



# Between the Lines

Daily Corporate News Analysis

Dec 8th, 2006

**Britannia Industries Ltd**

**Initiating Coverage**

## Key Data

CMP	Rs 1123
Date	Dec 8 <sup>th</sup> , 2006
Sector	FMCG
Face Value	10/-
BSE Code	500825
52 Week H/L	Rs 1955 / 1025
Market Cap	Rs 2684 Cr

## Investment Rationale

**Leadership position:** Britannia Industries is a leader in the Indian biscuits industry with a 39% share of the market by value. It enjoys a higher volume share in the metros where its premium range of products has a higher demand.

**Changed focus and renewed approach:** BIL has managed to grow its topline aggressively in past few quarters due to a complete makeover in its approach to the end-user. The company has identified focus areas to drive sales, devised specific marketing efforts for target customers and geographies.

**Capacity addition:** BIL is increasing the manufacturing capacities of its owned plants as well as that of its contract manufacturers by investing Rs175-200 crore in order to cater to the rising demand for bakery products in India.

**Rural demand and innovative launches to drive growth:** Following a buoyant agriculture growth in the country, the rural demand for FMCG products has seen an upturn. Also, it has launched innovative bakery products to target youth, out-of-home consumption.

**Organic and inorganic expansion:** BIL is resorting to more and more innovative launches in the high margin bakery products in order to capture its declining profits and benefit from growing demand for such products. It is also planning to expand its portfolio to other food products in India and abroad to cash-in from rising demand for processed foods.



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We believe that BIL's strategy to increase sales through higher penetration and small price units will aid sales growth in the coming years in a scenario of buoyant economic growth. Also, it would continue to benefit from a revival in demand from rural markets. Besides, the company's profitability would improve due to tax benefits enjoyed at its backward area unit in Uttaranchal. Recommend Buy.

### **Key Developments**

#### **Capacity Addition**

BIL is expanding its manufacturing capacity by 45-50% in order to cater to the rising demand for its products. It would increase the capacity of its Rudrapur (Uttranchal) factory from the present level of 45000 tonne to 60000 tonnes per annum. Besides, it would also increase capacity of its contract manufacturers from whom it currently sources approx. 55% of its requirement. The company is also putting up contract manufacturing units in Guwahati, Asansol and Kolkata in the eastern region. It has set aside Rs175-200 crore for the project out of which it has already invested approx. Rs56 crore at the Uttranchal plant.

#### **Foray into other food products**

BIL is planning to expand its products portfolio to include other food products in India and abroad in order to cash-in from the rising demand for processed food products in India. It would adopt organic as well as inorganic route for expanding its operations. As a first step, it has acquired a strategic stake in Daily Bread, a Bangalore based boutique manufacturer and retailer of high end premium quality bakery products, which includes a wide variety of European breads, pastries and savouries. Daily Bread operates in both the institutional and retail segments, and offers India's widest range of international quality bakery products, including 50 varieties of specialty breads which have been successfully launched in the Bangalore market. This investment represents a strategic intent by Britannia to diversify its product portfolio into the fast growing high end branded freshly baked gourmet foods, and marks its entry into premium 'out of home' and 'in home' consumption.

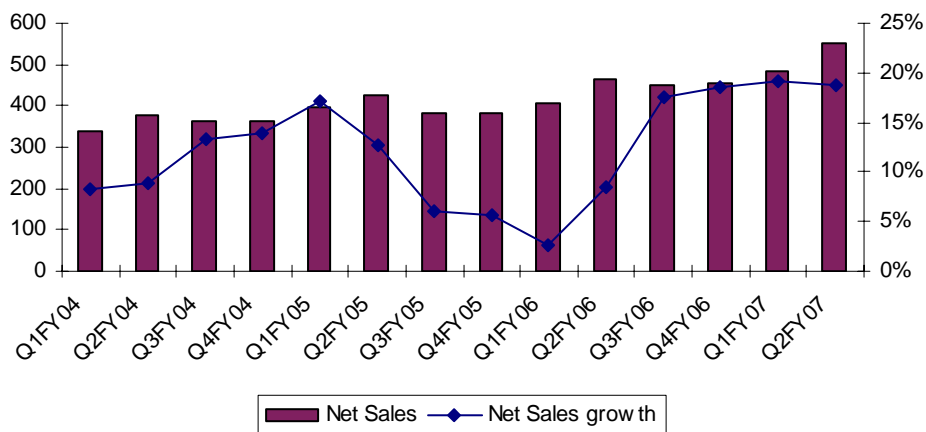
### **Financials**

#### **Consistently high sales growth for fourth quarter**

Britannia Industries, the biggest listed bakery products company in India, continued with its strong double digit growth continuously for the fourth quarter. Healthy volume-led sales growth is backed by strong demand from rural as well as urban areas. However, profitability of the company continued to deteriorate due to a steep rise in commodity prices (wheat, sugar and milk) coupled with severe competition from peers like Parle, ITC and others restricting any price-hike to cover the rising input costs.



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### Valuations

At the CMP of Rs1123, Britannia Industries is trading at Price/Earnings of 23.6x and EV/Sales of 1.4x its TTM Earnings of Rs47.5, which is at a substantial discount to its peers in the FMCG industry.



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