

Britannia Industries Ltd (Britannia), a major player in Indian foods market with leadership position in bakery category, was established in 1892. The company operates in two business segments, namely, bakery products and dairy products. The company derives ~90% of its revenue from the biscuits segment while, ~10% of its total sales coming from non-biscuits category and International market. Having operating capacities located in Kolkata, Delhi, Chennai, Mumbai and Uttarakhand, Britannia caters majorly to domestic market.

Investment Rationale

🌀 Focus towards premiumisation and operational efficiency to boost margin

The success story of Britannia is driven by its premium brands like Good Day, Marie, NutriChoice and many others. We believe that the improvement in volume growth will continue going ahead supported by efficient investments in brand advertising & promotions by the company. Britannia is investing ~10% of its sales on advertisements & sales promotions to improve its brand image and market share. We believe the company's focus on cost rationalisation, coupled with premiumisation of its product portfolio, improvement in the product mix towards higher value-added products will improve the EBITDA margin, going forward.

🌀 Diversification of product portfolio promises well for Britannia

Britannia has been increasing its non-biscuits portfolio like dairy (butter, Milk and Dahi), bakery and healthy breakfast (Poha, upma and Oats) in a move to boost its product line which would also support the top line growth. The company's non-biscuits business continues to witness higher growth than the biscuit business which is benefiting the company in enhancement of margins and diversifying into the high growth product portfolio.

🌀 Capacity addition to support the robust demand for its products

After completing 2 new Greenfield units in Hajipur (Bihar) and Khurda (Orissa), Britannia has set up another biscuit & cake manufacturing plant in Gujarat. With new plant in place, we expect that the state-of-art facilities will help the firm in raising production capacity that would support the robust demand for its products across the country.

🌀 Strong numbers in FY15

Britannia reported robust growth in total consolidated income by 13.7% YoY to ₹7,858.4 crore in FY15 followed by 37.7% YoY growth in EBITDA at ₹863.9 crore. Net profit, on the other hand, grew strongly by 74.2% YoY to ₹688.6 crore, during the year under review.

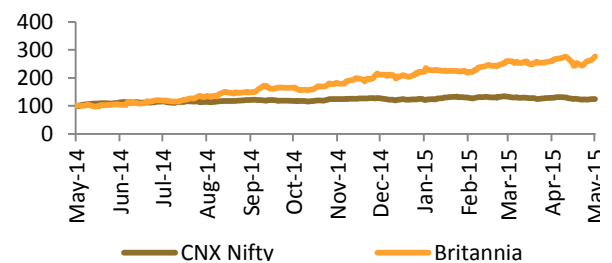
Market Data

Rating	BUY
CMP (₹)	2,548.9
Target (₹)	3,021.7
Potential Upside	~19%
Duration	Long Term
Face Value (₹)	2.0
52 week H/L (₹)	2,686.0/856.0
Adj. all time High (₹)	2,686.0
Decline from 52WH (%)	5.1
Rise from 52WL (%)	197.8
Beta	0.9
Mkt. Cap (₹cr)	30,574.1
EV (₹cr)	30,490.4

Fiscal Year Ended

Y/E	FY14A	FY15A	FY16E	FY17E
Revenue (₹cr)	6,912.7	7,858.4	9,076.5	10,619.5
EBITDA (₹cr)	627.2	863.9	1,149.0	1,630.7
Net Profit (₹cr)	395.4	688.6	719.4	1,069.5
EPS (₹)	33.0	57.4	60.0	89.2
P/E (x)	77.2	44.4	42.5	28.6
P/BV (x)	38.3	24.6	17.6	11.8
EV/EBITDA (x)	48.8	35.3	26.1	17.8
ROCE (%)	67.1	61.3	58.7	57.2
ROE (%)	49.5	55.3	41.3	41.3

One year Price Chart



Shareholding Pattern	Mar 15	Dec14	Diff.
Promoters	50.8	50.8	-
FII	19.1	19.5	(0.4)
DII	9.2	9.3	(0.1)
Others	20.9	20.4	0.5

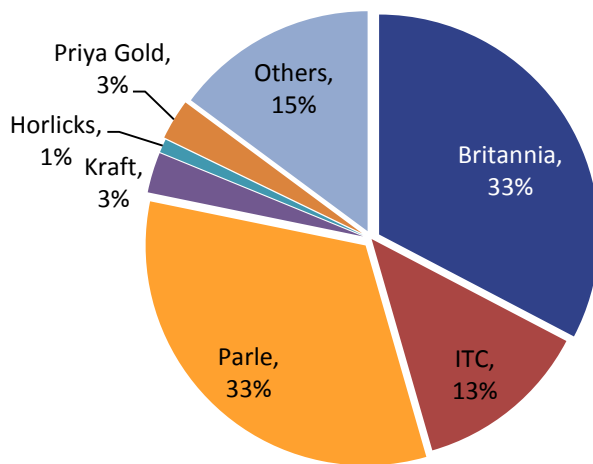
The company operates in two business segments, namely, bakery products which include biscuits, bread, cakes and rusk, and dairy products which include milk, butter, cheese, ghee, dahi, milk-based ready to drink beverages and dairy whitener.

Britannia - one of the major players in the branded biscuit category

Britannia, a major player in the Indian Foods market with leadership position in bakery category, was established in 1892. The company operates in two business segments, namely, bakery products which include biscuits, bread, cakes and rusk, and dairy products which include milk, butter, cheese, ghee, dahi, milk-based ready to drink beverages and dairy whitener. The company's plants are situated in Kolkata, Delhi, Chennai, Mumbai and Uttarakhand. Britannia is the leading biscuit manufacturer in the Indian bakery market where it has currently seven strong brands in its portfolio, including Tiger (glucose biscuits), Treat (cream biscuits), 50-50 (crackers), Good Day (premium cookies and the company's highest selling brand), Marie, Milk Bikis and NutriChoice (premium high-fiber biscuits). The company derives ~90% of its revenue from the biscuits segment while, 10% of its total sales coming from non-biscuits category and International market. The dairy segment comprising of milk, butter, cheese, ghee and curds accounts for ~5% of the group's turnover. Britannia Industries is well positioned to maintain its leadership in the branded biscuit category, where the company enjoys 1/3rd or around 33% market share in the biscuit market size of USD 2.2 bn branded biscuits category in India.

Biscuits have been one of the fastest growing categories in the FMCG segment, with an annual volume growth rate of 12-15% in the last five years. Britannia continues towards innovating aggressively on the value-added products. Britannia is the pioneer in launch of cookies and cream biscuits in the Indian markets and is witnessing an improvement in the premium biscuit sales mix.

Major Player in biscuit category with a market share of ~33%

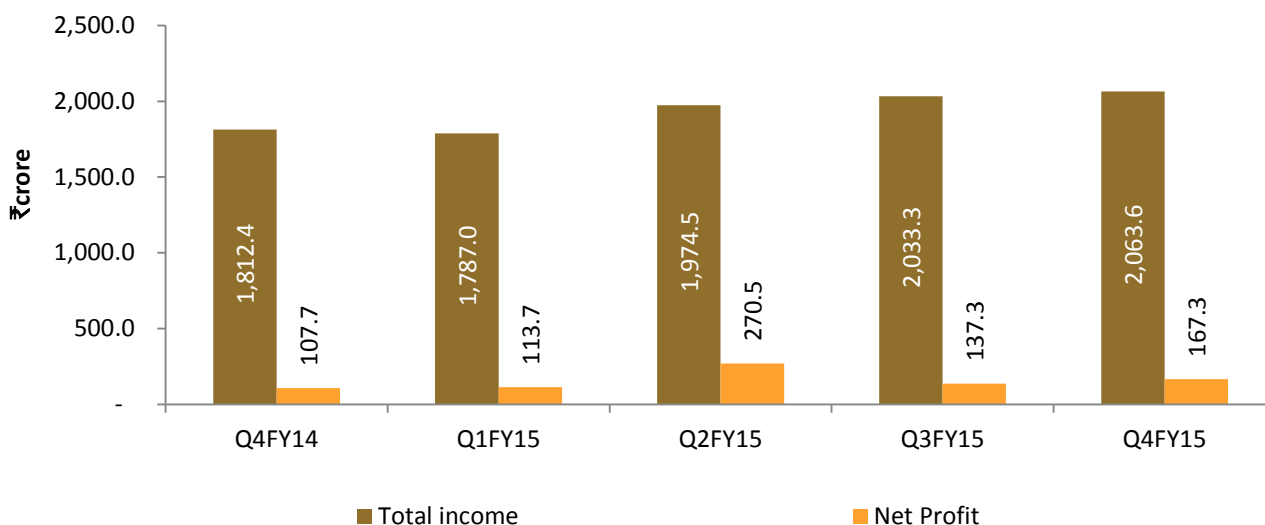


Driven by factors like increased depth in distribution, tight management of fixed costs and increased cost efficiencies; Britannia managed to report strong numbers Q4FY15.

Strong show in Q4FY15 and FY15

Demonstrating a healthy performance, Britannia reported a 13.9% YoY growth in total consolidated income at ₹2,063.6 crore in Q4FY15 as against ₹1,812.4 crore in the same period a year ago. For the year, the company witnessed a revenue growth of 13.7% YoY to ₹7,858.4 crore compared to ₹6,912.7 in FY14. Driven by factors like increased depth in distribution, tight management of fixed costs and increased cost efficiencies; the company managed to report strong numbers in the fourth quarter ended March 2015.

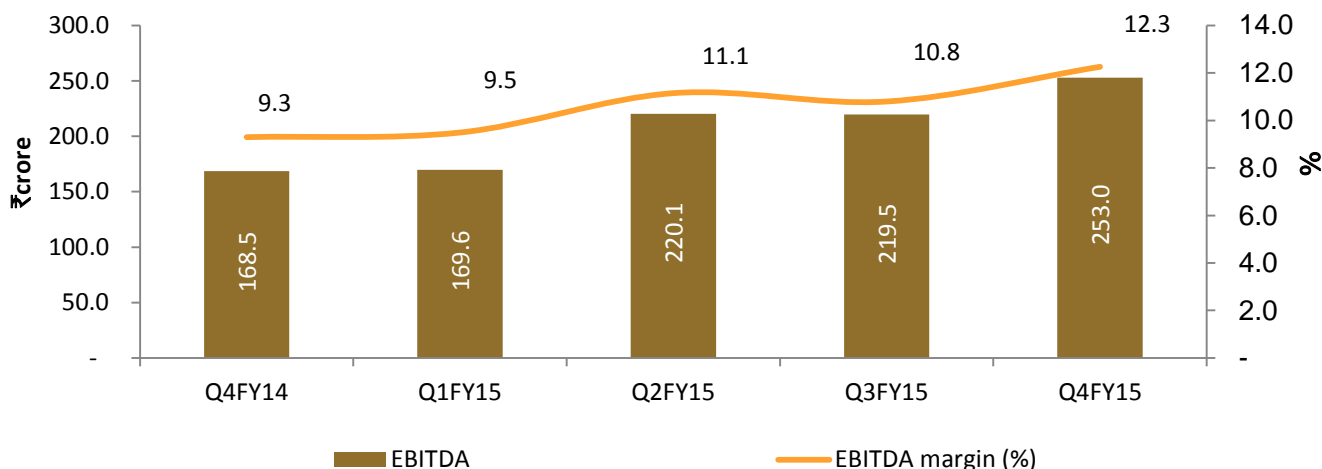
Total income grew 13.9% YoY; Net profit surged 55.4% YoY in Q4FY15



Supported by a decline in operating expenses, Britannia reported a 50.1% YoY growth in consolidated EBITDA.

On operational front, Britannia recorded a 50.1% YoY growth in EBITDA to ₹253.0 crore in Q4FY15 compared to ₹168.5 crore, in the year ago period, supported by decline in operating expenses (as a percentage of total income) by 300bps YoY to 87.7% in Q4FY15 from 90.7% in Q4FY14.

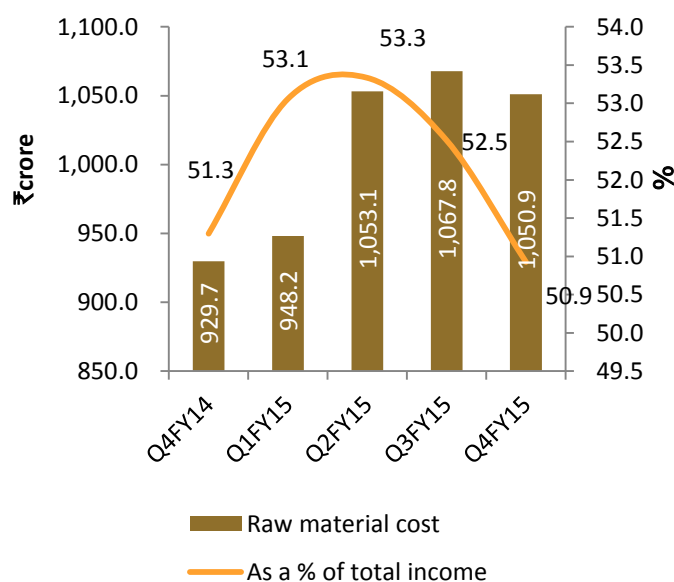
EBITDA margin continued to improve in Q4FY15



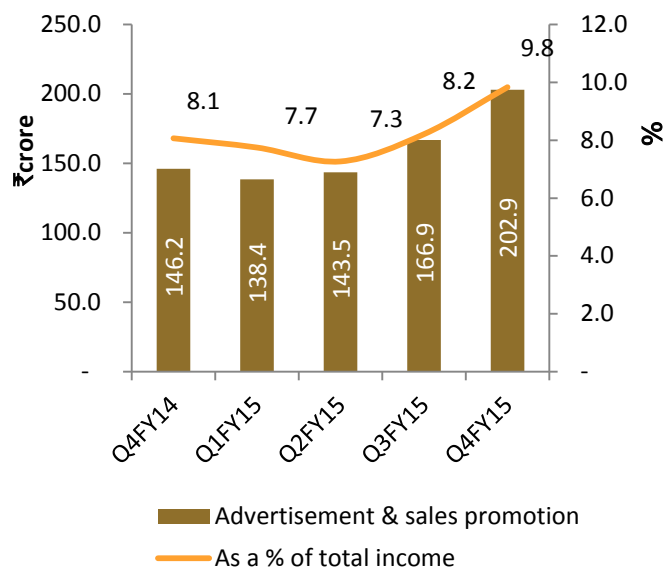
Driven by a rise in EBITDA, EBITDA margin of the company expanded 300bps YoY to 12.3% in Q4FY15 from 9.3% in Q4FY14.

The raw material cost, which accounts of ~58% of the total costs, declined 40bps YoY and 160bps QoQ; while advertising & sales promotion cost, accounting for ~11%, grew 170bps YoY and 160bps QoQ. Driven by a rise in EBITDA, EBITDA margin of the company expanded 300bps YoY to 12.3% in Q4FY15 from 9.3% in Q4FY14. For FY15, Britannia registered a 37.7% increase in EBITDA followed by a 192bps YoY expansion in EBITDA margin.

Raw material cost (as a percentage of sales) declined substantially in Q4FY15



Advertising & sales promotion expenses (as a % of sales) continued its upward trend



Britannia observed a whopping 55.4% YoY jump in consolidated net profit to ₹167.3 crore in Q4FY15 compared to ₹107.7 crore in the year-ago period

Despite 130.6% YoY surge in depreciation cost, Britannia observed a whopping 55.4% YoY jump in consolidated net profit to ₹167.3 crore in Q4FY15 compared to ₹107.7 crore in the year-ago period led by a decline in interest cost by 46.0% YoY to ₹0.8 crore. For FY15, the company reported a 74.2% YoY growth in net profit at ₹688.6 crore.

Biscuit-to-bread major, Britannia witnessed a consolidated top line growth of 13.7% at ₹7,858.4 crore in FY15 and we believe that the improvement in volume growth will continue going ahead supported by efficient investment on its brand advertising and promotions.

Focus on premium brands to drive growth going forward

The success story of Britannia is driven by its premium brands like Good Day, Marie Gold, NutriChoice and many others. Biscuit-to-bread major, Britannia witnessed a consolidated top line growth of 13.7% at ₹7,858.4 crore in FY15 and we believe that the improvement in volume growth will continue going ahead supported by efficient investment on its brand advertising and promotions. Britannia is looking to derive higher returns on its marketing investments by diverting money from non-productive areas of advertising and promotion spends. Also, it is not looking to add new brands and will introduce new variants/innovations under existing brands. For instance, Britannia launched Heavens under the NutriChoice franchise, while launching Chunkies under Good Day. The company's focus towards its premium brands would generate significant returns in the coming time as these brands already have already built up a good image in the market and it would be easy for their variants to attract the customers.

Britannia is continuously focusing towards increasing its rural presence and widening its portfolio to drive higher revenue growth.

Rural India offers a huge growth opportunity as Britannia's current rural market share is 70% of its overall market share and is planning to increase the same to 1.5x of overall market share.

The company is well focused on bringing innovations in current products, launch new, differentiated products and packaging, upgrade existing offerings and explore new ingredients and processes.

Britannia's management sees attractive opportunities in dairy segment. As per them, the company's dairy segment will continue to see a slew of launches on improving demand in urban India

Widened distribution coverage to 1mn outlets in Q4FY15; aims to penetrate further into the rural market to drive growth

The food and beverages major, Britannia embarked on a strategy about a year ago, which is now aiding to its performance. As per the plan, Britannia decided to build a robust distribution system which could provide depth for its products in urban market and width in the rural market. Besides, the company planned to invest aggressively in few premium brands in spite of concentrating on a number of brands. In Q4FY15, the company has increased its direct coverage by 33%, as a result of which, its distribution coverage has now increased to ~1 million outlets compared to ~7.3 lakhs in Q3FY15.

Further, Britannia is continuously focusing towards increasing its rural presence and widening its portfolio to drive higher revenue growth. Rural India offers a huge growth opportunity as Britannia's current rural market share is 70% of its overall market share and is planning to increase the same to 1.5x of overall market share. Britannia is leaving no stone unturned to increase its rural distribution reach to encash the burgeoning opportunity of increasing consumption of food products in rural markets. The company plans to scale up its rural presence by augmenting its distribution network, by ~7% per annum and rural coverage by ~10% every year. We believe that with the company's strong brand equity, rising aspirations and pricing power will help it to maintain growth.

Well focused on innovations and newness in order to make reputed brand competitive globally

In order to give a boost to its performance, Britannia is working hard on lifting the quality of its products and processes. The company is well focused on bringing innovations in current products, launch new, differentiated products and packaging, upgrade existing offerings and explore new ingredients and processes. The company a year ago has introduced different variants in product ranging from biscuit to breakfast food and after witnessing its positive results; it is further set to go for an up-gradation in product innovation to cater to the emerging and dynamic needs of the customers. To deeply understand the consumers need, the firm has hired consultants to help it create new products. With these initiatives, coupled with a slew of changes in its product pack configurations across the portfolio of biscuits, breads, rusks and dairy products, the company's product line will get a boost and thus support the top line growth.

Hopes biscuit network to drive the market for dairy products

The company's non-biscuits business continues to witness higher growth than the biscuit business which is benefiting the company in the enhancement of its margin and diversifying into high growth product portfolio. The company has been diversifying its dairy portfolio (butter, Milk and Dahi) and aiming for high growth rates in less saturated categories such as cheese and yogurt. It is set to market these products with its extensive biscuit distribution network.

Britannia's management sees attractive opportunities in dairy segment. As per them, the company's dairy segment will continue to see a slew of launches on improving demand in urban India. The company's branded cheese category is growing at a much slower pace of ~10% while, the branded yogurt segment with a compounded annual growth rate (CAGR) of 20%. Thus, in order to propel growth in its bakery and dairy businesses, the company would continue to invest in back-end operations and make substantial spends on advertising.

Balance Sheet (Consolidated)

Y/E (₹cr)	FY14A	FY15A	FY16E	FY17E
Share Capital	24.0	24.0	24.0	24.0
Reserves & Surplus	774.1	1,221.1	1,717.9	2,564.8
Net worth	798.1	1,245.1	1,741.9	2,588.8
Minority interest	2.4	2.4	2.9	3.5
Total debt	148.2	140.2	146.7	154.2
Provisions	332.1	422.8	507.6	609.5
Deferred tax liabilities	8.9	-	-	-
Other non-current liabilities	19.0	20.0	23.0	26.4
Other current liabilities	798.2	962.9	1,199.8	1,502.7
Total equity & liabilities	2,106.9	2,793.4	3,621.9	4,885.1
Fixed assets	847.7	781.8	820.8	861.9
Goodwill	107.0	110.7	116.2	122.0
Investments	197.9	517.9	569.7	626.7
Deferred tax assets	-	23.4	23.4	23.4
Loans & advances	304.2	556.3	663.0	790.4
Other non-current assets	12.1	37.2	44.6	53.5
Other current assets	638.0	766.2	1,384.2	2,407.2
Total assets	2,106.9	2,793.4	3,621.9	4,885.1

Key Ratios (Consolidated)

Y/E	FY14A	FY15A	FY16E	FY17E
EBITDA Margin (%)	9.1	11.0	12.7	15.4
EBIT Margin (%)	8.4	10.3	11.8	14.5
NPM (%)	5.7	8.8	7.9	10.1
ROCE (%)	67.1	61.3	58.7	57.2
ROE (%)	49.5	55.3	41.3	41.3
EPS (₹)	33.0	57.4	60.0	89.2
P/E (x)	77.2	44.4	42.5	28.6
BVPS(₹)	66.6	103.8	145.2	215.8
P/BVPS (x)	38.3	24.6	17.6	11.8
EV/Net Sales (x)	4.4	3.9	3.3	2.7
EV/EBITDA (x)	48.8	35.3	26.1	17.8

Profit & Loss Account (Consolidated)

Y/E (₹cr)	FY14A	FY15A	FY16E	FY17E
Total income	6,912.7	7,858.4	9,076.5	10,619.5
Operating Expenses	6,285.5	6,994.5	7,927.5	8,988.8
EBITDA	627.2	863.9	1,149.0	1,630.7
Other Income	33.6	88.0	88.0	88.0
Depreciation	83.2	144.5	166.2	182.8
EBIT	577.6	807.4	1,070.8	1,535.9
Interest	8.3	3.9	4.2	4.7
PBT	569.3	803.5	1,066.5	1,531.2
Exceptional items	-	146.1	-	-
Tax	173.6	261.1	347.3	461.9
PAT	395.7	688.5	719.3	1,069.4
Minority interest	0.1	0.1	0.1	0.1
Share in profit/loss of asso. co.	(0.3)	0.2	0.2	0.2
Net Profit	395.4	688.6	719.4	1,069.5

Valuation and view

Britannia is well focused towards maintaining its growth trajectory in both the bakery and dairy segments supported by its premium product portfolio. The company's persistent efforts in upgrading its existing portfolio as well as creating new products every now and then, proves its commitment towards customers. Looking ahead, the widening of consumer food basket with growth in disposable income will give a boost to the company's growth and open up new success paths. Hence, we believe that the firm will continue to drive profitable growth even in tough milieu driven by strong brands in biscuits category, non-biscuits division gaining traction and focused towards cost efficiency.

We initiate BUY rating on Britannia. At a current CMP of ₹2,548.9, Britannia is currently trading at an EV/EBITDA of 26.1x for FY16E and 17.8x for FY17E. Considering the company's strong fundamentals, we recommend 'BUY' with a target price of ₹3,021.7, which implies potential upside of ~19% to the CMP from 1 year perspective.

Disclaimer : This document has been prepared by Funds India and Dion Global Solution Ltd. (the company) and is being distributed in India by Funds India. The information in the document has been compiled by the research department. Due care has been taken in preparing the above document. However, this document is not, and should not be construed, as an offer to sell or solicitation to buy any securities. Any act of buying, selling or otherwise dealing in any securities referred to in this document shall be at investor's sole risk and responsibility. This document may not be reproduced, distributed or published, in whole or in part, without prior permission from the Company.

© Copyright – 2015 - Dion Global Solution Ltd and Funds India.

Contact Us:

Funds India

H.M Center, Second Floor, 29,
Nungambakkam High Road, Nungambakkam,
Chennai - 600 034.

T: +91 7667 166 166

Email: contact@fundsindia.com