

Britannia Industries

Continues to emphasise on volume over margins

Britannia 2QFY25 results were significantly below our estimates as company disappointed on volume growth front. Volume growth came in at 8% vs our expectation of 10%, as growth in urban areas slowed down significantly. Management attributed slowdown in urban areas to following factors – a) steep hike in housing cost/rentals; b) sharp increase in daily household essentials; and c) muted income growth for non-salaried, even lower than CPI. Moreover, higher RM and manpower costs (done with an intention to increase distribution of adjacent products) added fuel to the fire. Management hinted at following action plan to recoup margins as well as sustain current volume growth momentum – a) intends to take grammage reduction in low unit packs and 2) plans to take price hikes in large packs. Incrementally, EBITDA margins are expected to remain in the range of 18-19%.

- 2QFY25 results summary:** Britannia's volume growth of 8% YoY came below our expectations of 10% volume growth. Gross margin contracted 185bps yoy to 40% in 2QFY25 owing to inflationary raw material prices in key RM i.e wheat, cocoa and palm oil. Similarly, Ebitda margin saw a contraction of 281 bps YoY to 17% owing to GM pressure along with a spike in employee costs. Adjusted PAT growth was below our estimates (down 10% YoY) owing to lower than expected other income. **The outlook going forward: Management stated aspiration is still achieving double-digit volume growth from here onwards, with operating margin hovering around 19%.**
- Valuation and outlook:** We expect Britannia's biscuits portfolio to deliver mid to high single-digit volume growth (6% volume CAGR over FY14-24) in the medium term, courtesy (a) formalisation being visible in the foods segment, given a high share of the unorganised market; (b) ramping up of its distribution network in focus states (predominantly Hindi heart belt), currently under-indexed; (c) focus on innovation and premiumization; (d) prioritising of in-house manufacturing (65% of sales), which improves product quality and reduces distance travelled, which helps bring down market returns; (e) increasing consumer preference for INR 10 SKU vs INR 5 SKU, as the former helps to satiate one's appetite. The cherry on the cake is that the management realises there might be not enough growth coming from the well-penetrated biscuits category once it has covered gaps in distribution. As a result, it has started its transition from being a 'biscuits and bakery' company to a 'food' company via (a) emphasis on launching value-added products and customisation in traditional and highly competitive categories (bread, cake rusk); (b) tying with strategic partners (Bel SA– cheese, croissant – Chipita) in areas where it lacks strategic acumen; and (c) leveraging its distribution network for incubating high-potential fast-growing categories (wafers, healthy snacks, etc.). We cut our EPS estimates by 6-7% for FY25-26 to account for lower than expected 1HFY25 performance and maintain an ADD rating with a TP of INR 5,650 (50x Dec-26 EPS) and recommend that investors with a long-term bias should accumulate the stock on every dip, given solid historical track record (revenue/EBITDA and PAT CAGR of 9/18/18% respectively over the last decade).

Quarterly/annual financial summary

(INR mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Sales	45,662	43,705	4.5	41,299	10.6	1,65,462	1,75,924	1,93,306	2,11,902
EBITDA	7,834	8,724	(10.2)	7,537	3.9	31,698	32,299	36,426	40,536
APAT	5,316	5,876	(9.5)	5,303	0.2	21,427	22,082	25,232	28,316
Diluted EPS (Rs)	22.1	24.4	(9.5)	22.0	0.2	88.6	91.3	104.3	117.1
P/E (x)						61.3	59.5	52.1	46.4
EV/EBITDA (x)						41.3	40.4	35.7	32.0
Core RoCE (%)						233.0	180.3	176.0	178.4

Source: Company, HSIE Research

ADD

CMP (as on 12 Nov 2024)	INR 5,028
Target Price	INR 5,650
NIFTY	23,883

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 5,750	INR 5,650
	FY25E	FY26E
EPS %	-7.0%	-7.0%

KEY STOCK DATA

Bloomberg code	BRIT IN
No. of Shares (mn)	241
MCap (INR bn) / (\$ mn)	1,211/14,349
6m avg traded value (INR mn)	1,884
52 Week high / low	INR 6,473/4,626

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.9)	(0.8)	7.5
Relative (%)	(9.7)	(9.0)	(13.1)

SHAREHOLDING PATTERN (%)

	Jun-24	Sep-24
Promoters	50.55	50.55
FIs & Local MFs	16.82	16.37
FPIs	17.41	17.90
Public & Others	15.23	15.18
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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2QFY25 Con-call takeaways:

Biscuits (70% of Sales):

- Volume growth came in at 8% vs expectation of 10%
- However, management expects moderation in volume growth going ahead due to steep hike in RM costs. Management hinted at following action plan to recoup margins as well as sustain current volume growth momentum – a) intends to take grammage reduction in Low unit packs and 2) plans to take price hikes in large packs.
- Although commodity costs (wheat flour, palm oil, sugar, packaging materials) continue to be inflationary, management is taking tactical covers to mitigate elevated costs

Adjacencies Business (18% of Sales):

- Management stated adjacent businesses should grow at least 1.5x of base biscuits business going forward due to a strong and wide product portfolio, expanding distribution reach across markets (specifically in rural markets), media support, and launching new products with relevant SKUs. Moreover, during 2QFY25, the adjacent products portfolio delivered strong performance categories such as milkshakes, wafers, and croissants.
- **Cake (35% market share):** Continued its growth momentum on the back of Innovations and new variants.
- **Rusk (<5% of total sales, 23-24% market share in our view):** Healthy volume and value growth continued through efforts in rebranding, distribution expansion, region-specific product launches (butter rusk in East and milk rusk in Kerala), adding new capacity (recently, BRIT has commissioned new line in UP plant) and competitive pricing (earlier it seems to be premium).
- **Bread:** Business was driven by healthy growth in the Health and variety segment; however, focus remains on driving profitable growth as bread business margins are far lower than the company average of 19-20%
- **Wafers:** Reported consistent growth on the back of strong distribution.
- **Dairy business:**
 1. Annual business is around Rs c7 bn, out of which a meaningful share comes from Drinks (Rs 2.2 bn) and Cheese (Rs 2.5bn)
 2. Cheese - Leveraging in-house capabilities to stay competitive and augment growth.
 3. Drinks – On a strong footing with healthy double-digit growth.

International: (6% of Sales)

- Continued to perform well on the back of healthy growths in Middle East & Africa, operating at healthy margins.

Innovation/new launches:

- NPD (products launched within the period of the last 24 months) contribution to overall sales, in our view, stood at c2% in 3QFY24.
- Jim-Jam Pops and Golmal 50-50 continue to witness strong growth on the back of distribution expansion
- During 2QFY25, Britannia launched a protein bar under the brand 'Believe in Yourself', targeting the growing niche market via e-commerce platforms.
- The company is running test markets to expand its snacking business, ensuring that it has the right distribution capacity in place.

Distribution:

- Total distribution network available for biscuits category – 9.3 mn outlets, out of which Britannia already reaches 6.7mn outlets (it has a direct reach of 2.85mn outlets – up 0.12 mn on a YoY basis)

- Management is redefining the distribution strategy to optimize product range and improve outlet servicing. The strategy has been successfully implemented in 25 cities, covering 50,000 outlets, and is yielding encouraging results.
- **RTM 2.0 (Route-to-market)** aims to scale up by leveraging high-potential outlets, upgrading technology, and upscaling the sales team to improve distribution depth. The plan will take 12-15 months to be rolled out across 450k outlets in 100 cities.
- Growth in focus states (1.9x) comprising of MP, RJ, UP and GJ was below management expectations as they plan to push this growth further.

Rural vs Urban:

- Rural continued to outpace urban growth and it should accelerate further owing to a favourable base, and a relatively normal monsoon.
- Urban had previously contributed immensely to growth; however, owing to a slowdown, the growth has been subdued slightly offset by rural pick-up.
- The management believes the urban demand has deteriorated owing to (1) high inflation in key household essentials (CFPI up 9.2%), (2) a steep increase in rentals (housing constitutes 22% of the urban CPI basket), and (3) the non-salaried urban workers' earnings increase stood at a mere 3.4% (51% of the urban workforce).

Others

- The company is opening three new factories in Uttarakhand, Uttar Pradesh, and Bihar (mainly targeting Northern region), and expanding the Ranjangaon plant. Capacity concerns are not an issue.
- It might take some price hikes in the Biscuits segment during the balance 9M of FY25, subject to RM inflation of 4-5%, which is coming back on account of the surge in the price of wheat, sugar and cocoa

Consolidated P&L

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	1,59,801	1,65,462	1,75,924	1,93,306	2,11,902
Growth (%)	14.6	3.5	6.3	9.9	9.6
Material Expenses	95,913	94,920	1,02,894	1,12,154	1,22,248
Employee Expense	6,584	7,087	7,867	8,653	9,519
Other Expenses	32,200	33,987	36,656	40,244	44,189
EBITDA	28,261	31,698	32,299	36,426	40,536
EBITDA Growth (%)	28.4	12.2	1.9	12.8	11.3
EBITDA Margin (%)	17.7	19.2	18.4	18.8	19.1
Depreciation	2,259	3,005	3,163	3,451	3,786
EBIT	26,002	28,694	29,137	32,975	36,750
Other Income	2,159	2,142	2,185	2,403	2,643
Interest	1,691	1,640	1,200	960	768
PBT	26,470	29,196	30,122	34,418	38,625
Tax	7,165	7,793	8,040	9,186	10,309
Profit from minority/associates	109	24	-	-	-
RPAT	23,170	21,398	22,082	25,232	28,316
Adjustment	3,756	(29)	-	-	-
Adjusted PAT	19,414	21,427	22,082	25,232	28,316
APAT Growth (%)	27.2	10.4	3.1	14.3	12.2
Adjusted EPS	80.6	88.6	91.3	104.3	117.1
EPS Growth (%)	27.2	9.9	3.1	14.3	12.2

Source: Company, HSIE Research

Consolidated Balance Sheet

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital - Equity	241	241	241	241	241
Reserves	35,102	39,174	43,591	48,637	54,300
Total Shareholders Funds	35,343	39,415	43,832	48,878	54,541
Minority Interest	302	245	245	245	245
Long Term Debt	15,518	9,047	9,047	9,047	9,047
Short Term Debt	14,287	11,365	4,378	4,378	4,378
Total Debt	29,805	20,412	13,425	13,425	13,425
Net Deferred Taxes	(554)	(419)	(419)	(419)	(419)
Other Non-current Liabilities & Provns	745	858	858	858	858
TOTAL SOURCES OF FUNDS	65,641	60,511	57,941	62,987	68,650
APPLICATION OF FUNDS					
Net Block	26,146	27,437	29,274	30,823	32,037
CWIP	1,050	1,875	1,875	1,875	1,875
Other Non Current Assets	8,016	6,716	6,716	6,716	6,716
Total Non-current Assets	35,212	36,028	37,865	39,414	40,628
Inventories	11,933	11,812	12,559	13,800	15,128
Debtors	3,289	3,933	4,182	4,595	5,037
Other Current Assets	12,251	11,313	11,313	11,313	11,313
Cash & Equivalents	30,271	27,211	22,404	25,914	30,377
Total Current Assets	57,743	54,269	50,458	55,622	61,854
Creditors	14,488	16,275	16,869	18,536	20,319
Other Current Liabilities & Provns	12,825	13,511	13,513	13,513	13,513
Total Current Liabilities	27,313	29,786	30,382	32,049	33,832
Net Current Assets	30,430	24,484	20,076	23,573	28,022
TOTAL APPLICATION OF FUNDS	65,641	60,511	57,941	62,987	68,650

Source: Company, HSIE Research

Consolidated Cash Flow

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	30,274	29,167	30,122	34,418	38,625
Non-operating & EO Items	(4,129)	(256)	-	-	-
Interest Expenses	60	(148)	-	-	-
Depreciation	2,259	3,005	3,163	3,451	3,786
Working Capital Change	4,057	1,611	(401)	13	14
Tax Paid	(7,258)	(7,649)	(8,040)	(9,186)	(10,309)
OPERATING CASH FLOW (a)	25,262	25,730	24,843	28,695	32,115
Capex	(7,115)	(5,615)	(5,000)	(5,000)	(5,000)
Free Cash Flow (FCF)	18,148	20,115	19,843	23,695	27,115
Investments	(9,369)	8,302	-	-	-
Non-operating Income	1,313	2,068	-	-	-
INVESTING CASH FLOW (b)	(15,171)	4,755	(5,000)	(5,000)	(5,000)
Debt Issuance/(Repaid)	2,994	(10,275)	(6,985)	-	-
Interest Expenses	(1,957)	(1,643)	-	-	-
FCFE	9,054	42,402	26,828	23,695	27,115
Share Capital Issuance	-	-	-	-	-
Dividend	(13,592)	(17,325)	(17,666)	(20,185)	(22,653)
Others	2,271	938	-	-	-
FINANCING CASH FLOW (c)	(10,284)	(28,305)	(24,651)	(20,185)	(22,653)
NET CASH FLOW (a+b+c)	(192)	2,180	(4,807)	3,510	4,463
EO Items, Others	101	13	-	-	-
Closing Cash & Equivalents	1,002	3,194	(1,613)	1,897	6,360

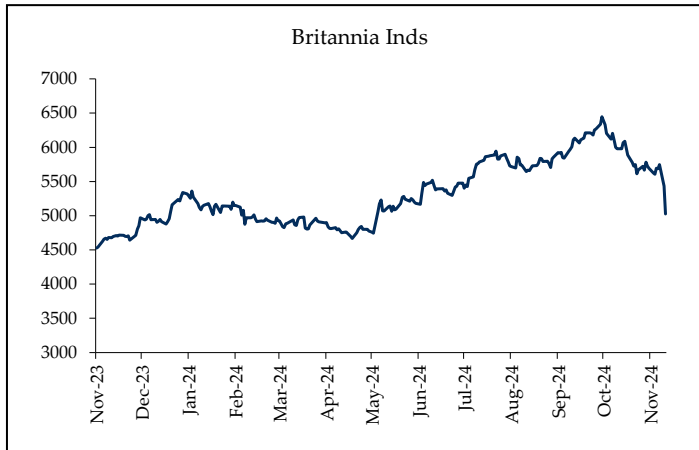
Source: Company, HSIE Research

Ratios

KEY RATIOS	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)					
GPM	40.0	42.6	41.5	42.0	42.3
EBITDA Margin	17.7	19.2	18.4	18.8	19.1
EBIT Margin	16.3	17.3	16.6	17.1	17.3
APAT Margin	12.1	12.9	12.6	13.1	13.4
RoE	63.7	57.3	53.1	54.4	54.8
RoIC (or Core RoCE)	179.1	233.0	180.3	176.0	178.4
RoCE	35.4	35.8	38.7	42.8	43.8
EFFICIENCY					
Tax Rate (%)	27.1	26.7	26.7	26.7	26.7
Fixed Asset Turnover (x)	4.0	3.8	3.6	3.6	3.6
Inventory (days)	27.3	26.1	26.1	26.1	26.1
Debtors (days)	7.5	8.7	8.7	8.7	8.7
Other Current Assets (days)	28.0	25.0	23.5	21.4	19.5
Payables (days)	33.1	35.9	35.0	35.0	35.0
Other Current Liab & Provnns (days)	29.3	29.8	28.0	25.5	23.3
Cash Conversion Cycle (days)	0.4	(6.0)	(4.8)	(4.4)	(4.1)
Net D/E (x)	(0.0)	(0.2)	(0.2)	(0.3)	(0.3)
Interest Coverage (x)	15.4	17.5	24.3	34.3	47.9
PER SHARE DATA (Rs)					
EPS	80.6	88.6	91.3	104.3	117.1
CEPS	90.0	101.0	104.4	118.6	132.7
Dividend	72.0	72.0	73.0	83.5	93.7
Book Value	146.7	163.0	181.2	202.1	225.5
VALUATION					
P/E (x)	67	61	60	52	46
P/BV (x)	37.0	33.3	30.0	26.9	24.1
EV/EBITDA (x)	46.3	41.3	40.4	35.7	32.0
EV/Revenues (x)	8.2	7.9	7.4	6.7	6.1
OCF/EV (%)	1.9	2.0	1.9	2.2	2.5
FCF/EV (%)	1.4	1.5	1.5	1.8	2.1
FCFE/Mkt Cap (%)	0.7	3.2	2.0	1.8	2.1
Dividend Yield (%)	1.3	1.3	1.3	1.5	1.7

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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