

Britannia

Performance Highlights

Quarterly Highlights (Standalone)

Y/E March (₹ cr)	2QFY13	2QFY12	% yoy	1QFY13	% qoq
Revenue	1,403	1,294	8.4	1,222	14.8
EBITDA	60	62	(3.4)	65	(7.7)
OPM (%)	4.3	4.8	(52)bp	5.3	(104)bp
PAT	45	38	18.9	43	3.7

Source: Company, Angel Research

For 2QFY2013, Britannia Industries (Britannia) posted a top-line growth of 8.4% yoy to ₹1,403cr (₹1,294cr in 2QFY2012). Net profit grew by 18.9% yoy to ₹45cr, aided by a 141.2% yoy growth in other income to ₹27cr.

Key highlights for the quarter: Britannia's top-line grew by 8.4% yoy largely on account of higher prices as volume growth is expected to be ~1% for the quarter. Gross margin rose marginally by 47bp yoy to 35.5% aided by higher prices. The prices of key raw materials such as wheat and sugar have gone up considerably, thereby putting pressure on the gross margins. Advertising expenses as a percentage of sales rose by 61bp on a yoy basis as the company which is facing stiff competition from the likes of ITC's Sunfeast biscuits had to step up advertising in a low demand scenario. Other expenses as a percentage of sales rose by 145bp yoy, which we believe, is to an extent due to the royalty it has to pay to promoter group w.e.f 2QFY2013. The company registered a 52bp yoy decline in its OPM to 4.3%, resulting in the EBITDA declining by 3.4% on a yoy basis.

Outlook and valuation: We expect Britannia to post a revenue and bottom-line CAGR of ~15.3% and 25.6% respectively over FY2012-14E. **At the current market price, the stock is trading at 19.0x FY2014 EPS; we recommend Buy on the stock with a target price of ₹584.**

Key financials (Standalone)

Y/E March (₹ cr)	FY2011	FY2012E	FY2013E	FY2014E
Net sales	4,198	4,947	5,627	6,581
% chg	23.4	17.8	13.7	17.0
Net profit (Adj.)	145	187	219	295
% chg	24.7	28.5	17.1	34.8
EBITDA margin (%)	4.9	5.1	4.9	5.7
EPS (₹)	12.2	15.6	18.3	24.7
P/E (x)	38.5	29.9	25.6	19.0
P/BV (x)	12.4	10.7	9.3	7.2
RoE (%)	34.3	38.4	39.1	42.7
RoCE (%)	18.8	27.7	36.6	42.7
EV/Sales (x)	1.2	1.0	0.9	0.8
EV/EBITDA (x)	24.8	20.3	18.6	13.7

Source: Company, Angel Research

BUY

CMP	₹468
Target Price	₹584

Investment Period	12 Months
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Stock Info

Sector	FMCG
Market Cap (₹ cr)	5,593
Net Debt (₹ cr)	(265)
Beta	0.5
52 Week High / Low	600/400
Avg. Daily Volume	26,411
Face Value (₹)	2
BSE Sensex	18,471
Nifty	5,631
Reuters Code	BRIT.BO
Bloomberg Code	BRIT@IN

Shareholding Pattern (%)

Promoters	51.0
MF / Banks / Indian Fls	14.9
FII / NRIs / OCBs	15.1
Indian Public / Others	19.1

Abs. (%)	3m	1yr	3yr
Sensex	4.2	9.4	9.6
BRIT	0.9	(2.0)	39.9

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Exhibit 1: Quarterly performance (Standalone)

Y/E March (₹ cr)	2QFY13	2QFY12	% yoy	1QFY13	% qoq	1HFY2013	1HFY2012	% chg
Net Sales	1,403	1,294	8.4	1,222	14.8	2,624	2,393	9.7
Consumption of RM	905	841	7.6	757	19.5	1,662	1,567	6.1
(% of Sales)	64.5	65.0		62.0	4.0	63.3	65.5	
Staff Costs	37	48	(22.7)	38	(1.3)	75	79	(4.6)
(% of Sales)	2.7	3.7		3.1	(14.0)	2.9	3.3	
Advertising	118	101	16.9	99	19.4	216	183	18.3
(% of Sales)	8.4	7.8		8.1	4.0	8.2	7.6	
Other Expenses	283	242	16.8	263	7.7	546	460	18.7
(% of Sales)	20.2	18.7		21.5	(6.2)	20.8	19.2	
Total Expenditure	1,343	1,232	9.0	1,157	16.1	2,499	2,288	9.2
Operating Profit	60	62	(3.4)	65	(7.7)	126	106	18.9
OPM	4.3	4.8		5.3		4.8	4.4	
Interest	9	10	(9.2)	9	(7.1)	18	19	(3.9)
Depreciation	14	12	23.5	13	9.6	27	23	20.5
Other Income	27	11	141.2	18	49.0	44	45	(1.3)
PBT (excl. Extr. Items)	64	52	22.4	60	5.3	125	109	14.2
Extr. Income/(Expense)	-	-		-	0.0	-	-	
PBT (incl. Extr. Items)	64	52	22.4	60	5.3	125	109	14.2
(% of Sales)	4.5	4.0		4.9	(8.3)	4.8	4.6	
Provision for Taxation	19	14	32.0	17	9.3	36	30	20.7
(% of PBT)	29.3	27.1		28.2	3.9	28.6	27.0	
Reported PAT	45	38	18.9	43	3.7	89	80	11.8
PATM	3.2	2.9		3.6	(9.7)	3.4	3.3	
Equity shares (cr)	12	12		12	0.1	12	12	
EPS (₹)	3.8	3.2	18.8	3.6	3.6	7.4	6.7	11.7
Adjusted PAT	45	38	18.9	43	3.7	89	80	11.8

Source: Company, Angel Research

Exhibit 2: 2QFY2013 Actual vs Angel estimates

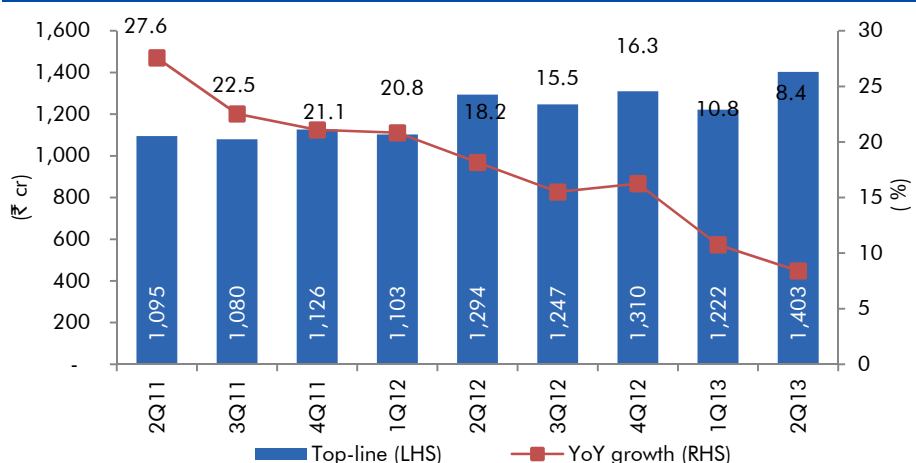
(₹ cr)	Actual	Angel Est.	% Diff.
Revenue	1,403	1,459	(3.8)
EBITDA	60	73	(17.7)
OPM (%)	4.3	5.0	(72)bp
PAT	45	49	(8.5)

Source: Company, Angel Research

Top-line growth driven by both volume and value growth

Britannia's top-line grew by 8.4% yoy largely on account of higher prices as volume growth is expected to be ~1% for the quarter. The company's strategy of extending its brands in premium categories and continuous focus on increasing value-added products in its overall sales mix resulted in better realization. For instance, the *Good-Day* brand has been extended from *Good-Day Regular* (price index of 156) to *Good-Day Chocochips* (price index of 256) and *Fresh Bake* (price index of 389).

Exhibit 3: Top-line grows 8.4% yoy

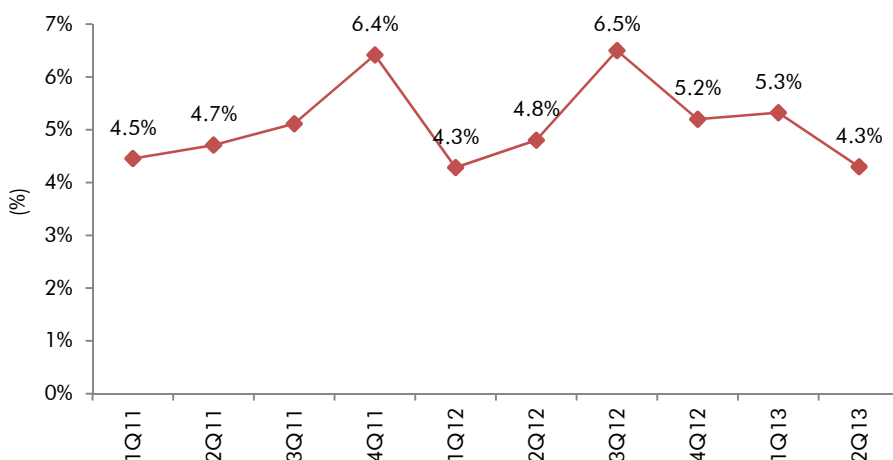


Source: Company, Angel research

OPM contracts by 52bp yoy

Gross margin rose marginally by 47bp yoy to 35.5% aided by higher prices. The prices of key raw materials such as wheat and sugar have gone up considerably, thereby putting pressure on the gross margins. Advertising expenses as a percentage of sales rose by 61bp on a yoy basis as the company which is facing stiff competition from the likes of ITC's Sunfeast biscuits had to step up advertising in a low demand scenario. Other expenses as a percentage of sales rose by 145bp yoy, which we believe, is to an extent due to the royalty it has to pay to promoter group w.e.f 2QFY2013.

Exhibit 4: OPM performance

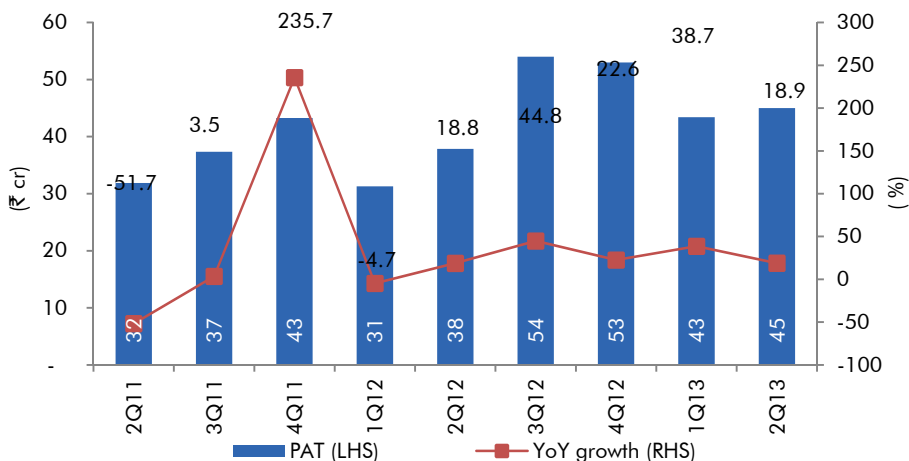


Source: Company, Angel research

Net profit grows by 18.9% yoy

Despite a 3.4% yoy de-growth in EBITDA, net profit grew by 18.9% yoy to ₹45cr (₹38cr in 2QFY2012) aided by a 141.2% yoy growth in other income to ₹27cr. However, depreciation rose by 23.5% yoy to ₹14cr. Tax rate too was higher at 14.3%.

Exhibit 5: Recurring profit performance



Source: Company, Angel Research

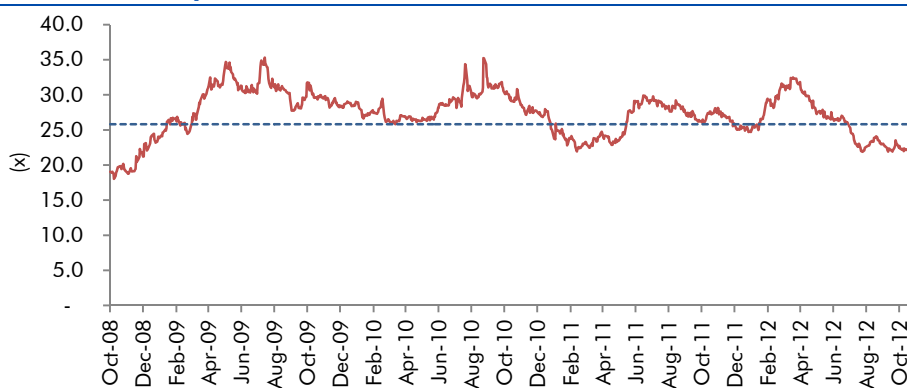
Investment arguments

- 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.

Outlook and valuation

We expect Britannia to post a revenue and bottom-line CAGR of ~15.3% and 25.6% respectively over FY2012-14E. **At the current market price, the stock is trading at 19.0x FY2014 EPS; we recommend a Buy on the stock with a target price of ₹584.**

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	38,504	4,014	-	-	32.5	27.4	3.3	2.8	37.4	35.3	17.0	19.2
Britannia	Buy	5,590	468	584	25	25.6	19.0	0.9	0.7	39.1	42.7	15.3	25.6
Colgate	Neutral	18,014	1,325	-	-	36.4	31.2	5.5	4.8	101.9	98.5	15.2	13.8
Dabur	Neutral	22,399	129	-	-	28.8	24.6	3.7	3.1	43.2	41.4	15.9	18.9
GCPL	Neutral	23,573	693	-	-	30.4	25.1	3.9	3.2	26.4	26.1	24.7	31.1
GSKCHL*	Neutral	12,641	3,006	-	-	27.0	22.8	3.6	3.0	36.3	34.0	16.8	24.9
HUL	Neutral	115,305	533	-	-	36.2	31.3	4.3	3.8	70.9	59.8	15.5	19.7
ITC	Neutral	216,218	277	-	-	29.7	25.3	7.0	6.0	35.8	35.3	17.2	17.7
Marico	Neutral	13,897	226	-	-	36.6	29.0	2.9	2.4	25.4	22.6	18.6	25.4
Nestle*	Neutral	45,610	4,730	-	-	41.2	33.8	5.2	4.4	71.2	60.3	16.5	15.0
TGBL	Neutral	11,051	179	-	-	27.0	22.9	1.4	1.3	8.2	9.5	9.7	16.6

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	5,627	6,581
% chg	20.4	9.4	23.4	17.8	13.7	17.0
Total Expenditure	2,849	3,241	3,992	4,695	5,352	6,206
Cost of Materials	1,910	2,164	2,764	3,180	3,594	4,144
Advertising Exp (Incl. Promotion)	211	269	304	381	450	526
Personnel	96	106	120	146	169	197
Others	632	703	804	988	1,139	1,339
EBITDA	263	162	206	252	275	375
% chg	13.4	(38.2)	27.1	22.2	9.0	36.5
(% of Net Sales)	8.4	4.8	4.9	5.1	4.9	5.7
Depreciation & Amortization	33	38	45	47	50	57
EBIT	229	125	162	205	225	318
% chg	13.1	(45.6)	29.6	26.6	9.8	41.5
(% of Net Sales)	7.4	3.7	3.9	4.1	4.0	4.8
Interest & other Charges	16	8	38	38	8	8
Other Income	40	51	74	86	84	99
(% of PBT)	15.8	30.4	37.4	34.0	28.0	24.1
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	253	167	198	252	301	409
% chg	4.1	(33.9)	18.3	27.4	19.5	35.7
Prior Period & Extra Exp./ (Inc.)	20.63	46.64	-	-	-	-
PBT (reported)	233	121	198	252	301	409
Tax	52	4	53	66	83	115
(% of PBT)	20.6	2.5	26.6	26.0	27.5	28.0
PAT (reported)	201	163	145	187	219	295
Add: Share of earn. of asso.	-	-	-	-	-	-
Less: Minority interest (MI)	-	-	-	-	-	-
PAT after MI (reported)	201	163	145	187	219	295
ADJ. PAT	180	117	145	187	219	295
% chg	(5.6)	(35.4)	24.7	28.5	17.1	34.8
(% of Net Sales)	5.8	3.4	3.5	3.8	3.9	4.5
Basic EPS (₹)	15.1	9.8	12.2	15.6	18.3	24.7
Fully Diluted EPS (₹)	15.1	9.8	12.2	15.6	18.3	24.7
% chg	(5.6)	(35.4)	24.7	28.5	17.1	34.8

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Balance Sheet (standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
SOURCES OF FUNDS						
Equity Share Capital	24	24	24	24	24	24
Preference Capital	-	-	-	-	-	-
Reserves & Surplus	801	372	427	496	575	758
Shareholders' Funds	825	396	451	520	599	782
Minority Interest	-	-	-	-	-	-
Total Loans	25	430	431	28	28	28
Deferred Tax Liability	10	(7)	6	8	6	6
Other long term liabilities	-	-	16	20	20	20
Long term provisions	-	-	123	117	122	133
Total Liabilities	860	819	1,027	693	775	969
APPLICATION OF FUNDS						
Gross Block	512	548	594	677	793	902
Less: Acc. Depreciation	234	266	290	298	348	405
Net Block	278	282	304	379	444	497
Capital Work-in-Progress	6	10	12	80	79	90
Goodwill	-	-	-	-	-	-
Investments	423	491	545	429	441	641
Long term loans and advances	-	-	142	125	125	125
Current Assets	539	529	480	660	855	920
Cash	41	23	29	31	65	81
Loans & Advances	195	198	83	194	294	294
Other	303	308	368	434	496	545
Current liabilities	413	492	456	979	1,170	1,304
Net Current Assets	126	37	25	(320)	(314)	(384)
Mis. Exp. not written off	27	-	-	-	-	-
Total Assets	860	819	1,027	693	775	969

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Cash flow statement (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Profit before tax	233	121	198	252	301	409
Depreciation	33	38	45	47	50	57
Change in Working Capital	0.5	100	(43)	490	199	125
Interest / Dividend (Net)	(5)	(25)	13	5	(79)	(74)
Direct taxes paid	52	73	53	66	83	115
Payment of VRS/ other comp.	(3)	33	-	-	-	-
Profit on sale of invest/FA (Net)	7	12	20	23	(3)	(3)
Others	26	2	48	(142)	(178.7)	(28)
Cash Flow from Operations	224	183	189	564	213	377
(Inc.)/ Dec. in Fixed Assets	(55)	(40)	(47)	(152)	(115)	(120)
(Inc.)/ Dec. in Investments	(42)	(68)	(54)	116	-	(200)
Cash Flow from Investing	(97)	(108)	(102)	(36)	(115)	(320)
Issue of Equity	-	-	-	-	-	-
Inc./(Dec.) in loans	(81)	(2)	1	(402)	-	-
Dividend Paid (Incl. Tax)	50	112	70	118	140	112
Interest/Dividend paid (Net)	(1)	(21)	13	6	(76)	(71)
Cash Flow from Financing	(130)	(93)	(81)	(526)	(64)	(41)
Inc./(Dec.) in Cash	(3)	(17)	5	2	34	16
Opening Cash balances	44	41	23	29	31	65
Closing Cash balances	41	23	29	31	65	81

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

Key ratios

Y/E March	FY2009	FY2010	FY2011	FY2012	FY2013E	FY2014E
Valuation Ratio (x)						
P/E (on FDEPS)	31.0	48.0	38.5	29.9	25.6	19.0
P/CEPS	23.8	27.9	29.4	23.9	20.8	15.9
P/BV	6.8	14.1	12.4	10.7	9.3	7.2
Dividend yield (%)	1.6	1.5	1.2	1.0	0.9	0.8
EV/Sales	1.6	1.5	1.2	1.0	0.9	0.8
EV/EBITDA	19.5	31.6	24.8	20.3	18.6	13.7
Per Share Data (₹)						
EPS (fully diluted)	15.1	9.8	12.2	15.6	18.3	24.7
Cash EPS	19.6	16.8	15.9	19.6	22.5	29.4
DPS	8.0	5.0	6.5	8.5	10.0	8.0
Book Value	69.0	33.2	37.8	43.5	50.1	65.4
Returns (%)						
RoCE	26.7	14.9	18.8	27.7	36.6	42.7
Angel ROIC (Pre-tax)	58.8	42.3	36.6	133.4	118.3	203.6
RoE	25.4	26.7	34.3	38.4	39.1	42.7
Turnover ratios (x)						
Asset Turnover (Gross Block)	6.1	6.2	7.1	7.3	7.1	7.3
Inventory / Sales (days)	30	29	27	32	28	26
Receivables (days)	6	4	5	5	5	5
Payables (days)	31	33	31	63	66	66
WC (ex-cash) (days)	19	8	4	(23)	(20)	(24)

Note: Some of the figures from FY2011 onwards are reclassified; hence not comparable with previous year numbers

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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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