

## Accumulate

### View: Most positives factored in; Downgrade to Accumulate

- Britannia's revenue and EBITDA were in line with our estimate. Domestic volume growth stood at 9%, was in line.
- The company benefited from consumer up-stocking during the quarter. We believe that the demand would normalize, going ahead.
- EBITDA margin improved to 19.8% - highest Q2 margin - was driven by cost control measures and comparatively lower A&P spends. Going ahead, we believe that normalization of demand coupled with increase in promotional expenses and fixed costs are likely to pressurize EBITDA margins hereon.
- New product launches and innovations continue 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.
- Maintained our FY21E and FY22E EPS estimate at Rs 81.2 and Rs 82.6 respectively and introduced FY23E at Rs 91.1. We value the stock at 42x FY22E EPS, to arrive at a TP of Rs 3,812. Downgrade to Accumulate.

### Operational performance in line with our estimates

Net revenues grew 12.1% YoY to Rs 34.2bn. All the adjacent businesses too delivered a healthy profitable growth. GM increased by 240bps to 42.5%. This, coupled with 110bps decline in other expenses led to 360bps expansion in EBITDA margin to 19.8% - highest ever Q2 margin. Improved operational efficiencies aided margin expansion. EBITDA increased by 37.2% YoY to Rs 6.7bn- came in line with estimate. APAT increased 23.0% YoY to Rs 5.0bn.

### Overall commodity inflation was ~2-3%

During Q2FY21, Britannia's GM expanded 240bps, with moderate inflation in key RM's. During the quarter, key commodities such as sugar (+4%) and palm oil (+25%) saw inflation while prices of flour (-5%) and milk (-21%) remained benign. We expect raw material pressure from palm oil to continue and milk prices to remain benign. Moreover, as new launches are GM accretive, and with the cost efficiency program, we expect margins to remain 17%+.

### Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	34,191	30,488	12.1	34,207	0.0
Total Expense	27,437	25,566	7.3	27,037	1.5
EBITDA	6,754	4,922	37.2	7,169	(5.8)
Depreciation	485	449	8.1	480	1.1
EBIT	6,269	4,473	40.1	6,690	(6.3)
Other Income	735	682	7.9	937	(21.5)
Interest	298	161	84.7	256	16.4
EBT	6,701	4,982	34.5	7,370	(9.1)
Tax	1,750	955	83.2	1,944	(10.0)
RPAT	4,981	4,042	23.2	5,457	(8.7)
APAT	4,987	4,053	23.0	5,458	(8.6)
			(bps)		(bps)
Gross Margin (%)	42.5	40.2	236	41.7	87
EBITDA Margin (%)	19.8	16.1	361	21.0	(121)
NPM (%)	14.6	13.3	131	16.0	(138)
Tax Rate (%)	26.1	19.2	694	26.4	(26)
EBIT Margin (%)	18.3	14.7	366	19.6	(122)

CMP	Rs 3,553
Target / Upside	Rs 3,812 / 7%
NIFTY	11,897

### Script Details

Equity / FV	Rs 241mn / Rs 1
Market Cap	Rs 853bn
	USD 12bn
52-week High/Low	Rs 4,010/ 2,100
Avg. Volume (no)	620,475
Bloom Code	BRIT IN

### Price Performance

	1M	3M	12M
Absolute (%)	(6)	(11)	9
Rel to NIFTY (%)	(11)	(19)	6

### Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	50.6	50.6	50.6
MF/Banks/FIs	19.3	19.8	18.0
FII's	14.7	14.7	16.0
Public / Others	15.4	14.7	15.4

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	43.8	43.0	39.0
EV/EBITDA	34.5	33.3	29.7
ROE (%)	39.5	33.1	30.6
RoACE (%)	32.8	28.7	27.3

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	134,087	148,921	166,101
EBITDA	24,963	25,622	28,485
PAT	19,479	19,817	21,854
EPS (Rs.)	81.2	82.6	91.1

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**Exhibit 1: Q2FY21 Actual V/s Estimates Variance**

Rs mn	Actual	Estimates	Variance (%)	Comment
Revenue	34,191	34,727	(1.5)	
EBITDA	6,754	6,874	(1.7)	
EBITDA margin %	19.8	19.8	-	
APAT	4,986	5,311	(6.1)	Variation due to higher than estimated tax rate and lower than estimated other income

Source: Company, DART

**Exhibit 2: Half yearly performance**

Particulars (Rs.mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Revenue	34,191	30,488	12.1	34,207	(0.0)	68,398	57,492	19.0
Total Expenditure	27,437	25,566	7.3	27,037	1.5	54,475	48,623	12.0
Raw material cost	19,651	18,241	7.7	19,959	(1.5)	39,610	34,333	15.4
Employee Cost	1,345	1,236	8.8	1,370	(1.8)	2,714	2,442	11.2
Other Exp	6,441	6,089	5.8	5,709	12.8	12,150	11,848	2.5
PBIDT (Excl OI)	6,754	4,922	37.2	7,169	(5.8)	13,923	8,869	57.0
Other Income	735	682	7.9	937	(21.5)	1,672	1,356	23.3
Depreciation	485	449	8.1	480	1.1	965	896	7.6
EBIT	7,004	5,155	35.9	7,627	(8.2)	14,631	9,328	56.8
Interest	298	161	84.7	256	16.4	554	262	111.2
Exceptional Items	(5)	(11)		(1)		(6)	(167)	NM
PBT	6,701	4,982	34.5	7,370	(9.1)	14,070	8,898	58.1
Tax	1,750	955	83.2	1,944	(10.0)	3,694	2,385	54.9
PAT before minority	4,951	4,027	22.9	5,426	(8.8)	10,377	6,513	59.3
Minority Interest	30	15	102.7	31	(2.6)	62	39	57.5
RPAT	4,981	4,042	23.2	5,457	(8.7)	10,438	6,552	59.3
APAT	4,986	4,053	23.0	5,458	(8.6)	10,444	6,720	55.4
EPS (Rs)	20.6	16.9	21.6	22.7	(9.2)	43.3	27.4	58.2
			<b>bps</b>		<b>bps</b>			<b>bps</b>
Gross Profit (%)	42.5	40.2	240	41.7	90	42.1	40.3	181
Employee Cost (%)	3.9	4.1	(10)	4.0	(10)	4.0	4.2	-28
Other Exp (%)	18.8	20.0	(110)	16.7	210	17.8	20.6	-285
EBITDA (%)	19.8	16.1	360	21.0	(120)	20.4	15.4	493
APAT (%)	14.6	13.3	130	16.0	(140)	15.2	11.3	384

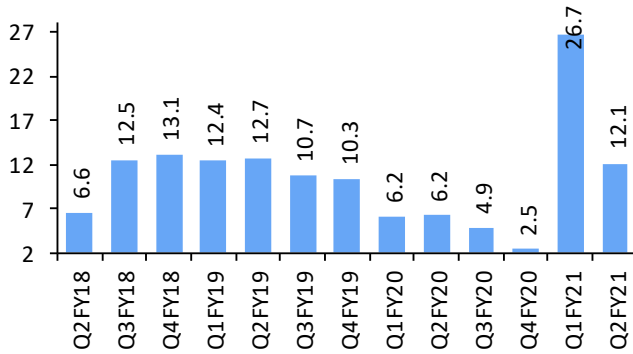
Source: Company, DART

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## Conference call Highlights

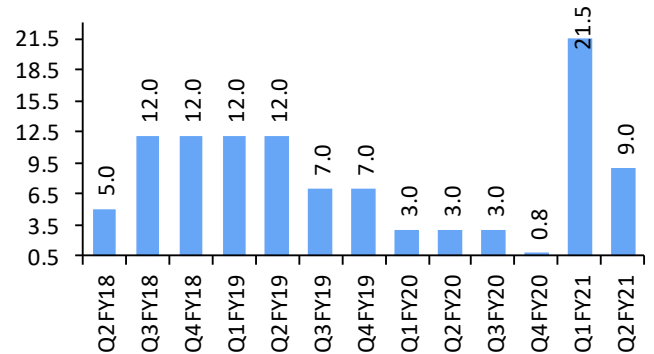
- Britannia witnessed double digit growth in July. Growth in August was muted but witnessed pick up of sales in September with growth in high single- low double digits.
- Modern trade which constitutes 10% of company's revenue was severely hit in Q2FY21. However, growth in traditional channel continued to remain strong.
- Adjacencies, barring cakes, grew faster than the core biscuit portfolio. Bread profitability improved considerably. Rusk registered strong growth. Cake portfolio was muted as modern trade and railways outlets were impacted due to lockdown. Britannia generates 25% of revenue from non-biscuit portfolio.
- In Dairy business, cheese posted double digit growth, decline in out of home consumption impacted Drinks portfolio. Benign milk prices and improvement in mix towards cheese led to profitable growth in Dairy.
- Direct reach had dropped to 1.97mn outlets as of March'20 (2.1mn outlets in March'19). With continuous efforts, it improved to 2.23mn outlets as of Sep'20.
- Within traditional channels, rural has been growing faster than urban due to lower impact of lockdown. As per Nielsen, rural contributes 30% to the company's topline. Number of distributors in rural increased to ~22K in Sep'20 from 19K in Mar'20.
- Management does not see deflationary input cost scenario for next couple of quarters. Wheat prices are expected to stabilize by December'20 (currently down). Palm oil is witnessing inflationary pressure, while milk prices are seeing deflationary trend. All other RM's are likely to remain range bound.
- Middle East and Africa exhibited satisfactory growth. Rest of International grew at healthy pace. Nepal and America exhibited strong growth.
- Despite lockdown, company was able to generate 4-4.5% of revenue from new products.
- There are visible signs of down trading in the market. The company has a strong portfolio to capitalize on the opportunity. Management stated that there is no sharp movement from large packs towards smaller packs.
- ICD's of group companies stood at Rs 7bn as of Sep' 20, was in the same range in Mar'20.
- The company is looking at three Greenfield plans: TN, UP, Bihar and two Brownfield plans: Odisha, Ranjangaon. Dairy backend is expected to be commercialized in FY22-23.
- In Q2, the company got full range of products to the market while focussing on distribution efficiency.

**Exhibit 3: Trend in revenue growth (YoY %)**



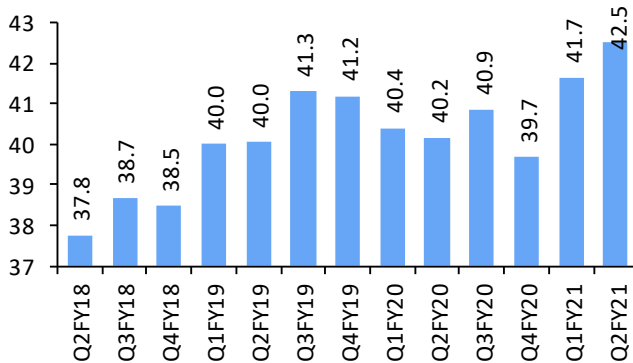
Source: Company, DART

**Exhibit 4: Trend in domestic volume growth (YoY %)**



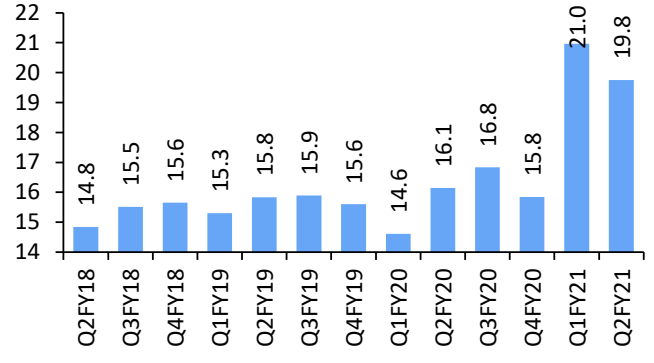
Source: Company, DART

**Exhibit 5: Trend in Gross margins (%)**



Source: Company, DART

**Exhibit 6: Trend in EBITDA margins (%)**



Source: Company, DART

### Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>115,996</b>	<b>134,087</b>	<b>148,921</b>	<b>166,101</b>
<b>Total Expense</b>	<b>97,564</b>	<b>109,124</b>	<b>123,300</b>	<b>137,616</b>
COGS	69,275	80,255	89,352	99,794
Employees Cost	4,889	5,636	6,147	6,202
Other expenses	23,400	23,232	27,800	31,619
<b>EBIDTA</b>	<b>18,432</b>	<b>24,963</b>	<b>25,622</b>	<b>28,485</b>
Depreciation	1,848	2,043	2,277	2,510
<b>EBIT</b>	<b>16,584</b>	<b>22,920</b>	<b>23,345</b>	<b>25,975</b>
Interest	769	1,523	1,593	1,666
Other Income	2,794	3,873	3,951	4,039
Exc. / E.O. items	(170)	0	0	0
<b>EBT</b>	<b>18,439</b>	<b>25,270</b>	<b>25,703</b>	<b>28,348</b>
Tax	4,507	5,818	5,913	6,521
RPAT	14,026	19,479	19,817	21,854
Minority Interest	(95)	(27)	(27)	(27)
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>14,196</b>	<b>19,479</b>	<b>19,817</b>	<b>21,854</b>

### Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	241	241	241	241
Minority Interest	357	334	312	290
Reserves & Surplus	43,788	54,255	64,940	77,542
<b>Net Worth</b>	<b>44,028</b>	<b>54,495</b>	<b>65,180</b>	<b>77,782</b>
Total Debt	15,139	15,139	15,139	15,139
Net Deferred Tax Liability	(756)	(756)	(756)	(756)
<b>Total Capital Employed</b>	<b>58,768</b>	<b>69,213</b>	<b>79,875</b>	<b>92,455</b>

### Applications of Funds

Net Block	<b>18,634</b>	<b>19,641</b>	<b>20,414</b>	<b>20,955</b>
CWIP	396	396	396	396
Investments	28,916	30,916	32,916	34,916
<b>Current Assets, Loans &amp; Advances</b>	<b>29,399</b>	<b>38,531</b>	<b>47,768</b>	<b>59,485</b>
Inventories	7,410	7,283	8,081	8,965
Receivables	3,204	4,218	4,681	5,181
Cash and Bank Balances	1,028	6,318	14,264	22,748
Loans and Advances	13,399	16,354	16,383	18,232
Other Current Assets	4,359	4,359	4,359	4,359
<b>Less: Current Liabilities &amp; Provisions</b>	<b>18,577</b>	<b>20,271</b>	<b>21,619</b>	<b>23,297</b>
Payables	11,162	12,584	13,324	14,447
Other Current Liabilities	7,415	7,687	8,295	8,850
<i>sub total</i>				
Net Current Assets	10,822	18,260	26,149	36,188
<b>Total Assets</b>	<b>58,768</b>	<b>69,213</b>	<b>79,875</b>	<b>92,455</b>

E – Estimates

### Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	40.3	40.1	40.0	39.9
EBIDTA Margin	15.9	18.6	17.2	17.1
EBIT Margin	14.3	17.1	15.7	15.6
Tax rate	24.4	23.0	23.0	23.0
Net Profit Margin	12.1	14.5	13.3	13.2
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	59.7	59.9	60.0	60.1
Employee	4.2	4.2	4.1	3.7
Other	20.2	17.3	18.7	19.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.3	0.3	0.2	0.2
Interest Coverage	21.6	15.1	14.7	15.6
Inventory days	23	20	20	20
Debtors days	10	11	11	11
Average Cost of Debt	9.2	10.1	10.5	11.0
Payable days	35	34	33	32
Working Capital days	34	50	64	80
FA T/O	6.2	6.8	7.3	7.9
<b>(D) Measures of Investment</b>				
AEPS (Rs)	59.2	81.2	82.6	91.1
CEPS (Rs)	66.9	89.7	92.1	101.5
DPS (Rs)	18.0	37.6	38.1	38.6
Dividend Payout (%)	30.5	46.3	46.1	42.3
BVPS (Rs)	183.5	227.1	271.6	324.1
RoANW (%)	32.4	39.5	33.1	30.6
RoACE (%)	28.9	32.8	28.7	27.3
RoAIC (%)	32.9	38.0	36.3	38.4
<b>(E) Valuation Ratios</b>				
CMP (Rs)	3553	3553	3553	3553
P/E	60.1	43.8	43.0	39.0
Mcap (Rs Mn)	852,756	852,756	852,756	852,756
Mcap/ Sales	7.4	6.4	5.7	5.1
EV	866,867	861,577	853,631	845,147
EV/Sales	7.5	6.4	5.7	5.1
EV/EBITDA	47.0	34.5	33.3	29.7
P/BV	19.4	15.6	13.1	11.0
Dividend Yield (%)	0.5	1.1	1.1	1.1
<b>(F) Growth Rate (%)</b>				
Revenue	4.9	15.6	11.1	11.5
EBITDA	6.3	35.4	2.6	11.2
EBIT	5.5	38.2	1.9	11.3
PBT	4.2	37.1	1.7	10.3
APAT	22.5	37.2	1.7	10.3
EPS	22.5	37.2	1.7	10.3

### Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	15,566	20,875	23,721	24,452
CFI	(15,707)	(5,050)	(5,050)	(5,050)
CFF	71	(10,535)	(10,725)	(10,919)
FCFF	13,125	17,825	20,671	21,402
Opening Cash	1,098	1,028	6,318	14,264
Closing Cash	1,028	6,318	14,264	22,748

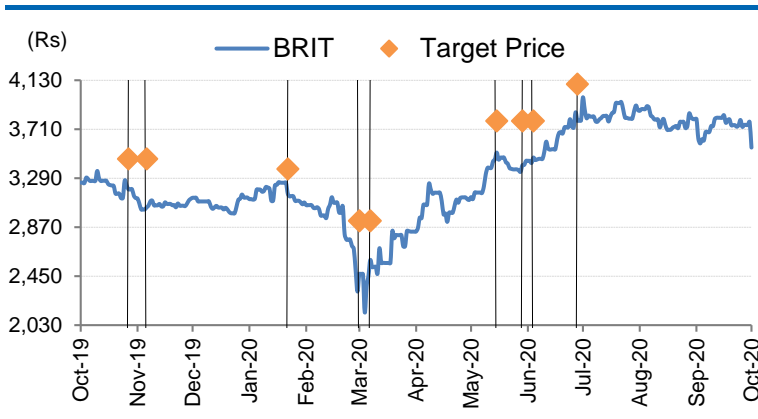
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Jul-20	Buy	4,097	3,785

\*Price as on recommendation date

### DART Team

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**Dolat Capital Market Private Limited.**

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

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