

# Britannia Industries

3 September 2019

Reuters: BRIT.BO; Bloomberg: BRIT IN

## Slowdown will not last for long

We had an interaction with the senior management of Britannia Industries (BRIT) recently and following are some of the important takeaways from our interaction:

**Expect demand to pick up in six months:** Slowdown is across categories but categories with higher exposure to rural areas and wholesale channel are most affected. BRIT's exposure to both rural area and wholesale channel is lower compared to the industry. Value category is seeing higher impact of the slowdown and has been growing slower than the premium portfolio. Biscuits priced <Rs100/kg are actually seeing a decline in sales while >Rs100/kg are growing in double digits. The company believes that the ongoing weakness in the demand scenario will not last for long and will take two quarters to normalize. This along with base effect will help get volume growth back on track.

**Judicious pricing action and cost optimization to support margins:** In the current demand scenario, BRIT is looking to go slow on capacity expansion and is also looking to moderate costs. However, advertisement and promotion spends will not see any change. In their commodity basket, inflation in Milk and Wheat remains high. As called out in 1QFY20 conference call, the company had taken strategic position in wheat to hedge against ongoing inflation and also hiked prices in the dairy portfolio as the price of milk rose to Rs33/litre from earlier levels of Rs23/litre. Overall commodity inflation will be around 5% for the full year. Fuel rates are down, which will keep freight costs in check while labour costs have slightly gone up.

**Redefining bakery:** In the current portfolio, after dairy and biscuits, salty snacks are the next big category for BRIT in terms of the size of opportunity. Recently, the company did a test launch of the baked salty snacks in Tamil Nadu at a price point of Rs5. It aims to extend it to pan India in a phased manner. They will shortly commission a plant in the West for the snacks portfolio and will add a few more units in West and South both in future. We believe this will help BRIT to control logistics cost, which is one of the biggest cost heads in the snacking industry. The company has no intention to enter the highly competitive chocolates category but will continue to operate in bridge categories. *Pure Magic Deuce* has been doing well for the company in this category.

**Competition not a worry at present:** Entry of Amul has not changed the competitive scenario materially as it is too small at present to make an impact. It is to be noted that the price of Amul butter cookies is at a premium to BRIT's cookies (Rs10 for 40 g vs Rs10 for 66g). The company doesn't see a scenario of major price cuts and promotions in the market like the one seen last time when a new player entered the market ~10 years ago.

**Update on International business and ICDs:** The Middle East continues to remain challenging while sales to the US, Asia Pacific and Nepal continue to grow in double digits. ICDs are now lower than Rs5bn currently, from earlier levels of Rs6.85bn. The company believes hopefully another Rs1.5bn should accrue in this year. In the future, it is not likely to go beyond the current levels at any point in time.

**Outlook and valuation:** BRIT has been continuously outpacing the market, which has been seen at a higher pace in recent quarters due to the ongoing slowdown, seen sharper in value category. However, the slowdown in the category is expected to affect near term growth slightly for the company. We believe BRIT's own initiatives of new launches and innovations, distribution expansion (reducing gap with Parle) and judicious pricing (to be competitive in the market) will lead to better growth than peers. With improving product mix (premium growing faster than value category), moderate competitive intensity, modest price hike (to offset raw material inflation) and sharp focus on cost optimization (cost savings target for the current year is Rs2.65bn which was Rs2.3bn last year) should support operating margin trend. Traction in some new categories is good news for medium term growth and margins, as all the new categories they are entering are gross margin accretive, and eventually as it scales up will become EBITDA margin accretive as well. The reduction as well as sharing of further plans for reduction in ICDs in FY20 partly alleviates a significant concern that had cropped up post 4QFY19 results. We continue to remain positive on BRIT and retain our Buy rating with a revised TP of Rs3,220 (from Rs3,380 earlier), valuing it at 46x September FY21 EPS (structural opportunity makes a strong case for best-of-breed multiples), implying an upside of 19% from CMP.

## BUY

**Sector:** FMCG

**CMP:** Rs2,701

**Target Price:** Rs3,220

**Upside:** 19%

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### Key Data

Current Shares O/S (mn)	240.3
Mkt Cap (Rsbn/US\$bn)	649.3/9.1
52 Wk H / L (Rs)	3,407/2,300
Daily Vol. (3M NSE Avg.)	524,395

### Price Performance (%)

	1 M	6 M	1 Yr
Britannia Industries	4.1	(12.2)	(17.7)
Nifty Index	0.2	1.5	(5.6)

Source: Bloomberg

## Exhibit 1: Key new products launched

FY	Product innovation/new launches	Segment
2011	Good Day Chip Cookies, Treat O , Nutri Choice	Biscuit
	Acti Mind , Dahi , UHT Milk, Healthy Start - Porridge, Oats , Upma	Non-biscuit
2012	Pure Magic , 50-50 Snackfruits	Biscuit
	Gourmet cheese , Tiger flavoured milk, Multi Grain bread	Non-biscuit
2013	Variants of Time Pass, coffee variant in Bourbon	Biscuit
2014	Campaigns for Good Day , Nutri Choice, Chocolate variant in Jim Jam and Treat	Biscuit
2015	Nutri Choice Heavens, Good Day Chunkies	Biscuit
	Britannia Nut n Raisin Cake	Non-biscuit
2016	Pure Magic Chocolush, Tiger Cashew Cookies	Biscuit
2017	Good Day Choco Chips and Nuts cookies, 50-50 Mathri Masti , Nutri Choice Digestive Zero	Biscuit
	Cake Biscotti	Non-biscuit
2018	Launch of Good Day Wonderfulls, renovation of Treat, revamp of Good Day Chocolate, launch of Pure Magic Deuce – Chocolate and Vanilla	Biscuit
2019	Launch of Good Day Cashew Almond, Chunkies Cookies, Pure Magic Chocolush, Tiger Choco Cookies, whole wheat Vita Marie Gold, Treat Burst, Treat Stars, Milk Bikis Choco Cream, renovation of Bourbon, 50-50, Tiger Creams and rusk, NutriChoice Simply Lite (Sugar Free)	Biscuit
	Veg. muffins, Croissant, Wafers, Layer Cake, Brownie, Swiss Roll, Winkin Cow Milk Shakes and TimePass Salted snacks.	Non-Biscuit

Source: Nirmal Bang Institutional Equities Research

## Financials (Consolidated)

### Exhibit 2: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	90,541	99,140	110,547	121,662	139,970
<b>% Growth</b>	<b>7.6</b>	<b>9.7</b>	<b>11.6</b>	<b>10.1</b>	<b>15.1</b>
COGS	60,310	65,197	70,256	77,534	87,622
Staff costs	3,526	4,016	4,418	4,952	5,976
Other expenses	13,924	14,910	18,538	20,049	22,654
Total expenses	77,760	84,123	93,212	102,535	116,253
EBITDA	12,781	15,017	17,334	19,127	23,718
<b>% growth</b>	<b>5.2</b>	<b>17.5</b>	<b>15.4</b>	<b>10.3</b>	<b>24.0</b>
<b>EBITDA margin (%)</b>	<b>14.1</b>	<b>15.1</b>	<b>15.7</b>	<b>15.7</b>	<b>16.9</b>
Other income	1,505	1,664	2,065	2,386	2,569
Interest costs	55	76	91	404	400
Depreciation	1,193	1,421	1,619	2,054	2,525
Profit before tax (before exceptional items)	13,039	15,184	17,689	19,055	23,362
Exceptional items	0	0	0	0	0
Tax	4,197	5,142	6,125	6,479	7,943
PAT	8,842	10,041	11,564	12,576	15,419
Adj PAT	8,842	10,041	11,564	12,576	15,419
<b>Adj. PAT margin (%)</b>	<b>9.6</b>	<b>10.0</b>	<b>10.3</b>	<b>10.1</b>	<b>10.8</b>
<b>% Growth</b>	<b>7.3</b>	<b>13.6</b>	<b>15.2</b>	<b>8.8</b>	<b>22.6</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 4: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	240	240	240	240	240
Reserves	26,724	33,822	42,292	44,406	45,492
Minority interest	26	131	327	0	0
Net worth	26,964	34,062	42,533	44,647	45,732
Total debt	1,246	2,007	1,380	1,304	1,236
Deferred tax liability	(231)	(226)	(138)	(138)	(138)
<b>Total liabilities</b>	<b>28,005</b>	<b>35,975</b>	<b>44,102</b>	<b>45,813</b>	<b>46,830</b>
Gross block	12,309	15,554	20,578	25,078	28,078
Depreciation	1,988	3,380	4,998	7,053	9,578
Net block	10,322	12,174	15,579	18,025	18,500
Intangible assets	1,278	1,282	1,304	1,304	1,304
Capital work-in-progress	301	2,028	1,012	1,012	1,012
Investments	4,869	10,793	14,763	18,022	18,907
Inventories	6,615	6,528	7,814	8,092	9,312
Debtors	1,792	3,046	3,942	3,767	4,258
Cash	1,208	1,864	1,098	1,718	1,562
Loans & advances	11,546	11,883	14,873	11,663	11,951
Other current assets	2,929	2,056	1,608	1,608	1,608
Total current assets	24,088	25,377	29,336	26,848	28,690
Creditors	7,573	9,941	11,405	12,354	13,909
Other current liabilities & provisions	5,279	5,738	6,487	7,045	7,674
Total current liabilities	12,852	15,678	17,892	19,399	21,583
Net current assets	11,236	9,698	11,444	7,450	7,108
<b>Total assets</b>	<b>28,005</b>	<b>35,975</b>	<b>44,102</b>	<b>45,813</b>	<b>46,830</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
PAT	8,842	10,041	11,564	12,576	15,419
Depreciation	1,193	1,421	1,619	2,054	2,525
Other income	1,505	1,664	2,065	2,386	2,569
(Inc.)/dec. in working capital	(4,514)	2,283	(2,512)	4,614	186
<b>Cash flow from operations</b>	<b>4,413</b>	<b>12,488</b>	<b>8,825</b>	<b>17,262</b>	<b>15,961</b>
Capital expenditure (-)	(2,571)	(5,001)	(4,008)	(4,500)	(3,000)
<b>Net cash after capex</b>	<b>1,842</b>	<b>7,487</b>	<b>4,816</b>	<b>12,762</b>	<b>12,961</b>
Dividends paid (-)	(2,884)	(3,174)	(4,189)	(8,768)	(14,334)
DDT paid (-)					
Inc./(dec.) in investments	3,593	(5,374)	(3,970)	(3,260)	(884)
<b>Cash from financial activities</b>	<b>(2,951)</b>	<b>(2,318)</b>	<b>(4,906)</b>	<b>(9,248)</b>	<b>(14,802)</b>
Opening cash balance	877	1,208	1,864	1,099	1,718
Closing cash balance	1,208	1,864	1,099	1,718	1,562
Change in cash balance	331	657	(766)	619	(156)

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 5: Key ratios

Y/E March	FY17	FY18	FY19	FY20E	FY21E
<b>Per share (Rs)</b>					
EPS	36.8	41.8	48.1	52.3	64.2
Book value	112.4	141.9	177.0	185.8	190.3
DPS	11.0	12.5	15.0	31.4	51.3
<b>Valuation (x)</b>					
P/sales	7.2	6.6	5.9	5.3	4.6
EV/sales	0.7	0.6	0.5	0.4	0.3
EV/EBITDA	4.7	3.6	2.9	2.4	1.9
P/E	73.4	64.7	56.2	51.7	42.2
P/BV	24.1	19.1	15.3	14.6	14.2
<b>Return ratios (%)</b>					
RoCE	46.0	42.3	39.3	38.0	45.6
RoE	32.8	29.5	27.2	28.2	33.7
<b>Profitability ratios (%)</b>					
Gross margin	33.4	34.2	36.4	36.3	37.4
EBITDA margin	14.1	15.1	15.7	15.7	16.9
EBIT margin	12.8	13.7	14.2	14.0	15.1
PAT margin	9.6	10.0	10.3	10.1	10.8
<b>Liquidity ratios (%)</b>					
Current	1.9	1.6	1.6	1.4	1.3
Quick	1.4	1.2	1.2	1.0	0.9
<b>Solvency ratio (%)</b>					
Debt-to-equity	4.6	5.9	3.2	2.9	2.7
<b>Turnover ratios</b>					
Total asset turnover (x)	3.2	2.7	2.5	2.6	3.0
Fixed asset turnover (x)	8.5	7.0	6.7	6.4	7.2
Inventory days	28	31	31	32	31
Debtor days	7	9	12	12	11
Creditor days	49	52	59	60	58

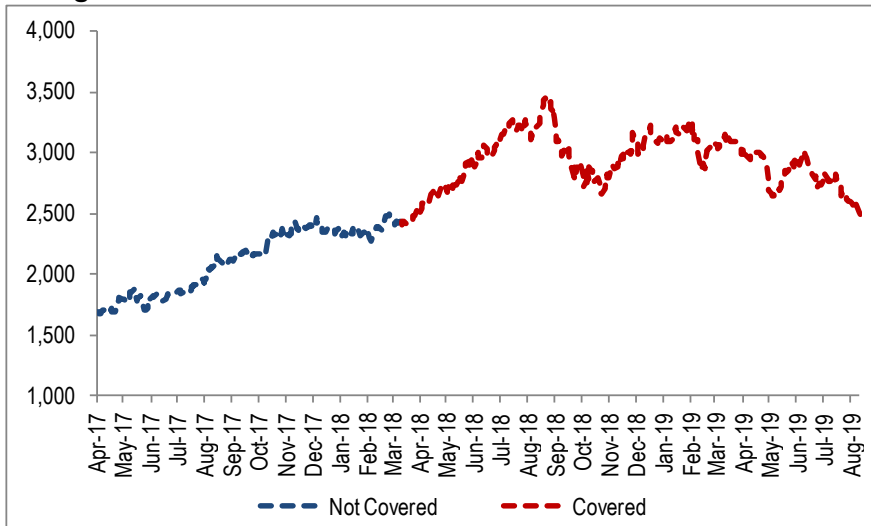
Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
13 March 2018	Buy	4,867	5,850
18 May 2018	Buy	5,477	6,350
8 August 2018	Buy	6,200	7,120
14 November 2018	Buy	5,812	6,700
12 February 2019*	Buy	3,108*	3,600*
6 March 2019	Buy	3,068	3,600
3 May 2019	Buy	2,786	3,500
22 May 2019	Buy	2,852	3,500
3 September 2019	Buy	2,705	3,220

\*Stock split from FV Rs2/share to Rs1/share on 29<sup>th</sup> November, 2018.

## Rating chart



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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