

Britannia Industries Ltd.

Rs 466

Healthy Volume growth, improved mix to drive margins

HOLD

Britannia Industries Ltd. reported robust topline growth of 21.4% y-o-y to Rs 1106.3 crores on account of volume growth (12-13%) & price growth of (6-8%).

EBITDA grew 23.8% y-o-y to Rs 50.6 crores. Despite price hikes, margin expansion was limited at 9 bps y-o-y on account of high raw material prices.

Net profit grew by 27.3% y-o-y to Rs 41.8 crores on the back of strong operational performance & higher other income, partially impacted by higher effective tax rate.

Strong topline growth driven by volumes & price hikes: Britannia Industries Net sales improved by 21.4% y-o-y to Rs 1106.3 crores on account of healthy mix of volume(12-13%) & price growth(7-8%). Consolidated revenues increased by 21% y-o-y. The non biscuit segment with a size of 900 crores has shown robust growth & has more than doubled in last 5 years. We expect Britannia's revenue to grow at a healthy CAGR of 17% over FY11-13E on account of double digit volume growth, continuous innovations, increased penetration & judicious price hikes.

Margin expansion minimal despite price hikes: Britannia's EBITDA grew by 23.8% y-o-y to Rs 50.6 crores. The company took price hikes of 6-8%; however the significant increase in raw material costs curtailed the gross margin expansion to 11 bps y-o-y. Out of its key raw materials, wheat & Sugar have remained stable in Q1 but SMP, refined palm oil & Cashew have increased significantly by 24%, 35% & 74% respectively.

Net Profit improved by 27.3% y-o-y to Rs 41.8 crores on account of strong operational performance & 31% y-o-y increase in other income (includes profit on sale of property).

Valuations & Views - Britannia industries continues to report healthy topline growth driven by product mix, healthy volumes & judicious price hike. With improvement in product mix(led by innovations & decrease in proportion of *Glucose* in the overall biscuit segment),stepping up of cost cutting initiatives across the value chain, leveraging the synergies across segments & judicious price hikes we expect margins to improve going forward. We expect Britannia's Revenue & EPS to grow at healthy CAGR of 17% and 39% respectively over FY11-13E. At CMP of Rs 466, the stock is trading at 25.5x FY12E EPS of Rs 18.3 & 19.9x FY13E EPS of Rs 23.4. We recommend a HOLD on the stock with a target of Rs 515, based on 22x FY13E EPS of Rs 23.4, giving an upside potential of 11%.

Key Financials

Rs Crore

Particulars (Rs Cr)	FY10	FY11	FY12E	FY13E
Sales	3403.5	4213.7	4942.7	5740.7
EBITDA	162.3	224.0	315.1	398.4
PAT	116.5	145.3	218.6	279.3
EPS	9.8	12.2	18.3	23.4
OPM	4.8%	5.3%	6.4%	6.9%
NPM	3.4%	3.4%	4.4%	4.9%
PE	47.8	38.3	25.5	19.9

Source: Company Data, KRChoksey Estimates



Target Price (Rs): 515

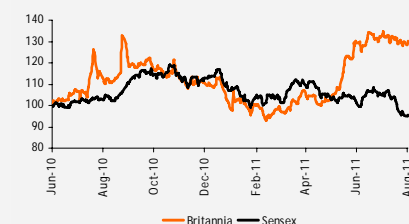
Potential Upside : 11.5%

Market Data	Aug 18, 2011
Shares outs (Cr)	11.9
Equity Cap (Rs. Cr)	23.9
Mkt Cap (Rs. Cr)	5575
52 Wk H/L (Rs)	534/324
Face Value (Rs)	2
Bloomberg Code	BRIT IN

Market Info:

SENSEX	16,469
NIFTY	4,944

Price Performance



Share holding Pattern (%)

Particulars	Jun-11	Mar-11	%
Promoters	50.96	50.96	0.0
DII	16.59	16.65	-0.06
FII	10.62	10.33	0.29
Public	21.83	22.06	-0.23
Total	100	100	

Source: BSE

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Key Takeaways from Analyst Meet:

- Food continues to be large opportunity (\$ 240 bn) & is expected to grow at high double digit growth rate.
- The branded food segment which account for 9% of the total market is growing at rate of 20%+ p.a driven by increasing disposable income, quality consciousness & convenience seeking behavior.
- Competitive intensity continues to remain high in the Biscuit segment with increased local & International competition.
- The Biscuit market is becoming diverse at every price points with increasing number of SKU's at Rs 5 & Rs 10 price points.
- Impact of rising food inflation is more prominent in the staples. Premium brands continue to report healthy offtake.
- Dairy segment which is a 90,000 crore market provides strong opportunity driven by innovations. Within dairy segment the branded package segment is ~9000 crore and is growing significantly. The dairy business of the company has doubled in last 5 years led by increased product offerings & higher penetrations
- The Non Biscuit bakery (Bread, Cake & Rusk) is highly fragmented market & management see's large opportunity in the market considering its core competency in the Bakery products. The business has tripled in last 5 years for Britannia Industries.
- Company continues to focus on improving product mix & is investing behind new categories and products (*Nutrichoice Raggi, Britannia Healthy Start, Time pass*).
- Management expects margins to improve on account of innovations, improved product mix, reduction in contribution from the low margin glucose segment, Cost cutting across the value chain, leveraging on synergies across segments & taking judicious price hikes
- Company continues to maintain its leadership with 33% market share in the overall biscuit segment.
- Except for Glucose segment, Britannia continues to lead the market & enjoy pricing power .In all the other brands Britannia commands a premium ranging from 9-15%.

Q1FY12 Result Snapshot(Rs Crore)

Particulars (Rs Crore)	Q1FY12	Q4FY11	Q1FY11	Q-o-Q	Y-o-Y	Key Comments
Net Sales	1106.3	1126.1	911.5	-1.8%	21.4%	Driven by product mix, volume growth & price hikes
Other Operating Income	1.3	-2.4	3.0	-153.4%	-57.6%	
Total Expenditure	1055.7	1053.3	870.7	0.2%	21.3%	
Stock Adjustment	-11.2	9.7	16.4	-215.8%	-168.1%	
RM & Packing Cost	620.5	620.0	497.4	0.1%	24.7%	High SMP, refined Palm oil & Cashew prices
Purchase of Goods	116.4	98.3	83.1	18.4%	40.0%	
COGS	725.7	728.0	596.9	-0.3%	21.6%	
Employee Cost	30.6	35.3	25.9	-13.5%	18.2%	
Conversions Charges	92.8	87.1	73.2	6.5%	26.8%	
ASP Exp.	82.3	83.9	68.4	-2.0%	20.4%	Continues to invest behind innovations
Other Expenditure	124.4	118.9	106.4	4.6%	16.9%	
EBITDA	50.6	72.9	40.9	-30.6%	23.8%	
Depreciation	11.1	13.7	10.0	-19.1%	11.3%	
Other Income	25.8	10.1	19.7	155.9%	30.9%	Sale of property
EBIT	66.6	66.9	53.6	-0.4%	24.2%	
Interest Cost	9.3	9.1	9.4	2.6%	-1.0%	
PBT	57.3	57.8	44.2	-0.9%	29.5%	
Provision for Tax	15.5	15.9	11.4	-2.4%	35.9%	
Tax Rate	27.0%	27.4%	25.8%	-1.5%	4.9%	Reduced tax incentive at baddi plant resulted in higher tax rate
PAT	41.8	42.0	32.8	-0.4%	27.3%	
Exceptional Item	0.0	1.3	0.0			
Reported PAT	41.8	43.3	32.8	-3.4%	27.3%	
EPS	3.5	3.6	2.7	-3.4%	27.3%	
GPM	65.6%	64.6%	65.5%	95 bps	11 bps	Impacted by high raw material cost
OPM	4.6%	6.5%	4.5%	-190 bps	9 bps	
NPM	3.8%	3.7%	3.6%	5 bps	18 bps	

Source: Company Data, KRChoksey Research

Profit & Loss Statement:					Balance Sheet				
Particulars (Rs Cr)	FY10	FY11	FY12E	FY13E	Particulars (Rs Cr)	FY10	FY11	FY12E	FY13E
Net Sales	3403.5	4213.7	4942.7	5740.7	Share Capital	23.9	23.9	23.9	23.9
Total Expenditure	3241.1	3989.7	4627.5	5342.3	Reserve & Surplus	372.4	427.4	511.4	618.7
RM Consumed	1871.9	2371.9	2842.1	3386.0	Net Worth	396.3	451.3	535.3	642.6
Purchase of FG	313.1	410.3	479.4	562.6	Secured Loans	408.1	407.8	407.8	407.8
(Inc)/Dec in FG	-21.4	-17.9	0.0	0.0	Unsecured Loans	21.5	23.7	23.7	23.7
Staff Cost	105.8	119.9	123.5	127.2	Total Loans	429.6	431.4	431.4	431.4
Other Operating Expenses	971.8	1105.5	1182.5	1266.4	Deferred Tax Liability	0.0	6.2	6.2	6.2
EBITDA	162.3	224.0	315.1	398.4	Capital Employed	825.9	889.0	973.0	1080.3
Depreciation	37.5	44.6	49.8	56.5					
Other Income	50.8	58.8	74.1	86.1	Net Fixed Assets	291.5	315.4	335.6	369.1
EBIT	175.6	238.2	339.5	428.0	Investments	490.6	545.0	545.0	545.0
Interest Expenses	8.2	40.1	40.1	40.1	Deferred Tax Assets	6.6	0.0	0.0	0.0
PBT	167.4	198.1	299.4	388.0	Current Assets	538.9	625.4	777.7	950.2
Tax	4.3	52.9	80.9	108.6	Current Liabilities	501.7	596.9	685.4	784.0
PAT	163.1	145.3	218.6	279.3	Net Current Assets	37.2	28.6	92.3	166.2
Exceptional Items	46.6	0.0	0.0	0.0	Applications of Funds	825.9	889.0	973.0	1080.3
Adj PAT	116.5	145.3	218.6	279.3					

Cash Flow					Key Ratios				
Particulars (Rs Cr)	FY10	FY11	FY12E	FY13E	Particulars (Rs Cr)	FY10	FY11	FY12E	FY13E
Profit before taxation	120.7	198.1	299.4	388.0	EPS	9.8	12.2	18.3	23.4
Operating Cash Flow	203.9	243.1	318.3	357.3	OPM	0.0	0.1	0.1	0.1
Investing Cash Flow	-40.52	-156.4	-70.0	-90.0	NPM	0.0	0.0	0.0	0.0
Financing Cash Flow	-184.1	-107.4	-174.7	-212.1	PE	47.8	38.3	25.5	19.9
Change in Cash	-20.62	-20.66	73.6	55.2	ROE	29.4%	32.2%	40.8%	43.5%
Opening Cash	40.79	20.17	28.7	102.4	ROCE	21.3%	26.8%	34.9%	39.6%
Closing Cash	23.38	28.7	102.4	157.5	D/E	1.1	1.0	0.8	0.7

Source: Company Data, KRChoksey Research Estimates

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Britannia Industries Ltd

Date	CMP (Rs)	TP (Rs)	Recommendation
18-Aug-11	466	515	HOLD

Rating Legend

Our Rating	Upside
Buy	More than 15%
Hold	5% - 15%
Reduce	0 - 5%
Sell	Less than 0%

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