



ENAM Securities
India Research

CMP: Rs 527
Target Price: Rs 500
Potential Upside: -5%
Absolute Rating: HOLD

Britannia Industries Ltd

Relative to sector: **Neutral**

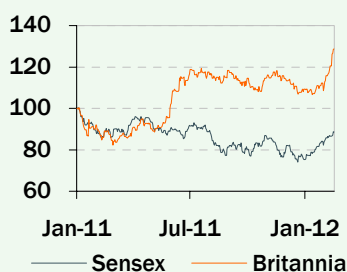
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares : 120 mn
Market cap : Rs 63 bn
52 week high/low : Rs 548/ Rs 324
Avg. daily vol. (6mth) : 58,300 shares
Bloomberg code : BRIT IB
Reuters code : BRIT.BO

Shareholding (%) Dec-11 QoQ chg

Category	Dec-11 (%)	QoQ chg
Promoters	51.0	0.0
FIs	12.6	1.3
MFs / UTI	8.8	0.6
Banks / FIs	8.5	(0.1)
Others	19.2	(1.8)

Financial summary (Consol)

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2011	46,052	1,025	-	8.6	(14.5)	-	33.4	21.5	-	6.5
2012E	54,626	1,911	15.5	16.0	86.4	32.9	51.7	31.7	20.4	7.5
2013E	63,250	2,292	19.8	19.2	19.9	27.5	49.4	35.1	16.7	8.5
2014E	73,929	2,830	25.3	23.7	23.5	22.3	48.3	39.1	13.7	10.0

Source: *Consensus broker estimates, Company, ENAM estimates

VOLUME SLOWDOWN OFFSET BY PREMIUMISATION BENEFIT

Britannia Industries' volume growth decelerated to ~6% in 9mFY12 vs. 15% growth in FY11, in-line with biscuit category slowdown. This was on account of high inflationary environment and lower disposable income. However, improvements in sales mix and price hikes have aided revenue growth (up 18% YoY in 9mFY12 for consolidated entity). However, we expect FY13 revenue growth to be slower at 16% (vs. 19% in FY12E).

Premiumisation and price hikes driving gross margin expansion: Britannia has successfully moved its product offerings up the value chain by fortifying its flagship brands with health benefits and indulgent delight. For instance, the premium Good Day Fresh Bake biscuits retail at 1.5x the price of the regular variant. New product innovation now contributes 10% of overall revenues and enjoys 1.2-1.5x gross margin of the biscuit category. Thus gross margin will have an upward bias as sales mix improves in the long term. Expect 40 bps YoY improvement in FY13 gross margin to 35.8%.

Subsidiaries (9% of consolidated revenues) turnaround: Britannia reported cash profit for 9mFY12 in its domestic and international subsidiaries led by increased scale benefit. Consequently, we factor in a profit of Rs 140 mn for FY13E (~3% PAT margin) as against an estimate of Rs 50 mn loss earlier.

Raising earnings estimates by 12%; Upgrade to HOLD: We have revised upwards our earnings estimates for FY12 to Rs 16 (earlier Rs 14.2) and FY13 to Rs 19.2 (earlier Rs 17.2) to factor in an improvement in margins and turnaround in the international subsidiaries. Further, we roll over our valuation multiple to 21x FY14E EPS and consequently increased our target price to Rs 500 (earlier Rs 378). The stock is currently trading at 33x FY12E and 27x FY13E EPS as against 5-yr median of 25x for 1-yr fwd P/E.

Key takeaways from the Analyst meet:

Biscuits market witnesses a slowdown: Value growth in biscuits category has slowed down to ~10% in Q3FY12 vs. 20% growth being witnessed in H1FY12. Management attributed the slowdown to high inflation and fall in disposable income. Further, Glucose segment (~50% of biscuits market) has seen a marked slowdown during the year with its contribution to Britannia's revenue coming down to 23% from 30% earlier.

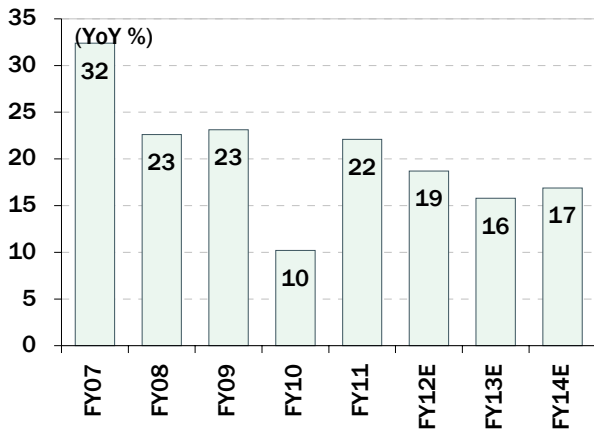
Innovation aiding revenue growth: Britannia has been launching new products (Nutrichoice multigrain thins, Britannia 50-50 Snackuits) and expanding into adjacent categories (Oats, Ready-to-eat Breakfast) which have aided its growth. Today, over 10% of the company's revenue is contributed by new innovation. Britannia expects the non-biscuit segments to grow at a faster pace and drive its revenue growth.

New standardized packaging norm could affect off-take: Almost 60% of biscuits market is at popular price points of (Rs 5 and Rs 10) which could be impacted by the new standardized packaging norms issued by the government. The management however maintained that the FMCG industry is still in discussion with the government. If the new standardized packaging norms were to be implemented, it could hurt off-take due to lesser affordability and accessibility.

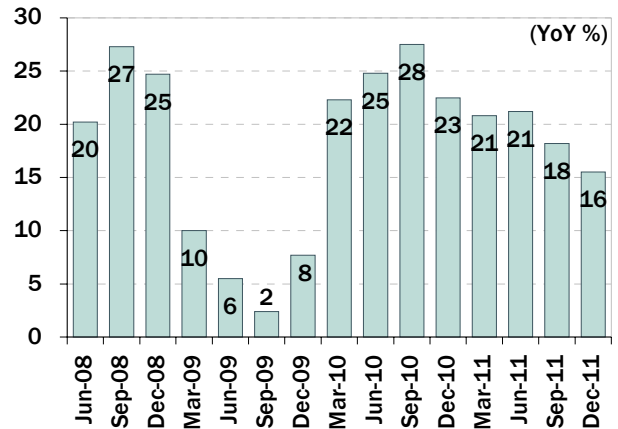
RM cost: Barring wheat (down 9% YoY) and sugar (up 1% YoY), most of the other inputs (including cashews, edible oil & packaging material) continue to face inflationary pressure. While we are building in an improvement in gross profit margin (driven by mix improvement and price hikes), a sharp rise in input prices remain a key risk to our gross margin assumptions.

Competition: Britannia has maintained its overall market share in the biscuits segment on a YoY basis despite new entrants and intense competition. The company expects new entrants (such as Kraft Foods) to help develop the market in premium segments. Over last few years, GSK Consumer (~2% market share) and ITC (~9% market share) along with joint leaders – Britannia (~33% market share) and Parle (~33% market share) – have been gaining share from smaller regional and fringe players (on the back of innovation, smaller packs sizes, brand promotions and increased distribution reach).

Consolidated revenue growth - Yearly

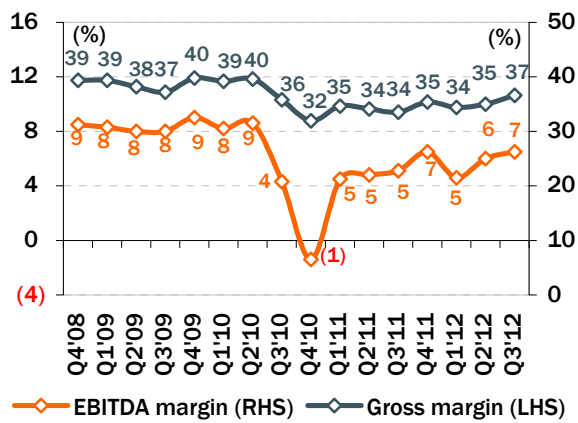


Standalone revenue growth - Quarterly

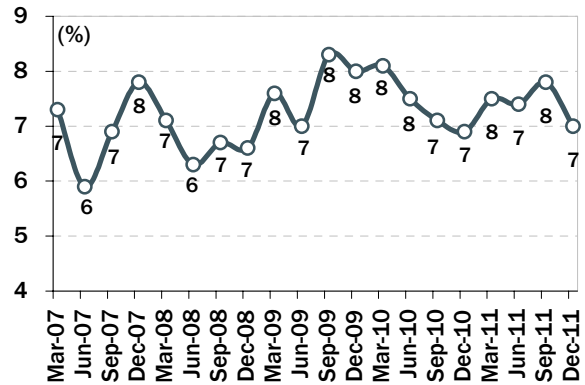


Source: Company, ENAM Research

Gross & EBITDA margin trends

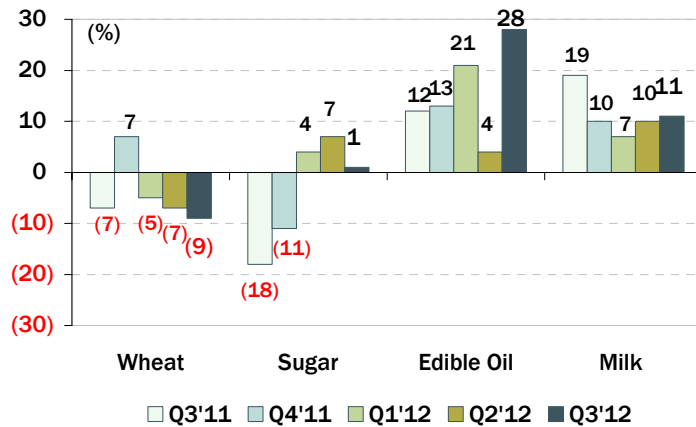


Standalone: ASP-to-sales trend



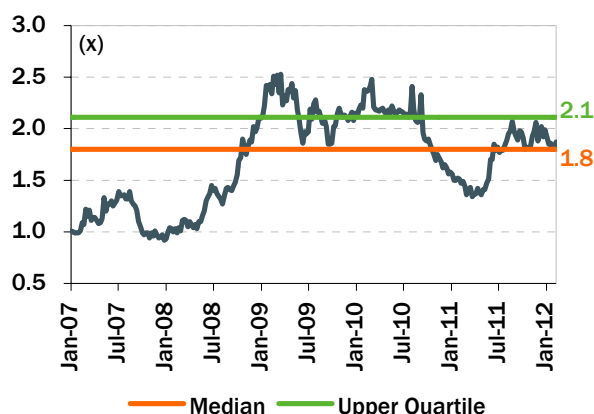
Source: Company, ENAM Research

Key commodity price trend (YoY increase)

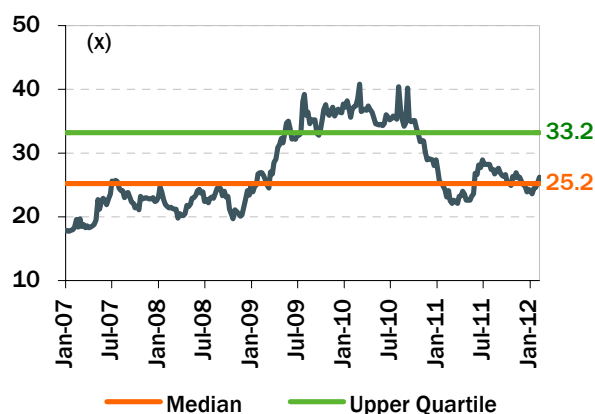


Source: Bloomberg, CMIE, ENAM Research

P/E relative to Sensex P/E



1-year forward P/E



Source: ENAM Research, Bloomberg

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