

Retail Equity Research

Britannia Industries Limited

Food Products

BSE CODE: 500825

NSE CODE: BRITANNIA

Bloomberg CODE: BRIT:IN

SENSEX: 37,930

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs. 3,879 TARGET Rs. 4,240 RETURN 9% ↑
(Closing: 20-07-20)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↑

Solid quarter; Valuation stretched

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

- Revenue grew 26.4% YoY in Q1FY21, owing to increase in volumes and favorable pricing and mix. Rural demand was more upbeat than Urban.
- EBITDA surged 81.7% YoY as margin expanded ~650bps to 21.2%, on the back of softer Flour and Milk costs along with decline in Advertising and Sales promotion (A&SP) expenses.
- The Company's upbeat demand, solid distribution network along with operational efficiencies should drive growth in the upcoming quarters. Therefore, we have revised our PAT estimates upwards by 10.1%/8.4% for FY21E/FY22E.
- However, the current valuation of the company looks stretched with limited upside potential. Hence we downgrade our rating on the stock to a HOLD with a revised target price of Rs. 4,240 based on 52x FY22E EPS.

Strong increase in revenue driven by volume growth

In Q1FY21, Britannia achieved one of the strongest growth in topline of 26.4% YoY (of which ~21.5% was attributable to volume growth and ~5% due to favorable mix and pricing) to reach Rs. 3,384cr. Direct reach outlets during the quarter rose to 21.5 lacs (vs. 19.7 lacs in Q4FY20). The company's continued focus on rural sales (~37% of total revenue) led to robust increase in Rural Preferred Dealers (RPDs) to 22k (vs. 19k in Q4FY20). Amongst other channels, Modern trade remained subdued as many stores remained shut down due to COVID-19, alternate channels such as institutional businesses were the worst hit. However, some respite came in from sharp increase of ~300% from E-commerce (~1% of total business).

Margin continues to expand on lower costs

EBITDA margin expanded ~650bps to 21.2% with EBITDA growing by 81.7% YoY to Rs. 717cr on the back of improvement in gross margin (softening in input costs from Flour and Milk) and lower spends on A&SP in Q1FY21. Reported Profit also doubled to Rs. 546cr (vs. Rs. 251cr in Q1FY20). The company plans to add 5 new facilities along with capacity expansion in Orissa plant, to meet the sharp rise in demand. This would lead to an additional capital expenditure of Rs. ~700cr over the next 2-3 years for the bakery products, apart from the new dairy plant already planned.

Key concall highlights

- Overall raw material inflation stood at 3% in Q1FY21, with prices for Milk and Flour experiencing deflation, Sugar having moderate inflation while RPO (Refined Palm Oil) inflation increased sharply (23.0% in Q1FY21). Management expects good monsoon and harvest to keep inflation in check.
- Britannia plans to scale up the A&SP spends to earlier quarter levels in the upcoming quarters.
- Uttar Pradesh is becoming the second largest market for the Company.

Valuation

The company was able to recover quickly post country wide lockdown especially considering the normalcy in Direct reach outlets. The demand during the quarter also remained strong along with cost prudent measures which led to healthy growth in bottom line. Hence, we have revised our FY21E/FY22E EPS estimates up by 10.1%/8.4%. However, the current valuation seems expensive. As a result, we downgrade our rating to HOLD on the stock with a target price of Rs. 4,240 based on 52x FY22E EPS.

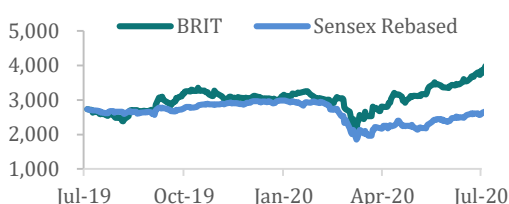
Company Data

Market Cap (cr)	Rs. 95,767
Enterprise Value (cr)	Rs. 96,980
Outstanding Shares (cr)	24.1
Free Float	49.0%
Dividend Yield	0.9%
52 week high	Rs. 3,993
52 week low	Rs. 2,101
6m average volume (lacs)	0.3
Beta	0.8
Face value	Rs. 1

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	50.6	50.6	50.6
FII's	15.8	14.7	14.7
MFs/Insti	13.6	13.4	12.7
Public	15.4	15.4	15.0
Others	4.6	5.9	7.1
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	42.3%	28.1%	45.9%
Absolute Sensex	18.2%	-9.9%	-2.4%
Relative Return*	24.0%	38.0%	48.3%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	11,444	13,126	14,603
Growth (%)	4.3	14.7	11.3
EBITDA	1,843	2,346	2,639
EBITDA Margin (%)	16.1	17.9	18.1
Adj. PAT	1,420	1,753	1,960
Growth (%)	22.5	23.5	11.8
Adj. EPS	59.0	72.9	81.5
Growth (%)	22.4	23.4	11.8
P/E	45.6	54.7	48.9
P/B	14.7	17.8	14.9
EV/EBITDA	35.9	41.4	36.6
ROE (%)	31.9	32.7	30.4
D/E	0.4	0.2	0.2

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Revenue	3,384	2,677	26.4	2,808	20.5
EBITDA	717	395	81.7	454	57.8
EBITDA margins	21.2	14.7	650bps	16.2	500bps
Depreciation	48	45	7.1	48	(1.1)
EBIT	669	350	91.2	406	64.8
Interest	26	10	153.6	27	(5.1)
Other Income	94	67	39.0	62	51.9
Exceptional Items	(0)	(16)	99.4	17	(100.5)
PBT	737	392	88.2	457	61.2
Tax	194	143	35.9	85	128.9
Share of profit from Associate	0	0	400.0	0	(9.1)
Minority Interest	(3)	(2)	(26.4)	(2)	(25.8)
Reported PAT	546	251	117.4	375	45.6
Adjustments	0	16	(99.4)	(17)	100.5
Adj. PAT	546	267	104.7	358	52.4
No. of shares	24.1	24.1	0.0	24.0	0.0
Adj. EPS (Rs.)	22.7	11.1	104.7	14.9	52.4

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	13,052	14,553	13,126	14,603	0.6	0.3
EBITDA	2,163	2,490	2,346	2,639	8.4	6.0
Margins (%)	16.6	17.1	17.9	18.1	130bps	96bps
Adj. PAT	1,591	1,806	1,753	1,960	10.2	8.5
Adj. EPS	66.2	75.2	72.9	81.5	10.1	8.4

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	9,906	10,973	11,444	13,126	14,603
% change	7.3	10.8	4.3	14.7	11.3
EBITDA	1,502	1,733	1,843	2,346	2,639
% change	17.5	15.4	6.3	27.3	12.5
Depreciation	142	162	185	191	221
EBIT	1,360	1,572	1,658	2,154	2,418
Interest	8	9	77	63	57
Other Income	166	205	263	284	290
PBT	1,518	1,768	1,844	2,375	2,651
% change	16.4	16.5	4.3	28.8	11.6
Tax	514	612	451	630	703
Tax Rate (%)	33.9	34.6	24.4	26.5	26.5
Reported PAT	1,004	1,159	1,403	1,753	1,960
Adj*	-	-	17	-	-
Adj PAT	1,004	1,159	1,420	1,753	1,960
% change	13.5	15.4	22.5	23.5	11.8
No. of shares (cr)	24.0	24.0	24.0	24.1	24.1
Adj EPS (Rs.)	41.8	48.2	59.0	72.9	81.5
% change	13.4	15.4	22.4	23.4	11.8
DPS (Rs.)	12.5	15.0	35.0	32.8	37.0
CEPS (Rs.)	47.7	55.0	66.7	80.8	90.7

BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	186	110	123	154	373
Accounts Receivable	305	394	320	524	612
Inventories	653	781	741	823	934
Other Cur. Assets	2,007	2,241	2,491	2,669	2,940
Investments	237	741	1,899	1,993	2,092
Gross Fixed Assets	1,519	2,022	2,203	2,662	3,137
Net Fixed Assets	1,194	1,536	1,716	1,984	2,238
CWIP	203	101	40	40	40
Intangible Assets	136	138	147	147	147
Def. Tax (Net)	23	14	20	32	35
Other Assets	243	186	346	346	346
Total Assets	5,188	6,242	7,842	8,713	9,756
Current Liabilities	1,554	1,775	1,817	1,947	2,130
Provisions	9	11	13	13	13
Debt Funds	203	165	1,561	1,341	1,141
Other Liabilities	2	4	13	18	20
Equity Capital	24	24	24	24	24
Reserves & Surplus	3,382	4,229	4,379	5,343	6,414
Shareholder's Fund	3,406	4,253	4,403	5,367	6,438
Minority Interest	13	33	36	28	15
Total Liabilities	5,188	6,242	7,842	8,713	9,756
BVPS (Rs.)	142	177	183	223	268

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	1,146	1,321	1,587	1,944	2,181
Non-cash adj.	219	49	(225)	37	9
Changes in W.C	(116)	(214)	122	(286)	(198)
C.F. Operation	1,249	1,156	1,485	1,694	1,992
Capital exp.	(421)	(399)	(243)	(459)	(475)
Change in inv.	(537)	(334)	(1,327)	(195)	(210)
Other invest.CF	2	(122)	38	0	(0)
C.F - Investment	(956)	(856)	(1,532)	(654)	(684)
Issue of equity	-	-	-	-	-
Issue/repay debt	67	(42)	1,359	(220)	(200)
Dividends paid	(317)	(354)	(1,302)	(788)	(889)
Other finance.CF	18	44	0	-	(0)
C.F - Finance	(232)	(353)	58	(1,008)	(1,089)
Chg. in cash	61	(52)	11	32	219
Closing cash	186	110	123	154	373

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	15.2	15.8	16.1	17.9	18.1
EBIT margin (%)	13.7	14.3	14.5	16.4	16.6
Net profit mgn.(%)	10.1	10.6	12.3	13.4	13.4
ROE (%)	29.5	27.3	31.9	32.7	30.4
ROCE (%)	37.5	35.3	27.6	32.0	31.8
W.C & Liquidity					
Receivables (days)	11.2	13.1	10.2	14.6	15.3
Inventory (days)	38.5	43.5	39.0	38.3	39.1
Payables (days)	58.7	63.4	58.8	56.9	58.0
Current ratio (x)	1.9	1.9	1.4	1.5	1.7
Quick ratio (x)	0.8	0.7	0.6	0.7	0.8
Turnover & Leverage					
Gross asset T.O (x)	7.4	6.2	5.4	5.4	5.0
Total asset T.O (x)	2.1	1.9	1.6	1.6	1.6
Int. coverage ratio (x)	179.1	172.9	21.6	34.2	42.6
Adj. debt/equity (x)	0.1	0.0	0.4	0.2	0.2
Valuation					
EV/Sales (x)	5.9	6.7	5.8	7.4	6.6
EV/EBITDA (x)	39.2	42.6	35.9	41.4	36.6
P/E (x)	58.7	63.6	45.6	54.7	48.9
P/BV (x)	17.3	17.3	14.7	17.8	14.9



Recommendation Summary



Dates	Rating	Target
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
13-Feb-20	HOLD	3,380
13-Apr-20	BUY	3,455
21-Jul-20	HOLD	4,240

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

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

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