

Britannia Industries

BSE SENSEX	S&P CNX	CMP: INR454	TP: INR467	Sell						
17,602	5,337									
Bloomberg	BRIT IN									
Equity Shares (m)	119									
52-Week Range (INR)	600/434									
1,6,12 Rel. Perf. (%)	-15/-5/-5									
M.Cap. (INR b)	54.1									
M.Cap. (USD b)	1.0									
Year End	Net Sales (INR M)	PAT (INR M)	EPS (INR)	EPS Growth (%)	P/E (X)	P/BV (x)	RoE (%)	RoCE (%)	EV/Sales	EV/EBITDA
03/11A	41,983	1,453	12.2	-13.2	-	-	32.2	31.2	-	-
03/12A	49,470	1,867	15.6	28.5	29.0	10.1	34.9	36.1	1.1	20.9
03/13E	57,948	2,142	17.9	14.7	25.3	8.7	34.3	52.7	0.9	15.4
03/14E	67,745	2,918	24.4	36.2	18.5	7.2	39.1	55.3	0.7	11.1

Britannia Industries 1QFY13: Below estimates; Volume growth further slows down; Input costs ruling firm; Maintain Sell

- Britannia Industries 1QFY13 results are below estimates, with sales at INR12.2b (estimate INR13b) and EBITDA at INR651m (estimate INR676m). Lower other income at INR179m and higher tax rate at 28% resulted in muted PAT growth of 4% to INR435m (estimate INR465m).
- We note that the volume growth at 3-4% is on a continuous decline (5.5% in 4QFY12, 7% in 3Q, 10% in 2Q, 12% in 1Q and 16% in FY11). Value growth amounts to 2-3% while the rest comes from better product mix.
- Gross margin expanded 380bp (estimate 100bp); however, EBITDA margin expanded only 100bp (estimate 90bp) due to 180bp increase in other expenses, 110bp increase in conversion costs and 60bp increase in ad spends.
- Prices of vegetable oil (15% of sales), sugar (18% of sales) and wheat (27% of sales) were firm during the quarter; HDPE prices are also ruling strong.
- We believe that as biscuit category growth is slowing down, incremental gains from innovations are likely to be lower despite Britannia's increased focus on premium products.
- The stock trades at 25.3x FY13E and 18.5x FY14E EPS. Maintain **Sell**.

Quarterly Performance

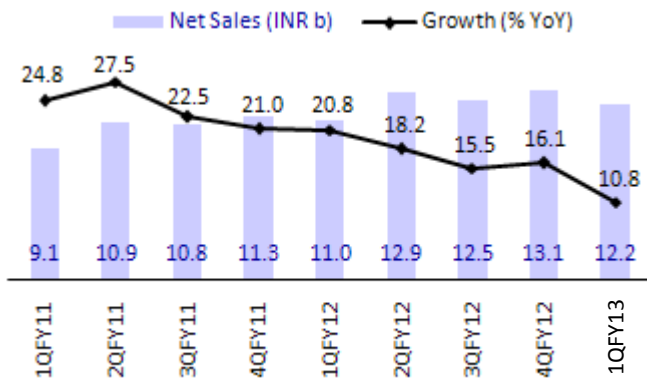
Y/E March	FY12				FY13E				FY12	FY13E	Estimate	Variance
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Net Sales	11,030	12,941	12,474	13,096	12,216	15,000	14,750	15,982	49,470	57,948	13,000	(6.0)
YoY Change (%)	21.0	18.2	15.4	16.8	10.8	15.9	18.2	22.0	17.8	17.1	17.5	
COGS	7,257	8,408	7,910	8,223	7,575	9,645	9,248	10,475	31,798	36,943	8,424	
Gross Profit	3,773	4,533	4,565	4,873	4,642	5,355	5,502	5,507	17,673	21,005	4,576	1.4
Margins (%)	34.2	35.0	36.6	37.2	38.0	35.7	37.3	34.5	35.7	36.2	35.2	
Other Exp	3,300	3,761	3,749	4,192	3,991	4,500	4,543	4,614	15,152	17,648	3,900	2.3
% of Sales	29.9	29.1	30.1	32.0	32.7	30.0	30.8	28.9	30.6	30.5	30.0	
Total Exp	7,073	12,170	11,658	12,415	11,566	14,145	13,791	15,089	46,950	54,591	12,324	
EBITDA	473	772	816	680	651	855	959	893	2,521	3,357	676	(3.8)
Margins (%)	4.3	6.0	6.5	5.2	5.3	5.7	6.5	5.6	5.1	5.8	5.2	
YoY Growth (%)	15.6	45.9	46.3	8.0	37.6	10.8	17.5	31.3	22.2	33.2	33.6	
Depreciation	111	116	122	125	130	135	140	142	473	547	130	0.1
Interest	93	97	95	95	95	50	45	46	381	236	90	5.1
Other Income	304	110	148	226	179	60	60	120	857	419	190	(5.8)
PBT	573	670	747	685	605	730	834	825	2,524	2,993	646	(6.4)
Tax	155	182	206	155	170	204	233	230	656	838	181	
Rate (%)	27.0	27.1	27.6	22.6	28.1	28.0	28.0	27.9	26.0	28.0	28.0	
Adjusted PAT	418	488	541	530	435	526	600	595	1,867	2,155	465	(6.6)
YoY Change (%)	27.2	48.8	42.8	22.6	4.0	7.7	11.0	12.2	28.5	15.4	11.3	

E: MOSL Estimates

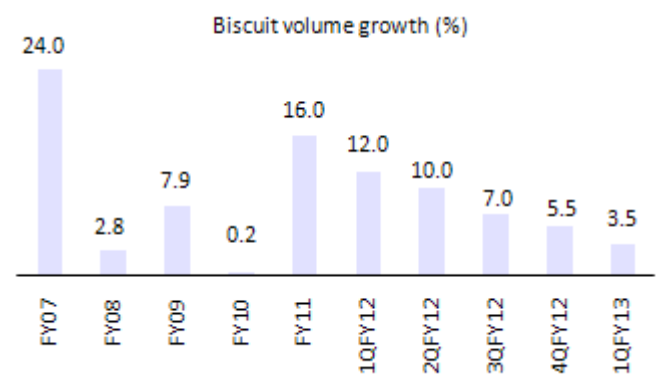
Sales growth below estimates; volume growth slows down to an estimated 5.5%

- Net sales grew 16.8% to INR13.1b (estimate 13.4b); we estimate volume growth at ~5.5%, this indicates slowdown in volume growth from 7% in 3QFY12, 10% in 2QFY12 and 12% in 1QFY12.
- BRIT's focus on value-added products remains intact as it added variants to Fresh Bake cookies; however with increased competition from Parle, Kraft and ITC, we believe topline growth both in terms of volume and value growth would remain under check.
- Consistent drop in volume growth due to rising competition in premium segments indicates sales growth will remain under pressure in coming quarters.

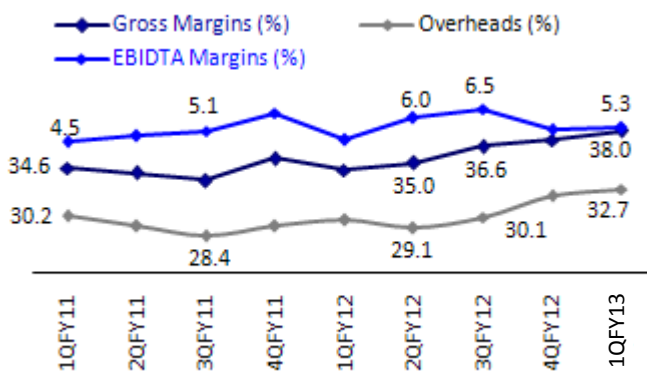
Sales growth slowing down ...



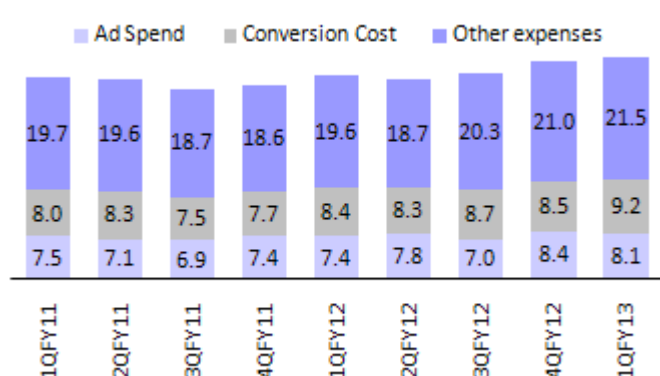
... as volume growth continues to move down



Gross margins expands 244bp QoQ, EBITDA margins fall 42bp



Other expenses, conversion costs and ad spends drag EBITDA margin (% of sales)

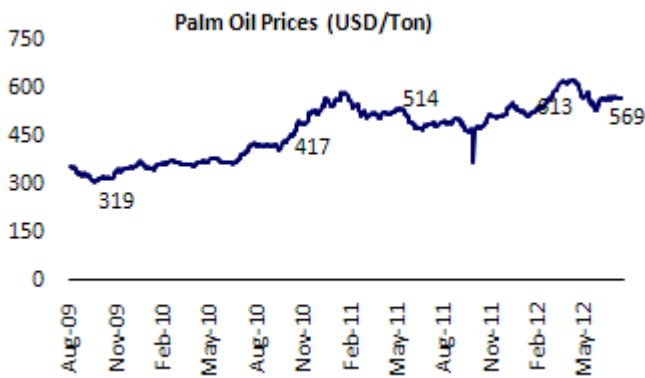


Source: Company, MOSL

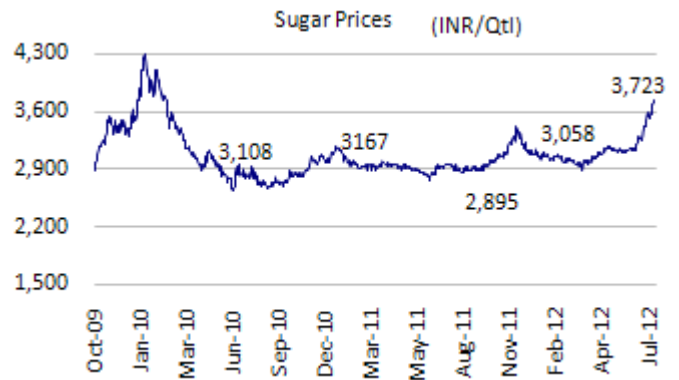
Gross margins expansion of 380bp ahead of estimates; higher conversion cost and ad spends drag down EBITDA margin

- Gross margin for the quarter expanded 380bp (est 100bp) on the back of BRIT's value-added products strategy, despite firm prices of vegetable oil, sugar, wheat flour, and packaging costs.
- EBITDA margin expansion was only 100bp YoY to 5.3% (est 5.2%), dragged down by 180bp increase in other expenses, 80bp increase in conversion costs and 60bp increase in ad spends dragged.
- We believe BRIT will have to sustain increased level of ad spends, as competitive intensity is on the rise with all players focusing on the premium segment.
- We note that prices of vegetable oil (15% of sales), sugar (18% of sales) and wheat (27% of sales) remain firm; also, HDPE prices are ruling strong.

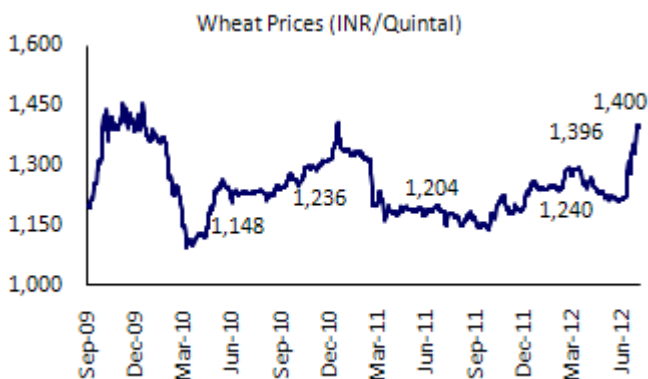
Palm Oil prices inch up...



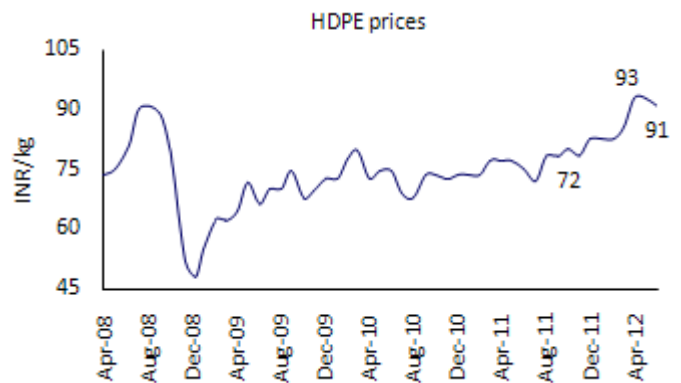
Sugar prices remain firm...



Wheat prices still firm ... show no signs of cooling off...



... HDPE prices too are at peak



Source: Company, MOSL

Valuation and view: Muted volume growth, heightened competition; firm input cost environment; maintain Sell

- We believe BRIT in coming quarters would face multiple headwinds leading to lower margins and profit growth as seen in the past few quarters: (1) slowdown in biscuit category, and (2) rising competition in the premium segment from ITC, Parle and Kraft, and (3) increase in commodity costs due to weak monsoon are an overhang on the profitability of the company.
- The stock trades at 25.3x FY13E and 18.5x FY14E EPS. Maintain **Sell**.

Britannia Industries: an investment profile

Company description

Britannia Industries (BRIT) is the market leader in the biscuits category, with a market share of 38% (in value terms). Biscuits has been 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 high sensitivity to income levels. 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

- BRIT is facing increasing competition from ITC Kraft and Parle on the one hand and regional players like Priyagold on the other.
- Biscuits is a highly elastic category, with high sensitivity to any price increase. Intense competition and price sensitivity makes it difficult to pass on any price increase to consumers, particularly in the Glucose segment.

- Biscuit industry growth has declined from 24% in 1QFY12 to 10-11% in 3QFY12.

Recent developments

- Standard pack sizes regulation to be introduced in July 2012.
- BRIT recently launched products like Bourbon Cappuccino, Pure Magic Praline and variants to its Treat brand.

Valuation and view

- We have EPS forecasts of INR17.9 for FY13 and INR24.4 for FY14.
- The stock trades at 25.3x FY13E and 18.5x FY14E EPS. Maintain **Sell**.

Sector view

- We have a cautious view on the sector on back of inflationary tendency in the economy, which might 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 bright, given rising incomes and low penetration.

Comparative valuations

		Britannia	Dabur	Colgate
P/E (x)	FY13E	25.3	27.9	31.7
	FY14E	18.5	23.3	28.0
P/BV (x)	FY13E	8.7	9.8	31.2
	FY14E	7.2	8.1	25.9
EV/Sales (x)	FY13E	0.9	3.5	5.1
	FY14E	0.7	3.0	4.4
EV/EBITDA (x)	FY13E	15.4	20.8	22.9
	FY14E	11.1	17.4	19.7

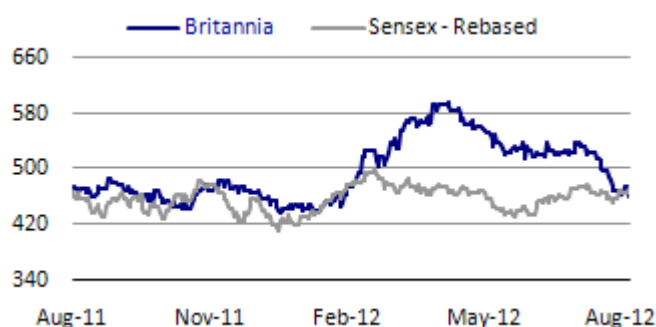
EPS: MOST forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY13	17.9	20.4	-12.0
FY14	24.4	22.6	7.8

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
454	467	3.0	Sell

Stock performance (1 year)



Shareholding pattern (%)

	Jun-12	Mar-12	Jun-11
Promoter	51.0	51.0	51.0
Domestic Inst	14.9	16.2	16.6
Foreign	15.1	13.6	10.6
Others	19.1	19.2	21.8

Financials and Valuation

Income Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Net Revenues	41,983	49,470	57,948	67,745	
Change (%)	23.4	17.8	17.1	16.9	
Raw Material Cost	27,643	31,798	36,943	42,735	
Gross Profit	14,340	17,673	21,005	25,010	
Margin (%)	34.2	35.7	36.2	36.9	
Advertising	3,042	3,810	4,462	5,081	
% of Sales	7.2	7.7	7.7	7.5	
Other Expenditure	9,236	11,343	13,186	15,428	
EBITDA	2,063	2,521	3,357	4,502	
Change (%)	35.4	33.2	11.8	34.1	
Margin (%)	4.9	5.1	5.8	6.6	
Depreciation	446	473	547	617	
Int. and Fin. Charges	378	381	236	71	
Financial Other Income	489	585	246	126	
Operating Other Income	252	272	155	170	
PBT	1,981	2,524	2,975	4,110	
Change (%)	15.4	27.4	17.9	38.1	
Margin (%)	4.7	5.1	5.1	6.1	
Tax	528	656	893	1,233	
Deferred Tax	0	0	-60	-41	
Tax Rate (%)	26.6	26.0	28.0	29.0	
PAT	1,453	1,867	2,142	2,918	
Change (%)	-12.3	35.7	7.6	36.2	
Margin (%)	3.5	3.8	3.7	4.3	
Non-rec. (Exp.)/Income	0	0	0	0	
Reported PAT	1,453	1,867	2,142	2,918	

Balance Sheet		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
Share Capital	239	239	239	239	
Reserves	4,274	5,108	6,006	7,229	
Networth	4,513	5,347	6,245	7,467	
Loans	4,607	4,326	316	316	
Capital Employed	9,120	9,674	6,561	7,784	
Gross Block	5,936	6,386	7,636	8,386	
Less: Accum. Deprn.	-2,899	-3,379	-3,926	-4,543	
Net Fixed Assets	3,037	3,007	3,710	3,843	
Capital WIP	117	1,000	250	250	
Investments	5,450	5,264	2,146	3,563	
Deferred Liability	-62	10	70	111	
Currents Assets	6,254	7,387	8,308	9,431	
Inventory	3,112	3,741	4,346	5,081	
Account Receivables	573	690	834	1,006	
Cash and Bank Balance	287	614	659	709	
Others	2,282	2,343	2,469	2,635	
Curr. Liab. & Prov.	5,676	6,995	7,922	9,414	
Account Payables	3,329	4,560	5,279	6,122	
Other Liabilities	1,073	1,073	1,175	1,288	
Provisions	1,274	1,362	1,468	2,003	
Net Current Assets	578	393	386	17	
Misc Expenditure not w/of	0	0	0	0	
Net Assets	9,120	9,674	6,561	7,784	

E: MOSL Estimates

Ratios					
Y/E March	2011	2012	2013E	2014E	
Basic (INR)					
EPS	12.2	15.6	17.9	24.4	
BV/Share	37.8	44.8	52.3	62.5	
DPS	6.5	8.5	9.0	12.2	
Payout (%)	53.4	54.4	50.0	50.0	
Valuation (x)					
P/E		29.0	25.3	18.5	
EV/Sales		1.1	0.9	0.7	
EV/EBITDA		20.9	15.4	11.1	
P/BV		10.1	8.7	7.2	
Dividend Yield		1.9	2.0	2.7	
Return Ratios (%)					
RoE	32.2	34.9	34.3	39.1	
RoCE	31.2	36.1	52.7	55.3	
Working Capital Ratios					
Debtor (Days)	5	5	5	5	
Asset Turnover (x)	4.6	5.1	8.8	8.7	
Leverage Ratio					
Debt/Equity (x)	1.0	0.8	0.1	0.0	

Cash Flow Statement		(INR Million)			
Y/E March	2011	2012	2013E	2014E	
OP Profit	2,063	2,521	3,357	4,502	
Financial Other Income	489	585	246	126	
Interest Paid	378	381	236	71	
Direct Taxes Paid	528	656	893	1,233	
Inc in WC	121	-512	-52	-419	
CF from Operations	1,526	2,581	2,527	3,743	
Extraordinary Items					
(Inc)/Dec in FA	475	1,333	500	750	
(Pur.)/Sale of Investments	544	-186	-3,118	1,417	
Other Non Rec Exp	0	0	0	0	
CF from Investments	1,018	1,147	-2,618	2,167	
Issue of Shares	0	0	0	0	
Inc in Debt	279	-281	-4,010	0	
Dividend Paid	696	902	1,157	1,245	
Other Item	36	-76	-67	281	
CF from Fin. Activity	-454	-1,107	-5,100	-1,526	
Inc/Dec of Cash	54	327	45	50	
Add: Beginning Balance	234	287	614	659	
Closing Balance	288	614	659	709	

N O T E S

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Britannia Industries

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2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
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