

Britannia Industries Ltd (BUY)

QUARTERLY EARNINGS HIGHLIGHTS 2QFY21

Britannia has reported total revenue growth of 12% y-y at Rs 3,419cr slightly below our expectation of Rs 3,510cr. Gross profit margin came at 42.5% above our expectation of 41% led by benign input cost and better product mix. EBITDA grew by 37% y-y to Rs 675cr in line with our estimate of Rs 677cr. EBITDA margin came at 19.8% marginally above our estimate of 19.3%. Lower media spends, rise in cost efficiency and benefit of operating leverage led to the significant growth in EBITDA. The profit before tax came in at Rs 671cr increasing 34% y-y. However, due to lower tax outgo in the base quarter, the y-y growth in consolidated reported net profit before exceptionals was restricted to 23% y-y at Rs 499cr slightly below our estimate of Rs 507cr.

Outlook & Valuations

Britannia continued on its growth trajectory in the second quarter although the growth was marginally below expectations. The Government authorities are in the process of opening up of the economy. We believe out of home consumption to pick as quick service restaurants, diners and various other street food options are allowed to operate. This will lead to the normalization in Britannia's growth trajectory. However we expect the new normal growth trajectory for the Company to be higher than the past led by improvement in distribution network, increase in geographic reach and consumers preferring trusted brands as they become more conscious regarding hygiene. The management expects prices of key raw materials to be stable going forward on the back of positive outlook on monsoon and harvest. We expect much of the efficiency gains from supply chain, reduction in wastage and fixed cost leverage to be sustainable. The company has made the best use of the crisis by extracting cost efficiency and leveraging resources leading to excellent operational execution in first half of the current fiscal. Considering Britannia's market leadership position, improving market share, management's execution capability to outperform its peers in such a challenging environment, increasing reach and scope for scaling up non biscuit businesses, we value Britannia at 48x FY22E EPS of 81 to arrive at a price target of Rs 3,900 per share. We have a BUY rating on the stock.

Key Financials

Rs.(Cr)	FY19	FY20	FY21E	FY22E
Revenue	11,055	11,600	13,140	14,200
EBIDTA	1,733	1,843	2,576	2,707
EBIDTA Margins%	15.7%	15.9%	19.6%	19.1%
Recurring PAT	1,159	1,415	1,882	1,950
PAT Margin%	10.5%	12.2%	14.3%	13.7%
ROE%	30.3%	32.7%	54.9%	62.2%
EPS	48.2	58.8	78.2	81.0
P/E	58.2	61.6	45.4	43.9

Source: Company, Bonanza Research

FMCG

CMP:	3,552
Target Price	3,900

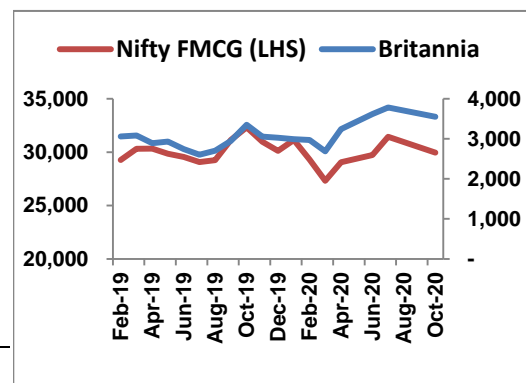
Stock Details

Bloomberg Code	BRIT: IN
Reuters Code	BRIT.NS
Shares O/S (Cr.)	24.1
M Cap (Rs Cr)	85,494
52 week L/H (Rs)	2,100/4,015

Shareholding Pattern (%)

Promoters	50.6
DII's	11.5
FII's	16.0
Non-Institution	21.9

Stock Performance Chart



Stock Performance

Return (%)	1 Mth	6 Mths	1 Yr
Absolute	-2.1	25.5	9.4

Quarterly P&L

Rs. Cr	2QFY21	2QFY20	Y-Y	1QFY21	Q-Q	1HFY20	1HFY21	Y-Y
Net Sales	3,419	3,049	12%	3,421	0%	5,749	6,840	19%
Gross Profit	1,454	1,225	19%	1,425	2%	2,316	2,879	24%
Total Expenditure	2,744	2,557	7%	2,704	1%	4,862	5,447	12%
Reported EBIDTA	675	492	37%	717	-6%	887	1,392	57%
Depreciation	48	45	8%	48	1%	90	96	8%
EBIT	627	447	40%	669	-6%	797	1,296	63%
Interest	30	16	85%	26	16%	26	55	111%
Other Income	74	68	8%	94	-22%	136	167	23%
PBT and exceptionals	671	499	34%	737	-9%	907	1,408	55%
Exceptional	(0.5)	(1)	N.A	(0)	N.A	(17)	(1)	N.A
Tax	175	96	83%	194	-10%	239	369	55%
PAT	495	403	23%	543	-9%	651	1,038	59%
Minority Interest	3	1.5	97%	3.0	-3%	4	6	53%
Share of Associates	0.1	0.01	N.A	0.1	10%	0.03	0.2	N.A
Consol. Profit After Tax	498	404	23%	546	-9%	655	1,044	59%
Comparable PAT excl. exceptionals	499	405	23%	546	-9%	666	1,044	57%
Comparable EPS per share	20.7	16.8	23%	22.7	-9%	27.7	43.4	57%
Gross Margin	42.5%	40.2%	236bps	41.7%	87bps	40.3%	42.1%	181bps
EBIDTA Margin	19.8%	16.1%	361bps	21.0%	-121bps	15.4%	20.4%	493bps

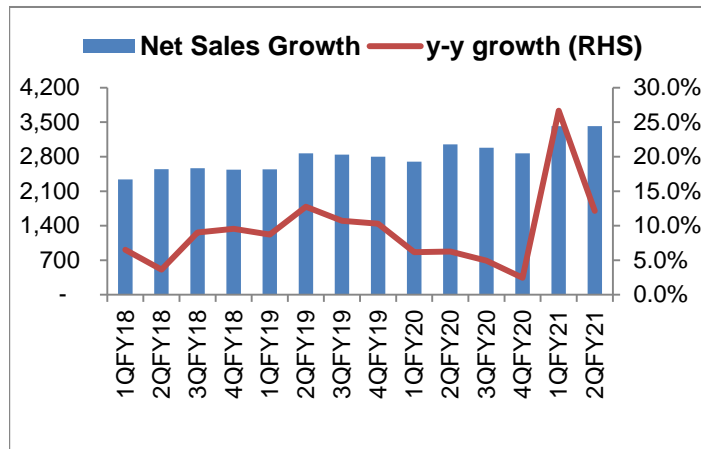
Source: Company, Bonanza Research

Key Highlights of Concall:-

- According to the management Britannia witnessed 9-10% y-y growth in the month of July and September. However in August the growth was in low single digit due to the higher salience of Modern Trade in the month of August.
- The General trade channel has been doing well however Modern Trade is weak. Modern trade forms 10% of revenue barring the month of August and January when it has higher salience due to events such as Big Day when higher discounts are offered by the modern trade retailers.
- Rural did better than urban and as per management rural contribution to total revenues was around 30%.
- Domestic volume growth was around 9%. Volume growth in biscuits contributing around 75% to total business was around 8.5% while non biscuits contributing around 25% grew by around 10.5%. Cheese, Bread and Rusks witnessed double digit growth. However Cakes forming large part of non biscuits witnessed slower growth. Drinks were impacted by decline in out of home consumption.
- With easing of lockdown out of home consumption is growing and in home declining. However management believes that most of the consumers who tried Britannia products will remain with the company.
- During 2QFY21 flour, and milk witnessed a deflation of 5% and 21% while sugar and palm oil witnessed an inflation of 4% and 25% respectively. The management expects input prices to remain stable and not witness deflation. The company will look at right pricing and support products with higher profitability instead of focusing on low value products. The company has not seen significant shift in consumer preference from large pack to small pack.
- As the company is normalizing its SKU production there will be some loss in efficiency. Ad spends is also expected to rise going forward impacting margins. The company has embarked upon Best in Britannia project to achieve the recent high margins.
- Middle East and Africa witnessed single digit growth while rest of the International business grew in double digits.
- Inter corporate deposits were around Rs 700cr similar to Mar'20 level.
- Commercial papers have an interest rate of 3.5-4% and are used for financing commodity purchase.
- Company will put up new plants in Bihar, Uttar Pradesh (2nd largest market for Britannia), Tamil Nadu and augment manufacturing facility in Orissa and Ranjangaon.

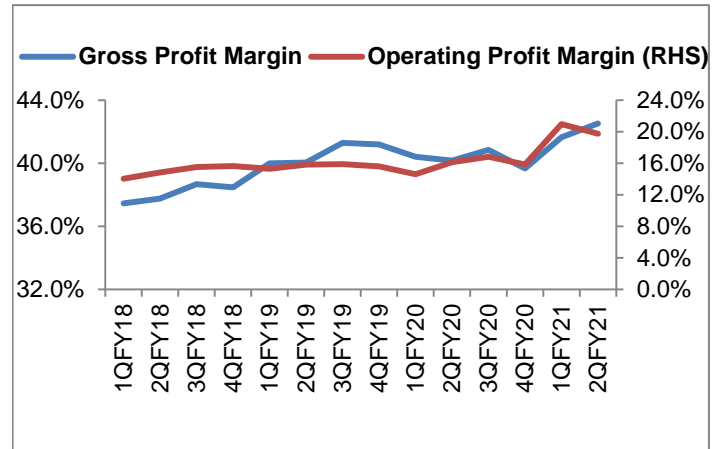
Business Highlights

Exhibit 1: Net Sales



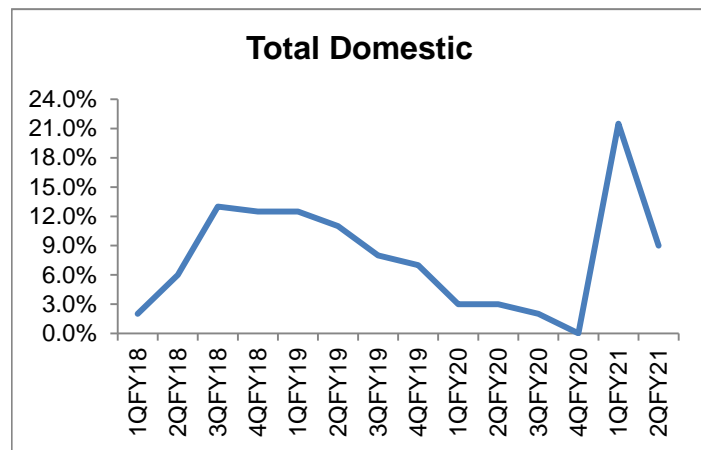
Source: Company, Bonanza Research

Exhibit 2: Margin Trend



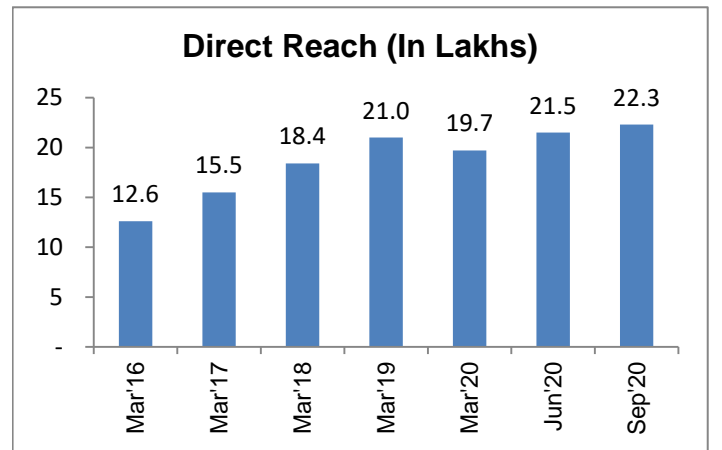
Source: Company, Bonanza Research

Exhibit 3: Volume Growth



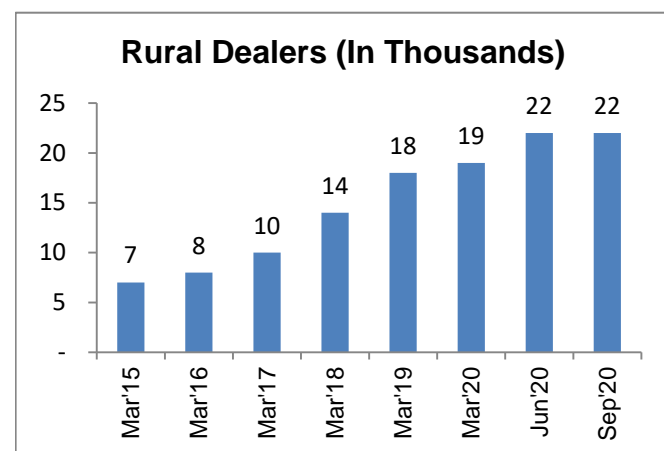
Source: Company, Bonanza Research

Exhibit 4: Direct Reach



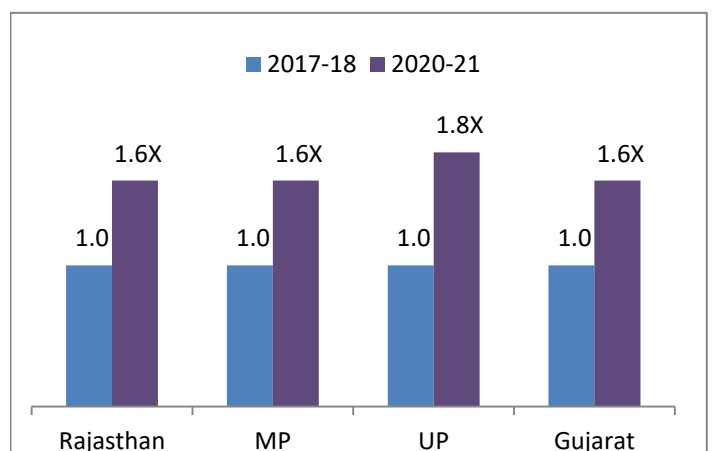
Source: Company, Bonanza Research

Exhibit 5: Rural Reach



Source: Company, Bonanza Research

Exhibit 6: Double Digit Growth in Hindi Belt (CAGR 16-20%)



Source: Company, Bonanza Research

Financials

P&L

Rs Cr	FY19	FY20	FY21E	FY22E
Net Sales	11,055	11,600	13,140	14,200
Total Raw Material Cost	6,561	6,927	7,613	8,260
Gross Profit	4,493	4,672	5,527	5,940
Advert. & Sales Promo (ASP)	501	522	544	596
Total Expenditure	9,321	9,756	10,564	11,493
EBITDA	1,733	1,843	2,576	2,707
Depreciation	162	185	192	206
Interest	9	77	128	160
Other Income	206	279	278	246
PBT before exceptional	1,769	1,861	2,534	2,588
Exceptionals	-	(17)	(1)	-
Profit Before Tax	1,769	1,844	2,533	2,588
Provision for Tax	612	451	664	652
Minority Interest	4	9	11	13
Share of Associate	(1)	0	1	1
Profit After Tax	1,159	1,403	1,881	1,950
Recurring Profit After Tax	1,159	1,415	1,882	1,950
Adjusted EPS	48.2	58.8	78.2	81.0

Source: Company, Bonanza Research

Balance Sheet

Rs Cr	FY19	FY20	FY21E	FY22E
Shareholder's Funds	4,253	4,403	2,450	3,823
Minority Interest	33	36	36	36
Total Borrowings	159	1,547	2,497	2,497
Trade Payables	1,141	1,116	1,200	1,200
Other Liabilities	643	721	786	850
Total Liabilities	6,228	7,823	6,969	8,406
Net Block	1,775	1,903	2,111	2,305
Non Current Investments	741	1,899	1,500	1,500
Other Non Current Assets	186	346	362	379
Total Non-Current Assets	2,702	4,148	3,974	4,184
Currents Investments	750	1,009	400	1,000
Inventories	781	741	1,000	900
Sundry Debtors	394	320	350	375
Cash and Cash Equivalents	60	81	108	787
Bank Balance	50	42	42	42
Other Current Assets	1,491	1,482	1,096	1,118
Total Current Assets	3,526	3,675	2,995	4,221
Total Assets	6,228	7,823	6,969	8,406

Source: Company, Bonanza Research

Cash Flow statement

Rs Cr	FY19	FY20	FY21E	FY22E
Profit Before Tax	1,769	1,844	2,533	2,588
Adjustment	(15)	17	68	146
Changes In working Capital	(2)	127	(171)	103
Tax Paid	(596)	(503)	(668)	(655)
Cash From Operating Activities	1,156	1,485	1,762	2,182
CAPEX	(399)	(243)	(400)	(400)
FCFF	756	1,241	1,362	1,782
(Purchase)/Sale of Investment	(334)	(1,327)	1,083	(530)
Interest received	117	128	197	170
Inter Coporate Deposits	(239)	(89)	406	-
Cash Flow from Investing Activities	(856)	(1,532)	1,286	(760)
Increase / (Decrease) in Borrowings	(42)	641	950	-
Issue of Equity Share Capital	30	24	25	25
Dividend Paid	(354)	(433)	(3,141)	(602)
Interest Paid	(9)	(36)	(128)	(160)
Other Financing Activity	23	(139)	(721)	(6)
Cash from Financing Activities	(353)	58	(3,016)	(743)
Net Cash Inflow / Outflow	(52)	11	32	679
Opening Cash & Cash Equivalents	108	59	75	108
Effect of Foreign exchange fluctuation	3	6	-	-
Closing Cash & Cash Equivalent	59	75	108	787
Bank OD	2	6	-	-
Cash and Cash Equivalents	60	81	108	787

Source: Company, Bonanza Research

Ratio Analysis

Rs Cr	FY19	FY20	FY21E	FY22E
Sales Growth	11.5%	4.9%	13.3%	8.1%
EBITDA growth	15.4%	6.3%	39.7%	5.1%
Net Profit Growth	15.4%	22.1%	32.9%	3.6%
Gross Profit Margin	40.6%	40.3%	42.1%	41.8%
EBITDA Margin	15.7%	15.9%	19.6%	19.1%
Net Profit Margin	10.5%	12.2%	14.3%	13.7%
ASP as % of sales	4.5%	4.5%	4.1%	4.2%
Eff Tax Rate	34.6%	24.4%	26.2%	25.2%
ROE	30.3%	32.7%	54.9%	62.2%
Asset Turnover	1.9	1.7	1.8	1.8
Receivable Days	12	11	9	9
Inventory Days (on COGS)	40	40	42	42
Payable Days (on COGS)	58	60	53	53

Source: Company, Bonanza Research

Disclosure:

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