IIFL

IIFL Investment Ideas

Britannia Industries Ltd

CMP Rs: 3,534 1 year Target: Rs 4,014 Upside: 13.6%

IDEA 2 ACT

Sector: FMCG

Analyst:
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Stock Data

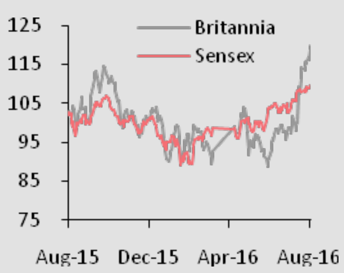
Sensex:	28,372
52 Week h/l (Rs):	3550 / 2506
Market cap (Rscr) :	42,526
Bloomberg code:	BRIT IN
BSE code:	500825
NSE code:	BRITANNIA
FV (Rs):	2
Div yield (%):	0.58

Shareholding Pattern

	Dec-16	Mar-16	Jun-16
Promoters	50.74	50.74	50.74
DII+FII	27.56	27.56	27.56
Individuals	21.70	21.70	21.70

Source: www.bseindia.com

Share Price Trend



Prices as on 14/09/2016

September 15, 2016

Premiumisation of brands to improve gross margins

Britannia continued leveraging of its power brands of biscuits into premium categories, which is helping it to improve margins. As a result, gross margins have improved from ~35% in FY12 upto ~42% in FY16. Moreover, it is planning to increase in house manufacturing upto 65% (~50% currently) over the next two years. Continued focus on super premium segment will help in further expansion of EBITDA margin. Focusing on high-margin and fast growing premium and super-premium categories, Britannia will enjoy the benefits of increased market share and expanding margins.

Improving distribution reach to provide volume led growth

Britannia's direct distribution has now reached upto 1.32 mn outlets (+60,000 added in Q1FY17). Whereas total distribution has now reached upto 4.5 mn outlets as a consequence, gap with there largest competitor Parle has been narrowed to 1.2 million outlets from 1.7 mn outlets in FY13. The company's intent is to increase rural distribution reach. There rural distributors have increased to 8,300 in Q1FY17 (+33% yoy). Also in Hindi-speaking belt (Rajasthan, Gujarat, Madhya Pradesh, Uttar Pradesh) where it has ~15% market share, it is focusing to improve it. All these initiatives would provide it the volume led growth.

Focus on expanding non -biscuit portfolio to improve margins

The non biscuit portfolio (Rusk, Cake) which have superior margins than biscuit segments has grown in FY16 (~16% yoy). The company is sharpening its focus on cake & rusk where the margins are 1.5x of biscuits segment. The dairy segment revenue growth (~4% over FY12-FY16) was not upto the mark, so it is focusing to expand its dairy segment revenues 5x in next 5 years.

Outlook & Valuation

We have positive view on the stock on account of 1) premiumisation of its strong brands, 2) efforts to improve the distribution strength 3) focus on high margin non-biscuit portfolio, (including dairy, bread, rusk and cakes) 4) increase in rural penetration & strengthening its position in the Hindi-speaking belt 5) increasing inhouse manufacturing (from 50% to 65%) over the next two years. The stock trades attractive at 34.3x FY18E earnings. The stock is trading at the lower-end of the sector despite healthy growth & margins. We expect the company should fetch higher multiple. We recommend Buy on the stock with one year target price of Rs4,014, based on 39x FY18E earnings.

Financial Summary

Rs cr.	FY14	FY15	FY16	FY17E	FY18E
Revenue	6912	7858	8678	9677	11032
EBITDA	627	863	1226	1456	1825
OPM%	9.1	11.0	14.1	15.0	16.5
PAT	395	688	806	982	1235
EPS Rs	33.0	57.4	67.2	81.9	102.9
P/E (x)	107.2	61.6	52.6	43.2	34.3
ROE %	49.5	55.3	45.6	40.1	36.6
ROCE %	58.9	58.1	63.9	56.5	66.5

Recommendation Parameters for Fundamental Reports:

Buy – Absolute return of over +10%
Accumulate – Absolute return between 0% to +10%
Reduce – Absolute return between 0% to -10%
Sell – Absolute return below -10%

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