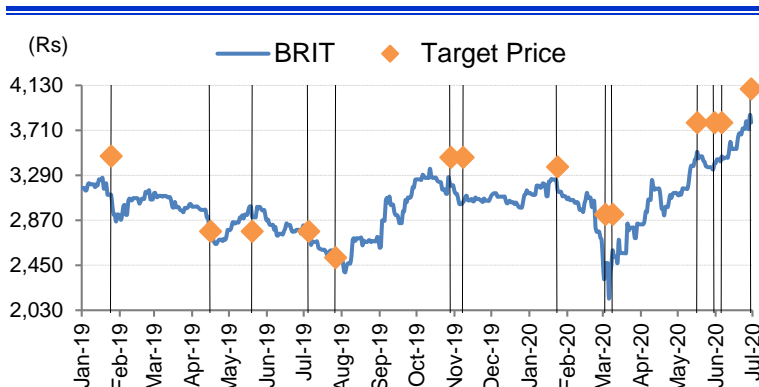
E – Estimates

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
Jun-20	Buy	3,782	3,510
Jun-20	Buy	3,782	3,401
Jun-20	Buy	3,782	3,467

*Price as on recommendation date

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