

# Retail Equity Research

## Britannia Industries Limited

FMCG

BSE CODE: 500825 NSE CODE: BRITANNIA  
Bloomberg CODE: BRIT:IN SENSEX: 40,575

**HOLD**

12M Investment period Rating as per Large Cap  
CMP Rs 3,072 TARGET Rs 3,285 RETURN 7% ↑  
(Closing: 21-11-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

### Subdued Topline Growth

Britannia Industries Limited is a leading food-products company in India. The company sells various brands of confectionaries in India and globally.

- Q2FY20 revenue increased by 5.9% YoY to Rs. 3,023cr in contrast to 12.6% growth in Q2 FY19 mainly due to slowdown in demand.
- EBIT grew 7.2% YoY to Rs. 447cr (margin +18bps YoY) due to better cost efficiencies, leveraging of fixed cost and reduction in wastages.
- PBT stood at Rs. 498cr (8.6% YoY) and adj. PAT improved 33.8% YoY to Rs. 405cr due to reduction in corporate tax rate rates.
- We've cut the FY20E/FY21E topline forecasts by 2.4% and 4.1% due to slow recovery of market demand but increased our PAT forecasts for FY20E/FY21E by 10.3% and 9.9% respectively due to lower tax rate.
- Bearish demand scenario is likely to hinder the company's growth despite it having the highest market share in the industry. Hence, we maintain HOLD rating on the stock with a revised target price of Rs. 3,285 based on 48x FY21E adj. EPS

### Decelerated revenue growth due to slow demand environment

Revenue for Q2FY20 stood at Rs 3,023cr (5.9% YoY), reaching the Rs. 3000cr benchmark for the first time. However, 24 month growth in Q2FY20 has fallen to 19% against the base of 21% in Q2FY19 due to tough demand scenario. Britannia has managed to increase its market share and further widened the gap between it and the competitors through innovation and launch of new products across various portfolios. The overall commodity inflation remained moderate at 3%, despite huge inflation of 14% in flour, 37% in milk and 1% in sugar which was offset by the deflation of 13% in palm oil. The company managed to improve its operating profitability by reducing wastages, leveraging fixed costs and improving efficiency. The operating margin stood at all time high of 14.8%.

### Key concall highlights

- Britannia relaunched Good day, Nutrigoice Arrowroot and Nutrigoice Cream Cracker biscuits along with the test launch of Little Hearts Strawberry in the West and Limited Edition launch of Treat in Tiramisu flavor.
- The company has increased total direct distribution reach to 300,000 outlets and rural distributors have increased by 2,000 in H1FY20.
- High-Tech Food Park in Ranjangaon is now functional with 12 operating lines including 8 lines of biscuits, 2 cake lines, 1 croissant line and 1 salty snack line. It has total capacity of 140,000 tons per annum.
- Britannia continues to face challenging environment in Middle East and Africa whereas it has double digit growth in Americas. The company has attained steep market share gain in Nepal.

### Tax cut thrusts PAT growth

PBT for Q2FY20 stood at Rs. 498cr (8.6% YoY) and adj. PAT surged by 33.8% YoY to Rs. 405cr due to the tax cut provided by the government as a step to increase investments and revive the economy. We estimate PAT growth of 19.1% CAGR from FY19-21E and EBITDA margin to improve to 16.5% by FY21E.

### Valuation

We believe that the company's strong fundamentals and diversified portfolio will help the company sustain as the market leader. However, the low demand in the economy is likely to dampen its growth. Hence we reiterate HOLD rating on the stock with a revised target price of Rs. 3,285 based on 48x FY21E adj. EPS.

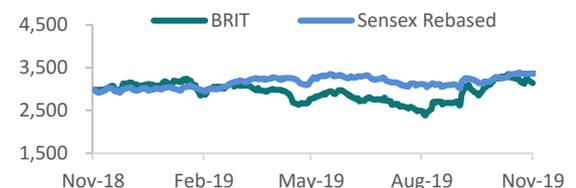
### Company Data

Market Cap (cr)	Rs.75,460
Enterprise Value (cr)	Rs.75,256
Outstanding Shares (cr)	24.0
Free Float	49.0%
Dividend Yield	0.5%
52 week high	Rs.3,444
52 week low	Rs.2,302
6m average volume	23,227
Beta	0.5
Face value	Rs.1

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	50.7	50.7	50.7
FII's	15.8	15.7	15.2
MFs/Insti	12.4	13.1	13.6
Public	15.6	15.8	15.5
Others	5.7	4.8	5.1
Total	100.0	100.0	100.0
Promotor pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	25.6%	13.0%	-47.2%
Absolute Sensex	7.9%	6.2%	13.6%
Relative Return*	17.8%	6.8%	-60.8%

\*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	10,973	11,840	13,261
Growth (%)	10.8	7.9	12.0
EBITDA	1,733	1,875	2,187
EBITDA Margin (%)	15.8	15.8	16.5
Adj. PAT	1,159	1,401	1,645
Growth (%)	15.4	20.9	17.4
Adj. EPS	48.2	58.3	68.4
Growth (%)	15.4	20.9	17.4
P/E	63.6	53.9	45.9
P/B	17.3	14.3	11.5
EV/EBITDA	42.6	40.2	34.1
ROE (%)	27.3	26.2	25.1
D/E	0.0	0.0	0.0

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	3,023	2,855	5.9	2,677	12.9	5,700	5,382	5.9
<b>EBITDA</b>	<b>492</b>	<b>454</b>	<b>8.3</b>	<b>395</b>	<b>24.7</b>	<b>887</b>	<b>844</b>	<b>5.1</b>
EBITDA margins	16.3	15.9	37bps	14.7	154bps	15.6	15.7	(12bps)
Depreciation	45	37	21.5	45	0.2	90	73	23.5
<b>EBIT</b>	<b>447</b>	<b>417</b>	<b>7.2</b>	<b>350</b>	<b>27.9</b>	<b>797</b>	<b>771</b>	<b>3.4</b>
Interest	16	2	566.9	10	59.8	26	5	439.9
Other Income	68	44	55.2	67	1.5	136	86	57.9
Exceptional Items	(1)	0	-	(16)	-	(17)	0	-
<b>PBT</b>	<b>498</b>	<b>459</b>	<b>8.6</b>	<b>392</b>	<b>27.2</b>	<b>890</b>	<b>852</b>	<b>4.4</b>
Tax	96	156	(38.7)	143	(33.2)	236	291	(18.1)
Share of profit from Associate	0	0	-	0	-	0	0	-
Minority Interest	(1)	0	-	(2)	-	(4)	0	-
<b>Reported PAT</b>	<b>404</b>	<b>303</b>	<b>33.4</b>	<b>251</b>	<b>61.0</b>	<b>655</b>	<b>561</b>	<b>16.8</b>
Adjustments	1	0	-	16	(92.8)	17	0	-
<b>Adjusted PAT</b>	<b>405</b>	<b>303</b>	<b>33.8</b>	<b>267</b>	<b>52.0</b>	<b>672</b>	<b>561</b>	<b>19.7</b>
No. of shares	24	24	-	24	-	24	24	-
<b>EPS (Rs)</b>	<b>16.9</b>	<b>12.6</b>	<b>33.8</b>	<b>11.1</b>	<b>52.1</b>	<b>28.0</b>	<b>23.4</b>	<b>19.7</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	12,126	13,823	11,840	13,261	(2.4)	(4.1)
EBITDA	2,090	2,479	1,875	2,187	(10.3)	(11.8)
Margins (%)	17.2	17.9	15.8	16.5	(137bps)	(141bps)
Adj. PAT	1,270	1,497	1,401	1,645	10.3	9.9
EPS	52.9	62.3	58.3	68.4	10.3	9.9



## PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Revenue</b>	<b>9,232</b>	<b>9,906</b>	<b>10,973</b>	<b>11,840</b>	<b>13,261</b>
% change	4.5	7.3	10.8	7.9	12.0
<b>EBITDA</b>	<b>1,278</b>	<b>1,502</b>	<b>1,733</b>	<b>1,875</b>	<b>2,187</b>
% change	4.2	17.5	15.4	8.1	16.7
Depreciation	119	142	162	185	195
<b>EBIT</b>	<b>1,159</b>	<b>1,360</b>	<b>1,572</b>	<b>1,690</b>	<b>1,993</b>
Interest	5	8	9	50	9
Other Income	151	166	205	234	244
<b>PBT</b>	<b>1,304</b>	<b>1,518</b>	<b>1,768</b>	<b>1,874</b>	<b>2,228</b>
% change	8.9	16.4	16.5	6.0	18.9
Tax	420	514	612	497	591
Tax Rate (%)	32.2	33.9	34.6	26.5	26.5
<b>Reported PAT</b>	<b>884</b>	<b>1,004</b>	<b>1,159</b>	<b>1,384</b>	<b>1,645</b>
Adj*	-	-	-	17	-
<b>Adj PAT</b>	<b>884</b>	<b>1,004</b>	<b>1,159</b>	<b>1,401</b>	<b>1,645</b>
% change	9.7	13.5	15.4	20.9	17.4
No. of shares (cr)	24.0	24.0	24.0	24.0	24.0
<b>Adj EPS (Rs)</b>	<b>36.9</b>	<b>41.8</b>	<b>48.2</b>	<b>58.3</b>	<b>68.4</b>
% change	9.7	13.4	15.4	20.9	17.4
DPS (Rs)	11.0	12.5	15.0	15.0	15.0
CEPS (Rs)	41.8	47.7	55.0	67.0	78.3

## CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Net inc. + Depn.</b>	<b>1,004</b>	<b>1,146</b>	<b>1,321</b>	<b>1,592</b>	<b>1,883</b>
Non-cash adj.	(332)	219	49	(9)	(21)
Changes in W.C	(231)	(116)	(214)	(315)	(179)
<b>C.F. Operation</b>	<b>441</b>	<b>1,249</b>	<b>1,156</b>	<b>1,268</b>	<b>1,683</b>
Capital exp.	(352)	(421)	(399)	(433)	(485)
Change in inv.	345	(537)	(334)	(275)	(270)
Other invest.CF	(143)	2	(122)	(41)	(45)
<b>C.F - Investment</b>	<b>(150)</b>	<b>(956)</b>	<b>(856)</b>	<b>(749)</b>	<b>(801)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	(7)	67	(42)	(20)	(25)
Dividends paid	(288)	(317)	(354)	(360)	(360)
Other finance.CF	0	18	44	-	-
<b>C.F - Finance</b>	<b>(295)</b>	<b>(232)</b>	<b>(353)</b>	<b>(380)</b>	<b>(385)</b>
Chg. in cash	(4)	61	(52)	138	497
Closing cash	121	186	110	248	744

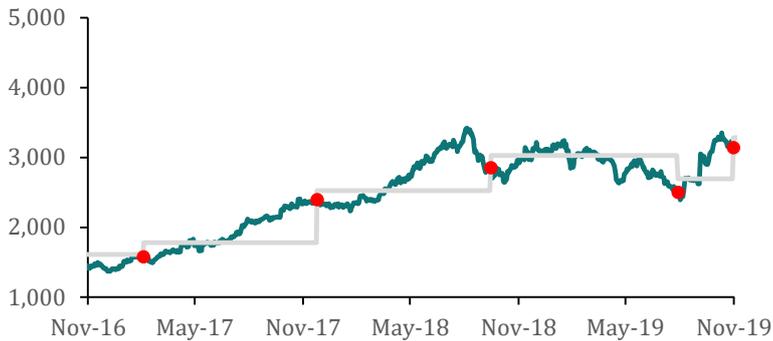
## BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	121	186	110	248	744
Accounts Receivable	179	305	394	425	476
Inventories	661	653	781	1,066	1,193
Other Cur. Assets	1,378	2,007	2,241	2,548	2,911
Investments	327	237	741	814	893
Gross Fixed Assets	1,164	1,519	2,022	2,455	2,940
Net Fixed Assets	1,005	1,194	1,536	1,761	2,007
CWIP	30	203	101	111	123
Intangible Assets	139	136	138	152	167
Def. Tax (Net)	23	23	14	11	13
Other Assets	244	243	186	204	225
<b>Total Assets</b>	<b>4,109</b>	<b>5,188</b>	<b>6,242</b>	<b>7,340</b>	<b>8,754</b>
Current Liabilities	1,261	1,554	1,775	1,877	2,038
Provisions	8	9	11	13	14
Debt Funds	139	203	165	145	120
Other Liabilities	2	2	4	3	4
Equity Capital	24	24	24	24	24
Reserves & Surplus	2,672	3,382	4,229	5,253	6,537
Shareholder's Fund	2,696	3,406	4,253	5,277	6,561
Minority Interest	3	13	33	25	17
<b>Total Liabilities</b>	<b>4,109</b>	<b>5,188</b>	<b>6,242</b>	<b>7,340</b>	<b>8,754</b>
<b>BVPS (Rs)</b>	<b>112</b>	<b>142</b>	<b>177</b>	<b>220</b>	<b>273</b>

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	13.8	15.2	15.8	15.8	16.5
EBIT margin (%)	12.6	13.7	14.3	14.3	15.0
Net profit mgn.(%)	9.6	10.1	10.6	11.7	12.4
ROE (%)	32.8	29.5	27.3	26.2	25.1
ROCE (%)	40.8	37.5	35.3	31.0	29.7
<b>W.C &amp; Liquidity</b>					
Receivables (days)	7.1	11.2	13.1	13.1	13.1
Inventory (days)	41.2	38.5	43.5	54.8	54.8
Payables (days)	47.2	58.7	63.4	63.4	63.4
Current ratio (x)	1.7	1.9	1.9	2.2	2.5
Quick ratio (x)	0.4	0.8	0.7	0.8	1.1
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	6.4	7.4	6.2	5.3	4.9
Total asset T.O (x)	2.4	2.1	1.9	1.7	1.6
Int. covge. ratio (x)	212.6	179.1	172.9	33.8	221.4
Adj. debt/equity (x)	0.1	0.1	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	4.3	5.9	6.7	6.4	5.6
EV/EBITDA (x)	31.0	39.2	42.6	40.2	34.2
P/E (x)	44.8	58.7	63.6	53.9	45.9
P/BV (x)	14.7	17.3	17.3	14.3	11.5

## Recommendation Summary



Source: Bloomberg, Geojit Research

Dates	Rating	Target
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17-Nov-16	HOLD	1,611
21-Feb-17	BUY	1,779
12-Dec-17	HOLD	2,525
3-Oct-18	HOLD	3,031
16-Aug-19	HOLD	2,695
21-Nov-19	HOLD	3,285

## Investment Rating Criteria

### Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

### Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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