

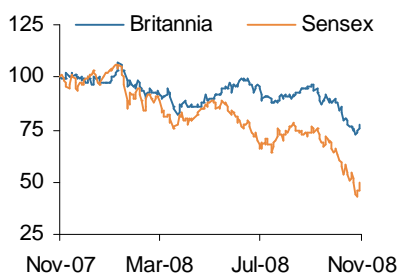
Britannia Industries Ltd (Q2 FY09)

November 03, 2008
Stock data

Sensex:	9,788
CMP (Rs):	1,173
Target price (Rs):	1,398
Upside (%):	19.1
52 Week h/l (Rs):	1,650/980
Market cap (Rs cr)	2,802
6m Avg vol BSE&NSE ('000 nos):	11
No of o/s shares (mn):	24
FV (Rs):	10
Bloomberg code:	BRIT IN
Reuters code:	BRIT.BO
BSE code:	500825
NSE code	BRITANNIA

Shareholding pattern

September 2008	(%)
Promoters	51.0
FIIs & institutions	29.9
Non promoter corp hold	1.3
Public & others	17.8

Share price trend


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- Net sales beat expectations, up 27% yoy at Rs8.4bn in Q2 FY09 driven by 17.5% volume growth.
- Firm raw material prices and higher overhead cost pulled down margins.
- Strong revenue growth coupled with higher other income drives net profit.
- We expect the company to witness 11.9% CAGR in revenues and 15% CAGR in net profit over FY08-10E.

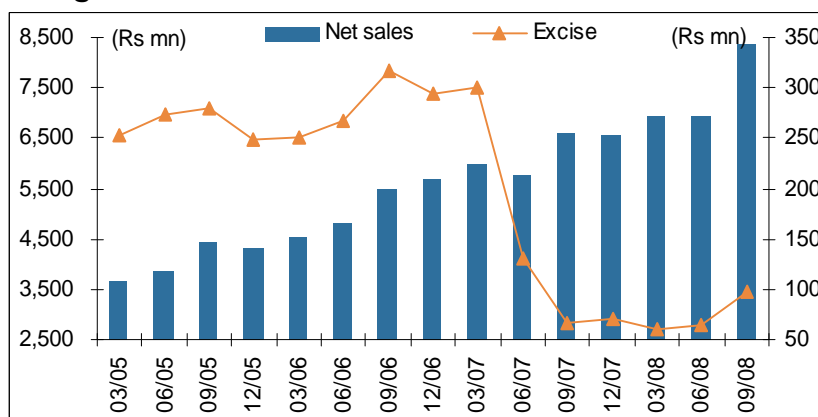
Result table

Period to	09/08	09/07	Growth	09/08	09/07	Growth
(Rs mn)	(3)	(3)	(%)	(6)	(6)	(%)
Gross sales	8,484	6,654	27.5	15,483	12,555	23.3
Excise duty	(99)	(66)	48.7	(164)	(198)	(17.4)
Net sales	8,385	6,587	27.3	15,319	12,357	24.0
Expenditure	(7,715)	(5,902)	30.7	(14,071)	(11,225)	25.4
Operating profit	671	686	(2.1)	1,248	1,132	10.3
Other income	167	58	188.3	247	166	48.2
Interest	(44)	(29)	50.9	(80)	(34)	131.7
Depreciation	(82)	(72)	14.1	(161)	(141)	14.4
PBT	712	643	10.8	1,254	1,123	11.6
Tax	(116)	(127)	(8.8)	(198)	(215)	(7.7)
PAT	597	516	15.6	1,055	908	16.2
Exceptional items	(64)	(31)	103.2	(119)	(62)	91.8
APAT	533	485	10.0	936	846	10.7
OPM (%)	8.0	10.4	-	8.1	9.2	-
Equity	239	239	-	239	239	-
EPS (Rs) Annualized	89.2	81.2	-	78.4	70.8	-
P/E (x), CMP - Rs1,173	13.1	-	-	15.0	-	-

Source: Company, India Infoline Research

Strong double-digit growth across power brands drive topline growth

Britannia registered strong 27.3% yoy growth in revenues at Rs8.4bn during Q2 FY09 (above our expectations of Rs7.9bn) driven by 17.5% volume growth and strong double-digit growth across all power brands (Tiger, 50:50, Marie Gold, Good Day, Nutrichoice). The increasing utilization of the Baddi facility for manufacturing high-end products is also helping in reducing excise burden.

Rising revenue trend


Source: Company, India Infoline Research

Input cost pressure and higher overhead cost pulled down margins

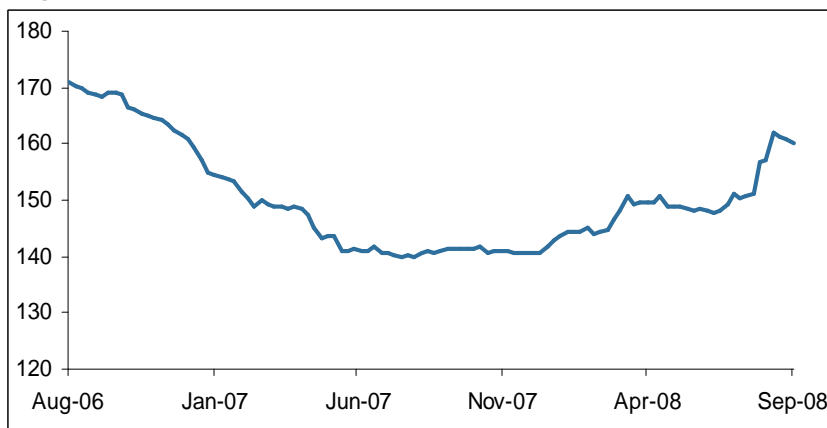
Operating margins for the quarter dipped by 240bps to 8% due to firm raw material prices and sharp increase in overhead cost. Prices of key raw materials like milk (~10-15%), wheat (prices likely to decline on account of excess production) and sugar were higher during the quarter and are expected to remain firm going forward. Also, increasing competition from players like ITC will require higher adspend. We expect operating margins to remain under pressure over the next two years. After shutting down Paddi unit, the company may close some more of its manufacturing facilities and take price hikes across to mitigate the rising input cost pressure.

Cost Analysis

Period	09/08	09/07	Inc/Dec	09/08	09/07	Inc/Dec
As % of net sales	(3)	(3)		(6)	(6)	
Raw Materials	57.4	57.7	(0.3)	57.3	58.5	(1.2)
Purchase of goods	4.4	1.5	2.9	3.9	1.8	2.1
Staff	2.9	3.5	(0.6)	3.1	3.6	(0.5)
Advertising	6.7	6.9	(0.3)	6.5	6.5	0.0
Other Expenditure	20.7	20.0	0.7	21.0	20.5	0.6

Source: Company, India Infoline Research

Sugar index



Source: Bloomberg

Strong revenue growth coupled with higher other income drives net profit

Net profit for the quarter increased by 15.6% yoy to Rs597mn (below our expectations of Rs623mn). The growth could have been even better but for the sharp rise in operating costs. Adjusted net profit after VRS cost of Rs64mn (Paddi unit) increased by 10% yoy to Rs533mn. We expect Britannia to witness a 15% CAGR in net profit over FY08-10E.

Recommend BUY

Britannia being the largest player in the fast growing biscuits category with a value and volume market share of 34% and ~31% respectively, is the biggest beneficiary of the excise exemption on biscuits. The company produces 48,000 tons biscuits every month, out of which 40,000 tons of production is outsourced. To cut down its outsourcing cost, the company is strategically raising its holding in contract manufacturing firms. Recently it has purchased additional 1.08 lakh shares in one of the biggest contract manufacturers, Ganges Vally Foods. The company also aims to strengthen its bread, cake and rusk portfolio with the re-launch of breads. The company has already invested Rs2bn in the last 18 months and plans to invest ~Rs750mn-Rs1bn (funding through internal accruals) in equipment, capacity expansion and new product launches in 2008-09. The company is also looking at new growth triggers like acquisitions in new categories both in India and the overseas market. At the current market price of Rs1,173, the stock is trading at 10.5x FY10E EPS of Rs111.8. Recommend BUY with a one-year price target of Rs1,398, an upside of 19.1%.

Projected financials

March, Rs mn	FY06	FY07	FY08E	FY09E	FY10E
Revenues	17,133	21,993	25,848	28,992	32,382
yoy growth (%)	13.5	28.4	17.5	12.2	11.7
Operating profit	2,010	1,288	2,317	2,570	2,863
OPM (%)	11.7	5.9	9.0	8.9	8.8
PAT	1,464	1,077	1,910	2,292	2,671
Pre-exceptional PAT	1,415	1,153	2,019	2,292	2,671
yoy growth (%)	(1.6)	(26.5)	77.4	20.0	16.5
EPS (Rs)	61.3	45.1	80.0	95.9	111.8
P/E (x)	19.1	26.0	14.7	12.2	10.5
P/BV (x)	5.1	4.6	3.7	3.0	2.5
EV/EBITDA (x)	13.8	21.4	12.4	11.1	9.9
ROE (%)	26.7	17.5	25.3	24.8	23.9
ROCE (%)	36.0	21.8	29.3	28.2	27.2

Source: Company, India Infoline Research

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