

Investment Idea  
FMCG Sector

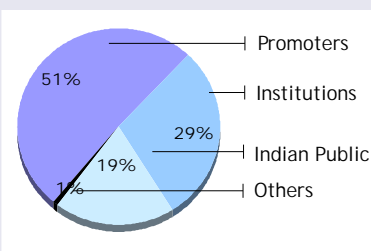
**Britannia Industries Limited** CMP : Rs. 1191.0

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Stock Codes

Bloomberg : BRIT.IN  
Reuters : BRIT.BO  
BSE Code : 500825  
NSE Code : BRITANNIA  
BSE Group : A

Share Holdings (%)  
As on 31st December, 2007.



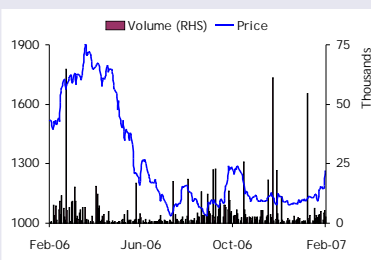
Stock Data

Sensex : 13783.0  
Nifty : 3978.0  
52 W High Rs. : 1955.0  
52 W Low Rs. : 1025.0  
Mkt Cap Rs. Mn. : 28811.0  
Face Value : Rs 10.0

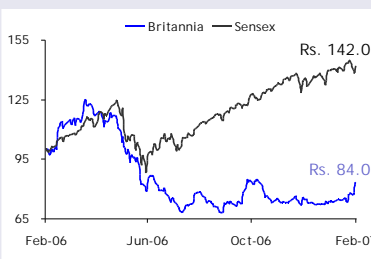
Absolute Returns

%	1M	3M	6M
Britannia	13.09	13.13	8.57
Sensex	1.59	6.90	25.20

Price/Volume



Price Comparison



**Britannia Industries Limited (BIL)** is a market leader in the biscuit and bakery products segment with over 38 per cent market share. It is promoted by Nusli Wadia group and Groupe Danone, French food and beverages giant. The company's main biscuit brands include Good Day, Tiger, 50:50, Treat, Milk Bikis and Marie Gold. Britannia mainly caters to the premium segment. However, with the launch of Tiger brand, it has dived into the low-end category, taking competition head on with Parle which is the leader in this segment. The company has also diversified within the bakery products and entered the bread, cakes and rusks markets.

Summary Financials

P&L (Rs Mn)	Mar 04	Mar 05	Mar 06	Mar 07E	Mar 08E	Mar 09E
Net Sales	14,396.13	15,095.48	17,133.38	21,196.33	24,780.56	28,839.81
EBIDTA	2,150.88	2,631.31	2,195.66	1,612.33	2,531.56	3,599.81
PAT	1,091.09	1,487.70	1,464.26	1,031.93	1,520.56	2,282.81
RoE	25.31	33.54	26.67	17.95	24.41	34.38
RoCE	40.98	54.30	35.43	23.12	35.30	47.55
EV/EBIDTA	7.14	7.81	19.44	17.63	11.18	7.85
EV/Sales	1.07	1.36	2.49	1.34	1.14	0.98

Investment Arguments

Excellent Growth Rates

"We have grown at a rate of 25 per cent in the last three quarters. BIL grew at 85 per cent in rural areas last year, while in modern format stores its growth rate has been 100%" says CEO Vinita Bali. BIL has identified six "pillar brands" to power its growth. Each of these brands viz. Good Day, Tiger, 50:50, Treat, Milk Bikis and Marie Gold have witnessed double-digit growth. Demand for biscuits is expected to be driven by rising disposable incomes in the robustly growing Indian economy. We expect BIL to grow at 23 per cent in FY07 and at 17 and 16 per cent in FY08 and FY09 respectively.

Capacity Additions

BIL has decided to invest Rs175-200 Crs over the next two to three years to expand production capacity by nearly 40 per cent. The expansion project will be funded through a mix of internal accruals and borrowings. The company's average after tax profit is around Rs 120 Crs in the last three years and has reserves of over Rs 500 Crs. Therefore borrowings will not significantly hamper the current debt equity ratio.

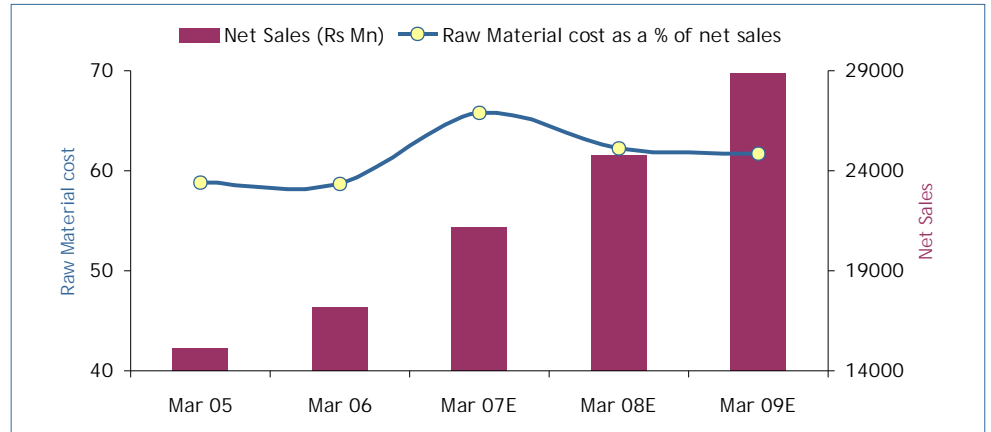
Indirect price hike

BIL have reduced the size of 100 gram biscuit packet to 90 grams by taking out one biscuit from the pack whilst maintaining the same price.

Stabilization of raw material prices

FY07 was an exceptional year as far as the raw material prices were concerned. Cost of raw-materials as a percentage of sales shot up from 58 per cent in 2006 to over 65 per cent. This is expected to come down on the back of good wheat production and lower sugar prices. We expect this figure to fall and hover around 62

per cent during FY08 and FY09. Crude oil prices now stabilizing will also act as a sweetener.



**Acquisition spree**

BIL acquired Daily Breads to strengthen its presence in the freshly baked gourmet food market. DB has eight outlets in Bangalore and BIL plans to set up new outlets in Mumbai and Delhi and also opening counters at leading convenience stores. It has also acquired a company in the middle east.

**Risk Factors**

**Dispute between the management**

Dispute between Wadia Group and Group Danone began with the ownership of the "Tiger" brand. The matter worsen when Nusli Wadia filed a complaint with the government on the French group's investment in the bio-actives manufacturer Avesthagen, alleging violation of the joint venture. The settlement is nowhere in sight

**ITC's foray into biscuits**

Sunfeast has about 8 per cent market share in the biscuit market. Its aggressive marketing and attractive pricing pose a threat to Britannia in the long run. It also has more number of variants than BIL.

**Threat from regional players**

Regional players have a strong presence in the local market. Their manufacturing facilities are closer to their markets and have a superior distribution system. This makes it difficult for any national player to penetrate into these markets.

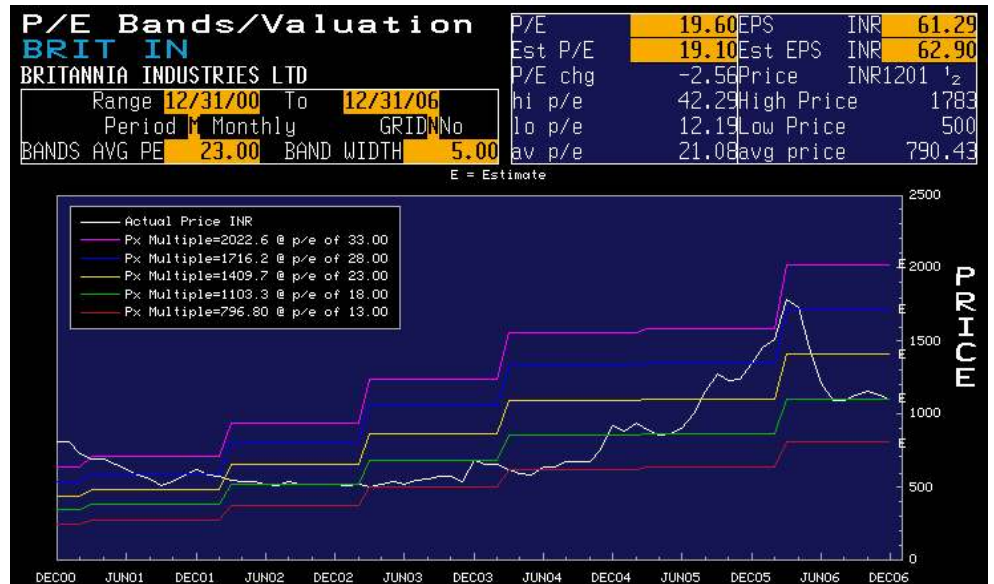
**Valuation**

The stock is trading currently at P/E of 18.71x FY08E and 12.46x FY09E and M Cap/Sales of 1.15 and 0.99 for the same period. This is after considering the additional growth prospects as a result of capacity additions. Moreover, it has been trading at an average PE of 23x since 2000.

Despite the risk factors BIL have achieved a growth of 25 per cent for the 9 months ended December06. We expect the revenue to grow at 23 per cent for FY07. However, reduced margins will shrink PAT by over 20 per cent and EPS by over 30 per cent in the current year. This dip might see a correction in the stock price but will not be substantial. We expect the revenue to grow at 17 per cent and 16 per cent in FY08 and FY09 as a result of increased capacity additions. This coupled with stable raw material prices will lead to a jump in EPS by 45 per cent and 33 per cent respectively for the same period.

Particulars	Mar 04	Mar 05	Mar 06	Mar 07E	Mar 08E	Mar 09E
EPS	45.67	62.27	61.29	43.20	63.65	95.55
P/E	13.68	14.19	29.10	27.57	18.71	12.46
P/B	3.46	4.76	7.76	4.95	4.57	4.29

## PE Band



## Quarterly Financials

Profit and Loss Account (Rs Mn)	9 mths ended Dec2005	9 mths ended Dec2006	% Change
Gross Sales	13,389.00	16,876.00	26.04
Excise Duty (Net)	207.00	878.00	324.15
Net Sales	13,182.00	15,998.00	21.36
Other Income	95.00	196.00	106.32
Total Income	13,277.00	16,194.00	21.97
<b>EXPENDITURE</b>			
Consumption of Materials	7,299.00	10,313.00	41.29
% of net sales	55.37	64.46	
Salaries, Wages, Bonus, Commission etc	534.00	539.00	0.94
% of net sales	4.05	3.37	
Other Expenses	3,582.00	4,271.00	19.24
% of net sales	27.17	26.70	
Total Expenses	11,415.00	15,123.00	32.48
% of net sales	259.71	283.41	
EBIDTA	1,862.00	1,071.00	(42.48)
% of net sales	14.13	6.69	
Depreciation & Amortization	160.00	186.00	16.25
EBIT	1,702.00	885.00	(48.00)
% of net sales	12.91	5.53	
Interest	28.00	46.00	
PBT	1,674.00	839.00	(49.88)
% of net sales	38.13	16.10	
Taxes	488.00	74.00	(84.84)
PAT	1,186.00	765.00	(35.50)
% of net sales	26.96	14.63	
Exceptional items		86.00	
PAT after exceptional items	1,186.00	679.00	(42.75)
% of net sales	27.04	13.02	
Equity Capital	23.90	23.90	
Diluted EPS - before exceptional items	49.62	28.41	
Diluted EPS - after exceptional items	49.62	32.01	

## Financials

P&L (Rs Mn)	Mar 06	Mar 07A	Mar 08E	Mar 09E
Gross Sales	18,179.21	22,501.33	26,326.56	30,538.81
Excise Duty (Net)	1,045.83	1,305.00	1,546.00	1,699.00
Net Sales	17,133.38	21,196.33	24,780.56	28,839.81
Other Income	216.85	241.00	120.00	189.00
Total Income	17,350.23	21,437.33	24,900.56	29,028.81
<b>EXPENDITURE</b>				
Raw Materials Consumed	10,049.61	13,938.00	15,434.00	17,810.00
Employee Expenditure	730.66	724.00	1,010.00	1,109.00
Other Expenses	4,374.31	5,163.00	5,925.00	6,510.00
Total Expenses	15,154.58	19,825.00	22,369.00	25,429.00
EBIDTA	2,195.66	1,612.33	2,531.56	3,599.81
Depre. & Amortization	217.23	249.00	280.00	376.00
EBIT	1,978.43	1,363.33	2,251.56	3,223.81
Interest	20.06	29.40	31.00	76.00
PBT	1,958.36	1,333.93	2,220.56	3,147.81
Taxes	542.86	250.00	480.00	667.00
PAT	1,415.50	1,083.93	1,740.56	2,480.81
Exceptional items	(48.77)	52.00	220.00	198.00
PAT after EI	1,464.26	1,031.93	1,520.56	2,282.81
<b>Ratios</b>				
Diluted EPS - before EI	59.25	45.37	72.86	103.84
Diluted EPS - after EI	61.29	43.20	63.65	95.55
Cash EPS	70.38	53.62	75.37	111.29
EBIDTA	12.82	7.61	10.22	12.48
EBIT	11.55	6.43	9.09	11.18
PAT - before EI	8.26	5.11	7.02	8.60
PAT - after EI	8.55	4.87	6.14	7.92
RoE - after EI	26.67	17.95	24.41	34.38
Before EI	25.78	18.85	27.94	37.36
RoCE	35.43	23.12	35.30	47.55
Debt / Equity	0.02	0.03	0.02	0.02
Current Ratio	1.11	1.10	1.05	1.10
Asset Turnover	5.43	5.90	6.36	6.86
Debtors Ratio	4.44	3.41	4.43	5.05
EV/EBIDTA	19.44	17.63	11.18	7.85
EV/Sales	2.49	1.34	1.14	0.98
Market Cap/Sales	2.49	1.34	1.15	0.99

Balance Sheet (Rs Mn)	Mar 06	Mar 07A	Mar 08E	Mar 09E
<b>SOURCE OF FUNDS</b>				
<b>Shareholders' Funds</b>				
Capital	238.90	239.00	239.00	239.00
Reserves and Surplus	5,251.99	5,510.00	5,990.00	6,401.00
Total Shareholders' Funds	5,490.90	5,749.00	6,229.00	6,640.00
<b>Loan Funds</b>				
Secured	16.20	28.00	25.00	19.00
Unsecured	77.38	120.00	125.00	121.00
	93.58	148.00	150.00	140.00
Capital Employed	5,584.48	5,897.00	6,379.00	6,780.00
Deferred Tax Liability	16.91	28.00	26.00	20.00
	5,601.39	5,925.00	6,405.00	6,800.00
<b>APPLICATION OF FUNDS</b>				
<b>Fixed Assets</b>				
Gross Block	3,153.67	3,590.00	3,899.00	4,201.00
Less: Depre. & Amortization	1,748.06	2,045.00	2,222.00	2,393.00
Net Block	1,405.60	1,545.00	1,677.00	1,808.00
Capital Work-in-Progress	110.78	124.00	205.00	190.00
	1,516.39	1,669.00	1,882.00	1,998.00
Investments	3,598.64	3,701.00	4,010.00	4,000.00
Deferred Tax Assets				
<b>Current Assets, Loans and Advances</b>				
Inventories	1,847.96	2,011.00	2,205.00	2,359.00
Sundry Debtors	208.52	198.00	301.00	399.00
Cash and Bank Balances	353.40	491.00	494.00	753.00
Other Current Assets	5.56	5.00	4.00	10.00
Loans and Advances	940.65	890.00	969.00	911.00
	3,356.08	3,595.00	3,973.00	4,432.00
<b>Less:</b>				
<b>CURRENT LIABILITIES AND PROVISIONS</b>				
Liabilities	2,247.01	2,591.00	3,010.00	3,211.00
Provisions	783.31	690.00	761.00	810.00
	3,030.32	3,281.00	3,771.00	4,021.00
Net Current Assets	325.76	314.00	202.00	411.00
Misc. Expenditure (written off)	60.61	241.00	311.00	391.00
	5,601.39	5,925.00	6,405.00	6,800.00

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