

Britannia Industries

Refer to important disclosures at the end of this report

Outperformance likely to continue; reiterate Buy

CMP: Rs 3,625
as of (September 23, 2020)

TP: Rs 4,500 (■)
12 months

Rating: BUY (■)

Upside: 24.1 %

- After a 10% correction, BRIT offers an attractive entry opportunity, given strong growth and earnings outlook vs. peers. Channel checks point to strong growth momentum - ahead of peers - driven by increased at-home consumption and share gains.
- Concerns about likely slowdown in growth as the economy opens up appear unwarranted. We have also built in some moderation (9% growth in FY22E) but believe that benefits of share gains from unorganized players and shift to packaged food will stay longer. 15-year trends indicate BRIT has delivered double-digit growth after every year of high growth.
- Gross margin outlook has improved further with recent 10% correction in wheat prices. Q1 margins were significantly higher, led by multiple drivers. While ad spends may increase, lower input prices, cost efficiencies and cut in discretionary spends offer plenty of upsides.
- BRIT continues to be our preferred pick benefiting from tailwinds and strong execution (highlighted in our note [Keep Munching](#)). Valuations at 40x FY22E EPS appear attractive given 20% earnings CAGR over FY20-23E. Reiterate Buy with a TP of Rs4,500.

Volume trends still appear to be strong led by increased at-home consumption and share gains: Britannia continues to benefit from strong category tailwinds led by stronger at-home consumption, shift to packaged food and margin benefits (highlighted in our earlier note [Keep Munching](#)). Our channel checks indicate some moderation in growth vs. the surge in Q1 (26% growth). However, growth still appears to be in strong double-digits and is in line/higher than our expectations and better than peers. Compared to Q1, supply-chain constraints have eased, with all players now manufacturing the entire portfolio and SKUs. This may improve mix marginally but also reduce Q1 manufacturing efficiencies.

Concerns about growth slowdown unwarranted; share gains and shift to packaged food should continue: Investors seem to be concerned about BRIT's growth slowing down substantially as the economy opens up. We have also built in some moderation but believe that growth will stay in double-digits as some benefits of share gains from competitors/small players and shift to branded/packaged food from the unbranded segment led by increased hygiene would stay and continue to drive future growth. Last 15-year growth trends also indicate that BRIT has delivered double-digit growth in every subsequent year of a high-growth year, indicating that the benefits of category tailwinds tend to stay longer.

Commodity softening may drive more upsides: Gross margin outlook has improved further with wheat prices declining 10% recently and 15% YoY (10% decline in wheat prices can drive 150bps expansion in margins). Crude and milk prices are also lower, which should offset inflation in palm oil and can drive higher margins. Q1 operating margins were significantly higher (up 640bps), driven by manufacturing efficiencies, lower ad spends and savings in discretionary costs. While ad spends may increase, lower input costs and cost savings should continue to drive gains.

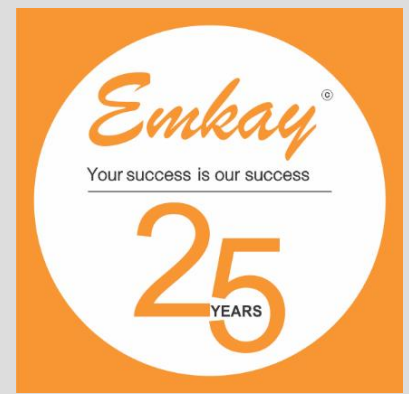
After recent correction, BRIT offers good entry opportunity: Post the recent correction, BRIT now trades at 40x FY22E EPS, which appears attractive given strong volume trends and margin gains. High dividend payout is likely to have a marginal impact on our FY21-23 estimates. We forecast 20% earnings CAGR over FY20-23E. BRIT still offers the best growth and earnings outlook in staples, and remains our preferred pick. Reiterate Buy with a TP of Rs4,500, based on 47x Sept-22 EPS.

Please see our sector model portfolio (Emkay Alpha Portfolio): [Consumer Goods & Retail \(Page 7\)](#)

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)	75.3	61.7	43.9	40.7	35.3
EV/EBITDA (x)	49.8	47.4	33.8	31.5	27.4
P/BV (x)	20.5	19.8	16.0	13.4	11.2

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	-/-
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY21E	FY22E
Emkay	82.6	89.0
Consensus	78.0	83.1
Mean Consensus TP (12M)	Rs 4,123	

Stock Details

Bloomberg Code	BRIT IN
Face Value (Rs)	1
Shares outstanding (mn)	241
52 Week H/L	4,015 / 2,100
M Cap (Rs bn/USD bn)	873 / 11.86
Daily Avg Volume (nos.)	7,70,681
Daily Avg Turnover (US\$ mn)	39.6

Shareholding Pattern Jun '20

Promoters	50.6%
FIIIs	14.7%
DIIIs	12.7%
Public and Others	22.1%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(7)	5	70	19
Rel. to Nifty	(5)	(2)	16	24

Relative price chart



Source: Bloomberg

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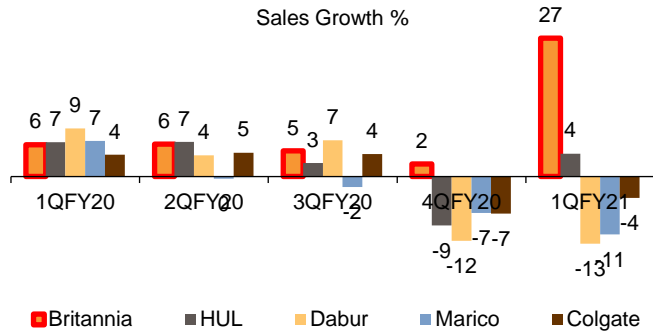
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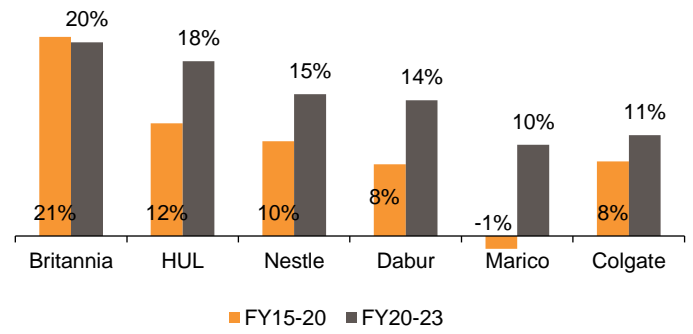
Story in Charts

Exhibit 1: Sales growth acceleration to continue; channel checks point to continued outperformance vs. peers



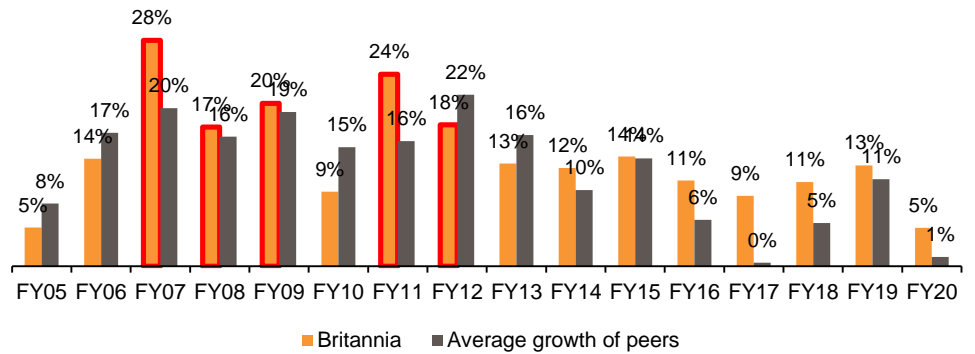
Source: Company reports, Emkay Research

Exhibit 2: BRIT has consistently delivered earnings growth ahead of peers; category tailwinds will keep growth momentum strong



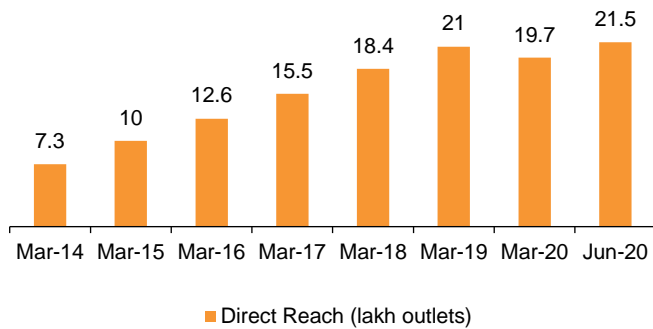
Source: Company reports, Emkay Research

Exhibit 3: Last 15-year trends indicate BRIT has delivered double-digit growth even after a strong year; benefits of share gains and shift to packaged foods may stay longer



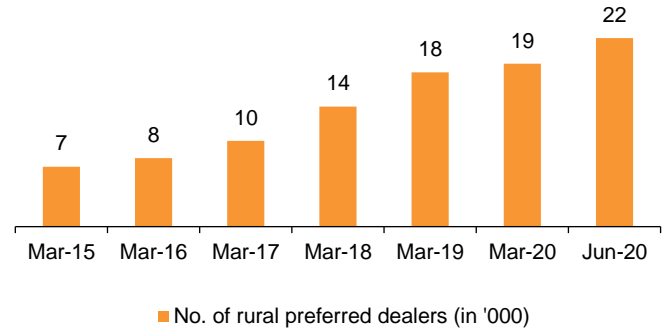
Source: Emkay Research, Company; HUL, Dabur, Marico and Colgate included in average growth

Exhibit 4: BRIT's execution has been impressive; direct reach expanded despite Covid-19



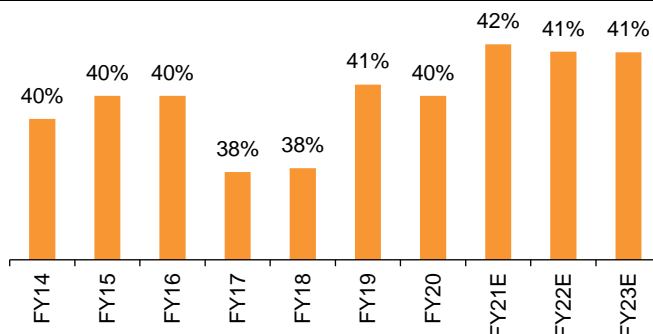
Source: Company, Emkay Research

Exhibit 5: Rural expansion also continued, driving higher growth and share gains



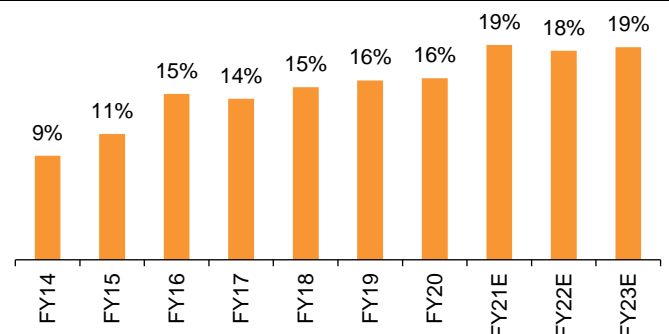
Source: Company, Emkay Research

Exhibit 6: Gross margins have been flat for last few years due to higher input prices and competition; softening commodity prices and low competition should drive improvement



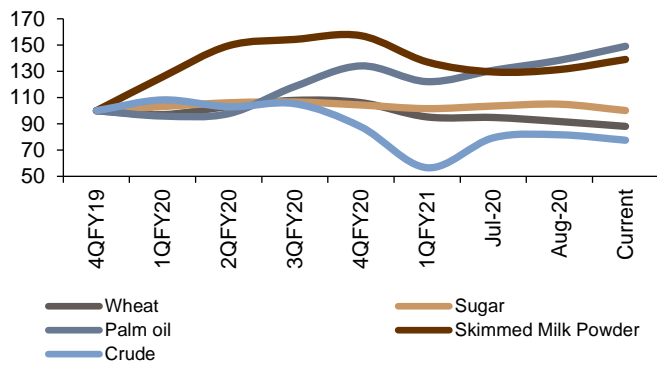
Source: Company, Emkay Research

Exhibit 7: Margin expansion has been steady driven by cost savings and efficiencies which are expected to see an acceleration



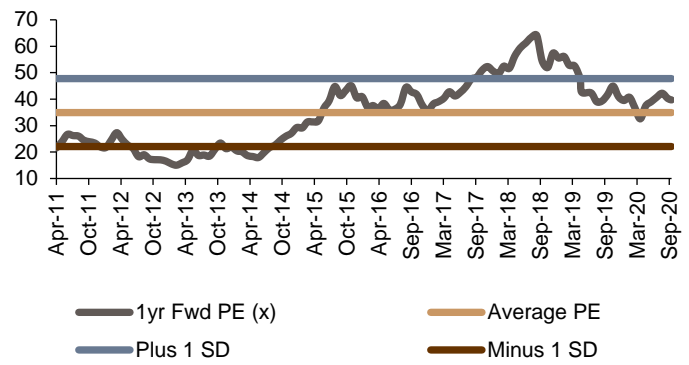
Source: Company, Emkay Research

Exhibit 8: Excluding palm oil, all commodities have corrected, aiding gross margin expansion



Source: Bloomberg, Emkay Research

Exhibit 9: After correction, BRIT is now at 10-yr mean and at a discount to peers



Source: Bloomberg, Emkay Research

Exhibit 10: Recent underperformance is surprising despite the strong growth outlook and earnings upgrades

Stock Performance	1 month	3 months	6 months	1 year
Britannia	-8%	3%	68%	17%
HUL	-8%	-6%	8%	-1%
Dabur	0%	7%	24%	12%
Marico	-8%	3%	44%	-10%
GCPL	0%	3%	57%	3%
Colgate	-5%	-5%	23%	-12%
Nestle	-8%	-8%	17%	11%
Emami	2%	62%	122%	8%

Source: Company, Emkay Research

Exhibit 11: 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	1,947	1,867	Hold	1,670	29.0	37.1	42.1	67.1	52.5	46.3	42.2	33.8	29.9
Berger Paints	571	554	Sell	450	7.6	9.5	11.1	75.2	60.0	51.5	46.6	38.0	32.7
Britannia	3,625	873	Buy	4,500	82.6	89.0	102.7	43.9	40.7	35.3	33.9	31.6	27.5
Colgate	1,354	368	Buy	1,590	31.9	36.3	40.7	42.4	37.3	33.3	27.3	24.2	21.7
Dabur	486	859	Hold	500	10.0	11.7	13.2	48.5	41.7	36.8	39.1	32.7	28.6
Emami	367	163	Hold	270	11.4	12.6	13.9	32.1	29.2	26.5	22.0	19.6	17.4
GCPL	679	694	Hold	645	15.6	17.6	19.9	43.5	38.5	34.1	30.0	26.8	23.8
HUL	2,053	4,823	Hold	2,300	36.3	44.5	51.8	56.6	46.1	39.6	39.8	32.5	28.0
ITC	173	2,123	Buy	255	10.6	13.2	14.6	16.3	13.1	11.8	12.0	9.5	8.5
Marico	340	439	Hold	350	8.8	9.9	10.9	38.8	34.5	31.1	26.9	23.9	21.5
Nestle	15,366	1,482	Sell	15,600	235.7	275.9	315.8	65.2	55.7	48.7	46.3	40.0	35.2
Pidilite	1,421	722	Sell	1,200	23.6	27.4	31.0	60.1	51.9	45.8	42.7	36.8	32.4
Radico Khaitan	414	55	Buy	500	18.7	22.7	26.5	22.2	18.2	15.6	13.7	11.5	9.8
United Breweries	963	255	Buy	1,225	9.5	22.8	28.0	100.9	42.3	34.4	40.8	22.4	18.9
United Spirits	509	370	Buy	640	9.0	14.7	17.2	56.5	34.7	29.7	31.7	21.7	18.8

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	75.3	61.7	43.9	40.7	35.3
P/CEPS	66.1	54.6	39.9	37.1	32.2
P/BV	20.5	19.8	16.0	13.4	11.2
EV / Sales	7.9	7.6	6.4	5.8	5.2
EV / EBITDA	49.8	47.4	33.8	31.5	27.4
Dividend Yield (%)	0.3	0.4	1.1	1.2	1.4

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 (%)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoters	50.7	50.7	50.6	50.6	50.6
FIIIs	15.7	15.2	15.8	14.7	14.7
DIIIs	13.1	13.6	13.6	13.4	12.7
Public and Others	20.5	20.6	20.0	21.3	22.1

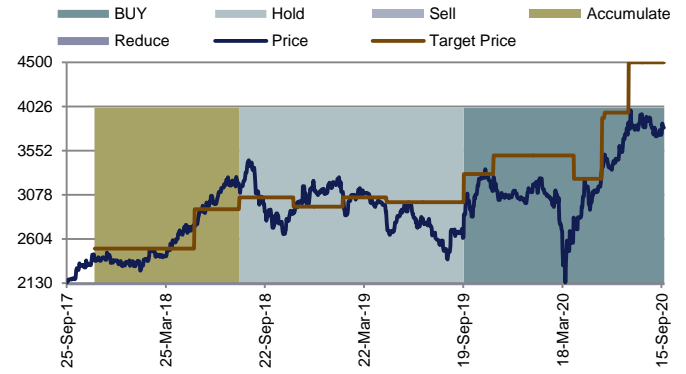
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
17-Jul-20	3,785	4,500	12m	Buy	Ashit Desai
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

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	11.92	11.92	0%	0	100.00
Asian Paints	1.41	0.77	-45%	-64	6.48
Berger Paints	0.22	0.00	-100%	-22	0.00
Britannia Industries	0.68	1.27	86%	59	10.64
Colgate-Palmolive	0.29	0.41	42%	12	3.45
Dabur India	0.45	0.41	-10%	-4	3.40
Emami	0.13	0.00	-100%	-13	0.00
Godrej Consumer Products	0.42	0.00	-100%	-42	0.00
Hindustan Unilever	2.92	2.51	-14%	-41	21.08
ITC	2.46	2.93	19%	47	24.57
Marico	0.29	0.26	-10%	-3	2.19
Nestle India	0.88	0.62	-29%	-26	5.19
Pidilite Industries	0.35	0.00	-100%	-35	0.00
Radico Khaitan	0.00	0.31	NA	31	2.59
United Breweries	0.11	0.44	312%	33	3.70
United Spirits	0.00	0.32	NA	32	2.69
Varun Beverages	0.11	0.24	129%	14	2.03
ABFRL	0.07	0.23	247%	16	1.94
Jubilant FoodWorks	0.23	0.27	19%	4	2.30
Page Industries	0.17	0.00	-100%	-17	0.00
Shoppers Stop	0.00	0.00	NA	0	0.00
Titan Company	0.74	0.92	24%	18	7.74
Cash	0.00	0.00	NA	0	0.00

Source: Emkay Research

* Not under coverage: Equal Weight

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

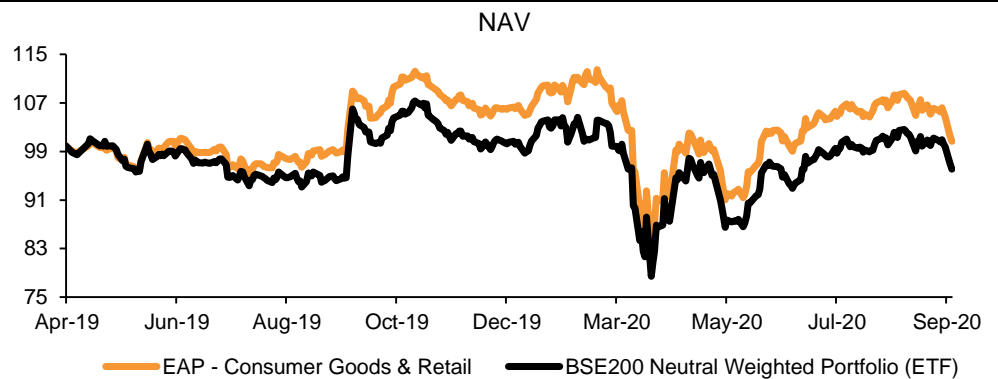
Sector portfolio NAV

	Base					Latest
	01-Apr-19	20-Dec-19	24-Mar-20	23-Jun-20	21-Aug-20	22-Sep-20
EAP - Consumer Goods & Retail	100.0	106.2	84.9	102.4	108.4	100.7
BSE200 Neutral Weighted Portfolio (ETF)	100.0	101.0	80.6	96.1	102.5	96.1

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

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

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

“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: 23 Sep 2020 23:18:15 (SGT)
 Dissemination Date: 23 Sep 2020 23:19:15 (SGT)

Sources for all charts and tables are Emkay Research unless otherwise specified.

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