



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Kunal Bhatia/67141442

Result Update@ Dalal & Broacha

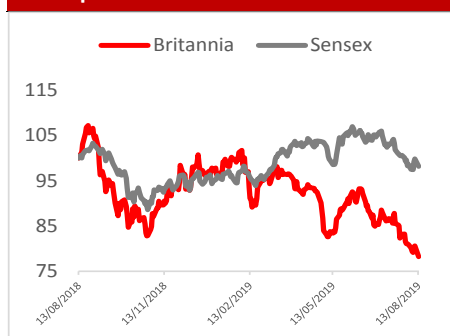
ACCUMULATE

Current Price	2500
52 Week Range	2485/3472

Key Share Data

Market Cap (Rs.bn)	597.19
Market Cap (US\$ mn)	8352.31
No of o/s shares (mn)	240.31
Face Value	1
Monthly Avg. vol(BSE+NSE) Nos'000	440.48
BSE Code	500825
NSE Code	BRITANNIA
Bloomberg	BRIT: IN

Price performance



% Shareholding	Jun-19	Mar-19
Promoters	50.66	50.66
Public	49.34	49.34
Others	0.00	0.00
Total	100.0	100.0

Results below expectations on profitability front

Net Revenues increased by 5.9% YoY to Rs 26773.2mn driven by 3% volume growth. **EBIDTA** was higher by 1.3% YoY to Rs 3946.2mn. **EBIDTA margins** 14.6% as against 15.3% YoY.

Raw Material to Revenues stood at 59.6% as against 60% YoY (Raw Material in Bakery business saw moderate inflation, but saw dis-proportionate increase in milk prices which impacted profitability in dairy business)

Employee Costs increased by 11% to Rs. 1205.7mn YoY

Other expenses increased by 10.9% to Rs. 5759.6mn/ As % to Revenues at 21.3% as against 20.4%

Other Income increased 60.6% YoY to Rs 674.5mn as against Rs.420.1mn

Exceptional Item: Rs.156.1mn on account of voluntary retirement scheme cost.

PBT Before exceptional items increased by 3.5% to Rs. 4071.90mn

Tax rate on PBT before exceptional item: 35.1% as against 34.4%

Adjusted PAT: increased by 3% to Rs. 2670mn

EPS on adjusted PAT: Rs. 11 as against Rs. 10.75

Conference Call KTA

- 1) Company is witnessing slowdown/consumer sentiments are down 2) Premium Categories contribute 65-70% of sales whereas value or mass category contributes 30% of sales
- 3) Company is witnessing slowdown in value category but premium category is growing at a steady rate
- 4) Currently rural growth is slower than urban growth/ 1 year back rural growth was 1.5x urban growth
- 5) Management is confident that government will take accommodative steps to ensure a turnaround in the economy and as such growth should return in FMCG sector by H2FY20
- 6) Volume growth was 3% and price growth was 3% (Revenue growth was 6%)
- 7) Direct Reach as of Q1FY20 stands at 2.13mn outlets as against 2mn in Q4FY19/Rural preferred dealers (RPD) stands at 19000 as against 18000 in Q4FY19
- 8) Launched "baked salted snacks" in south market only/looking at small lines with existing lines of bakery products/products will reach pan India in over a year

Financials Consolidated Rs Mns

Year	Net Sales	%growth	EBIDTA	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY17	90,541	8	12,782	14.1	8,846	7	36.9	68	33	41
FY18	99,140	9	15,017	15.1	10,040	13	41.8	60	29	38
FY19	110,547	12	17,334	15.7	11,555	15	48	52	27	36
FY20E	122,173.1	11	18,892.2	15.5	12,839	11	53	47	25	32
FY21E	139,077.3	14	21,868.3	15.7	14,879	16	62	40	25	32



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- 9) Response for recently launched products such as milkshakes, center filled biscuits and wafer biscuits has been positive
- 10) Dairy reported double digit growth primarily on the back of good growth in Milkshakes under the “Winkin” brand
- 11) Target Savings for FY20: Rs. 2650mn
- 12) Inflation in key raw materials such as sugar was 1%, Milk was 10%, RPO was -11% and Flour was 11% (this was hedged by taking a long position in Flour)
- 13) New Categories and product launches contribute about 2.5% to overall revenues
- 14) In Q1FY19, one of Britannia’s major competitor faced capacity constraints in Cookies and thus Britannia’s cookies grew by 70%/ growth on such high base was flat this quarter
- 15) There is a 12% de-growth between consolidated and standalone revenues due to difference in recognising in revenue mainly in the milk and international business
- 16) Milkshakes and yogurt come in Britannia’s standalone books where as other milk products (Butter, Cheese etc) goes into subsidiary’s books
- 17) **International business side**, India exports are reported under Britannia’s standalone revenues but imports from MENA region are reported under subsidiary books and thus reflected in consolidated revenues
- 18) **PAT from subsidiaries** dropped from Rs.120mn in Q1FY19 to Rs. 1mn on account of higher Milk prices (impact of Rs. 50mn) and ramp up in croissant JV business in which cost is recorded but revenues are not yet
- 19) **Reduction in ICD from Rs. 6810mn to Rs. 5000mn/ Expect another Rs. 1500mn to be reduced by year end**
- 20) **Exceptional item** of Rs. 156.1mn related to VRS costs for employees in the Kolkata factory as company has decided to shut it down on being old and inefficient/ major employees covered under the said amount, only 40 employees left which will be done by next quarter
- 21) **Advertisement costs** excluding sales promotions and trade discounts stood at Rs. 1300mn against 1070mn i.e. growth of 21% (major contributor for increase in Other expenses, +11%)

Outlook and Valuation: Britannia has been hit by the on-going slowdown in the economy and slowing growth in the rural side of India which is reflective in the company’s results. Despite this, the management is confident that government will provide stimulus for economic revival and in turn bring back growth in the FMCG sector. Current developments in the company relating to ramp up in distribution of newer products and reduction in ICD are key positives .At price of Rs.2500, the company trades at 47x and 40x FY20e and FY21e EPS of Rs. 53 and Rs. 62 respectively. We Maintain **Accumulate for the long term**



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Particulars (Rs Mns) Consolidated	Q1FY19	Q1FY20
Gross Sales		
Less Excise Duty		
Net Sales	25272.4	26773.2
<i>Growth</i>		5.9%
Other Op Income	165.90	230.30
<i>Growth</i>		38.8%
Total OP Income	25438.3	27003.5
<i>Growth</i>		6.2%
Add: O. Income	420.1	674.5
<i>Growth</i>		60.6%
Total Income	25858.4	27678.0
EXPENDITURE		
Inc/Dec in stk	120.7	203.7
Cons of R. Mat	-12709.7	-13676.1
Purch of Trad Goods	-2674.5	-2619.2
RAW MATERIALS	-15263.5	-16091.6
<i>Growth</i>		5.4%
<i>% of Op Income</i>	-60.0%	-59.6%
Employee Cost	-1086.1	-1205.7
<i>Growth</i>		11.0%
<i>% of Op Income</i>	-4.3%	-4.5%
O. Exps	-5195.0	-5759.6
<i>Growth</i>		10.9%
<i>% of Op Income</i>	-20.4%	-21.3%
Total Expenditure	-21544.6	-23056.9
<i>Growth</i>		7.0%
EBIDTA	4313.80	4621.10
EBIDTA Less O. Inc	3893.70	3946.60
<i>Growth</i>		1.4%
EBIDTA MARGINS	15.3%	14.6%
Less Int	-24.4	-101
<i>Growth</i>		313.9%
Less Depn	-356.4	-447.8
<i>Growth</i>		25.6%
<i>Less Exceptional</i>		-156.1
PBT Before Exceptional	3933.00	4072.30
<i>Growth</i>		3.5%
PBT	3933.00	3916.20
<i>Growth</i>		-0.4%
Less Tax	-1351.80	-1430.00
TAX RATE	-34.4%	-35.1%
<i>Extraordinary Net</i>		
PAT	2581.20	2486.20
<i>Growth</i>		-3.7%
PAT Adjusted	2581.20	2486.20
Share of Profit/Loss from Associate	-0.4	0.2
PAT Reportd	2580.80	2486.40
PAT Adjusted Owner Share	2582.2	2670.0
<i>Growth</i>		3.4%
<i>NPM</i>	10.0%	9.6%
<i>Non Controlling Int Owners Share</i>	-1.40	-23.90
Other Comprehensive Income (net of Tax)	51.6	-5.1
Total Comprehensive Income	2632.4	2481.3
Equity	240.1	240.3
EPS (Adjusted PAT)	10.75	11.11
<i>Growth</i>		3.3%
OPM	15.3%	14.6%
NPM	10.0%	9.0%
Tax Rate	-34.4%	-35.1%



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