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BSE Code: 500825 **NSE Code:** BRITANNIA **Reuters Code:** BRIT.NS **Bloomberg Code:** BRIT:IN

Britannia Industries Ltd (BRITANNIA) is a major player in the Indian Foods market with leadership position in ₹124 bn Indian bakery market. The company with a market share of ~38% in the industry, it has an annual production capacity of 433,000 tonnes and has got 600,000 outlets across India. In international markets, BRITANNIA brands are now available in over 30 Countries and a number two brand in the UAE and Oman. Notably, the company is soon going to set up a new biscuit manufacturing plant in Gujarat.

Investor's Rationale

BRITANNIA has recently revamped its organization structure to focus on local and international market both at the same time. The management aims at creating fresh opportunities in and outside India that will turn BRITANNIA from being a bakery company to a complete food company. Besides, we expect that the organizational change will bring more transparency in the work and aid to come up with high growth to cater the dynamic food habit of the Indian customer.

Visibility on margin expansion has improved due to recent price hikes and an improving product mix. We believe that the company's strategy of extending brands in premium categories and continuous focus on increasing value-added products in its overall sales mix will help to raise the ROCE to 33.6% and ROE to 41.8% by FY'14.

Despite slower economic growth, the overall bakery sector is currently growing at the rate of 12-14%. Considering the large base of Indian consumers, the company expects that the bakery industry growth will go northward by 13-15% in the coming year. BRITANNIA, with nearly a 3rd share of the biscuit market and a dominant share of other baked categories is well poised to benefit from this growth, driven by the diversity of its product range and its availability footprint.

The company's rising investment on its loads powerful brands like Good Day, Marie Gold, Tiger, 50:50, Treat etc. which constitutes ~80% of its top line is likely to further boost the revenues to ₹71 bn by FY'14 driven by new exciting innovations.

BRITANNIA after completing 2 new Greenfield units in Hajipur (Bihar) and Khurda (Orissa) is all set to establish another biscuit & cake manufacturing plant in Gujarat coupled with technology innovations that we project will boost its manufacturing productivity to meet future demand for its products.

Key risk

Rising material cost: The hike in raw material cost like wheat flour and sugar is adding stress to the company's consumption basket. This rise in material cost will impact the firm's aim to drive high double digit growth which in turn would dent EBITDA margin and hence the profitability.

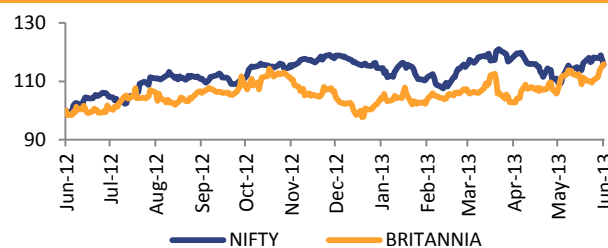
Market Data

Rating	BUY
CMP (₹)	704
Target (₹)	820
Potential Upside	~16.4%
Duration	Long Term
Face Value (₹)	2
52 week H/L (₹)	752.2/400.0
Adj. all time High (₹)	4.5
Decline from 52WH (%)	6.2
Rise from 52WL (%)	76.2
Beta	0.6
Mkt. Cap (₹bn)	84.3
Enterprise Value (₹bn)	86.6

Fiscal Year Ended

Y/E	FY12A	FY13A	FY14E	FY15E
Revenue (₹bn)	55.4	62.3	71.0	82.3
EBITDA (₹bn)	3.7	4.7	5.6	6.5
Net Profit (₹bn)	1.9	2.5	3.1	3.7
Adj EPS (₹)	16.7	21.7	26.6	31.1
P/E (x)	42.2	32.5	26.5	22.7
P/BV (x)	20.6	15.3	11.1	8.2
EV/EBITDA (x)	23.1	18.3	15.3	13.3
ROCE (%)	35.6	33.0	33.6	32.3
ROE (%)	48.8	47.1	41.8	36.3

One year Price Chart



Shareholding Pattern

	Jun'13	Mar'13	Diff.
Promoters	50.85	50.92	(0.07)
FII	19.48	17.89	1.59
DII	9.89	11.28	(1.39)
Others	19.78	19.91	(0.13)

BRITANNIA is the country's leading food processing company. It is growing at the rate of 27% a year as against the industry's growth rate of 20%.

The company derives ~90% of its revenue from the biscuits segment, where it has formidable brands such as Tiger, Treat, 50-50 and many more.

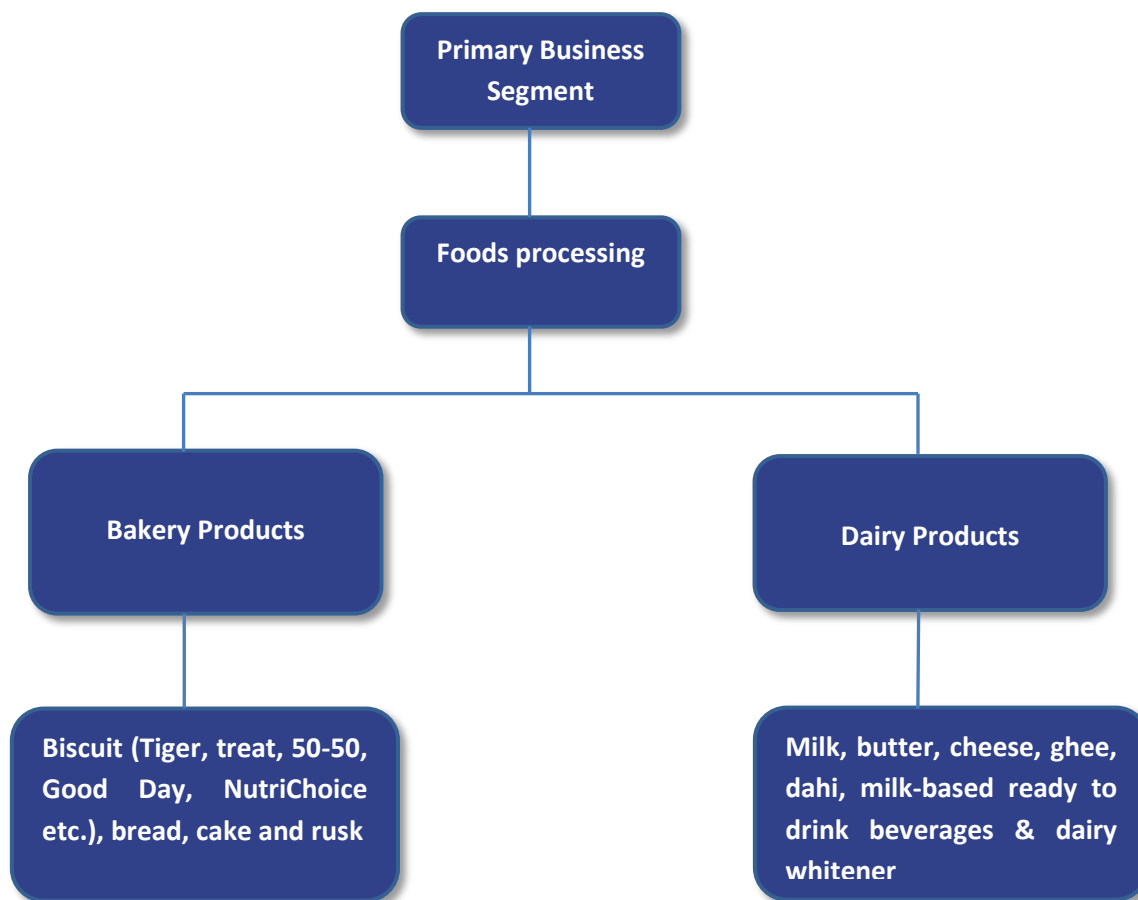
BRITANNIA- Country's biscuit king

Established in 1892, traditionally ruling the leader board, BRITANNIA is an Indian food-products corporation set up in Bengaluru, India. The Company's foremost function is to manufacture and sell biscuits, bread, rusk, cakes and dairy products. BRITANNIA which already occupies share of the breakfast table with bread, butter and cheese has recently forayed into the breakfast cereals category with the launch of buttermilk oats and sweet multi-grain porridge under 'Healthy Start' brand. The company's overall business is primarily bifurcated into two i.e. Foods comprising (I) bakery products - biscuit, bread, cake and rusk, and (ii) dairy products - milk, butter, cheese, ghee, dacha, milk-based ready to drink beverages and dairy whitener.

On Industrial front, 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.

BRITANNIA, the biscuit king derives ~90% 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) whereas 10% of its total sales come from non-biscuits category and International market. More recently, the company has been growing at 27% a year, compared to the industry's growth rate of 20%.

Britannia's business structure



BRITANNIA focusing aggressively on its brands for high premiumisation

BRITANNIA is all set to invest on launching new and exciting products and also introducing customers with more value added products to ensure better safety and health.

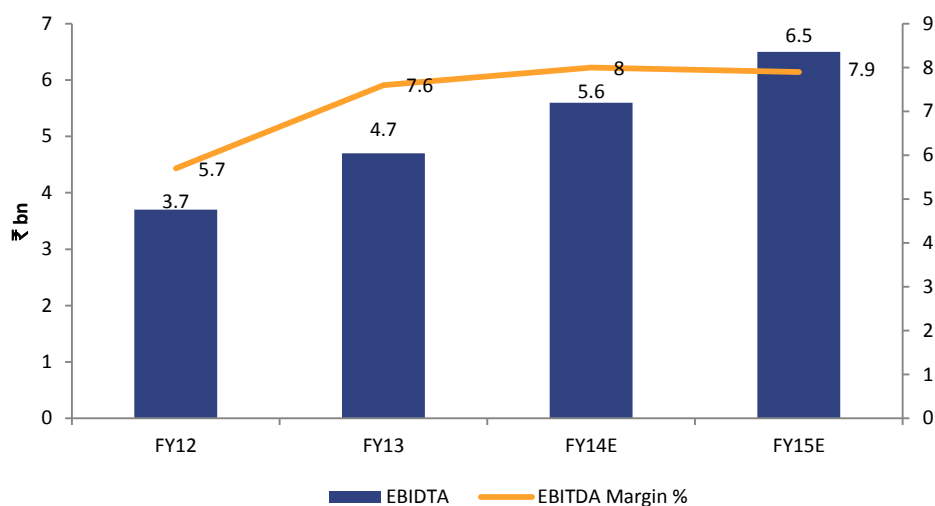
The success story of BRITANNIA is driven by its premium brands like Good Day, Marie, Tiger and many others. Biscuit-to-bread major, BRITANNIA witnessed a consolidated top line growth of ₹62.3 bn in FY13 and we believe that the improvement in volume growth will improve going ahead supported by efficient investment on its brands advertising and promotions. Besides, applying the philosophy of premiumisation on rising disposable income has pushed the company to upgrade its backend capacity, supporting the brands and the business.

BRITANNIA in order to drive growth in other than biscuit segment is expanding distribution of its products such as curd and cheese in supermarkets and modern trade outlets. Additionally, it is also launching new quality products which would help to sustain operating margins. We expect operating margins to marginally expand to 8% in FY'14.

The company undeterred to load the market with novel products at every point of time has experienced high operating margins and is likely to share the much improved results in the way of increased margins in FY'14.

The company's 3 biscuit manufacturing facilities coupled with up gradation in the back-end planning process is likely to soar its production capacity, hence triggering the sales and turnover.

Margin growth trend



In December 2012, the company has completely finished the execution of its two new Greenfield units in Patna & in Khurda in Orissa, meant for producing biscuits and cakes. After these successful launch the company is further coming up with another facility in Jhagadia in Gujarat, all with an average investment of over ₹0.6-0.8 bn. With this 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.

Further these facilities will help the company in increasing its presence in the Western markets and also ease the distribution facilities in Western India. We expect new units to focus on higher value-added biscuits which would boost profit margins for the company. Apart from this, the company has stretched lines in some existing manufacturing units also.

To improve the back-end planning process and availability, BRITANNIA is in the process of implementing Advanced Planning & Optimizing (APO) which is succeeding as per plan and it is for sure that after its completion the result will be visible on front-end in the form of high sales and revenues.

BRITANNIA since long is working on its 3 strategies namely newness& innovation and cost & revenue management to raise the bar of unveiling new products to intact its existing as well as new customers.

3 Key Areas excelling Business Operations

- *Newness & Innovation*
- *Cost Management*
- *Revenue Management*

Newness & Innovation; to make reputed brand competitive globally

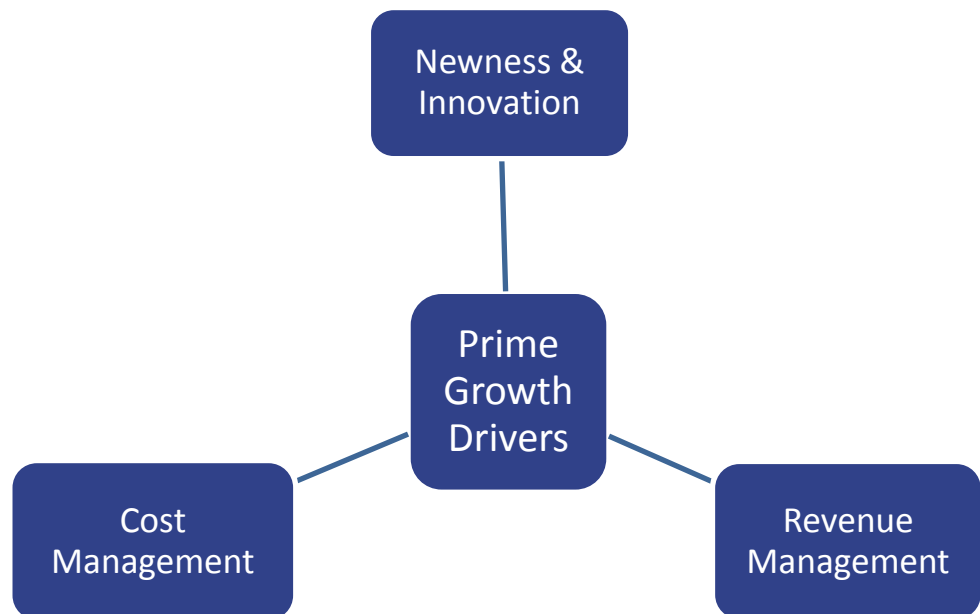
The Company is diligently working on lifting the delivered quality of its products and processes to post an impressive growth rate and thus focusing on bringing innovations in current products and coupled with the new product launches. Besides, the firm's expectation for 13-15% growth in bakery market this year has pushed the company into a positive zone to focus on launching big-bang products and improve margins that was low on high raw material cost.

The company a year ago has introduced different variant in product ranging from biscuit to breakfast and after witnessing its positive results 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.

Moreover, it will also focus on technological solutions to introduce new & differentiated products and also upgrade existing offerings to explore new processes.

With these initiatives coupled with slew of changes in its product pack configurations across the portfolio of biscuits, breads, rusks and dairy products, the company seems active to boost its product line as well as top line.

Concentrating on 3 Key Areas to perform smooth operations



The company's consistent cost management strategy is going to increase the margins. We expect it to boost to 8% in FY14 and 7.9% in FY15.

In depth study of consumers changing behavior and company's race with itself to lead the market has given birth to the concept of revenue management.

Cost management; via improving operations

The company's focus on cost management has showcased the story of high net profit of ₹2.6 bn and sales ₹62.3 bn during FY13. It is very important for a business to closely monitor the cost and revenues figures in order to attain the operational excellence which led to post profitable growth at the end.

Going ahead, to generate sustainable and profitable growth, the firm applies several cost improvement tools, using Kaizen, Total Productive Maintenance, Total Quality Management and Six Sigma in several manufacturing units. The tool application has however, shown its result in the form of strengthened operating margin that grew to 7.6%, the highest in 14 quarters in FY13, and is likely to stretch the same trend in FY14 by strengthening to 8%.

Revenue management; comes with understanding consumer needs

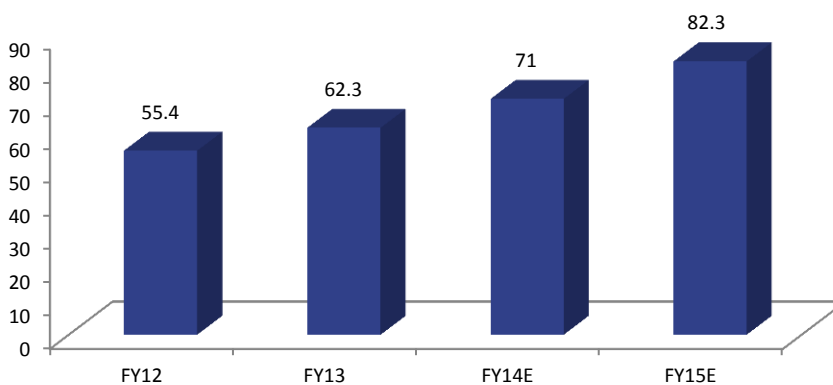
The company is transparently following the definition of revenue management i.e. selling the right product to the right customer at the right time for the right price. The firm over the years was successful in maintaining its balance sheet through launching & innovating differentiated products for consumers, creating a higher preference and purchase.

BRITANNIA has nicely proved its philosophy of revenue management. In December 2012, it has launched Vita Marie with more value addition (inclusion of oats and honey) which in turn reflected its result in topline that was up at ₹15.0 bn in Q4FY'13 from ₹14.6 bn in Q3FY'13.

Moreover, it has undertaken stringent cost control measures like alternate fuels to lower the fuel cost and set up plants in different geographic locations to reduce freight cost.

Hence, BRITANNIA in terms of the products mix, geographies mix & amendments that company make on its different brands considering different customers help the company in selling more of a value-added brand which in turn boost the margins and consequently the top line and bottom line.

Growing revenue trend (in ₹bn)



BRITANNIA's peer comparison
**Standalone figures*

FY'13 (₹bn)	Britannia	Jubilant Food	Glaxosmith Consumer
Revenue (₹bn)	15	3.6	9.7
Net Profit (₹bn)	1.0	0.3	1.5
P/BV	32.5	17.0	13.7
P/E	15.3	55.1	42.8

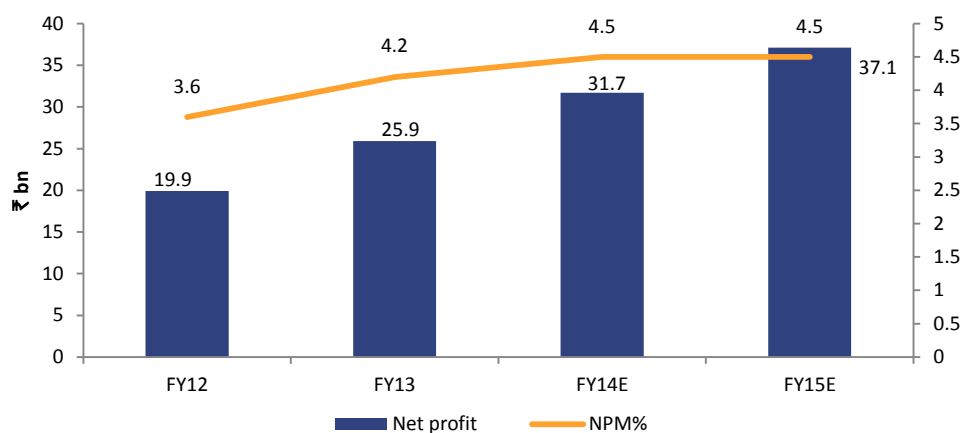
BRITANNIA, with about a third share of the biscuit market and a dominant share of other baked categories is well poised to compete from its peers. The standalone net revenue stood at ₹15 bn which is much higher than its competitors and is playing aggressively in the market to achieve a milestone in the following years.

BRITANNIA to see appetising earnings performance

BRITANNIA after posting continuous improving result has again witnessed a high growth in FY'13. The company powered by its huge product portfolio is prepared to beat the upcoming quarters. The FMCG space has been witnessing increasing competition since the beginning of Q1FY'14. The category, which has witnessed increasing competitive action, is packaged milk and milk products with the entry of Danone in India and Britannia is getting aggressive.

The non-biscuit businesses- bread, rusk, cake, dairy and international are generating ~₹1.5bn revenues annually, while the Dairy business has touched sales of ~₹4bn and is contributing to the bottom line. The management expects the biscuits category to continue to grow at ~15%. We believe the long-term premiumisation story is intact and expect Britannia to witness net profit growth of 22.5% and 16.9% in FY14 and FY15 respectively.

Looking at the positive side, we believe that the firms aggressive product development strategy coupled with existing and emerging India's customer base will shoot up the top line as well as bottom line to ₹71.0 bn and ₹3.1 bn respectively during FY'14E.

Net Profit & NPM trend


Balance Sheet (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Share Capital	238	239	239	239
Reserve and surplus	3,853	5,269	7,371	10,012
Net Worth	4,091	5,508	7,610	10,251
Share application money pending	-	23	23	23
Minority Interest	22	23	23	23
Capital Subsidy	-	48	48	48
Loan funds	1,787	3,414	3,584	3,763
Provisions	2,471	2,786	2,786	2,786
Current Liabilities	9,768	6,709	6,558	6,623
Net Deferred Tax Liability	76	128	128	128
Other long term liabilities	205	196	187	178
Total Equity & Liabilities	18,420	18,835	20,947	23,824
Fixed assets including Goodwill	7,356	8,841	10,018	11,372
Investments	2,485	1,082	1,082	1,082
Loans and Advances	2,397	2,786	3,288	3,880
Current Assets	6,061	6,004	6,438	7,369
Other Assets	121	121	121	121
Total Assets	18,420	18,835	20,947	23,824

Key Ratios (Consolidated)

Y/E	FY12A	FY13A	FY14E	FY15E
EBITDA Margin (%)	6.7	7.6	8.0	7.9
EBIT Margin (%)	5.6	6.4	6.8	6.7
NPM (%)	3.6	4.2	4.5	4.5
ROCE (%)	35.6	33.0	33.6	32.3
ROE (%)	48.8	47.1	41.8	36.3
Adj EPS (₹)	16.7	21.7	26.6	31.1
P/E (x)	42.2	32.5	26.5	22.7
BVPS (₹)	34.3	46.1	63.7	85.8
P/BVPS (x)	20.6	15.3	11.1	8.2
EV/Operating Income (x)	1.6	1.4	1.2	1.1
EV/EBITDA (x)	23.1	18.3	15.3	13.3
EV/EBIT (x)	27.7	21.7	17.9	15.6

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Total Operating Income	55,445	62,376	71,088	82,399
Operating Expenses	51,745	57,648	65,430	75,899
EBITDA	3,700	4,728	5,658	6,500
Depreciation	618	731	830	942
EBIT	3,082	3,997	4,828	5,558
Interest	416	413	438	460
PBT	2,666	3,584	4,390	5,098
Tax	668	986	1,207	1,376
Profit after tax	1,998	2,598	3,183	3,722
MI/Share of Profit&Loss of Associate	(1.8)	(3.8)	(4.2)	(4.6)
Net Profit	1,996	2,595	3,178	3,717

Valuation and view

BRITANNIA focus 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 as well as creating new products every now and then proves its commitment for customers. Looking ahead, the widening consumer food basket with growth in disposable income will enhance growth and open up new success paths. Hence we believe that the firm will continue to drive profitable growth even in tough milieu with focus on consumers, customers and cost effectiveness.

At a current market price (CMP) of ₹704.9, the stock trades at 26.5x FY14E and of 22.7x FY15E, earnings. We recommend 'BUY' with a target price of ₹820, which implies potential upside of ~16.4% to the CMP from 1 year perspective.



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