

# Britannia Industries

23 May 2019

Reuters: BRIT.BO; Bloomberg: BRIT IN

## Growth Challenges Persist

We had an interaction with the senior management of Britannia Industries (BRIT) recently.

Following are some of the important takeaways from our interaction:

**Top-line sluggish:** Growth challenges still persist amid the slowdown witnessed by the industry and it may take some time to recover, but the management expects these challenges to be of transient nature and that we can expect a revival in the second-half of FY20. Factors like liquidity constraints and farmer distress have impacted consumer sentiment, but the underlying fundamentals remain intact. Adding to the above, the management is of the opinion that although it is a countrywide slowdown it does not expect the growth rate in FMCG to remain in low single digit for too long. The management appeared confident that the moderation witnessed in BRIT's growth rate which dropped to single digit should see some improvement in FY20. Further, it mentioned that the focus is going to be on driving revenue growth rather than volume growth and that it would go for a price hike to offset the inflation in raw material prices.

**Innovation is a big priority:** The management aims to take the contribution from product innovation to 7.5%-8% in FY20, which stood at 4%-5% in FY19. The innovation portfolio is going to be gross margin- accretive. Commenting on cross category innovation undertaken by the company in the past few quarters, the management stated that milk shakes, cakes (Swiss rolls, layered and brownies) and croissants have had a fair degree of success and grew in double digits. Salty snack was introduced in Tamil Nadu and has received a good response. The company launched salty snacks in three formats, two of which have been launched and the third one will be launched in a month's time. The management explained that the company will be steering clear of potato-based snacks which constitute 30% of the salty snack market because of seasonality in prices of potatoes and also because it is not easy to store them. In addition to potato-based snacks, the company will also refrain from venturing into namkeens as the margins are very low in that segment. The company is also expected to benefit from its strategy of product differentiation, having a wide manufacturing and distribution footprint and relaxed regulations for grammage as compared to biscuits. The innovation intensity is expected to remain strong going forward as the company has made significant investments in its innovation pipeline. The innovation portfolio will help improve price mix and sustain the premiumisation momentum.

**Cost headwinds:** The management expects some inflation in wheat and sugar prices in the range of 3%-3.5%. Milk prices are also expected to experience some inflation after a prolonged period of prices remaining benign. Although cost headwinds have re-emerged, the company went for selective price hikes in 1QFY20 to offset the inflation in raw materials, and the management indicated that it intends to continue going for price hikes gradually throughout the year in order to offset the cost challenges that the company is expected to face. Further, product mix improvement and cost efficiency programmes will function as sizeable moats to protect earnings as well as margins. The company plans to offset the cost challenges by going for selective price hikes in 1QFY20 and 2QFY20. The weighted average price hike undertaken by the company is around 1.5%. Product mix improvement of 2% will offset inflation, further the cost efficiency programme will yield 2% savings for the year.

**Outlook:** Despite the sluggish growth environment and cost challenges, the company remains highly competitive and we expect to see some improvement in 1QFY20 aided by general elections in India. We retain our positive stance on the company, given how well positioned it is to counter the cost challenges with the help of product mix improvement and its cost efficiency programme. We have retained Buy rating on the stock with a target price of Rs3,500 implying an upside of 23% from the current market price.

## BUY

**Sector:** FMCG

**CMP:** Rs2,852

**Target Price:** Rs3,500

**Upside:** 23%

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### Key Data

Current Shares O/S (mn)	240.3
Mkt Cap (Rsbn/US\$bn)	685.5/9.8
52 Wk H / L (Rs)	3,472/2,610
Daily Vol. (3M NSE Avg.)	485,400

### Price Performance (%)

	1 M	6 M	1 Yr
Britannia Industries	(4.6)	(5.0)	(0.2)
Nifty Index	1.4	11.5	12.5

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 & 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,	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 (standalone)

### Exhibit 2: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net sales	90,541	99,140	110,548	125,950	144,049
<b>% Growth</b>	<b>7.8</b>	<b>9.5</b>	<b>11.5</b>	<b>13.9</b>	<b>14.4</b>
COGS	55,887	61,071	65,615	74,454	85,340
Staff costs	3,526	4,016	4,418	5,096	5,581
Other expenses	18,346	19,036	23,194	25,334	28,071
Total expenses	77,759	84,123	93,227	104,884	118,993
EBITDA	12,782	15,017	17,321	21,066	25,057
<b>% growth</b>	<b>5.3</b>	<b>17.5</b>	<b>15.3</b>	<b>21.6</b>	<b>18.9</b>
<b>EBITDA margin (%)</b>	<b>14.1</b>	<b>15.1</b>	<b>15.7</b>	<b>16.7</b>	<b>17.4</b>
Other income	1,505	1,664	2,078	1,719	3,545
Interest costs	55	76	91	72	97
Depreciation	1,193	1,421	1,619	1,925	2,170
Profit before tax (before exceptional items)	13,040	15,184	17,689	20,789	26,334
Exceptional items	-	-	-	-	-
Tax	4,197	5,142	6,125	6,948	8,822
PAT	8,843	10,041	11,564	13,841	17,512
Adj PAT	8,843	10,041	11,564	13,841	17,512
<b>Adj. PAT margin (%)</b>	<b>9.6</b>	<b>10.0</b>	<b>10.3</b>	<b>10.8</b>	<b>11.9</b>
<b>% Growth</b>	<b>7.3</b>	<b>13.5</b>	<b>15.2</b>	<b>19.7</b>	<b>26.5</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	49,282	61,034
Minority interest	26	131	327	327	327
Net worth	26,964	34,062	42,532	49,522	61,274
Total debt	1,246	1,782	1,380	2,204	2,665
Deferred tax liability	(231)	(226)	(99)	(99)	(99)
<b>Total liabilities</b>	<b>27,403</b>	<b>35,174</b>	<b>43,766</b>	<b>51,098</b>	<b>63,116</b>
Gross block	11,796	15,106	20,133	23,133	25,633
Depreciation	1,591	3,011	4,630	6,555	8,725
Net block	10,205	12,094	15,503	16,578	16,908
Intangible assets	1,395	1,362	1,380	1,700	1,850
Capital work-in-progress	301	2,029	1,012	1,412	1,912
Investments	4,869	10,793	14,763	15,744	18,150
Inventories	6,615	6,528	7,814	6,873	9,961
Debtors	1,792	3,046	3,942	1,579	4,736
Cash	1,208	1,864	1,098	7,950	12,485
Loans & advances	9,682	10,792	13,779	16,373	19,015
Other current assets	2,929	2,056	1,608	3,149	3,601
Total current assets	23,392	31,512	35,263	42,852	57,432
Creditors	7,573	9,941	11,405	10,625	14,626
Other current liabilities & provisions	3,213	3,813	4,383	3,841	4,466
Total current liabilities	13,454	16,480	18,514	21,268	26,942
Net current assets	9,938	15,032	16,749	21,584	30,490
<b>Total assets</b>	<b>27,403</b>	<b>35,173</b>	<b>43,766</b>	<b>51,098</b>	<b>63,116</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 3: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
PAT	8,846	10,040	11,555	13,841	17,512
Depreciation	1,193	1,421	1,619	1,925	2,170
Other income	(1,505)	(1,664)	(2,078)	(1,719)	(3,545)
(Inc.)/dec. in working capital	(2,120)	1,765	28	5,434	(842)
<b>Cash flow from operations</b>	<b>6,414</b>	<b>11,561</b>	<b>11,123</b>	<b>19,480</b>	<b>15,296</b>
Capital expenditure (-)	(2,588)	(5,038)	(4,011)	(3,400)	(3,000)
<b>Net cash after capex</b>	<b>3,826</b>	<b>6,524</b>	<b>7,112</b>	<b>16,080</b>	<b>12,296</b>
Dividends paid (-)	(2,400)	(3,000)	(3,600)	(4,080)	(4,800)
DDT paid (-)	(489)	(600)	(720)	(816)	(960)
Inc./(dec.) in investments	3,015	(5,924)	(3,970)	(981)	(2,406)
<b>Cash from financial activities</b>	<b>(2,733)</b>	<b>(3,028)</b>	<b>(4,568)</b>	<b>(3,930)</b>	<b>(5,223)</b>
Opening cash balance	877	1,208	1,864	1,098	7,950
Closing cash balance	1,208	1,864	1,098	7,950	12,485
Change in cash balance	331	657	(766)	6,853	4,534

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	36.9	41.8	48.1	57.7	73.0
Book value	112.4	141.9	177.2	206.3	255.3
DPS	10.0	12.5	15.0	17.0	20.0
<b>Valuation (x)</b>					
P/sales	8.9	7.7	6.7	5.9	5.2
EV/sales	4.5	7.6	6.6	5.8	5.0
EV/EBITDA	31.5	50.0	42.3	34.6	28.8
P/E	91.5	75.7	64.0	53.8	42.5
P/BV	15.0	22.3	17.4	15.0	12.1
<b>Return ratios (%)</b>					
RoCE	46.0	42.5	39.4	40.0	39.6
RoE	37.0	32.9	30.2	30.1	31.6
<b>Profitability ratios (%)</b>					
Gross margin	38.3	38.4	40.6	40.9	40.8
EBITDA margin	14.1	15.1	15.7	16.7	17.4
EBIT margin	12.8	13.7	14.2	15.2	15.9
PAT margin	14.2	15.1	15.7	16.3	17.8
<b>Liquidity ratios (%)</b>					
Current	1.7	1.9	1.9	2.0	2.1
Quick	1.2	1.5	1.5	1.7	1.8
<b>Solvency ratio (%)</b>					
Debt-to-equity	-	0.1	-	-	-
<b>Turnover ratios</b>					
Total asset turnover (x)	2.2	1.9	1.8	1.7	1.6
Fixed asset turnover (x)	8.6	7.0	6.7	7.0	7.7
Inventory days	36	39	40	36	36
Debtor days	7	9	12	8	8
Creditor days	50	52	59	54	54

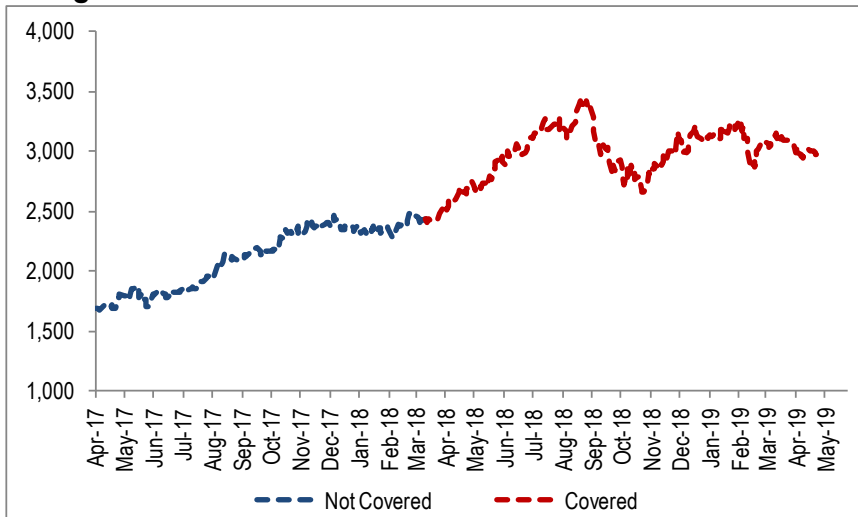
Source: Company, Nirmal Bang Institutional Equities Research

## 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

\*Stock split from FV of Rs2/share to Re1/share on 29 November 2018

## Rating chart



## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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