

6 August 2012

## Britannia Industries

*Subdued volume growth in 1QFY13; we reiterate a Sell*

Rating: **Sell**

Target Price: ₹420

Share Price: ₹459

With weaker revenue growth of merely 10.4% yoy, Britannia reported 42% net profit growth. Though the margin expanded 80bps, we expect higher food inflation in coming quarters to hit profitability. We also expect the ad-spend ratio to rise. We retain a Sell, with a target of ₹420.

- Weaker revenue growth.** Britannia reported 10.4% standalone revenue growth, whereas consolidated revenues were up 11.6% yoy. Considering the price hikes as well as grammage reduction in the past year, we believe volume growth contributed 3 to 4 percentage points.
- EBITDA margin improves.** Lower raw material costs raised the EBITDA margin 80bps. Because of the lower raw material costs, the company invested some savings in brand-building activity, raising ad-spend (as percent of net sales) 80bps yoy. The effective income-tax rate was up 100bps and the net profit was up 42% yoy.
- Higher raw material prices ahead.** We believe the weaker monsoon and higher prices of food products globally would lead to higher food inflation ahead. Companies such as Britannia which have to grapple with a higher degree of competition and weaker pricing power would have problems in passing on inflationary pressures to end-consumers via price hikes.
- Higher ad-spend to curb margin expansion.** We also expect that if the gross margin has to improve, the company will have to invest a large part of the savings in brand-building activity. As its staff cost is one of the lowest among consumer companies, it may be compelled to increase staff cost as well.
- Valuation.** We value the stock at ₹420. At our target, the stock would trade at PE of 22x and 18x FY13e and FY14e earnings respectively. **Risks:** lower raw material prices.

Key data	BRIT IN / BRIT.BO
52-week high / low	₹600 / ₹434
Sensex / Nifty	17413 / 5283
3-m average volume	US\$0.7m
Market cap	₹55bn / US\$995m
Shares outstanding	119m

Shareholding pattern (%)	Jun '12	Mar '12	Dec '11
Promoters	51.0	51.0	51.0
- of which, Pledged	0.0	0.0	0.0
Free Float	49.0	49.0	49.0
- Foreign Institutions	15.1	13.6	12.6
- Domestic Institutions	14.9	16.3	17.3
- Public	19.0	19.1	19.1

Financials (YE Mar)	FY13e	FY14e
Sales (₹m)	67,610	81,001
Net profit (₹m)	2,269	2,829
EPS (₹)	19.0	23.7
Growth (%)	32.0	24.7
PE (x)	24.2	19.4
PBV (x)	10.4	7.9
RoE (%)	48.6	46.4
RoCE (%)	34.8	47.0
Dividend yield (%)	1.6	1.9
Net gearing (%)	(8.0)	(30.2)

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY12	1QFY13	% yoy	FY11	FY12	% yoy
Sales (₹m)	11,063	12,216	10.4	46,052	54,608	18.6
EBITDA (₹m)	506	651	28.6	2,363	3,015	27.6
EBITDA margin (%)	4.6	5.3	80bps	5.1	5.5	40bps
Interest (₹m)	93	95	1.6	478	416	(13.0)
Depreciation (₹m)	111	130	17.3	649	618	(4.7)
Other income (₹m)	118	179	52.3	649	779	20.1
PBT (₹m)	419	605	44.1	1,885	2,760	46.4
Tax (₹m)	114	170	49.6	529	719	35.9
Tax rate (%)	27.1	28.1	100bps	28.0	26.0	(201)bps
PAT (₹m)	306	435	42.1	1,356	2,041	50.5

Source: Company

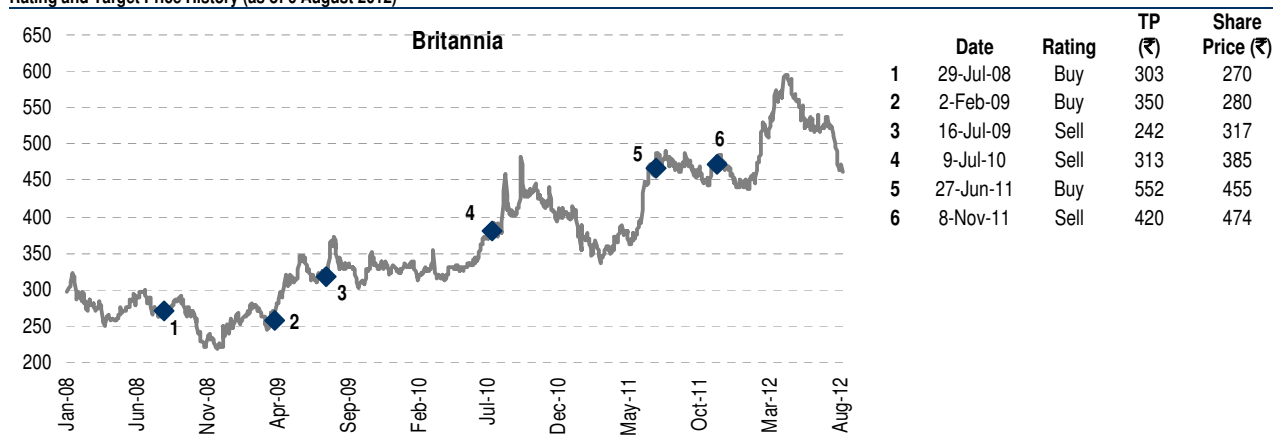
Anand Rathi Share and Stock Brokers Limited does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Disclosures and analyst certifications are located in Appendix 1

## Appendix 1

### Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

### Important Disclosures on subject companies Rating and Target Price History (as of 6 August 2012)



The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

### Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below.

#### Ratings Guide

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

#### Anand Rathi Research Ratings Distribution (as of 30 July 2012)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (119)	72%	13%	14%
% who are investment banking clients	6%	6%	0%

### Other Disclosures

This report has been issued by Anand Rathi Share & Stock Brokers Limited (ARSSBL), which is regulated by SEBI.

The information herein was obtained from various sources; we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities ("related investments"). ARFSL and its affiliates may trade for their own accounts as market maker / jobber and/or arbitrageur in any securities of this issuer(s) or in related investments, and may be on the opposite side of public orders. ARSSBL, its affiliates, directors, officers, and employees may have a long or short position in any securities of this issuer(s) or in related investments. ARSSBL or its affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. This research report is prepared for private circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide to future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report.

This document is intended only for professional investors as defined under the relevant laws of Hong Kong and is not intended for the public in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. No action has been taken in Hong Kong to permit the distribution of this document. This document is distributed on a confidential basis. This document may not be reproduced in any form or transmitted to any person other than the person to whom it is addressed.

If this report is made available in Hong Kong by, or on behalf of, Anand Rathi Financial Services (HK) Limited., it is attributable to Anand Rathi Financial Services (HK) Limited., Unit 1211, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. Anand Rathi Financial Services (HK) Limited. is regulated by the Hong Kong Securities and Futures Commission.

Anand Rathi Financial Services Limited and Anand Rathi Share & Stock Brokers Limited are members of The Bombay Stock Exchange Limited, and the National Stock Exchange of India.

© 2012 Anand Rathi Share & Stock Brokers Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Anand Rathi Financial Services Limited.

Additional information on recommended securities/instruments is available on request.