

Britannia Business Insights

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Britannia

- Buy commodities and sell brands
- From Biscuits to ‘Total Foods Company’
- Disproportionate growth
 - Compounded Sales Growth 5 years: 14%
 - Compounded Profit Growth 5 years: 41%
- Return on Equity 5 years: 46%
- Working Capital minimal/negative, Capital Turns >3x, Operating Margin consistent improvement, almost Debt free
- Market Cap: ~33K cr
- P/E (TTM) : 40

Major Portfolio (Biscuits/Cookies)

- Premiumization wave
- Constitute 75-80% of topline in FY 16
- Established brands
- Market leader position (~28%)
 - Wafer thin 100 basis point lead over Parle currently
- Market size: INR 26,000 cr. Expected to grow at ~14% CAGR.
- Long runway
 - India per capita consumption: 2 kg
 - North America and Japan consumption: 7.5-10.0 kg
- Unorganized: 40%

Portfolio Expansion (Future Growth Driver)

- **Dairy**

- Constitute 5% of topline in FY16 (opportunity !!!)
- Cheese (slices, cubes, block, spreadz), Dairy Fresh (dahi, flavored yoghurt, milk), Accompaniments (butter, ghee, dairy whitener)
- Organized dairy industry market size: INR 85,000 cr. Growing 22% annually. **Unorganized ~80%**.
- Looking to start fully integrated supply chain (i.e. from sourcing milk to processing, selling and marketing) in a phased approach.

What's Special?

- Strong brand equity
 - More-than-a-century old brand.
- Premiumization strategy
 - Focus on much bigger play at premium end
- Pulse of Indian consumer
 - Better products while remaining value conscious (Indian consumer today is looking more-for-less).
- New mega factories
 - Setting a lot efficient new mega factories to change outsourced v/s in-house ratio
- Varun Berry (jockey)
 - MD Britannia has re-energized the co. and is making a huge difference. Ex-PepsiCo.

Why will continue to do well?

- **Consumption Growth:**
 - OROP, 7th pay commission hikes, increasing income, rising urbanization and growing work force.
- **Distribution Expansion:**
 - Reached 3.6million outlets. Market is almost 6.7million outlets.
- **Premiumization Wave:**
 - Trend just started. Expected to continue at a healthy pace for next 2-3 years.
- **Cost effectiveness:**
 - Scale in operations, technology interventions, complexity and wastage reduction to bring in cost effectiveness.
- 900 cr investment planned (70% in greenfield projects) in near term.

Risks

- Rise in commodity price could impact gross margin
- Patanjali threat
- Stagnation in category growth (if any) and adjacent category business takes time to pickup
- Negative observations by India's Food safety administration and/or CSE could hurt business/product sentiments.
- Increase in competitive pressures from large MNCs, particularly Mondelez (Oreo)
- Inter-corporate deposits

Perception GAP?

- Richly valued
- Lot of froth has been shaved off
 - Has corrected from 65 P/E to 40 P/E (TTM) currently
 - Had touched 35 P/E (TTM) recently
- Market focused on near term
 - Rise in commodity price
 - Lag in demand pickup