



Britannia Industries

STOCK INFO.	BLOOMBERG
BSE Sensex: 14,411	BRIT IN
	REUTERS CODE
S&P CNX: 4,250	BRIT.BO

30 May 2007

Buy

Previous Recommendation: Buy

Rs1,558

Equity Shares (m)	23.9
52-Week Range	1,645/1,025
1,6,12 Rel. Perf. (%)	19/34/-26
M.Cap. (Rs b)	37.2
M.Cap. (US\$ b)	0.9

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(x)	(%)	(%)	SALES	EBITDA
03/07A	21,993	1,076	47.3	-22.8	32.9	5.9	17.9	18.5	1.5	25.7
03/08E	28,873	1,861	77.9	64.7	20.0	4.9	25.3	32.9	1.1	12.0
03/09E	34,012	2,160	90.4	16.0	17.2	4.1	23.6	31.1	0.9	10.0

Britannia's 4QFY07 results were in line with our expectations. Net sales grew 32% YoY to Rs5.9b against our estimate of Rs5.7b. Adjusted PAT was Rs366m against our estimate of Rs373m.

Gross margins expanded by 40bp YoY to 39% after declining for four successive quarters. EBITDA grew 72% YoY, aided by price increase of about 11% (effected during the quarter by way of reduction in pack sizes) and strong volume growth. PBT grew 40% YoY to Rs400m even as other income declined 29% YoY to Rs87m. PAT before exceptional items grew 59.8% YoY to Rs366m, with tax rate declining from 19.5% in 4QFY06 to 8.5%.

Biscuits priced below Rs100/kg have been exempted from excise duty in the recent budget. Following this, *Tiger*, *50:50*, *Marie Gold*, *Nice*, *Milk Bikis* and *Good Day Butter* should move out of excise ambit. We expect wheat prices to remain strong although sugar prices are likely to rule easy. We expect Britannia to increase production at Baddi for premium biscuits. Richer sales mix and excise benefits would aid margin expansion.

We are revising our estimates upwards primarily to reflect higher volume growth, lower excise, and reduction in pack sizes. We are revising our EPS estimates upwards from Rs63.2 to Rs77.9 for FY08 and from Rs86.4 to Rs90.4 for FY09. The stock is trading at 20x FY08E and 17.2x FY09E EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE

(Rs Million)

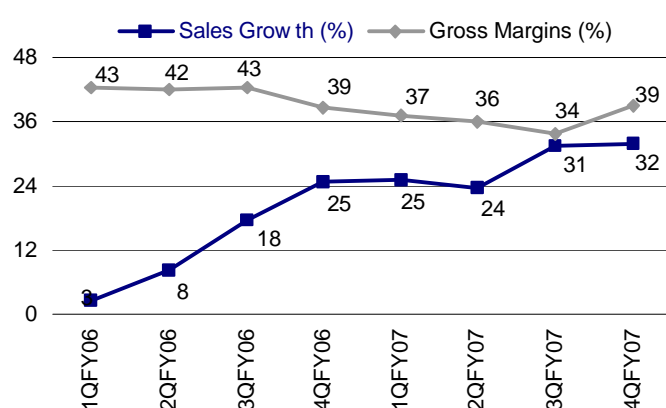
Y/E MARCH	FY06				FY07				FY06	FY07
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Net Sales	3,856	4,441	4,498	4,540	4,828	5,497	5,673	5,992	17,133	21,993
YoY Change (%)		9.5	17.5	24.6	25.2	23.8	26.1	32.0	13.5	28.4
Total Exp	3,284	3,809	3,956	4,315	4,502	5,209	5,412	5,605	15,154	20,741
EBITDA	572	632	542	225	326	288	261	387	1,979	1,252
Margins (%)	14.8	14.2	12.0	5.0	6.8	5.2	4.6	6.5	11.6	5.7
Depreciation	-53	-50	-57	-57	-57	-64	-65	-66	-217	-253
Interest	-8	-4	-11	-6	-7	-16	-23	-8	-21	-54
Other Income	32	62	17	122	119	27	50	87	217	293
PBT	543	640	491	284	381	235	223	400	1,958	1,238
Tax	-186	-201	-101	-55	-55	3	-22	-34	-543	-108
Rate (%)	34.3	31.4	20.6	19.4	14.4	-1.3	9.9	8.5	27.7	8.7
PAT	357	439	390	229	326	238	201	366	1,415	1,130
YoY Change (%)		-15.4	18.5	3.2	-8.7	-45.8	-48.5	59.8	-17.1	-20.1
Extraordinary Expenses	34	-1	-33	49	-23	-26	-37	32	49	-54
Reported PAT	391	438	357	278	303	212	164	398	1,464	1,076

Gross margins expand after declining for four successive quarters

Gross margins expanded by 40bp YoY to 39% in 4QFY07. Gross margins have been declining since 4QFY06 due to steep increase in prices of sugar and wheat, and the company's inability to pass on the price increase due to fierce competition with Parle and ITC on one hand and regional players like Priya Gold on the other.

EBITDA margins expanded 150bp YoY to 6.5% in 4QFY07, aided by price increase of about 11% effected during the quarter by reducing pack sizes by 10%. PBT grew 40% YoY to Rs400m though other income declined 29% YoY to Rs87m. PAT before exceptional items grew 59.8% YoY to Rs366m, with tax rate declining from 19.5% in 4QFY06 to 8.5%.

TREND IN GROSS MARGINS AND SALES GROWTH



Source: Company/Motilal Oswal Securities

Category growth continues to be healthy

Britannia's net sales grew 32% YoY to Rs5.9b in 4QFY07, aided by strong volume growth of over 20%. Biscuits as a category have grown at over 15% per annum during the last five years. Despite increasing competition, we believe that there is room for all the existing players in the market. We are enthused by Britannia's volume growth during the quarter. We have upgraded our volume growth numbers to

19.6% for FY08 and 17% for FY09, driven by growth in *Tiger* as well as premium-end variants like *Good Day* and *Treat*. We expect the organized players to grow ahead of the market growth in biscuits, as excise removal has ended the undue cost advantage that unorganized players had.

Excise benefit to help boost margins

Biscuits priced below Rs100/kg have been exempted from excise duty in the recent budget. Following this, *Tiger*, *50:50*, *Marie Gold*, *Nice*, *Milk Bikis* and *Good Day Butter* should move out of excise ambit. Also, increasing utilization of the Baddi facility for high-end variants would result in lower excise for these products. We expect excise as a percentage of sales to be 3% in FY08 as against 5% in FY07.

PRICE BAND OF VARIOUS BRANDS

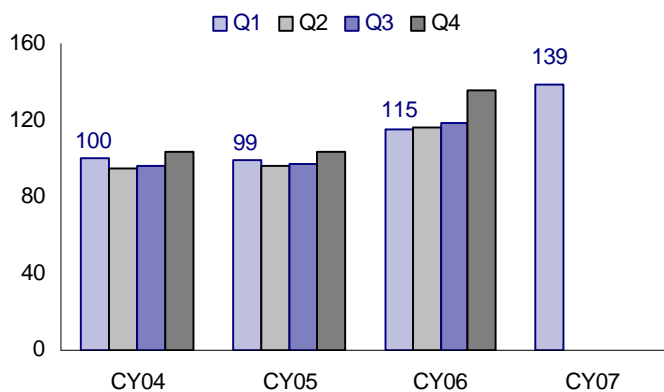
BRANDS	WEIGHT (GM)		MRP PER PACK (RS)
	OLD	NEW	
Tiger Plain	100	90	4
Tiger Cream	95	85	5
Tiger Coconut	80	70	5
Good Day Butter	100	90	10
Good Day Cashew	100	90	13
Nice Time	100	100	10
Fifty-Fifty	85	75	7
Marie Gold	100	95	7
Maska Chaska	80	71	8
Vita Marie Gold	80	71	8

Source: Company/Motilal Oswal Securities

Wheat prices to remain strong, sugar prices to provide respite

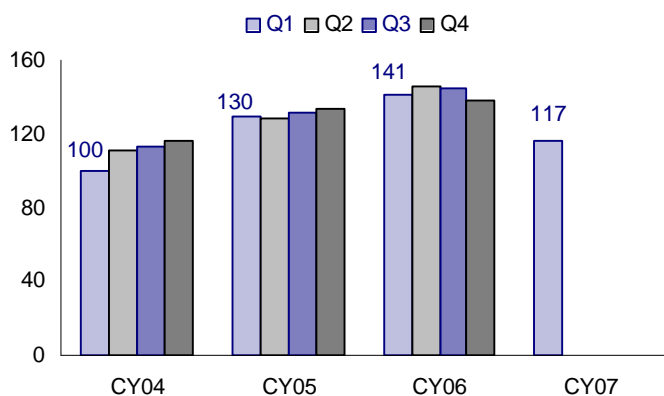
Britannia has been reeling under input cost pressure for the past few quarters. Raw material prices have increased from 66.4% of sales in FY06 to 71.8% in FY07 and in 4QFY07 raw material prices increased by 110bp YoY to 69.5% of sales. We expect the prices of wheat to increase further, as the government has raised procurement prices by 10%. Prices of vegetable oil continue to be on an uptrend while sugar prices are likely to soften. We expect no significant decline in material prices in the coming year.

TREND IN WHEAT FLOUR PRICES



Note: Indexed at 100 in 1QCY04

TREND IN SUGAR PRICES



Note: Indexed at 100 in 1QCY04

Innovations and brand launches to enrich product portfolio

Britannia has expedited new product and variant launches in the past one year. Its new product launches include *Chutkule*, *Fruit Rollz*, *Pepper Chakker*, premium variants of *Tiger* and *Good Day*, *Nutrichoice* and sugar-free biscuits. We expect the company to launch more innovative and premium products, which would boost realizations further.

Valuation and recommendation

We believe that the worst is over for Britannia and the impact of pricing and brand power on sales and profitability would be visible in the coming quarters. We expect Britannia’s sales volumes to grow 19.6% in FY08 and 17% in FY09. EBITDA margins should expand from 5.6% in FY06 to 8.9% in FY08 and 8.6% in FY09. We are revising our EPS estimates upwards from Rs63.2 to Rs77.9 for FY08 and from Rs86.4 to Rs90.4 for FY09. The stock is trading at 20x FY08E and 17.2x FY09E EPS. We maintain **Buy**.

Britannia Industries: an investment profile

Company description

Britannia Industries Ltd. is the market leader in the biscuits category with a value market share of 38%. Biscuits are one of the fastest growing categories in the FMCG segment with annual volume growth rate of 12-15% in the last five years.

Key investment arguments

- ✎ Biscuits have one of the highest sensitivity to income levels and the increase in disposable income should result in expansion in demand for biscuits, particularly in rural areas.
- ✎ Reduction in excise duty, increasing capacity utilization at Baddi and reduction in pack sizes will drive volumes and result in improved profitability.

Key investment risks

- ✎ Britannia is facing increasing competition from ITC on one hand and regional players like Priyagold.
- ✎ Danone, has decided to enter India on its own, in water and foods businesses.
- ✎ Intense competition and price sensitivity makes it difficult to pass on any price increase to consumers.

Recent developments

- ✎ Biscuits with MRP below Rs100/kg have been exempted from excise duty.
- ✎ The company has reduced pack sizes from 100gm to 90gm across product segments.
- ✎ Recent new launches include *Chutukale*, *Fruit Rollz*, *Pepper Chakker*, new premium variants of *Tiger* and *Nutrichoice*, and sugar-free biscuits.

Valuation and view

- ✎ We forecast EPS at Rs77.9 for FY08 and Rs90.4 for FY09.
- ✎ The stock is trading at 20x FY08E EPS and 17.2x FY09E EPS. We maintain **Buy**.

Sector view

- ✎ We have a cautious view on the sector on the back of inflationary tendency in the economy, which could impact volumes as well as profit margins of companies.
- ✎ Companies with low competitive pressures and broad product portfolios will be able to better withstand any slowdown in a particular segment.
- ✎ Longer-term prospects are bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

		BRITANNIA	DABUR	COLGATE
P/E (x)	FY08E	20.0	24.2	23.3
	FY09E	17.2	21.6	19.8
P/BV (x)	FY08E	4.9	13.1	25.3
	FY09E	4.1	2.3	23.4
EV/Sales (x)	FY08E	1.1	3.1	3.1
	FY09E	0.9	2.7	2.8
EV/EBITDA (x)	FY08E	12.0	19.1	19.4
	FY09E	10.0	13.1	16.3

SHAREHOLDING PATTERN (%)

	MAR.07	DEC.06	MAR.06
Promoter	51.0	51.0	51.0
Domestic Inst	14.7	16.6	16.4
Foreign	14.6	12.5	12.9
Others	19.7	19.9	19.7

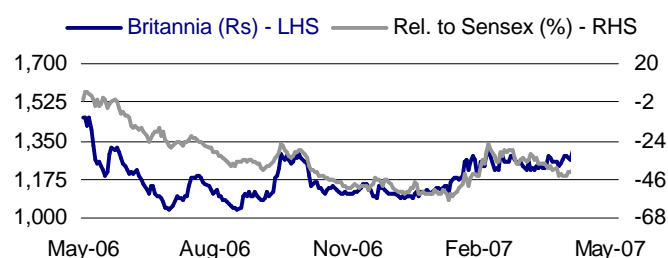
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VIATION (%)
FY08	77.9	74.5	4.6
FY09	90.4	94.7	-4.6

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
1,558	1,808	16.0	Buy

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Net Sales	15,095	17,133	21,993	28,873	34,012	
Change (%)	4.9	13.5	28.4	31.3	17.8	
Total Expenditure	-13,255	-15,125	-20,741	-26,293	-31,087	
EBITDA	1,840	1,979	1,252	2,581	2,926	
Change (%)	9.3	7.8	-26.7	75.4	13.4	
Margin (%)	2.2	11.6	5.7	8.9	8.6	
Depreciation	-190	-217	-253	-282	-304	
Int. and Fin. Charges	-51	-21	-54	-30	-30	
Other Income-rec.	791	217	293	305	339	
PBT	2,390	1,958	1,238	2,575	2,930	
Change (%)	22.7	-18.9	-25.7	77.0	13.8	
Margin (%)	15.8	11.4	5.6	8.9	8.6	
Tax	-732	-545	-137	-695	-829	
Deferred Tax	17	2	29	51	59	
Tax Rate (%)	-29.9	-27.7	-8.7	-25.0	-26.3	
PAT	1,675	1,415	1,130	1,931	2,160	
Change (%)	29.6	-16.7	-7.5	47.5	11.8	
Margin (%)	11.1	8.3	5.1	6.7	6.3	
Non-rec. (Exp.)/Income	-218	49	-93	-70	0	
Reported PAT	1,457	1,464	1,076	1,861	2,160	

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Share Capital	239	239	239	239	239	
Reserves	4,196	5,252	6,085	7,381	8,909	
Networth	4,435	5,491	6,324	7,620	9,148	
Loans	61	94	17	18	19	
Deferred Liability	34	17	46	97	156	
Capital Employed	4,530	5,601	6,387	7,735	9,323	
Gross Block	2,503	3,154	3,454	3,754	4,054	
Less: Accum. Depn.	-1,544	-1,748	-2,007	-2,289	-2,593	
Net Fixed Assets	960	1,406	1,447	1,465	1,461	
Capital WIP	379	111	50	50	50	
Investments	3,301	3,599	4,520	5,018	6,147	
Misc Expenditure not w/off	342	161	69	0	0	
Currents Assets	2,582	3,356	4,227	6,008	7,167	
Inventory	1,342	1,848	2,474	3,320	3,826	
Account Receivables	443	209	301	412	522	
Cash and Bank Balance	163	353	555	1,312	1,820	
Others	634	946	897	963	999	
Curr. Liab. & Prov.	3,033	3,030	3,925	4,805	5,502	
Account Payables	1,863	2,123	2,765	3,448	4,033	
Other Liabilities	789	499	850	883	919	
Provisions	381	409	310	474	550	
Net Current Assets	-451	326	302	1,202	1,665	
Net Assets	4,530	5,601	6,387	7,735	9,323	

E: MOSt Estimates

RATIOS						
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Basic (Rs)						
EPS	62.0	61.3	47.3	77.9	90.4	
Cash EPS	79.0	70.4	65.6	92.6	103.1	
BV/Share	185.7	229.8	264.7	319.0	382.9	
DPS	14.0	15.0	11.4	17.5	20.3	
Payout (%)	22.6	24.5	24.2	22.5	22.5	
Valuation (x)						
P/E		25.4	32.9	20.0	17.2	
Cash P/E		22.1	23.7	16.8	15.1	
EV/Sales		19	15	1.1	0.9	
EV/EBITDA		16.9	25.7	12.0	10.0	
P/BV		6.8	5.9	4.9	4.1	
Dividend Yield		10	0.7	1.1	1.3	
Return Ratios (%)						
RoE	37.8	25.8	17.9	25.3	23.6	
RoCE	51.6	34.6	18.5	32.9	31.1	
Working Capital Ratios						
Debtor (Days)	11	4	5	5	6	
Asset Turnover (x)	3.3	3.1	3.4	3.7	3.6	
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	

CASH FLOW STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
OP/(Loss) before Tax	1,650	1,762	999	2,299	2,622	
Int./Div. Received	573	264	379	455	589	
Depreciation and Amort.	190	217	253	282	304	
Interest Paid	-51	-21	-54	-30	-30	
Direct Taxes Paid	-715	-520	-145	-644	-771	
(Inc)/Dec in WC	988	-619	303	-143	45	
CF from Operations	2,635	1,084	1,734	2,219	2,759	
Extraordinary Items						
(Inc)/Dec in FA	-139	-382	-239	-300	-300	
(Pur.)/Sale of Investments	-388	-298	-921	-498	-1,129	
CF from Investments	-526	-680	-1,160	-798	-1,429	
Issue of Shares	-12	0	0	0	0	
(Inc)/Dec in Debt	-330	32	-76	1	1	
Dividend Paid	-334	-358	-273	-419	-486	
Other Item	-1,339	112	-22	-246	-337	
CF from Fin. Activity	-2,016	-214	-372	-664	-822	
Inc/Dec of Cash	92	189	202	757	508	
Add: Beginning Balance	71	163	353	555	1,312	
Closing Balance	163	353	555	1,312	1,820	



For more copies or other information, contact

Institutional: Navin Agarwal. **Retail:** Manish Shah

Phone: (91-22) 39825500 Fax: (91-22) 22885038. E-mail: inquire@motiloswal.com

Motilal Oswal Securities Ltd, 3rd Floor, Hoechst House, Nariman Point, Mumbai 400 021

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. Motilal Oswal Securities Limited (*hereinafter referred as MOST*) is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

The report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon such. MOST or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. MOST or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

MOST and/or its affiliates and/or employees may have interests/ positions, financial or otherwise in the securities mentioned in this report. To enhance transparency, MOST has incorporated a Disclosure of Interest Statement in this document. This should, however, not be treated as endorsement of the views expressed in the report.

Disclosure of Interest Statement	Britannia Industries
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.