

October 20, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	4,301		4,279	
Sales (Rs. m)	1,42,087	1,59,836	1,44,053	1,62,048
% Chng.	(1.4)	(1.4)		
EBITDA (Rs. m)	27,090	30,569	27,493	30,928
% Chng.	(1.5)	(1.2)		
EPS (Rs.)	78.0	90.1	77.6	89.6
% Chng.	0.4	0.5		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,09,867	1,26,873	1,42,087	1,59,836
EBITDA (Rs. m)	17,707	24,374	27,090	30,569
Margin (%)	16.1	19.2	19.1	19.1
PAT (Rs. m)	14,653	17,875	18,749	21,669
EPS (Rs.)	60.9	74.3	78.0	90.1
Gr. (%)	30.5	22.0	4.9	15.6
DPS (Rs.)	35.0	95.5	45.0	50.0
Yield (%)	1.0	2.7	1.3	1.4
RoE (%)	35.2	50.9	69.3	66.9
RoCE (%)	34.0	49.0	62.1	63.5
EV/Sales (x)	7.8	6.8	6.0	5.3
EV/EBITDA (x)	48.3	35.2	31.7	27.7
PE (x)	58.3	47.8	45.6	39.4
P/BV (x)	20.0	31.1	32.0	22.4

Key Data

BRIT.BO | BRIT IN

52-W High / Low	Rs.4,015 / Rs.2,100
Sensex / Nifty	40,544 / 11,897
Market Cap	Rs.855bn/ \$ 11,642m
Shares Outstanding	241m
3M Avg. Daily Value	Rs.4912.31m

Shareholding Pattern (%)

Promoter's	50.58
Foreign	16.04
Domestic Institution	11.46
Public & Others	21.92
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(6.4)	25.4	9.2
Relative	(10.4)	(2.1)	5.9

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Euphoria over, LT outlook intact

Quick Pointers:

- 2Q volumes up 9% with biscuits growth at 8.5% and adjacencies at 10.5%.
- New launches contributed to 4% of topline.
- Traditional trade growing faster, than modern trade, at double digits.

We are increasing FY21/22/23 EPS estimates by 3.1%/0.4%/0.5% on improved margin delivery, benign input cost environment and efficiency gains. 2Q revenues growth of 11.4% and volume growth of 9% was short of expectations on absence of Independence day sales in MT and impact of pantry destocking and unlock. Long term growth trajectory is intact given that non biscuit sales (25%) volumes grew by 10.5% during 2Q versus 8.5% for Biscuits. we believe that the best quarter of growth and margins is behind us. We expect a tepid 4.9% EPS growth in FY22 on peaked out margins, 53% decline in other income (Rs31bn dividend payout) and 82% higher interest cost (Rs14bn bonus Debs).

However, we believe that long term growth story is intact given focus on 1) innovations 2) affordable packs/pricing (biscuits-Rs5/10 in premium brands) 3) direct distribution reach (3x since 2014) 4) success in non- biscuits segments (Cake, Cream wafers, salted snacks, milkshakes – 19% sales CAGR over FY20-23) 5) cost efficiency programs (Rs2.5bn/1.5-2% of sales) and 6) high growth in Hindi heartland (1.2-2.5x). We estimate 22% PAT growth in FY21E and 14.1% CAGR over FY20-23. We value the stock at 46x FY23 EPS and arrive at SOTP based target price of Rs4301 (Rs4279 earlier). Retain Buy

Concall Takeaways: 1) BRIT is selling ~98% of SKUs with replenishment system better than pre-covid levels. 2) Non-biscuit portfolio contributed to 25% of the top line and recorded volume growth of 10.5%. However, cake and drinks portfolio is growing slower due to reduced out of home consumption and higher dependence on Modern trade. 3) Rural sales growing faster than urban; contributes to 30% of total sales. 4) Traditional trade is growing in double digits, modern trade (10% of sales) and Insti sales is impacted by Covid 5) August sales were impacted by lack of Independence day sales in MT 6) Group ICDs at Rs 7bn. 7) Issued Commercial papers at 3.5-4% interest rate for stocking of wheat and Sugar 8) Middle East and Africa growing at single digit while other geographies growing at double digit. 9) EBITDA margin expansion to cool off due to lower efficiency gains on normalized product assortment and higher ad-spends.

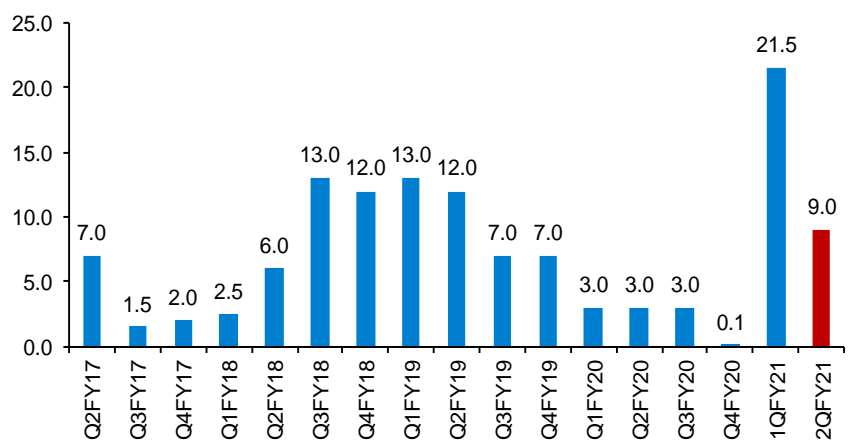
Sales up 11.4%, Adj PAT up 1%: Standalone Net sales increased 11.4% YoY to Rs 32.28bn (Est Rs33.88bn). Gross margins at 40.5%, expanded 110bps due to efficiency gains which was partially offset by inflation in RM prices. EBITDA grew 32.0% YoY to Rs 6.21bn (Est Rs 6.57bn) and EBITDA margins expanded 300bps to 19.2% (Est 19.4%) on back of higher gross margins and better fixed costs absorption. PBT increased 14% to Rs6.25bn (Est Rs 6.24bn). Adj. PAT increased 1% YoY to Rs 4.62bn (Est Rs 4.66bn) due to higher tax rate at 26% vs 16.8% in 2Q20. Imputed subsidiary sales at Rs 1.9bn, increased 25%. PAT of Rs 333m vs loss of Rs 537 in 2Q20.

Exhibit 1: 2QFY21 Standalone Results: Sales up 11.4%, PBT up 13.6% while PAT up 1% due to higher tax rate

Y/e March (Rs m)	Q2FY21	Q2FY20	YoY gr. (%)	Q1FY21	H1FY21	H1FY20	YoY gr. (%)
Net Sales	32,276	28,961	11.4	32,199	64,475	54,756	17.7
Gross Profit	13,087	11,412	14.7	12,929	26,017	21,720	19.8
<i>Margins (%)</i>	40.5	39.4	1.1	40.2	40.4	39.7	0.7
Other Expenses	6,878	6,709	2.5	6,212	13,090	13,134	(0.3)
<i>% of Sales</i>	21.3	23.2	-1.9	19.3	20.3	24.0	-3.7
EBITDA	6,209	4,704	32.0	6,718	12,927	8,586	50.6
<i>Margins (%)</i>	19.2	16.2	3.0	20.9	20.0	15.7	4.4
Depreciation	406	367	10.9	401	807	739	9.2
Interest	267	140		219	486	224	
Other Income	712	1,302	(45.3)	873	1,585	1,957	(19.0)
PBT	6,248	5,499	13.6	6,971	13,219	9,580	38.0
Tax	1,624	923	76.0	1,813	3,437	2,342	46.7
<i>Tax Rate (%)</i>	26.0	16.8	9.2	26.0	26.0	24.4	1.6
Adjusted PAT	4,623	4,576	1.0	5,159	9,782	7,238	35.1

Source: Company, PL

Exhibit 2: Volume growth in 2Q at 9%



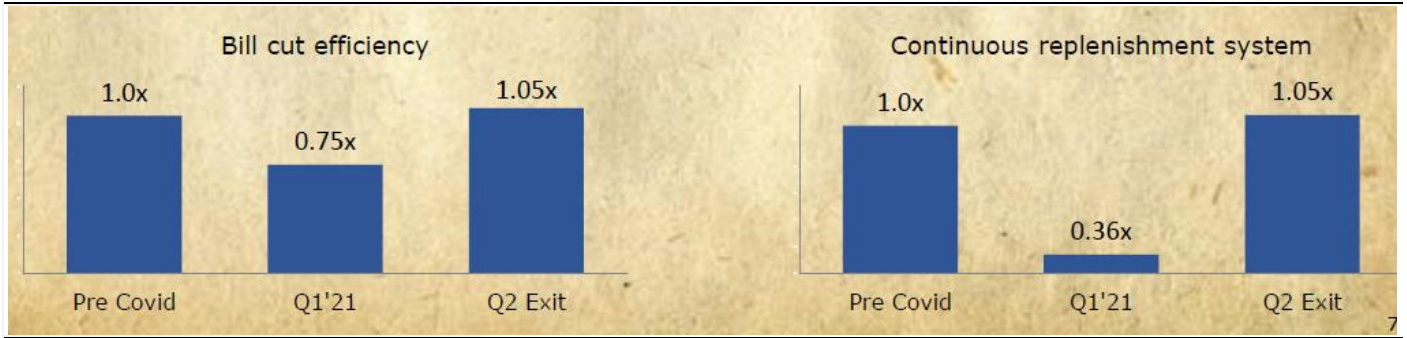
Source: Company Data, PL Research

Exhibit 3: Range of Family packs in Modern trade



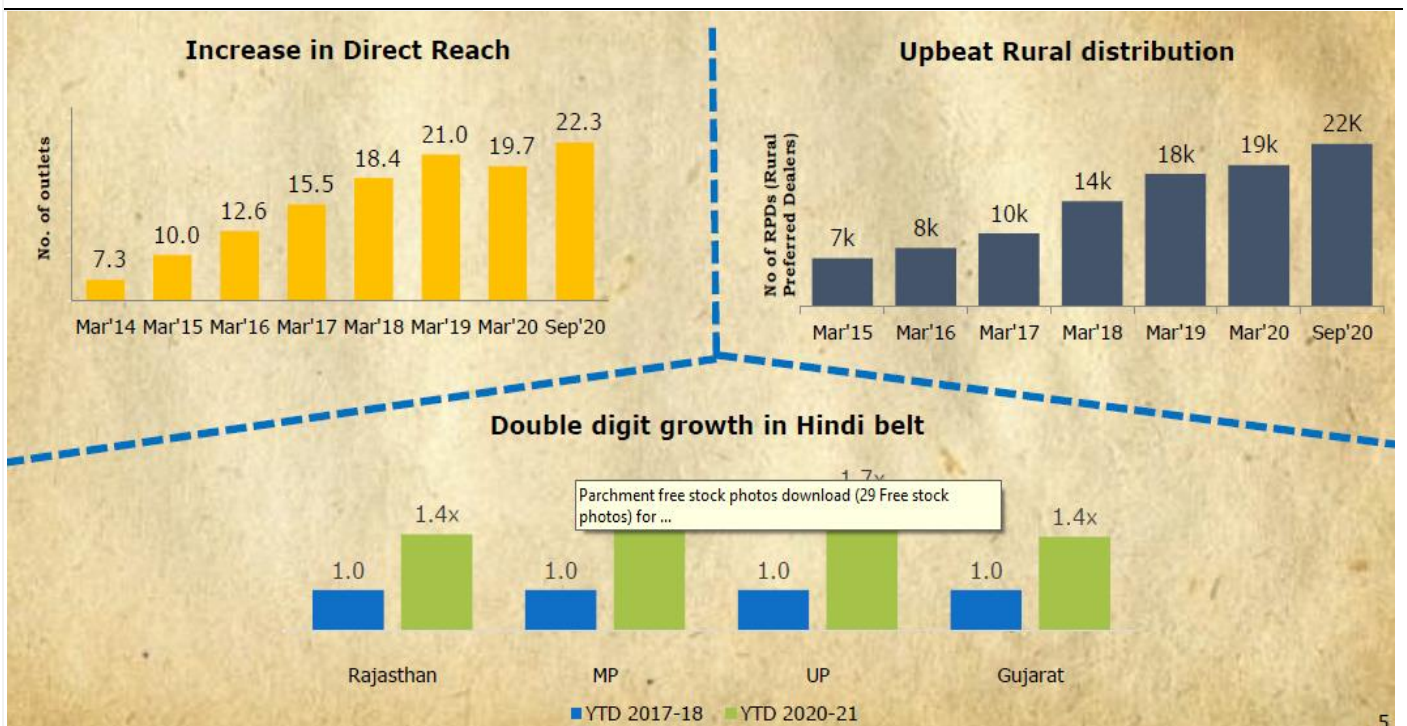
Source: Company, PL

Exhibit 4: Operational systems better than pre-covid



Source: Company, PL

Exhibit 5: Distribution back to normal now



Source: Company, PL

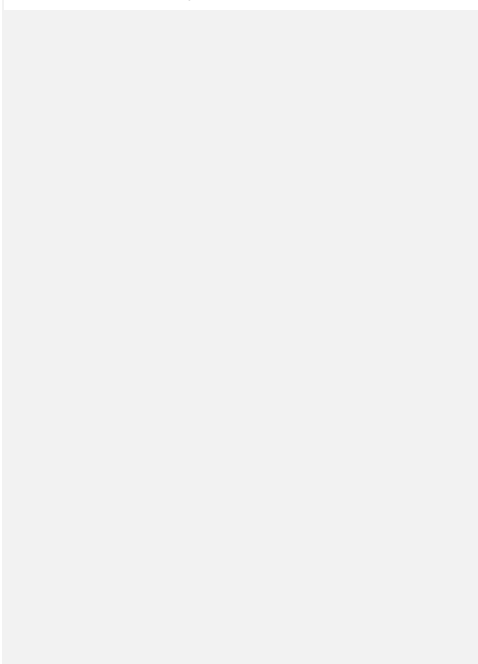
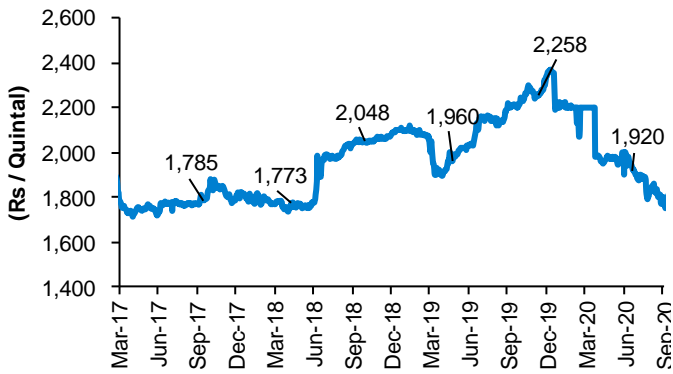
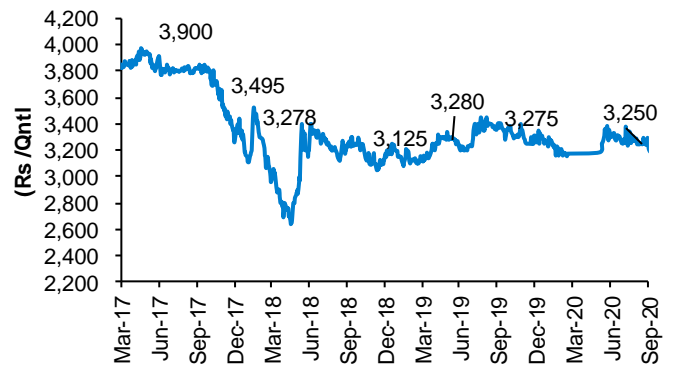


Exhibit 6: Wheat prices down 21% YoY



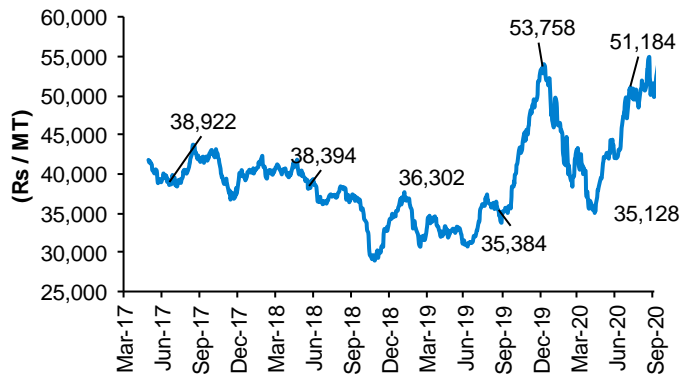
Source: Bloomberg, PL

Exhibit 7: Sugar prices at Rs 3,272/quintal



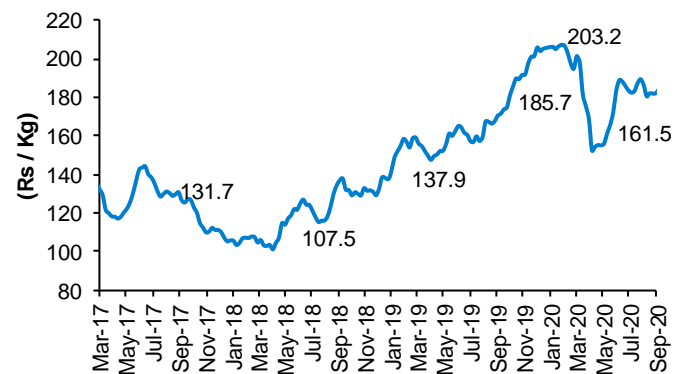
Source: Bloomberg, PL

Exhibit 8: Palmoil prices up 22.9% YoY



Source: Bloomberg, PL

Exhibit 9: SMP price up 9.6% YoY and 11.5% QoQ



Source: Bloomberg, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,09,867	1,26,873	1,42,087	1,59,836
YoY gr. (%)	4.8	15.5	12.0	12.5
Cost of Goods Sold	66,577	75,546	84,639	95,976
Gross Profit	43,290	51,327	57,448	63,860
Margin (%)	39.4	40.5	40.4	40.0
Employee Cost	3,689	4,124	4,409	4,724
Other Expenses	6,255	6,624	7,594	8,425
EBITDA	17,707	24,374	27,090	30,569
YoY gr. (%)	6.5	37.7	11.1	12.8
Margin (%)	16.1	19.2	19.1	19.1
Depreciation and Amortization	1,517	1,688	1,856	2,023
EBIT	16,190	22,686	25,235	28,547
Margin (%)	14.7	17.9	17.8	17.9
Net Interest	652	816	1,186	799
Other Income	3,354	2,124	1,118	1,338
Profit Before Tax	18,893	23,994	25,166	29,085
Margin (%)	17.2	18.9	17.7	18.2
Total Tax	4,240	6,118	6,417	7,417
Effective tax rate (%)	22.4	25.5	25.5	25.5
Profit after tax	14,653	17,875	18,749	21,669
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	14,653	17,875	18,749	21,669
YoY gr. (%)	30.6	22.0	4.9	15.6
Margin (%)	13.3	14.1	13.2	13.6
Extra Ord. Income / (Exp)	190	-	-	-
Reported PAT	14,843	17,875	18,749	21,669
YoY gr. (%)	32.3	20.4	4.9	15.6
Margin (%)	13.5	14.1	13.2	13.6
Other Comprehensive Income	(46)	-	-	-
Total Comprehensive Income	14,797	17,875	18,749	21,669
Equity Shares O/s (m)	241	241	241	241
EPS (Rs)	60.9	74.3	78.0	90.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	24,775	27,320	29,870	32,420
Tangibles	24,360	26,860	29,360	31,860
Intangibles	415	460	510	560
Acc: Dep / Amortization	10,170	11,858	13,714	15,736
Tangibles	9,838	11,483	13,290	15,260
Intangibles	332	375	424	477
Net fixed assets	14,605	15,462	16,156	16,683
Tangibles	14,521	15,377	16,070	16,600
Intangibles	84	85	87	83
Capital Work In Progress	389	889	1,389	1,889
Goodwill	-	-	-	-
Non-Current Investments	33,844	19,129	19,258	19,407
Net Deferred tax assets	(110)	(230)	(356)	(501)
Other Non-Current Assets	593	180	189	218
Current Assets				
Investments	10,581	8,289	12,184	14,165
Inventories	6,335	8,124	9,098	10,236
Trade receivables	2,422	2,869	3,206	3,604
Cash & Bank Balance	392	(162)	853	1,324
Other Current Assets	3,324	3,499	3,779	4,252
Total Assets	72,533	58,341	66,183	71,857
Equity				
Equity Share Capital	241	241	241	241
Other Equity	42,506	27,217	26,426	37,872
Total Networkth	42,747	27,458	26,666	38,112
Non-Current Liabilities				
Long Term borrowings	7,221	7,214	14,188	6,979
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	4,800	3,215	2,515	1,515
Trade payables	9,560	11,550	12,935	14,251
Other current liabilities	7,791	8,353	9,186	10,145
Total Equity & Liabilities	72,533	58,341	66,183	71,857

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	18,893	23,994	25,166	29,085
Add. Depreciation	1,517	1,688	1,856	2,023
Add. Interest	652	816	1,186	799
Less Financial Other Income	3,354	2,124	1,118	1,338
Add. Other	(2,992)	(2,213)	(1,114)	(1,355)
Op. profit before WC changes	18,069	24,285	27,094	30,553
Net Changes-WC	(2,055)	2,420	(3,278)	(1,721)
Direct tax	(4,240)	(6,118)	(6,417)	(7,417)
Net cash from Op. activities	11,775	20,586	17,399	21,415
Capital expenditures	(2,586)	(3,045)	(3,050)	(3,050)
Interest / Dividend Income	3,354	2,124	1,118	1,338
Others	(11,621)	15,353	-	-
Net Cash from Invt. activities	(10,853)	14,432	(1,932)	(1,712)
Issue of share cap. / premium	(7,956)	(1,779)	(8,718)	1,802
Debt changes	12,019	(1,592)	6,275	(8,210)
Dividend paid	(4,346)	(31,385)	(10,823)	(12,025)
Interest paid	(652)	(816)	(1,186)	(799)
Others	-	-	-	-
Net cash from Fin. activities	(934)	(35,572)	(14,452)	(19,232)
Net change in cash	(13)	(553)	1,015	471
Free Cash Flow	9,189	17,541	14,349	18,365

Source: Company Data, PL Research

Key Financial Metrics

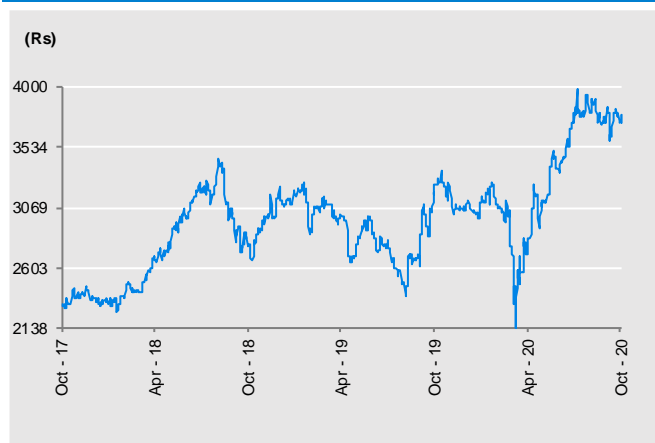
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	60.9	74.3	78.0	90.1
CEPS	67.2	81.3	85.7	98.5
BVPS	177.7	114.2	110.9	158.5
FCF	38.2	72.9	59.7	76.4
DPS	35.0	95.5	45.0	50.0
Return Ratio(%)				
RoCE	34.0	49.0	62.1	63.5
ROIC	26.3	45.2	47.5	50.6
RoE	35.2	50.9	69.3	66.9
Balance Sheet				
Net Debt : Equity (x)	0.0	0.1	0.1	(0.2)
Net Working Capital (Days)	(3)	(2)	(2)	(1)
Valuation(x)				
PER	58.3	47.8	45.6	39.4
P/B	20.0	31.1	32.0	22.4
P/CEPS	52.8	43.7	41.5	36.1
EV/EBITDA	48.3	35.2	31.7	27.7
EV/Sales	7.8	6.8	6.0	5.3
Dividend Yield (%)	1.0	2.7	1.3	1.4

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	28,192	26,919	32,199	32,276
YoY gr. (%)	4.3	0.9	24.8	11.4
Raw Material Expenses	16,951	16,590	19,270	19,188
Gross Profit	11,241	10,329	12,929	13,087
Margin (%)	39.9	38.4	40.2	40.5
EBITDA	4,818	4,303	6,718	6,209
YoY gr. (%)	8.0	1.9	73.0	32.0
Margin (%)	17.1	16.0	20.9	19.2
Depreciation / Depletion	384	393	401	406
EBIT	4,433	3,910	6,317	5,803
Margin (%)	15.7	14.5	19.6	18.0
Net Interest	221	207	219	267
Other Income	646	752	873	712
Profit before Tax	4,858	4,455	6,971	6,248
Margin (%)	17.2	16.5	21.7	19.4
Total Tax	1,254	643	1,813	1,624
Effective tax rate (%)	25.8	14.4	26.0	26.0
Profit after Tax	3,604	3,812	5,159	4,623
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,604	3,812	5,159	4,623
YoY gr. (%)	19.0	31.6	93.8	1.0
Margin (%)	12.8	14.2	16.0	14.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,604	3,812	5,159	4,623
YoY gr. (%)	19.0	31.6	106.3	(6.1)
Margin (%)	12.8	14.2	16.0	14.3
Other Comprehensive Income	-	(43)	(1)	-
Total Comprehensive Income	3,604	3,769	5,158	4,623
Avg. Shares O/s (m)	240	241	241	241
EPS (Rs)	15.0	15.8	21.4	19.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	BUY	4,279	3,795
2	05-Oct-20	BUY	4,279	3,830
3	05-Oct-20	BUY	4,279	3,830
4	17-Jul-20	BUY	4,316	3,785
5	08-Jul-20	BUY	4,046	3,678
6	03-Jun-20	BUY	3,744	3,510
7	15-Apr-20	BUY	3,744	2,837
8	10-Feb-20	BUY	3,725	3,156
9	03-Jan-20	Accumulate	3,433	3,039
10	15-Nov-19	Accumulate	3,433	3,196

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	2,032	2,089
2	Avenue Supermarts	BUY	2,316	1,988
3	Bajaj Electricals	BUY	564	498
4	Britannia Industries	BUY	4,279	3,795
5	Colgate Palmolive	Reduce	1,350	1,452
6	Crompton Greaves Consumer Electricals	BUY	308	280
7	Dabur India	Hold	469	522
8	Emami	Hold	424	353
9	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
10	Havells India	Reduce	571	688
11	Hindustan Unilever	Hold	2,254	2,161
12	ITC	BUY	244	167
13	Jubilant FoodWorks	Hold	2,255	2,330
14	Kansai Nerolac Paints	BUY	550	477
15	Marico	Hold	359	372
16	Nestle India	Reduce	14,496	16,305
17	Pidilite Industries	Hold	1,415	1,487
18	Titan Company	Accumulate	1,352	1,254
19	Titan Company	Accumulate	1,352	1,254
20	Voltas	Accumulate	702	672

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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