

- Net sales grew 31% yoy to Rs5.7bn driven by strong growth in biscuits, bread, cake and rusk portfolio.
- Margins dipped 740bps due to sharp rise in raw material prices. Adjusted net profit down 54% yoy to Rs164mn.

Financials Highlights

Period to	12/06	12/05	Growth	12/06	12/05	Growth	03/07E	Growth
(Rs mn)	(3)	(3)	(%)	(9)	(9)	(%)	(12)	(%)
Gross sales	5,967	4,566	30.7	16,876	13,427	25.7	23,044	26.7
Excise duty	(294)	(248)	18.5	(878)	(802)	9.5	(1,180)	12.8
Net sales	5,673	4,318	31.4	15,998	12,625	26.7	21,863	27.5
Expenditure	(5,412)	(3,800)	42.4	(15,122)	(10,907)	38.6	(20,718)	36.6
Operating profit	261	518	(49.6)	876	1,718	(49.0)	1,146	(42.1)
Other income	50	35	42.9	195	130	50.0	320	47.5
Interest	(23)	(6)	283.3	(46)	(15)	206.7	(64)	204.8
Depreciation	(65)	(56)	16.1	(188)	(159)	18.2	(253)	16.6
PBT	223	491	(54.6)	837	1,674	(50.0)	1,149	(41.3)
Tax	(22)	(101)	(78.2)	(74)	(488)	(84.8)	(105)	(80.7)
PAT	201	390	(48.5)	763	1,186	(35.7)	1,044	(26.2)
Exceptional items	(37)	(33)	12.1	(85)	-	-	(85)	-
APAT	164	357	(54.1)	678	1,186	(42.8)	959	(34.5)
OPM (%)	4.6	12.0	-	5.5	13.6	-	5.2	-
Equity	239	239	-	239	239	-	239	-
EPS (Rs) Annualized	27.4	59.7	-	37.8	66.2	-	40.1	-
P/E (x), CMP - Rs1,150	41.9	-	-	30.4	-	-	28.7	-

Net sales surge by 31%

Britannia Industries Ltd (BIL) registered strong 31.4% yoy (3.2% qoq) growth in revenues at Rs5.7bn during Q3 FY07. For the cumulative period (Apr-Dec'06), revenues grew by 26.7% yoy to Rs16bn driven by strong 24% growth in biscuits and 47% in bread, cake & rusk portfolio. The company's power brands - Good Day, Tiger, 50-50, MarieGold, Treat and Milk Bikis have recorded a double-digit growth during the period. Biscuits contribute ~90% to the company's total turnover. The company has launched few "new to the market" brands in December 2006, which include - 50-50 Chutkule, Treat Fruit Rollz, NutriChoice Digestive and NutriChoice SugarOut (which is the first biscuit without added sugar in the Indian market). It has also introduced several new "Low Unit Price" packs for key brands like 50-50, Treat, Milk Bikis & Tiger during the quarter.

Sharp rise in raw material cost prune down margins

Unprecedented increase in key raw material prices has affected the profitability of the company. Operating profit for the quarter decreased by 49.5% yoy to Rs262mn. Operating margins dipped by 740bps to 4.6%, due to sharp rise in raw material cost (57.5% of net sales in Q3 FY06 to 66.3% of net sales in Q3 FY07) on account of 35-40% increase in prices of dairy products and 15-20% rise in key raw materials like wheat, edible oils etc. Margins were further eroded with a 100bps jump in overheads as a percentage of sales. During December 2006, the company has taken selective and segmented price increases to combat rising input costs.



India Infoline Result Update
Britannia Industries Ltd (Q3 FY07)
February 02, 2007

Cost Analysis

Period	12/06	12/05	Inc/Dec	12/06	12/05	Inc/Dec
As % of net sales	(3)	(3)		(9)	(9)	
Raw Materials	66.3	57.5	8.8	64.5	57.6	6.8
Staff	3.1	4.0	(0.9)	3.4	4.1	(0.8)
Advertising	5.1	6.6	(1.5)	5.5	5.7	(0.2)
Other Expenditure	20.8	19.9	1.0	21.2	18.9	2.2

Lower tax burden cushions bottomline

Other income for the quarter was higher at Rs50mn compared to Rs35mn in Q3 FY06. Pretax profit decreased by 54.6% yoy to Rs223mn due to higher interest, depreciation and sharp rise in input cost. Lower tax burden on account of tax benefits from Uttaranchal plant restricted further decline in net profit, which is down by 48.6% yoy to Rs200mn. Adjusted net profit after extraordinary items of Rs37mn (compensation and amortization of VRS cost) decreased by 54.1% yoy to Rs164mn translating into an annualized EPS of Rs27.4.

Outlook

Britannia is the largest player in the branded and organized biscuit industry with a value and volume market share of ~38% and ~32% respectively. The company has six power brands each having more than Rs1bn annual sales. Britannia has been looking at new growth triggers like acquisitions in new categories both in India and the overseas market.

The management has indicated that the company may conclude the acquisition of a leading Middle East bakery business as part of its inorganic growth strategy in the near future. It is also planning to enter the gifting segment in a bigger way. Over the next two years, Britannia plans to invest ~Rs1.5-2bn for expanding its manufacturing capacity in Uttaranchal along with setting up new facilities in Rudrapur to meet the increasing product demand.

Due to stiff competition from players like ITC, Britannia will have to constantly innovate to maintain its growth momentum. Margins are likely to remain under pressure due to high value-added tax (of 12.5% imposed on biscuit manufacturers) and firm raw material prices. At the current market price of Rs1,150, the stock is trading at 28.7x FY07E EPS of Rs40.1 per share. We recommend 'Underperformer' rating on the stock.

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