

# Britannia Industries Limited.



# Britannia Industries Ltd.

**Strong performance of Q1 normalizes; revenue below estimates**

CMP <b>INR 3,553</b>	Target <b>INR 4,125</b>	Potential Upside <b>16.1%</b>	Market Cap (INR Cr) <b>INR 85,527</b>	Recommendation <b>BUY</b>	Sector <b>Consumer Goods</b>
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## Result Highlights of Q2FY21

- Britannia reported sequentially flat revenue of INR 3,419 Cr (+12.1% YoY). In Q2FY21, the company sold full range of products to the market, focused on efficiency in distribution, followed continuous replenishment system of distribution, and spent marginally in advertisement & promotions as well
- EBITDA margin contracted by 121bps QoQ/+361bps YoY to 19.8% in Q2FY21, while EBITDA grew 37.2% YoY/ (down 5.8% QoQ) to INR 675 Cr. The company witnessed moderate cost inflation in the prices of key raw materials and expect the prices to be stable going forward given the positive outlook on monsoon and harvest
- Reported PAT showed growth of 23.4% YoY (down 8.5% QoQ) to INR 499 Cr. (Adj. PAT increased by 23.2% YoY)
- Adjusted Net Profit margin for the quarter expanded 132 bps YoY to 14.6% (down by 134bps QoQ) from 13.3% in Q2FY20

## MARKET DATA

Shares outs (Cr)	24
Equity Cap (INR Cr)	4,438
Mkt Cap (INR Cr)	85,527
52 Wk H/L (INR)	4,015/2,100
Volume Avg (3m K)	769
Face Value (INR)	1
Bloomberg Code	BRIT IN

## KEY FINANCIALS

INR Cr	FY18	FY19	FY20	FY21E	FY22E
Revenue	9,990	11,055	11,600	12,172	13,020
EBITDA	1,502	1,733	1,843	2,430	2,565
PAT	1,004	1,159	1,403	1,854	1,984
EPS (INR)	41.81	48.21	58.32	77.09	82.50
EBITDA Margin (%)	15.0%	15.7%	15.9%	20.0%	19.7%
NPM (%)	10.1%	10.5%	12.1%	15.2%	15.2%

Source: Company, KRChoksey Research

### Sequential flat revenues noted in Q2 driven by ~10% YoY volume growth

Britannia reported sequentially flat revenue of INR 3,419 Cr (+12.1% YoY) on the back of ~10% YoY on volume growth. Among dairy business, cheese witnessed double digit growth whereas Drinks impacted due to incremental in-home consumption. While bakery business did well, other adjacent businesses (croissants/cakes) posted limited upside in the quarter. Rural market performed better as they were less impacted than urban market and given Britannia's continued investments to increase distributor reach in rural areas. Rural share was ~30% of the total revenue. Among all states, UP, MP, Gujarat, Rajasthan (Hindi Belt) grew in a CAGR range of 17-22% between (YTD FY18 to YTD FY21). In terms of supply chain, wholesale trade continue to remain largest contributor with ~90% share; the management expects slow recovery on Modern trade format.

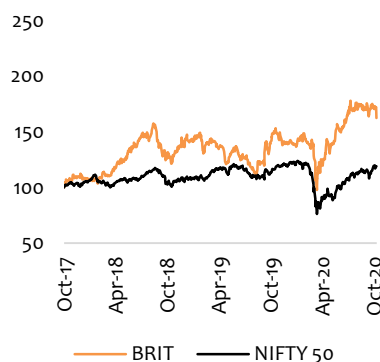
### Consistent margin improvement on the back of operational efficiencies

Gross margin grew by 236 bps YoY (87 bps QoQ) on account of better product mix with higher contribution from premium products coupled with softening raw material cost. The company witnessed moderate overall inflation of 3% YoY with price increase in key commodities such as sugar (+4% YoY), refined palm oil (+25% YoY) offset by deflation in milk (-21% YoY) and flour (-5% YoY). EBITDA margin expanded 361bps YoY but down 121bps QoQ to 19.8% in Q2FY21 while EBITDA grew 37.2% YoY/ (down 5.8% QoQ) to INR 675 Cr. Increase in EBITDA was on account of a strong contraction in Other Expenses as a % of Sales to the extent of 2% YoY (19% in Q2FY21 vs 17% in Q2FY20), driven by reduction in fixed costs expenses (0.95x from 1.0x) and increasing efficiency in production (1.1x from 1.0x) including reducing wastage (0.8x from 1.0x). The company expect the prices to be rangebound going forward given the positive outlook on monsoon and good harvest.

### Focus on strengthening of distribution channels

The company plans on improving the distributor channels and continue to ramp up the direct reach. Currently the direct reach of Britannia is 22.3 mn outlets as of September 2020 (19.7 mn in March 2020). Number of rural distributors were 22K outlets for the quarter compared to 19K in March 2020, which helped the company to increase its market share considerably. The company's focused efforts on distribution & processes will help them get back on high growth trajectory and consistently enhance value for all stakeholders.

## SHARE PRICE PERFORMANCE

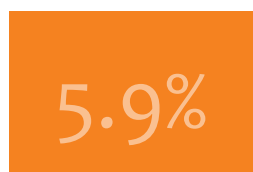


## MARKET INFO

SENSEX	40,544
NIFTY	11,897

## SHARE HOLDING PATTERN (%)

Particulars	Sep-20	Jun-20	Mar-20
Promoters	50.58	50.60	50.63
FIIs	16.04	14.67	14.72
DIIIs	11.46	12.67	13.37
Others	21.92	22.06	21.28
Total	100	100	100



Revenue CAGR between FY20 and FY22E



PAT CAGR between FY20 and FY22E

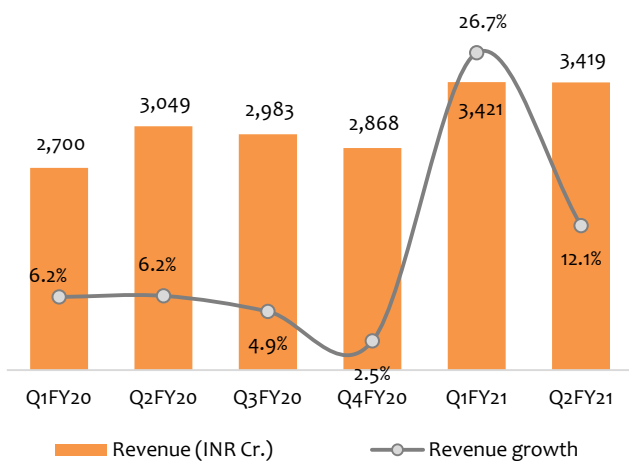
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**Key Concall Highlights :** (i) Domestic volume growth stood at ~9%; which fell sharply from the highs seen in Q1FY21 (~20%). Adjacencies grew better at about ~11%. The company achieved double digit growth in July, Low single digit in August and high single digit growth in September 2020. The management prioritized sale of premium segments products such as Good Day, Milk Bikis, Marie and Digestive Milky Choice in order to keep margin intact. (ii) Distributor attrition was at an all time low due to higher returns (iii). The number of rural distributors increased to 22,000 in September and direct distribution outlets have increased to 22.3 lac outlets (iv) The bakery segment performed well; within that Bread’s profitability improved and rusks growing aggressively with improved market share. Nonetheless, cake business is under stress. (v) Contribution of new product launched stood at 4-4.5% (vi) The company has initiated Advertising expenses especially on core brands such as Bourbon, Mari Gold and Good day (vii) Interest on commercial paper is attractive in the range of 3.5 to 4%. (viii) The management expects positive impacts of the Farm-bill that abolishes mandi-tax; however, the impact varies across the states as each state follows different approach to implement the law. It also believes it is favorable for the industry. (ix) Among international market, Middle East and Africa reported single digit YoY growth whereas other region reported double digit YoY growth.

## Valuation and view

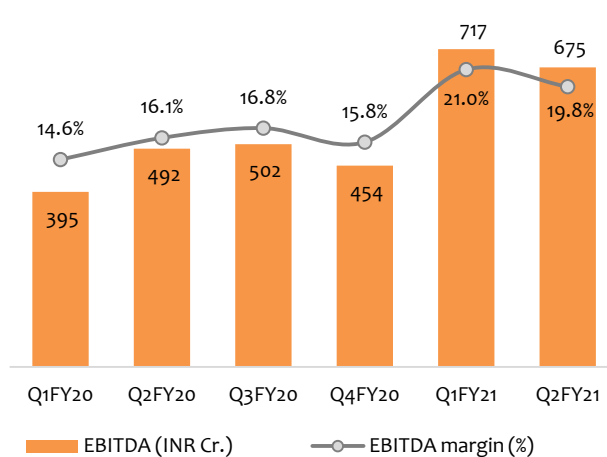
Britannia reported decent results in Q2FY21 (while missed on our revenue estimates), backed by consistent improvement in margins and the essential nature of its products like biscuits. The momentum which we noted in Q1 has cooled off and we noted flat revenue in this quarter with volume growth at half of Q1. With lockdown easing and supply distribution smoothing for industry, we expect Britannia to further deliver normalized revenue that is similar to pre-covid level. Considering the performance in September quarter, we have revised our revenue estimates downwards for FY21E/FY22E by 4.5%/7.7% respectively. We expect overall Revenue/EBITDA to increase at a CAGR of 5.9%/18.0% for the year FY20/22E on account of strong brand image of the company against its peers, while profit is expected to increase at an average of 18.9% for FY20/22E. **Since our last recommendation (report dated 05<sup>th</sup> October 2020), the stock has corrected ~7%. We reduce and assign a P/E multiple of 50.0x to the FY22 EPS of INR 82.5 (earlier 54x on FY22E EPS) to arrive at a target price of INR 4,125 per share; an upside of 16.1% over the CMP. Accordingly, we reiterate a “BUY ” rating on the shares of Britannia Industries.**

Revenue normalizes post unlock



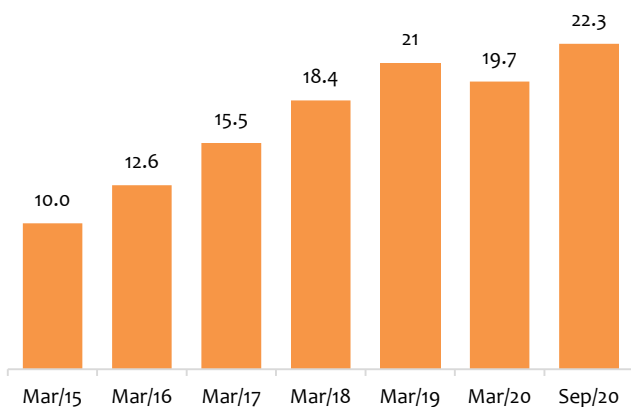
Source: Company, KRChoksey Research

Cost efficiencies led to margin expansion



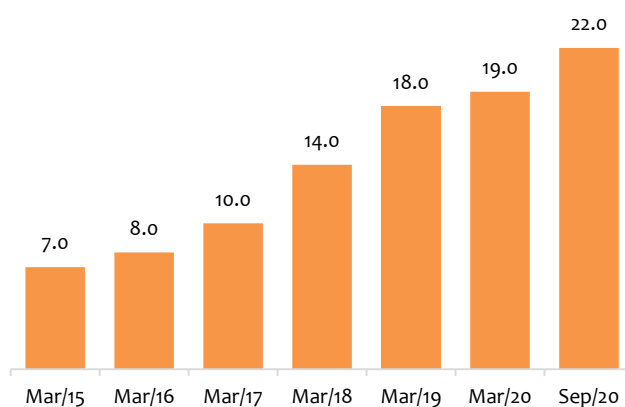
Source: Company, KRChoksey Research

Direct Distributors (In lakhs)



Source: Company, KRChoksey Research

No of Rural Preferred Dealers (In ‘000)



Source: Company, KRChoksey Research

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## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INR Cr	FY18	FY19	FY20	FY21E	FY22E
<b>Revenues</b>	<b>9,990</b>	<b>11,055</b>	<b>11,600</b>	<b>12,172</b>	<b>13,020</b>
COGS	6,107	6,561	6,927	7,065	7,473
<b>Gross profit</b>	<b>3,883</b>	<b>4,493</b>	<b>4,672</b>	<b>5,107</b>	<b>5,546</b>
Employee cost	402	442	487	487	508
Other expenses	1,980	2,318	2,342	2,191	2,474
<b>EBITDA</b>	<b>1,502</b>	<b>1,733</b>	<b>1,843</b>	<b>2,430</b>	<b>2,565</b>
<b>EBITDA Margin</b>	<b>15.0%</b>	<b>15.7%</b>	<b>15.9%</b>	<b>20.0%</b>	<b>19.7%</b>
Depreciation & amortization	142	162	185	194	207
<b>EBIT</b>	<b>1,360</b>	<b>1,572</b>	<b>1,658</b>	<b>2,236</b>	<b>2,357</b>
Interest expense	8	9	77	141	141
<b>PBT</b>	<b>1,518</b>	<b>1,769</b>	<b>1,844</b>	<b>2,441</b>	<b>2,614</b>
Tax	514	612	451	597	639
Minority interest	0	-4	-9	-9	-9
<b>PAT</b>	<b>1,004</b>	<b>1,159</b>	<b>1,403</b>	<b>1,854</b>	<b>1,984</b>
<b>Adj. PAT</b>	<b>1,004</b>	<b>1,159</b>	<b>1,420</b>	<b>1,854</b>	<b>1,984</b>
<b>EPS (INR)</b>	<b>41.81</b>	<b>48.21</b>	<b>58.32</b>	<b>77.09</b>	<b>82.50</b>
<b>Adj. EPS</b>	<b>41.81</b>	<b>48.21</b>	<b>59.03</b>	<b>77.09</b>	<b>82.50</b>

Source: Company, KRChoksey Research

### Exhibit 2: Cash Flow Statement

INR Cr	FY18	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	1,249	1,156	1,485	1,792	1,571
Net Cash Flow from/(used in) Investing Activities	(956)	(856)	(1,532)	(867)	(643)
Net Cash Flow from Financing Activities	(232)	(353)	58	(630)	(664)
Net Inc/Dec in cash equivalents	61	(52)	11	295	264
Opening Balance	47	108	55	81	376
Closing Balance Cash and Cash Equivalents	108	55	69	376	640

Source: Company, KRChoksey Research

### Exhibit 3: Key Ratios

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	15.0%	15.7%	15.9%	20.0%	19.7%
Tax rate (%)	33.9%	34.6%	24.4%	24.4%	24.4%
Net Profit Margin (%)	10.1%	10.5%	12.1%	15.2%	15.2%
RoE (%)	29.4%	27.0%	31.6%	31.9%	27.3%
RoCE (%)	37.8%	35.5%	27.9%	30.6%	26.9%
EPS (INR)	41.81	48.21	58.32	77.09	82.50

Source: Company, KRChoksey Research

# Britannia Industries Ltd.

## Exhibit 4: Balance Sheet

INR Cr	FY18	FY19	FY20	FY21E	FY22E
<b>Non-current assets</b>					
Property, plant and equipment	1,194	1,536	1,716	1,827	2,010
Capital work-in-progress	203	101	40	40	40
Investment Property	15	15	14	14	14
Goodwill	128	130	139	139	139
Other intangible assets	8	8	8	8	8
Investment in Associate	2	1	1	1	1
Financial assets					
Investments	220	725	1,883	2,787	3,428
Loans	134	19	203	203	203
Other financial assets	0	29	31	31	31
Income Tax Assets (Net)	23	37	69	72	77
Deferred Tax Assets (Net)	22	14	20	21	22
Other non-current assets	87	101	42	45	48
<b>Total non-current assets</b>	<b>2,037</b>	<b>2,715</b>	<b>4,167</b>	<b>5,188</b>	<b>6,022</b>
<b>Current assets</b>					
Inventories	653	781	741	581	860
Financial assets					
Investments	857	750	1,009	1,009	1,009
Trade receivables	305	394	320	500	535
Cash and cash equivalents	130	60	81	376	640
Other Balances with Banks	57	50	42	42	42
Loans	844	1,204	1,110	1,221	1,343
Other financial assets	101	126	230	241	258
Other current assets	206	161	142	149	160
<b>Total current assets</b>	<b>3,151</b>	<b>3,526</b>	<b>3,675</b>	<b>4,118</b>	<b>4,846</b>
<b>TOTAL ASSETS</b>	<b>5,188</b>	<b>6,242</b>	<b>7,842</b>	<b>9,306</b>	<b>10,868</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	24	24	24	24	24
Other equity	3,382	4,229	4,379	5,753	7,223
Equity attributable to the equity shareholders	3,406	4,253	4,403	5,777	7,247
Non-controlling interests	13	33	36	27	18
<b>Total equity</b>	<b>3,419</b>	<b>4,286</b>	<b>4,438</b>	<b>5,803</b>	<b>7,265</b>
<b>LIABILITIES</b>					
<b>Non-current liabilities</b>					
Financial liabilities					
Borrowings	85	62	766	766	766
Other financial liabilities	25	27	47	47	47
Deferred tax liabilities, (net)	0	4	13	13	14
Provisions	9	11	13	13	13
Government Grants	2	0	0	0	0
<b>Total non-current liabilities</b>	<b>121</b>	<b>104</b>	<b>838</b>	<b>839</b>	<b>840</b>
<b>Current liabilities</b>					
Financial liabilities					
Borrowings	94	76	748	748	748
Trade payables	994	1,141	1,116	1,181	1,229
Other financial liabilities	235	269	312	327	350
Other current liabilities	89	95	150	157	168
Provisions	179	197	191	201	215
Current tax liabilities, (net)	56	73	48	50	54
<b>Total current liabilities</b>	<b>1,648</b>	<b>1,851</b>	<b>2,565</b>	<b>2,664</b>	<b>2,763</b>
<b>Total liabilities</b>	<b>1,769</b>	<b>1,956</b>	<b>3,404</b>	<b>3,503</b>	<b>3,603</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>5,188</b>	<b>6,242</b>	<b>7,842</b>	<b>9,307</b>	<b>10,868</b>

Source: Company, KRChoksey Research



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Britannia Industries Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
20-Oct-20	3,553	4,125	BUY	Buy	More than 15%
05-Oct-20	3,830	4,412	BUY	Accumulate	5% – 15%
20-Jul-20	3,785	4,356	BUY	Hold	0 – 5%
03-Jun-20	3,510	4,041	BUY	Reduce	-5% – 0
15-Apr-20	2,706	3,133	BUY	Sell	Less than – 5%

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