

Britannia

Performance Highlights

Quarterly Highlights – Standalone

(₹ cr)	4QFY12	4QFY11	% yoy	3QFY12	% qoq
Revenue	1,310	1,126	16.3	1,247	5.0
EBITDA	68	72	(5.9)	82	(16.6)
OPM (%)	5.2	6.4	(122)bp	6.5	(134)bp
PAT	53	43	22.6	54	(1.9)

Source: Company, Angel Research

For 4QFY2012, Britannia's top line came in-line with our estimates. However, the company disappointed on the operating front, as its OPM came in at 5.2% vs. our estimate of 7.1% due to higher-than-estimated advertising and sales promotion (A&P) and other expenses. **We maintain our Buy view on the stock.**

Key highlights for the quarter: For 4QFY2012, Britannia posted decent growth of 16.3% yoy in its net sales to ₹1,310cr, aided by price hikes and superior product mix. However, the company's OPM declined by 122bp yoy to 5.2% on account of higher A&P and other expenses. A&P and other expenses increased by 95bp yoy and 165bp yoy to 8.4% and 12.5% of sales, respectively. The company's bottom line increased by 22.6% yoy to ₹53cr, aided by higher other income.

Outlook and valuation: We expect Britannia to post a ~17% revenue CAGR over FY2012–14E and model in margin expansion of 182bp, despite sustained higher ad spends due to the benign input cost environment. Further, in terms of earnings, we expect Britannia to post a robust ~33% CAGR. **At the CMP, the stock is trading at 18.8x FY2013 EPS; hence, we recommend Buy on the stock with a target price of ₹633, based on 23x FY2014E EPS.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2011	FY2012E	FY2013E	FY2014E
Net sales	4,198	4,947	5,835	6,824
% chg	23.4	17.8	17.9	17.0
Net profit (Adj.)	145	187	247	329
% chg	24.7	28.5	32.5	32.8
EBITDA margin (%)	4.9	5.1	6.3	6.7
EPS (₹)	12.2	15.6	20.7	27.5
P/E (x)	42.6	33.2	25.0	18.8
P/BV (x)	13.7	11.8	9.8	7.3
RoE (%)	34.3	38.2	42.7	44.3
RoCE (%)	18.9	22.1	38.3	49.4
EV/Sales (x)	1.4	1.2	1.0	0.9
EV/EBITDA (x)	29.3	23.9	16.4	13.3

Source: Company, Angel Research

BUY

CMP	₹518
Target Price	₹633

Investment Period	12 Months
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Stock Info	
Sector	FMCG
Market Cap (₹ cr)	6,193
Net Debt (₹ cr)	18
Beta	0.6
52 Week High / Low	600/422
Avg. Daily Volume	24,106
Face Value (₹)	2
BSE Sensex	15,988
Nifty	4,848
Reuters Code	BRIT.BO
Bloomberg Code	BRIT@IN

Shareholding Pattern (%)	
Promoters	51.0
MF / Banks / Indian FIs	16.2
FII / NRIs / OCBs	13.6
Indian Public / Others	19.2

Abs. (%)	3m	1yr	3yr
Sensex	(9.3)	(13.0)	6.5
BRIT	(3.0)	16.7	58.3

V.Srinivasan

022 – 3935 7800 Ext: 6831

v.srinivasan@angelbroking.com

Exhibit 1: Quarterly performance (Standalone)

Y/E March (₹ cr)	4QFY12	4QFY11	% yoy	3QFY12	% qoq	FY2012	FY2011	% chg
Net Sales	1,310	1,126	16.3	1,247	5.0	4,947	4,198	17.8
Consumption of RM	822	728	13.0	791	4.0	3,180	2,764	15.0
(% of Sales)	62.8	64.6		63.4	(1.0)	64.3	65.8	
Staff Costs	34	34	(1.3)	34	(0.1)	146	120	21.6
(% of Sales)	2.6	3.0		2.7	(4.9)	2.9	2.9	
Advertising	110	84	31.5	87	26.2	381	304	25.3
(% of Sales)	8.4	7.5		7.0	20.2	7.7	7.2	
Other Expenses	164	121	35.2	146	12.5	569	471	21.0
(% of Sales)	12.5	10.8		11.7	7.2	11.5	11.2	
Conversion and other charges	111	87		108	3.0	419	333	25.9
(% of Sales)	8.5	7.7		8.7	(1.9)	8.5	7.9	
Total Expenditure	1,242	1,054	17.8	1,166	6.5	4,695	3,992	17.6
Operating Profit	68	72	(5.9)	82	(16.6)	252	206	22.2
OPM	5.2	6.4		6.5		5.1	4.9	
Interest	10	9	5.1	10	0.0	38	38	0.8
Depreciation	13	14	(8.6)	12	3.0	47	45	6.1
Other Income	23	10	134.9	15	52.2	86	74	15.6
PBT (excl. Extr. Items)	69	59	15.9	75	(8.2)	252	198	27.4
Extr. Income/(Expense)	-	-		-	-	-	-	
PBT (incl. Extr. Items)	69	59	15.9	75	(8.2)	252	198	27.4
(% of Sales)	5.2	5.2		6.0	(12.6)	5.1	4.7	
Provision for Taxation	16	16	(2.3)	21	(24.8)	66	53	24.4
(% of PBT)	22.6	26.8		27.6	(18.1)	26.0	26.6	
Reported PAT	53	43	22.6	54	(1.9)	187	145	28.5
PATM	4.0	3.8		4.3	(6.6)	3.8	3.5	
Equity shares (cr)	12	12		2	400.0	12	12	
EPS (₹)	4.4	3.6	22.6	22.6	(80.4)	15.6	12.2	28.5
Adjusted PAT	53	43	22.6	54	(1.9)	187	145	28.5

Source: Company, Angel Research

Exhibit 2: 4QFY12 Actual vs. Angel estimates

(₹ cr)	Actual	Angel Est.	% Diff.
Revenue	1,310	1,299	0.8
EBITDA	68	92	(25.9)
OPM (%)	5.2	7.1	(190)bp
PAT	53	53	(0.7)

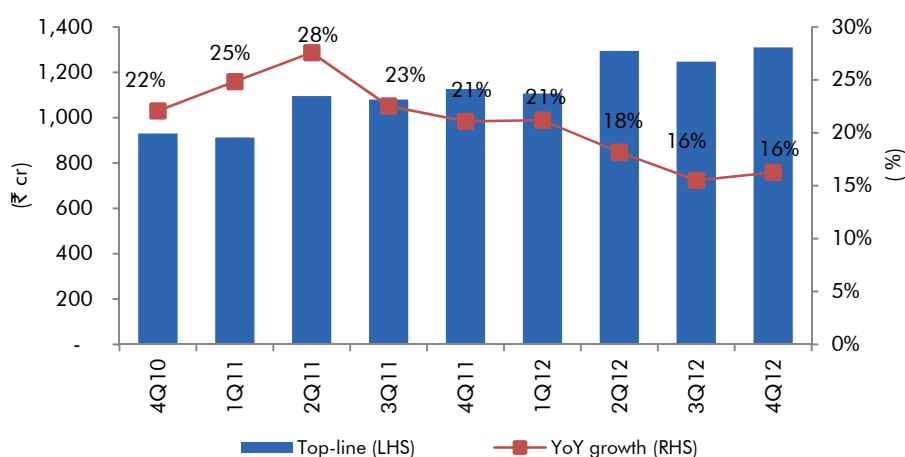
Source: Company, Angel Research

Top line grows by 16.3% yoy

For 4QFY2012, Britannia posted robust top-line growth of 16.3% yoy to ₹1,310cr (₹1,126cr), in-line with our estimate. We believe top-line growth was primarily led by a combination of price hikes and change in product mix. The company's continuous focus on increasing value-added products in its overall sales mix resulted in better realization.

Some of the company's value-added products include *Good Day Chocochip*, *Good Day Fresh Bake*, *50-50 Maska Chaska*, *50-50 Snackuits*, *NutriChoice DFE Oats* and *NutriChoice Multigrain thins*. These value-added products are sold at 2.5x-2.7x the prices of regular brands.

Exhibit 3: Top-line growth

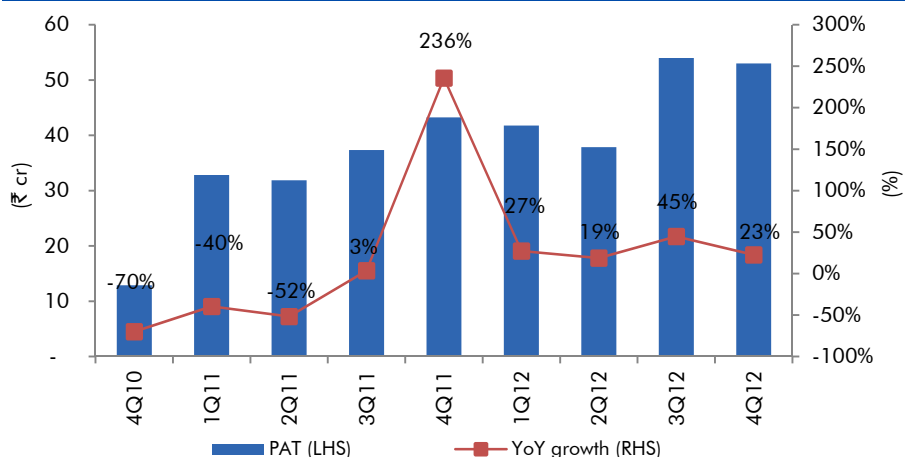


Source: Company, Angel research

Bottom-line growth at 22.6% yoy aided by top-line growth

On the earnings front, Britannia reported a 22.6% yoy increase to ₹53cr, in-line with our estimates. The in-line bottom-line performance was largely on account of higher other income as OPM came in below our estimates. Other income for the quarter stood at ₹23cr, up 134.9% yoy.

Exhibit 4: Bottom-line growth

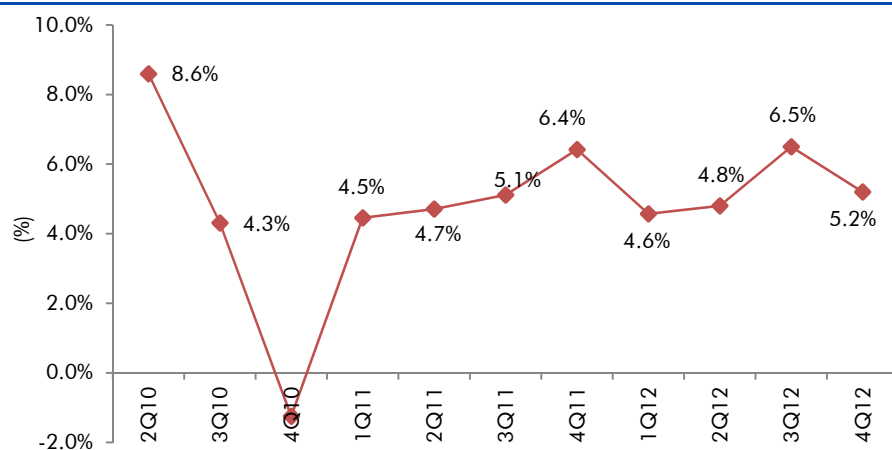


Source: Company, Angel Research

OPM down by 122bp yoy

The company's gross margin expanded by 181bp yoy during the quarter to 37.2%, due to reduction in prices of major raw materials such as wheat and sugar. However, the company registered a 122bp yoy dip in its OPM to 5.2%. The decline in OPM can be attributed to higher A&P and other expenses. A&P and other expenses increased by 95bp yoy and 165bp yoy to 8.4% and 12.5% of sales, respectively.

Exhibit 5: OPM performance



Source: Company, Angel research

Investment arguments

- **Renewed product portfolio to aid growth:** Britannia has recently forayed into breakfast cereals, milk and premium category biscuits. We believe this rejig in product portfolio offers significant uptrading benefits to the company, thereby fuelling growth. Also, with increased per capita consumption and penetration, the company will continue to grow at a pace faster than its historical growth.
- **Declining raw-material prices to help improve margins:** Prices of major commodities such as sugar and wheat have declined in the past few quarters. This along with various cost-rationalization methods and improving sales mix will result in improved operating margins going ahead.

Outlook and valuation

We expect Britannia to post a ~17% revenue CAGR over FY2012–14E and model in margin expansion of 182bp despite sustained higher ad spends, aided by a benign input cost environment. Further, in terms of earnings, we expect Britannia to post a robust ~33% CAGR. **At the CMP, the stock is trading at 18.8x FY2013 EPS; hence, we recommend Buy on the stock with a target price of ₹633, based on 23x FY2014E EPS.**

Exhibit 6: One-year forward PE



Source: Bloomberg, Angel Research; Note: Blue line represents 5-yr average

Exhibit 7: Peer valuation

Company	Reco	Mcap (₹ cr)	CMP (₹)	TP (₹)	Upside (%)	P/E (x)		EV/Sales (x)		RoE (%)		CAGR #	
						FY13E	FY14E	FY13E	FY14E	FY13E	FY14E	Sales	EPS
Asian Paints	Neutral	35,344	3,685	-	-	29.4	24.8	3.0	2.6	38.0	35.4	17.8	20.0
Britannia	Buy	6,193	518	633	22	25.0	18.8	1.0	0.9	42.7	44.3	17.4	32.7
Colgate	Neutral	15,449	1,136	-	-	28.8	25.5	4.8	4.2	129.4	120.1	14.3	13.8
Dabur	Neutral	17,822	102	-	-	25.4	21.5	3.2	2.8	39.3	42.0	13.4	15.1
GCPL	Neutral	18,698	549	-	-	22.9	19.2	3.0	2.5	31.2	38.4	20.1	26.7
GSKCHL*	Neutral	11,624	2,764	-	-	26.9	22.5	3.4	2.8	34.0	32.8	16.8	20.8
HUL	Neutral	91,352	413	-	-	30.8	26.5	3.6	3.0	82.7	76.2	16.1	17.3
ITC	Accumulate	179,980	230	252	9	25.1	21.5	5.9	5.1	35.3	33.8	17.4	17.4
Marico	Neutral	10,316	168	-	-	26.9	22.0	2.5	2.1	30.0	28.8	16.5	25.1
Nestle*	Neutral	43,654	4,528	-	-	38.2	30.8	5.0	4.1	73.0	61.6	18.6	18.3
TGBL	Buy	6,475	105	136	30	16.8	14.1	0.8	0.8	9.5	10.9	8.2	14.0

Source: Company, Angel Research; Note: #Denotes CAGR over FY2012-14E, *December Year Ending.

Company background

Britannia is one of the foremost food companies in India. The company is present across the biscuits, dairy products and breads segments and has recently forayed into the breakfast cereals category with the launch of *Healthy Start*. Britannia derives ~85% of its revenue from the biscuits segment, where it has formidable brands such as *Tiger* (glucose biscuits), *Treat* (cream biscuits), *50-50* (crackers), *Good Day* (premium cookies and the company's highest selling brand) and *NutriChoice* (premium high-fiber biscuits).

Profit and loss statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Total operating income	3,112	3,403	4,198	4,947	5,835	6,824
% chg	20.4	9.4	23.4	17.8	17.9	17.0
Total Expenditure	2,849	3,241	3,992	4,695	5,467	6,370
Cost of Materials	1,910	2,164	2,764	3,180	3,638	4,231
Advertising Exp (Incl. Promotion)	211	269	304	381	438	505
Personnel	96	106	120	146	204	239
Others	632	703	804	988	1,187	1,395
EBITDA	263	162	206	252	367	454
% chg	13.4	(38.2)	27.1	22.2	45.8	23.7
(% of Net Sales)	8.4	4.8	4.9	5.1	6.3	6.7
Depreciation & Amortisation	33	38	45	47	55	72
EBIT	229	125	162	205	312	382
% chg	13.1	(45.6)	29.6	26.6	52.4	22.4
(% of Net Sales)	7.4	3.7	3.9	4.1	5.3	5.6
Interest & other Charges	16	8	38	38	41	7
Other Income	40	51	74	86	70	82
(% of PBT)	15.8	30.4	37.4	34.0	20.5	17.9
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	253	167	198	252	341	457
% chg	4.1	(33.9)	18.3	27.4	35.3	33.7
Prior Period & Extra Exp./ (Inc.)	20.63	46.64	-	-	-	-
PBT (reported)	233	121	198	252	341	457
Tax	52	4	53	66	94	128
(% of PBT)	20.6	2.5	26.6	26.0	27.5	28.0
PAT (reported)	201	163	145	187	247	329
Add: Share of earn. of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	201	163	145	187	247	329
ADJ. PAT	180	117	145	187	247	329
% chg	(5.6)	(35.4)	24.7	28.5	32.5	32.8
(% of Net Sales)	5.8	3.4	3.5	3.8	4.2	4.8
Basic EPS (₹)	15.1	9.8	12.2	15.6	20.7	27.5
Fully Diluted EPS (₹)	15.1	9.8	12.2	15.6	20.7	27.5
% chg	(5.6)	(35.4)	24.7	28.5	32.5	32.8

Balance sheet (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	24	24	24	24	24	24
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	801	372	427	502	610	827
Shareholders' Funds	825	396	451	526	634	851
Minority Interest	-	-	-	-	-	-
Total Loans	25	430	431	431	25	25
Deferred Tax Liability	10	(7)	6	6	6	6
Total Liabilities	860	819	889	964	665	882
APPLICATION OF FUNDS						
Gross Block	512	548	594	755	877	1,149
Less: Acc. Depreciation	234	266	290	337	392	465
Net Block	278	282	304	418	485	684
Capital Work-in-Progress	6	10	12	16	18	24
Goodwill	-	-	-	-	-	-
Investments	423	491	545	485	125	125
Current Assets	539	529	625	801	921	1,020
Cash	41	23	29	38	59	75
Loans & Advances	195	198	228	265	274	287
Other	14	6	14	25	35	35
Current liabilities	413	492	597	756	884	971
Net Current Assets	126	37	29	45	37	49
Misc. Exp. not written off	27	-	-	-	-	-
Total Assets	860	819	889	964	665	882

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Profit before tax	233	121	198	252	341	457
Depreciation	33	38	45	47	55	72
Change in Working Capital	0.5	100	7	62	30	5
Interest / Dividend (Net)	(5)	(25)	13	(33)	(15)	(57)
Direct taxes paid	52	73	53	66	94	128
Payment of VRS/ other comp.	(3)	33	-	-	-	-
Profit on sale of invest/FA (Net)	7	12	20	(2)	(3)	(3)
Others	26	2	(2)	(72)	-	(-)
Cash Flow from Operations	224	183	188	194	320	351
(Inc.)/ Dec. in Fixed Assets	(55)	(40)	(47)	(166)	(125)	(277)
(Inc.)/ Dec. in Investments	(42)	(68)	(54)	60	360	-
Cash Flow from Investing	(97)	(108)	(102)	(106)	235	(277)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(81)	(2)	2	-	(406)	-
Dividend Paid (Incl. Tax)	50	112	70	112	140	112
Interest/Dividend paid (Net)	(1)	(21)	13	(33)	(12)	(54)
Cash Flow from Financing	(130)	(93)	(80)	(79)	(534)	(58)
Inc./(Dec.) in Cash	(3)	(17)	5	9	21	16
Opening Cash balances	44	41	23	29	38	59
Closing Cash balances	41	23	29	38	59	75

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012E	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	34.3	53.2	42.6	33.2	25.0	18.8
P/CEPS	26.4	30.9	32.6	26.5	20.5	15.4
P/BV	7.5	15.6	13.7	11.8	9.8	7.3
Dividend yield (%)	1.9	1.8	1.4	1.2	1.0	0.9
EV/Sales	1.9	1.8	1.4	1.2	1.0	0.9
EV/EBITDA	23.0	37.2	29.3	23.9	16.4	13.3
Per Share Data (₹)						
EPS (fully diluted)	15.1	9.8	12.2	15.6	20.7	27.5
Cash EPS	19.6	16.8	15.9	19.6	25.3	33.6
DPS	8.0	5.0	6.5	8.0	10.0	8.0
Book Value	69.0	33.2	37.8	44.1	53.1	71.2
Returns (%)						
RoCE	26.7	14.9	18.9	22.1	38.3	49.4
Angel ROIC (Pre-tax)	58.8	42.3	53.3	48.1	67.4	58.0
RoE	25.4	26.7	34.3	38.2	42.7	44.3
Turnover ratios (x)						
Asset Turnover (Gross Block)	6.1	6.2	7.1	6.6	6.7	5.9
Inventory / Sales (days)	30	29	27	32	32	30
Receivables (days)	6	4	5	5	5	5
Payables (days)	31	33	33	35	35	35
WC (ex-cash) (days)	19	8	5	8	6	4

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com

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Disclosure of Interest Statement	Britannia
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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