

## Retail Equity Research

# Britannia Industries Limited

### Food Products

BSE CODE: 500825

NSE CODE: BRITANNIA

Bloomberg CODE: BRIT:IN

SENSEX: 40,558

**BUY**

12M Investment period

Rating as per Large Cap

CMP Rs. 3,459 TARGET Rs. 3,960 RETURN 14% ↑

(Closing: 22-10-20)

**KEY CHANGES:**

**TARGET ↓**

**RATING ↑**

**EARNINGS ↑**

## Strong results benefitted by volume growth

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

- Revenue rose 11.0% YoY, led by higher sales of goods (~9% YoY), supported by higher demand from rural area.
- EBITDA grew 37.2% YoY, with EBITDA margin improving 380bps to 20.1%, owing to decline in raw material prices and lower advertisement and promotion expenses. Further, net profit surged 23.2% YoY to Rs. 499cr in Q2FY21.
- We remain positive on the stock on account of healthy volume growth, rising distribution network and new products launches. Separately, we believe there'll be a smooth road ahead as lockdown has ended. Hence, we upgrade rating to BUY on the stock, with a revised target price of Rs. 3,960 based on 46x FY22E adj EPS.

### Healthy top-line led by rural demand

Britannia recorded a revenue of Rs. 3,354cr in Q2FY21, a healthy 11.0% YoY growth with ~9% YoY growth in volume. It was driven by healthy traction in rural demand coupled with rising distribution network in rural area. Rural distribution has gone up to 22k compared to 19k in Q4FY20. Whereas, direct reach outlets number increased to 22.3 lacs compared to 21.5 lacs Q1FY21. Management expects the rural segment to improve to 35% of total revenue in next 18 month from current level (accounted 30% of total revenue) on account of higher network expansion.

### Margin expansion continues

Gross margin expanded ~180bps YoY to 41.4% on account of overall decline in raw material prices. Following this, EBITDA grew 37.2% YoY to Rs. 675cr, while EBITDA margin improved 380bps to 20.1%. However, this growth was partially offset by higher other expenses, up 5.8% YoY to Rs. 644cr vs. Rs. 609cr in Q2FY20. Resultantly, net profit rose 23.2% YoY to Rs. 499cr vs. Rs. 405cr in Q2FY20. Advertisement and promotion expenses were soft as company was not selling enough products and also producing ~20% of SKUs owing to lock-down.

### Key concall highlights

- Company continues to invest in its three Greenfield facility, including Tamil Nadu, UP and Bihar and two brownfield facility in Odisha and Ranjangaon. These facilities are expected to commence operation by FY22-23.
- Britannia is also planning to democratize some of its premium and non-premium products. Following this, company is also launching more affordable product range to target lower income group and rural market i.e. launched cakes and swiss rolls price at Rs. 10 onwards, layer cake price at Rs. 5/pack.
- Management is evaluating co-packing opportunity in 2 countries in Africa, which will ultimately provide access to 8-10 countries in Africa, thereby, getting an advantage of free trade agreement with these countries.
- Management expects revenue growth to be around ~18% for FY21, following the resilient revenue growth in Q1FY21 and Q2FY21.

### Valuation

We expect Britannia to continue its growth trajectory in upcoming quarters. We believe higher rural demand, rising distribution network and more affordable range of new products are likely to support company's growth prospectus over the medium term. Thereby, we upgrade our rating to BUY on the stock with a target price of Rs. 3,960 based on 46x FY22E EPS.

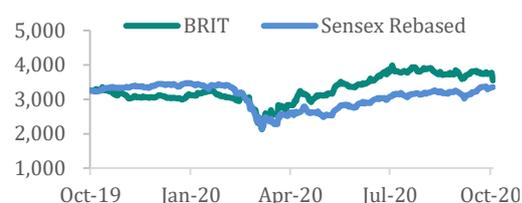
### Company Data

Market Cap (cr)	Rs. 81,651
Enterprise Value (cr)	Rs. 82,793
Outstanding Shares (cr)	24.1
Free Float	49.0%
Dividend Yield	1.0%
52 week high	Rs. 4,015
52 week low	Rs. 2,101
6m average volume	29,827
Beta	0.7
Face value	Rs. 1

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	50.6	50.6	50.6
FII's	14.7	14.7	16.0
MFs/Insti	13.4	12.7	11.5
Public	15.4	15.0	15.4
Others	5.9	7.1	6.5
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	-12.5%	18.6%	4.3%
Absolute Sensex	7.3%	32.9%	3.6%
Relative Return*	-19.9%	-14.3%	0.7%

\*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	11,444	13,504	15,023
Growth (%)	4.3	18.0	11.3
EBITDA	1,843	2,547	2,789
EBITDA Margin (%)	16.1	18.9	18.6
Adj. PAT	1,420	1,901	2,070
Growth (%)	22.5	33.9	8.9
Adj. EPS	59.0	79.0	86.1
Growth (%)	22.4	33.8	8.9
P/E	45.6	42.9	39.4
P/B	14.7	15.0	12.4
EV/EBITDA	35.9	32.5	29.5
ROE (%)	31.9	34.9	31.4
D/E	0.4	0.2	0.2

## Quarterly Financials (Consolidated)

### Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	3,354	3,023	11.0	3,384	(0.9)	6,739	5,700	18.2
<b>EBITDA</b>	<b>675</b>	<b>492</b>	<b>37.2</b>	<b>717</b>	<b>(5.8)</b>	<b>1,392</b>	<b>887</b>	<b>57.0</b>
EBITDA margins	20.1	16.3	380bps	21.2	(110bps)	20.7	15.6	510bps
Depreciation	48	45	8.1	48	1.1	96	90	7.6
<b>EBIT</b>	<b>627</b>	<b>447</b>	<b>40.1</b>	<b>669</b>	<b>(6.3)</b>	<b>1,296</b>	<b>797</b>	<b>62.5</b>
Interest	30	16	84.7	26	16.4	55	26	111.2
Other Income	74	68	8.0	94	(21.5)	167	136	23.4
Exceptional Items	(1)	(1)	53.6	(0)	(477.8)	(1)	(17)	96.4
<b>PBT</b>	<b>670</b>	<b>498</b>	<b>34.5</b>	<b>737</b>	<b>(9.1)</b>	<b>1,407</b>	<b>890</b>	<b>58.1</b>
Tax	175	96	83.2	194	(10.0)	369	239	54.9
Share of profit from Associate	0	0	n.m.	0	10.0	0	0	600.0
Minority Interest	(3)	(1)	(96.6)	(3)	3.0	(6)	(4)	(53.4)
<b>Reported PAT</b>	<b>498</b>	<b>404</b>	<b>23.2</b>	<b>546</b>	<b>(8.7)</b>	<b>1,044</b>	<b>655</b>	<b>59.3</b>
Adjustments	1	1	(53.6)	0	477.8	1	17	(96.4)
<b>Adj. PAT</b>	<b>499</b>	<b>405</b>	<b>23.0</b>	<b>546</b>	<b>(8.6)</b>	<b>1,044</b>	<b>672</b>	<b>55.4</b>
No. of shares	24.1	24.0	0.2	24.1	0.2	24.1	24.0	0.2
<b>Adj. EPS (Rs.)</b>	<b>20.7</b>	<b>16.9</b>	<b>22.7</b>	<b>22.7</b>	<b>(8.8)</b>	<b>43.4</b>	<b>28.0</b>	<b>55.1</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	13,126	14,603	13,504	15,023	2.9	2.9
EBITDA	2,346	2,639	2,547	2,789	8.6	5.7
Margins (%)	17.9	18.1	18.9	18.6	100bps	50bps
Adj. PAT	1,753	1,960	1,901	2,070	8.4	5.6
Adj. EPS (Rs.)	72.9	81.5	79.0	86.1	8.4	5.6

## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Revenue</b>	<b>9,906</b>	<b>10,973</b>	<b>11,444</b>	<b>13,504</b>	<b>15,023</b>
% change	7.3	10.8	4.3	18.0	11.3
<b>EBITDA</b>	<b>1,502</b>	<b>1,733</b>	<b>1,843</b>	<b>2,547</b>	<b>2,789</b>
% change	17.5	15.4	6.3	38.2	9.5
Depreciation	142	162	185	191	223
<b>EBIT</b>	<b>1,360</b>	<b>1,572</b>	<b>1,658</b>	<b>2,355</b>	<b>2,566</b>
Interest	8	9	77	63	57
Other Income	166	205	263	284	290
<b>PBT</b>	<b>1,518</b>	<b>1,768</b>	<b>1,844</b>	<b>2,576</b>	<b>2,799</b>
% change	16.4	16.5	4.3	39.7	8.6
Tax	514	612	451	684	743
Tax Rate (%)	33.9	34.6	24.4	26.5	26.5
<b>Reported PAT</b>	<b>1,004</b>	<b>1,159</b>	<b>1,403</b>	<b>1,901</b>	<b>2,070</b>
Adj*	-	-	17	-	-
<b>Adj PAT</b>	<b>1,004</b>	<b>1,159</b>	<b>1,420</b>	<b>1,901</b>	<b>2,070</b>
% change	13.5	15.4	22.5	33.9	8.9
No. of shares (cr)	24.0	24.0	24.0	24.1	24.1
<b>Adj EPS (Rs.)</b>	<b>41.8</b>	<b>48.2</b>	<b>59.0</b>	<b>79.0</b>	<b>86.1</b>
% change	13.4	15.4	22.4	33.8	8.9
DPS (Rs.)	12.5	15.0	35.0	35.6	39.0
CEPS (Rs.)	47.7	55.0	66.7	87.0	95.3

## CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Net inc. + Depn.</b>	<b>1,146</b>	<b>1,321</b>	<b>1,587</b>	<b>2,092</b>	<b>2,292</b>
Non-cash adj.	219	49	(225)	24	20
Changes in W.C	(116)	(214)	122	(318)	(211)
<b>C.F. Operation</b>	<b>1,249</b>	<b>1,156</b>	<b>1,485</b>	<b>1,798</b>	<b>2,102</b>
Capital exp.	(421)	(399)	(243)	(473)	(488)
Change in inv.	(537)	(334)	(1,327)	(195)	(210)
Other invest.CF	2	(122)	38	-	-
<b>C.F - Investment</b>	<b>(956)</b>	<b>(856)</b>	<b>(1,532)</b>	<b>(668)</b>	<b>(698)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	67	(42)	1,359	(220)	(200)
Dividends paid	(317)	(354)	(1,302)	(855)	(937)
Other finance.CF	18	44	0	(0)	-
<b>C.F - Finance</b>	<b>(232)</b>	<b>(353)</b>	<b>58</b>	<b>(1,075)</b>	<b>(1,137)</b>
Chg. in cash	61	(52)	11	56	266
Closing cash	186	110	123	179	445

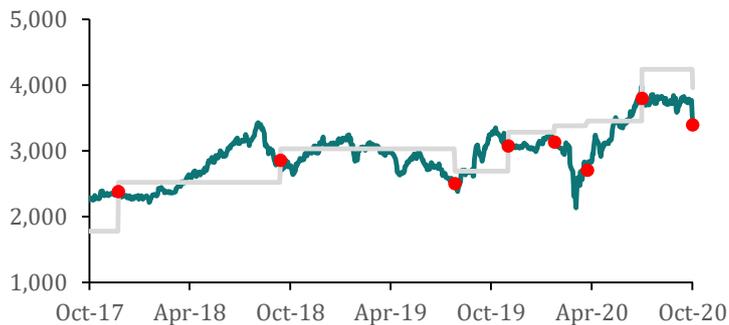
## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	186	110	123	179	445
Accounts Receivable	305	394	320	539	630
Inventories	653	781	741	840	960
Other Cur. Assets	2,007	2,241	2,491	2,710	2,985
Investments	237	741	1,899	1,993	2,092
Gross Fixed Assets	1,519	2,022	2,203	2,675	3,164
Net Fixed Assets	1,194	1,536	1,716	1,998	2,263
CWIP	203	101	40	40	40
Intangible Assets	136	138	147	147	147
Def. Tax (Net)	23	14	20	34	37
Other Assets	243	186	346	346	346
<b>Total Assets</b>	<b>5,188</b>	<b>6,242</b>	<b>7,842</b>	<b>8,826</b>	<b>9,946</b>
Current Liabilities	1,554	1,775	1,817	1,976	2,175
Provisions	9	11	13	13	13
Debt Funds	203	165	1,561	1,341	1,141
Other Liabilities	2	4	13	19	21
Equity Capital	24	24	24	24	24
Reserves & Surplus	3,382	4,229	4,379	5,425	6,557
Shareholder's Fund	3,406	4,253	4,403	5,449	6,581
Minority Interest	13	33	36	28	14
<b>Total Liabilities</b>	<b>5,188</b>	<b>6,242</b>	<b>7,842</b>	<b>8,826</b>	<b>9,946</b>
<b>BVPS (Rs.)</b>	<b>142</b>	<b>177</b>	<b>183</b>	<b>227</b>	<b>274</b>

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	15.2	15.8	16.1	18.9	18.6
EBIT margin (%)	13.7	14.3	14.5	17.4	17.1
Net profit mgn.(%)	10.1	10.6	12.3	14.1	13.8
ROE (%)	29.5	27.3	31.9	34.9	31.4
ROCE (%)	37.5	35.3	27.6	34.6	33.2
<b>W.C &amp; Liquidity</b>					
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	1.6	1.7
Quick ratio (x)	0.8	0.7	0.6	0.7	0.8
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	7.4	6.2	5.4	5.5	5.1
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	37.4	45.3
Adj. debt/equity (x)	0.1	0.0	0.4	0.2	0.2
<b>Valuation</b>					
EV/Sales (x)	5.9	6.7	5.8	6.1	5.5
EV/EBITDA (x)	39.2	42.6	35.9	32.5	29.5
P/E (x)	58.7	63.6	45.6	42.9	39.4
P/BV (x)	17.3	17.3	14.7	15.0	12.4

## Recommendation Summary



Dates	Rating	Target
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
22-Oct-20	BUY	3,960

## 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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