

Britannia Industries

Refer to important disclosures at the end of this report

Biscuits beat crisis

CMP: Rs 3,785

as of (July 17, 2020)

TP: Rs 4,500 (▲)

12 months

Rating: BUY (■)

Upside: 18.9%

We appreciate your support in the [Asiamoney Brokers Poll 2020](#)

- Beating estimates, Britannia reported a strong quarter, with 26% growth in sales and 110% in PAT. Volumes grew 22% and operating margin expanded 640bps led by a better mix, efficiency gains and reduced ad spends, boosting PAT – 36% above estimates.
- BRIT remains the biggest beneficiary of increased in-home consumption (as highlighted in [Keep Munching](#)) and offers strongest growth outlook. Continuing growth momentum in core portfolio is positive and we believe that the strong opportunity to scale up adjacencies can further improve growth outlook.
- While some of the margin gains may be temporary, softer input prices, savings in discretionary spends and stronger growth can still offer a solid margin expansion ahead. We factor in a ~200bps margin gain for quarters ahead, driving 290bps expansion in FY21.
- BRIT remains our high conviction Buy. We increase FY21-23 estimates again by 11-17% and TP to Rs4,500 (from Rs3,960), rolling forward to Sept-22 EPS. Valuations at 42x FY22 EPS are still attractive given further upsides to earnings.

Strong performance; volume growth of 22%: Standalone sales grew 25% and subsidiaries grew 66%, driving consolidated sales growth to 27%. Volumes grew 22% with pricing and mix led growth at 2-3% each. BRIT continues to benefit from increased in-home consumption and growth trends remain strong. Focus on the larger and profitable brands led to a stronger mix, which may moderate as it starts increasing the variety of offerings. Management attributed its strong performance to a quick ramp-up in manufacturing, expansion in rural reach, a strong direct reach with gains in traditional trade, and faster distribution that has led to market share gains. This highlights management's strong execution capabilities, which should sustain most of the gains ahead. With higher than expected growth, capex will be stepped up to Rs7bn for bakery and additional capex for dairy over the next 2-3years.

Margin gains supported by increasing cost efficiency and lower ad spends: Gross margin expanded 120bps YoY led by a better mix. EBITDA margin expansion was stronger at 630bps led by higher growth, reduced ad spends (~200bps lower), efficiency gains in manufacturing and supply chains, and lower wastages. The increase in ad spends and lower efficiency gains from manufacturing and a wider portfolio may reduce margin gains ahead. However, softer input inflation, stronger growth and savings across discretionary spends will still offer plenty of margin gains.

Raise earnings by 11-17%; reiterate conviction Buy: BRIT remains our high conviction Buy. We increase FY21-23 estimates again by 11-17% and TP to Rs4,500 (from Rs3,960), rolling forward to Sept-22 EPS. Valuations at 43x FY22 EPS are still attractive given further upsides to earnings.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail \(page 8\)](#)

Financial Snapshot (Consolidated)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,10,547	1,15,996	1,36,714	1,48,861	1,66,229
EBITDA	17,334	18,432	25,684	27,250	30,999
EBITDA Margin (%)	15.7	15.9	18.8	18.3	18.6
APAT	11,555	14,106	19,833	21,371	24,652
EPS (Rs)	48.1	58.8	82.6	89.0	102.7
EPS (% chg)	15.1	22.1	40.6	7.8	15.4
ROE (%)	30.2	32.6	40.4	35.9	34.6
P/E (x)	78.7	64.4	45.8	42.5	36.9
EV/EBITDA (x)	52.0	49.5	35.3	32.9	28.6
P/BV (x)	21.4	20.6	16.7	14.0	11.7

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	17.2/11.2
Target Price change (%)	13.6
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	82.6	89.0
Consensus	69.2	77.4
Mean Consensus TP (12M)	Rs 3,710	

Stock Details

Bloomberg Code	BRIT IN
Face Value (Rs)	1
Shares outstanding (mn)	241
52 Week H/L	3,938 / 2,100
M Cap (Rs bn/USD bn)	911 / 12.14
Daily Avg Volume (nos.)	9,75,787
Daily Avg Turnover (US\$ mn)	42.9

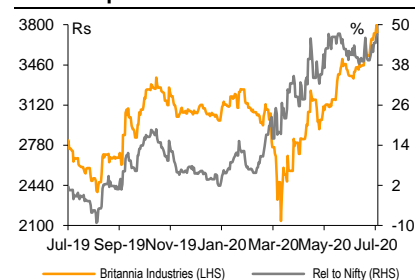
Shareholding Pattern Mar '20

Promoters	50.6%
FIIs	14.7%
DIIIs	13.4%
Public and Others	21.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	11	34	21	35
Rel. to Nifty	1	14	37	45

Relative price chart



Source: Bloomberg

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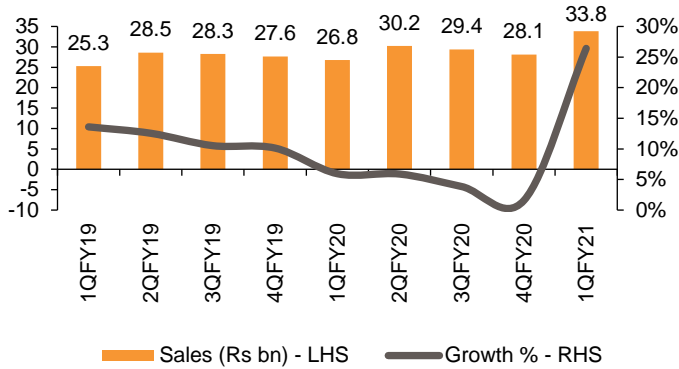
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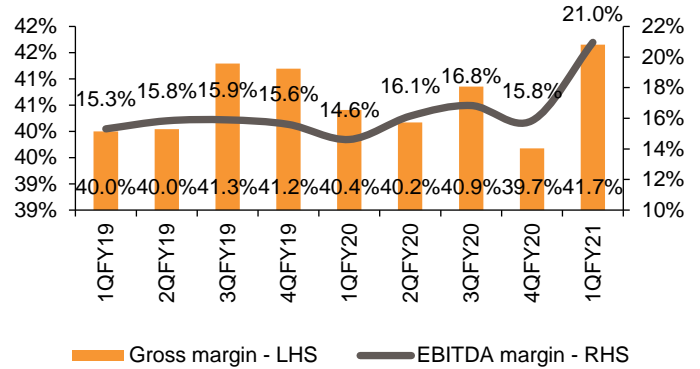
Story in Charts

Exhibit 1: Big jump in growth led by higher in-home consumption and market share gains



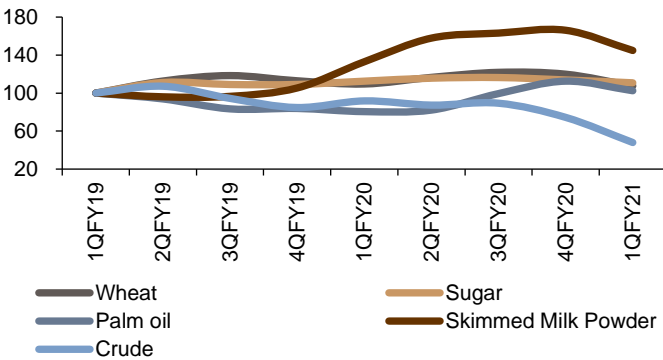
Source: Company, Emkay Research

Exhibit 2: Strong margin expansion led by multiple drivers



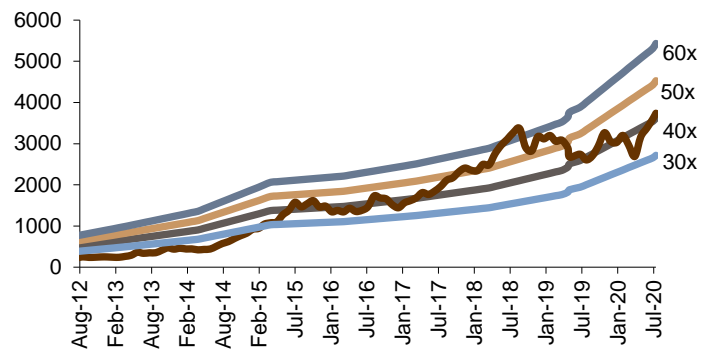
Source: Company, Emkay Research

Exhibit 3: Input inflation turning soft across most commodities



Source: Company, Emkay Research

Exhibit 4: One-year forward P/E band chart



Source: Company, Emkay Research

Exhibit 5: Actual vs. Estimates (Q1FY21)

Rs mn	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Revenues	34,207	32,700	32,649	4.6%	4.8%	Sales growth driven by volume growth of 22%
EBITDA	7,169	5,347	5,622	34.1%	27.5%	
EBITDA Margin (%)	21.0%	16.4%	17.2%	461	374	Margins expand higher than expected due to lower ad spends, cost efficiencies
APAT	5,427	3,995	4,169	35.9%	30.2%	

Source: Company, Emkay Research

Exhibit 6: Quarterly Performance (Consolidated)

Y/E, Mar (Rs. m)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)
Revenue	27,003	30,488	29,827	28,677	34,207	26.7	19.3
Expenditure	23,057	25,566	24,806	24,134	27,037	17.3	12.0
Consumption of RM	16,092	18,241	17,642	17,300	19,959	24.0	15.4
as % of sales	59.6%	59.8%	59.1%	60.3%	58.3%		
Employee Cost	1,206	1,236	1,216	1,209	1,370	13.6	13.3
as % of sales	4.5%	4.1%	4.1%	4.2%	4.0%		
Other expenditure	5,760	6,089	5,949	5,625	5,709	-0.9	1.5
as % of sales	21.3%	20.0%	19.9%	19.6%	16.7%		
EBITDA	3,947	4,922	5,020	4,543	7,169	81.7	57.8
Depreciation	448	449	467	485	480	7.1	-1.1
EBIT	3,499	4,473	4,553	4,058	6,690	91.2	64.8
Other Income	675	682	652	786	937	38.9	19.2
Interest	101	161	237	270	256	153.6	-5.1
Exceptional Items	-156	-11	0	-3	-1		
PBT	4,228	5,005	4,969	4,577	7,371	74.3	61.0
Total Tax	1,430	955	1,273	849	1,944	35.9	128.9
PAT	2,798	4,050	3,696	3,728	5,428	94.0	45.6
Share of Associate	2.0	0.1	3.0	1.1	1.0	-50.0	-9.1
Minority Interest	0	0	0	0	0		
PAT after MI	2,800	4,050	3,699	3,729	5,429	93.9	45.6
Adjusted PAT	2,587	4,036	3,699	3,726	5,427	109.8	45.7
Adjusted EPS	10.8	16.8	15.4	15.5	22.6	109.5	45.6

Margins (%)						(bps)	(bps)
Gross Margin	40.4	40.2	40.9	39.7	41.7	120	200
EBIDTA	14.6	16.1	16.8	15.8	21.0	630	510
EBIT	13.0	14.7	15.3	14.2	19.6	660	540
EBT	15.7	16.4	16.7	16.0	21.5	590	560
PAT	9.6	13.2	12.4	13.0	15.9	630	290
Effective Tax rate	33.8	19.1	25.6	18.6	26.4	-750	780

Source: Company, Emkay Research

Exhibit 7: Revision in earnings' estimates

Y/E, Mar (Rs. mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	1,31,033	1,36,714	4.3	1,44,693	1,48,861	2.9	1,60,564	1,66,229	3.5
EBITDA	22,570	25,684	13.8	25,310	27,250	7.7	28,564	30,999	8.5
EBITDA Margin (%)	17.2	18.8	160 bps	17.5	18.3	80 bps	17.8	18.6	90 bps
APAT	16,923	19,833	17.2	19,224	21,371	11.2	22,062	24,652	11.7
EPS (Rs)	70.5	82.6	17.2	80.1	89.0	11.2	91.9	102.7	11.7

Source: Company, Emkay Research

Exhibit 8: Revenue Assumptions

	FY19	FY20	FY21E	FY22E	FY23E
Domestic Revenue (Rs mn)	1,04,825	1,09,867	1,28,840	1,40,189	1,56,679
<i>Growth</i>	13%	5%	17%	9%	12%
Subsidiaries (Rs mn)	5,722	6,129	7,874	8,672	9,550
<i>Growth</i>	-6%	7%	28%	10%	10%
Total Revenue (Rs mn)	1,10,547	1,15,996	1,36,714	1,48,861	1,66,229
<i>Growth</i>	12%	5%	18%	9%	12%

Source: Company, Emkay Research

Exhibit 9: Relative Valuation

Companies	Price (Rs)	Mcap (Rs bn)	Reco	Target Price (Rs)	EPS (Rs)			P/E (x)			EV / EBITDA (x)		
					FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Asian Paints	1,718	1,648	Hold	1,625	28.9	37.0	42.0	59.4	46.4	40.9	37.2	29.7	26.2
Berger Paints	519	504	Sell	430	7.6	9.5	11.1	68.3	54.5	46.8	42.3	34.4	29.6
Britannia	3,785	911	Buy	4,500	82.6	89.0	102.7	45.8	42.5	36.9	35.4	33.0	28.7
Colgate	1,426	388	Buy	1,500	31.3	35.6	39.9	45.6	40.1	35.8	29.3	26.0	23.3
Dabur	491	867	Hold	465	9.8	11.2	12.7	50.1	44.0	38.8	41.3	35.4	31.0
Emami	244	109	Hold	240	10.9	12.1	13.4	22.3	20.1	18.2	14.7	12.8	11.3
GCPL	701	716	Hold	600	15.6	17.6	19.9	44.9	39.8	35.2	31.0	27.7	24.6
HUL	2,335	5,481	Hold	2,300	37.2	43.5	49.4	62.8	53.6	47.2	48.1	41.3	36.3
ITC	194	2,385	Buy	240	10.4	12.8	14.2	18.7	15.2	13.6	13.9	11.1	10.0
Marico	355	458	Hold	320	8.5	9.5	10.5	41.6	37.4	34.0	29.0	26.3	23.7
Nestle	17,230	1,661	Sell	15,000	235.7	275.9	315.8	73.1	62.5	54.6	52.1	44.9	39.6
Pidilite	1,393	708	Sell	1,170	23.6	27.4	31.0	58.9	50.9	44.9	41.8	36.1	31.7
Radico Khaitan	391	52	Buy	460	18.7	22.7	26.5	20.9	17.2	14.8	12.9	10.8	9.2
United Breweries	984	260	Buy	1,160	11.8	22.8	27.9	83.3	43.3	35.3	34.7	22.6	19.1
United Spirits	605	439	Buy	650	11.9	15.3	18.3	50.8	39.6	33.1	30.4	24.8	21.2

Source: Company, Emkay Research

Key Financials (Consolidated)

Income Statement

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	1,10,547	1,15,996	1,36,714	1,48,861	1,66,229
Expenditure	93,213	97,564	1,11,030	1,21,611	1,35,230
EBITDA	17,334	18,432	25,684	27,250	30,999
Depreciation	1,619	1,848	1,957	2,114	2,342
EBIT	15,715	16,584	23,727	25,135	28,657
Other Income	2,065	2,794	4,044	4,664	5,338
Interest expenses	91	769	970	920	682
PBT	17,689	18,609	26,801	28,879	33,313
Tax	6,125	4,507	6,968	7,509	8,661
Extraordinary Items	0	(170)	0	0	0
Minority Int./Income from Assoc.	(10)	4	0	0	0
Reported Net Income	11,555	13,936	19,833	21,371	24,652
Adjusted PAT	11,555	14,106	19,833	21,371	24,652

Balance Sheet

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity share capital	240	241	241	241	241
Reserves & surplus	42,292	43,788	54,017	64,583	77,230
Net worth	42,533	44,028	54,257	64,823	77,470
Minority Interest	327	357	357	357	357
Loan Funds	1,380	15,141	15,141	15,141	7,941
Net deferred tax liability	263	(279)	(279)	(279)	(279)
Total Liabilities	44,502	59,247	69,476	80,042	85,489
Net block	16,883	18,782	20,325	21,911	23,368
Investment	14,763	28,932	28,932	28,932	28,932
Current Assets	29,252	29,429	40,272	51,016	57,527
Cash & bank balance	1,098	1,229	7,914	16,437	19,236
Other Current Assets	2,906	2,160	2,236	2,369	2,560
Current liabilities & Provision	17,408	18,292	20,449	22,212	24,734
Net current assets	11,844	11,137	19,823	28,803	32,792
Misc. exp	0	0	0	0	0
Total Assets	44,502	59,247	69,476	80,042	85,489

Cash Flow

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
PBT (Ex-Other income) (NI+Dep)	15,625	15,815	22,757	24,215	27,975
Other Non-Cash items	0	0	0	0	0
Chg in working cap	(2,648)	296	(2,000)	(457)	(1,190)
Operating Cashflow	10,616	16,849	20,759	23,948	26,486
Capital expenditure	(4,030)	(3,130)	(3,500)	(3,700)	(3,800)
Free Cash Flow	6,586	13,719	17,259	20,248	22,686
Investments	(3,970)	(14,170)	0	0	0
Other Investing Cash Flow	(2,043)	(2,708)	(4,044)	(4,664)	(5,338)
Investing Cashflow	(7,978)	(17,214)	(3,500)	(3,700)	(3,800)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(402)	13,760	0	0	(7,200)
Dividend paid (incl tax)	(3,734)	(4,457)	(9,604)	(10,805)	(12,005)
Other Financing Cash Flow	823	(8,040)	0	0	0
Financing Cashflow	(3,404)	495	(10,574)	(11,725)	(19,887)
Net chg in cash	(766)	130	6,685	8,523	2,799
Opening cash position	1,864	1,098	1,229	7,914	16,437
Closing cash position	1,098	1,229	7,914	16,437	19,236

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY19	FY20	FY21E	FY22E	FY23E
EBITDA Margin	15.7	15.9	18.8	18.3	18.6
EBIT Margin	14.2	14.3	17.4	16.9	17.2
Effective Tax Rate	34.6	24.2	26.0	26.0	26.0
Net Margin	10.5	12.2	14.5	14.4	14.8
ROCE	44.1	37.4	43.1	39.9	41.1
ROE	30.2	32.6	40.4	35.9	34.6
RoIC	64.1	58.9	77.9	75.6	80.5

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	48.1	58.8	82.6	89.0	102.7
CEPS	54.9	66.4	90.8	97.8	112.4
BVPS	177.1	183.4	226.0	270.0	322.7
DPS	12.5	15.0	40.0	45.0	50.0

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	78.7	64.4	45.8	42.5	36.9
P/CEPS	69.0	57.0	41.7	38.7	33.7
P/BV	21.4	20.6	16.7	14.0	11.7
EV / Sales	8.2	8.0	6.7	6.1	5.4
EV / EBITDA	52.0	49.5	35.3	32.9	28.6
Dividend Yield (%)	0.3	0.4	1.1	1.2	1.3

Gearing Ratio (x)	FY19	FY20	FY21E	FY22E	FY23E
Net Debt/ Equity	(0.2)	0.1	(0.1)	(0.2)	(0.3)
Net Debt/EBIDTA	(0.4)	0.2	(0.1)	(0.4)	(0.7)
Working Cap Cycle (days)	35.5	31.2	31.8	30.3	29.8

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
Revenue	11.5	4.9	17.9	8.9	11.7
EBITDA	15.4	6.3	39.3	6.1	13.8
EBIT	15.6	5.5	43.1	5.9	14.0
PAT	15.1	20.6	42.3	7.8	15.4

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Revenue	27,003	30,488	29,827	28,677	34,207
EBITDA	3,947	4,922	5,020	4,543	7,169
EBITDA Margin (%)	14.6	16.1	16.8	15.8	21.0
PAT	2,488	4,027	3,699	3,724	5,427
EPS (Rs)	10.4	16.8	15.4	15.5	22.6

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoters	50.7	50.7	50.7	50.6	50.6
FIs	15.8	15.7	15.2	15.8	14.7
DIs	12.4	13.1	13.6	13.6	13.4
Public and Others	21.2	20.5	20.6	20.0	21.3

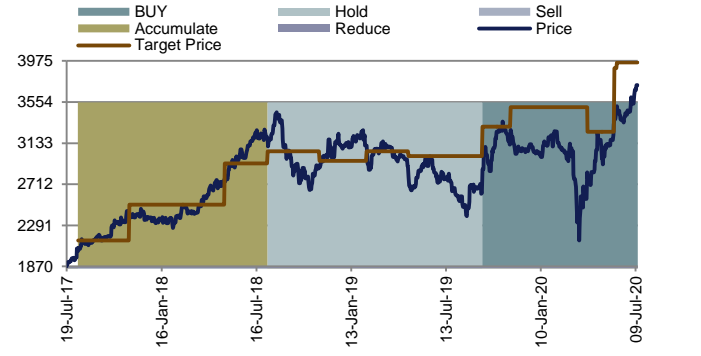
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
03-Jun-20	3,510	3,960	12m	Buy	Ashit Desai
29-May-20	3,379	3,900	12m	Buy	Ashit Desai
14-Apr-20	2,706	3,250	12m	Buy	Ashit Desai
08-Apr-20	2,776	3,250	12m	Buy	Ashit Desai
03-Mar-20	3,027	3,500	12m	Buy	Ashit Desai
10-Feb-20	3,156	3,500	12m	Buy	Ashit Desai
25-Dec-19	3,091	3,500	12m	Buy	Ashit Desai
13-Nov-19	3,270	3,500	12m	Buy	Ashit Desai
20-Sep-19	2,867	3,300	12m	Buy	Ashit Desai
02-May-19	2,783	3,000	12m	Hold	Ashit Desai
09-Apr-19	2,963	3,050	12m	Hold	Ashit Desai
11-Feb-19	3,108	3,050	12m	Hold	Ashit Desai
31-Dec-18	3,115	2,950	12m	Hold	Ashit Desai
13-Nov-18	2,906	2,950	12m	Hold	Ashit Desai
06-Aug-18	3,163	3,050	12m	Hold	Ashit Desai
16-May-18	2,771	2,925	12m	Accumulate	Ashit Desai
15-Nov-17	2,375	2,502	12m	Accumulate	Amit Purohit
09-Aug-17	2,029	2,138	12m	Accumulate	Amit Purohit

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – Consumer Goods & Retail



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Sector

Consumer Goods & Retail

Analyst bio

Ashit Desai holds a PGDM and FRM (US GARP) with 12 years of research experience on the sell side. His team currently covers 24 stocks in the Indian Consumer and Retail space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
Consumer Goods & Retail	13.24	13.24	0%	0	100.00
Asian Paints	1.33	0.59	-56%	-74	4.42
Berger Paints	0.21	0.00	-100%	-21	0.00
Britannia Industries	0.79	1.36	73%	57	10.28
Colgate-Palmolive	0.32	0.50	54%	17	3.74
Dabur India	0.48	0.40	-17%	-8	3.00
Emami	0.09	0.00	-100%	-9	0.00
Godrej Consumer Products	0.46	0.00	-100%	-46	0.00
Hindustan Unilever	3.55	2.95	-17%	-60	22.24
ITC	2.87	3.46	21%	59	26.15
Marico	0.31	0.27	-12%	-4	2.07
Nestle India	1.08	0.82	-24%	-26	6.20
Pidilite Industries	0.37	0.00	-100%	-37	0.00
Radico Khaitan	0.00	0.29	NA	29	2.23
United Breweries	0.12	0.49	320%	37	3.70
United Spirits	0.00	0.40	NA	40	3.04
Varun Beverages	0.10	0.35	239%	25	2.64
ABFRL	0.06	0.21	243%	15	1.61
Jubilant FoodWorks	0.22	0.26	17%	4	1.95
Page Industries	0.19	0.00	-100%	-19	0.00
Shoppers Stop	0.00	0.00	NA	0	0.00
Titan Company	0.70	0.89	28%	19	6.73
Cash	0.00	0.00	NA	0	0.0

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

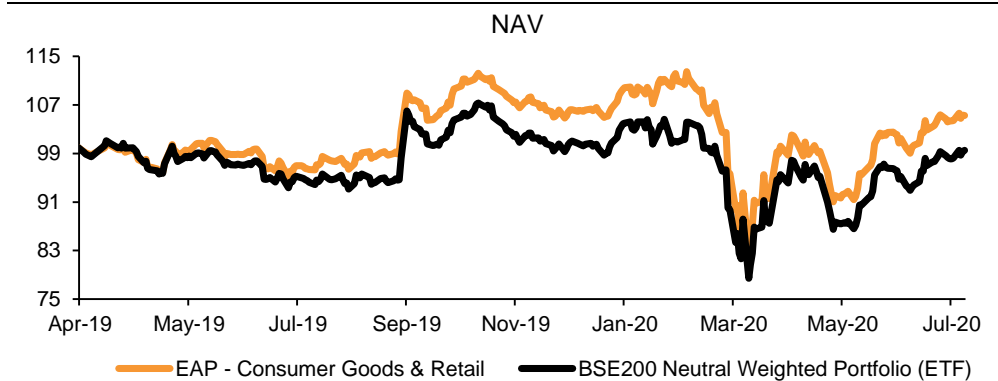
Sector portfolio NAV

	Base					Latest
	1-Apr-19	15-Oct-19	16-Jan-20	16-Apr-20	16-Jun-20	16-Jul-20
EAP - Consumer Goods & Retail	100.0	107.5	109.6	101.9	99.4	105.3
BSE200 Neutral Weighted Portfolio (ETF)	100.0	102.8	103.9	97.7	93.4	99.5

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 18 Jul 2020 02:50:03 (SGT)

Dissemination Date: 18 Jul 2020 02:51:03 (SGT)

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