

Britannia Faces Headwinds; Downgrade to HOLD
Est. Vs. Actual for Q2FY25: Revenue – **MISS**; EBITDA – **MISS**; PAT – **MISS**
Changes in Estimates post Q2FY25
FY25E/FY6E: Revenue: -5%/-5%; **EBITDA:** -13%/-13%; **PAT:** -13%/-13%

Recommendation Rationale

- **Subdued Performance:** Britannia's Q2FY25 results were lacklustre, with revenue falling short of expectations due to a weak demand environment. Consol. revenue grew by 4.5% YoY (versus our estimate of 6.8% YoY), driven by volume growth of 8% YoY. Rural markets grew at 2x the pace of urban markets.
- **Margin pressure amid rising commodity costs:** Gross margins declined by 184 bps YoY to 40.2%, impacted by inflation in key commodity prices (wheat, palm oil, cocoa). As a result, EBITDA margins fell by 290 bps to 16.8%, further pressured by higher employee costs. Management plans to implement price hikes of 4-5% in key SKUs during H2FY25.
- **Near-term outlook remains tepid:** Challenges persist in the near term due to several factors: 1) a subdued demand environment, 2) underperformance in urban markets, particularly metros and large cities due to rising housing costs and modest wage growth, 3) steep commodity inflation, especially in palm oil and other key raw materials, and 4) rising competition. We believe Britannia's near-term challenges are likely to weigh on topline growth and margins, leading to our expectation that the stock will remain range-bound.

Sector Outlook: Cautious
Company Outlook & Guidance: As the near-term outlook remains tepid, we downgrade the stock to HOLD.

Current Valuation: 50xSep-26 EPS (Earlier Valuation: No change).

Current TP: Rs 5,000/share (Earlier TP: Rs 6,350/share).

Recommendation: With a downside of 1% from the CMP, we **downgrade the stock from BUY to HOLD**
Financial Performance

Revenue grew by 4.5% YoY, reaching Rs 4,566 Cr, driven by high single-digit volume growth (~8% YoY). Gross margins declined by 184 bps to 40.2% due to a steep rise in key commodity prices (wheat, palm oil, cocoa). EBITDA margins stood at 16.8%, down by 290 bps, impacted by gross margin contraction and higher employee costs. Adjusted PAT was Rs 532 Cr, a decline of ~10% YoY.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	4,566	10.6	4.5	4,668	(2.2)
EBITDA	783	3.9	(10.2)	905	(13.4)
EBITDA Margin (%)	16.8	-95 bps	-290 bps	19.1	-235 bps
Net Profit	532	5.1	(9.5)	629	(15.5)
EPS (Rs)	22.1	5.1	(9.5)	26.1	(15.5)

Source: Company, Axis Research

 (CMP as of 12th November 2024)

CMP (Rs)	5028
Upside /Downside (%)	-1%
High/Low (Rs)	6473/4628
Market cap (Cr)	121114
Avg. daily vol.(6m)Shrs '000.	345
No. of shares (Cr)	24

Shareholding (%)

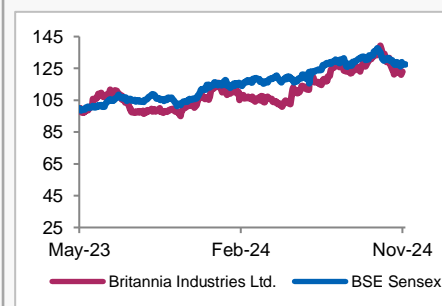
	Mar-24	Jun-24	Sep-24
Promoter	50.6	50.6	50.6
FIIs	19.0	18.2	17.4
MFs / UTI	5.4	6.5	7.1
FIs/ Banks	0.1	0.1	0.1
Others	24.9	24.7	24.8

Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	17,567	19,597	21,919
EBITDA	3,080	3,499	3,916
Net Profit	2,129	2,467	2,804
EPS (Rs.)	88.6	102.6	116.7
PER (x)	56.7	49.0	43.1
EV/EBITDA (x)	39.0	34.1	30.1
P/BV (x)	26.8	22.3	18.2
ROE (%)	47.2	45.6	42.1

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	(5)	(5)
EBITDA	(13)	(13)
PAT	(13)	(13)

Relative performance


Source: Ace Equity, Axis Securities

Preeyam Tolia

 Research Analyst
 email: preeyam.tolia@axissecurities.in

Suhanee Shome

 Research Associate
 email: suhanee.shome@axissecurities.in

Outlook

Near-term challenges persist due to several factors: 1) a subdued demand environment, 2) underperformance in urban markets, particularly in metros and large cities due to rising housing costs and modest wage growth, 3) steep commodity inflation, especially in palm oil and other key raw materials, and 4) rising competition. We believe these near-term headwinds are likely to weigh on Britannia's topline growth and margins. Consequently, we expect the stock to remain range-bound due to these challenges, leading us to downgrade the stock to HOLD.

Valuation & Recommendation

Based on the above thesis, we estimate Revenue/EBITDA/PAT CAGR of 10%/7%/9% over FY24-27. With a downside of 1% from the CMP, we **downgrade the stock from BUY to HOLD** with a revised TP of Rs 5,000/share.

Other Key Takeaways

- **RTM 2.0 – A smarter distribution model**

The RTM 2.0 strategy focuses on high-potential outlets by refining the distribution model. Previously, the company employed a broad geographical approach, which often resulted in resource inefficiencies at smaller outlets with limited buying power. The new strategy segments the market into ten categories, prioritizing the top 10% of outlets that generate the majority of revenue. These high-performing stores will receive more frequent and customized service, while smaller outlets will receive less intensive attention. Pilots conducted in 25 cities and covering 50,000 outlets in Q2FY25 have shown promising results. Management indicated plans to expand this model to 450,000 outlets across 100 cities over the coming years, aiming to capture 85% of its target market in the long term.

- **New Innovations:** During Q2FY25, the company launched Milk Bikis Wafer Rolls and Layer Cake-Jam & Cream to strengthen its position in adjacent categories. Additionally, it introduced Tiger Coconut and Golmaal Butter. The company is building a strong innovation pipeline to cater to regional preferences and drive premiumization.
- **Adjacent Categories:** The company's adjacent businesses continue to thrive, driven by innovation and strategic positioning. Cake sales have surged due to new variants, while Rusk has experienced solid volume and value growth. Wafers show steady growth supported by robust distribution, and in-house capabilities enhance competitiveness in the Cheese category. Drinks are on a strong growth trajectory with healthy double-digit performance.
- **International Business:** The company's international business remains robust, supported by healthy growth in the Middle East and Africa, operating at strong margins.
- **Raw material:** Key commodities such as wheat, palm oil, and cocoa experienced a significant rise in prices. High inflation in palm oil was mainly driven by the impact of the 22% increase in customs duty effective from September 14, 2024. Inflation was also observed in laminates and corrugated boxes. To counter this, the company implemented targeted price actions across specific channels and brands.
- **Distribution reach:** The company's direct distribution reach expanded to 2.85 Mn outlets, up from 2.79 Mn outlets in Q2FY25. Rural distribution reach included 30,000 distributors.

Key Risks to Our Estimates and TP

- Increase in competitive intensity; Prolonged demand recovery; RM inflation

Change in Estimates

	Old		Revised		Change (%)	
	FY25	FY26	FY25	FY26	FY25	FY26
Revenue	18,435	20,583	17,567	19,597	(5)	(5)
EBITDA	3,531	4,022	3,080	3,499	(13)	(13)
PAT	2,460	2,851	2,129	2,467	(13)	(13)
EPS	102	119	89	103	(13)	(13)

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q2FY24	Q1FY25	Axis Sec Est.	Q2FY25	YoY growth %	QoQ growth (%)	Axis Sec Var (%)
Volume growth (% YoY)	0.2	7.0	9.0	8.0		14.3	
Price growth (%YoY)	0.6	(3.0)	(2.0)	(3.5)		18.6	
Net Sales	4,370	4,130	4,668	4,566	4.5	10.6	(2.2)
Gross Profits	62	120	61	101	62.4	(15.8)	67.4
Gross Margin (%)	1,839	1,725	1,934	1,837	(0.1)	6.5	(5.0)
Staff costs	42.1	41.8	41.4	40.2	-184 bps	-153 bps	-120 bps
Other operating expenses	160	202	177	232	45.3	15.0	30.9
EBITDA	869	889	912	922	6.2	3.7	1.1
EBITDA margin (%)	872	754	905	783	(10.2)	3.9	(13.4)
Depreciation	19.7	17.7	19.1	16.8	-290 bps	-95 bps	-235 bps
EBIT	-72	-74	-78	-76	6.1	2.9	(2.0)
Interest	801	680	827	707	(11.7)	4.1	(14.5)
Other Income	-53	-29	-32	-35	(35.2)	19.7	8.8
PBT	52	56	55	46	(12.1)	(17.3)	(16.3)
Tax rate (%)	800	706	850	719	(10.1)	1.7	(15.5)
Adj. PAT	26.5	24.9	26.0	25.5	-98 bps	60 bps	-45 bps
EPS	588	506	629	532	(9.5)	5.1	(15.5)

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Net sales	16,546	17,567	19,597	21,919
Growth, %	4	6	12	12
Other operating income	223	241	260	281
Total income	16,769	17,808	19,857	22,200
Raw material expenses	(9,492)	(10,251)	(11,379)	(12,745)
Employee expenses	(709)	(794)	(873)	(960)
Other Operating expenses	(3,399)	(3,683)	(4,106)	(4,578)
EBITDA (Core)	3,170	3,080	3,499	3,916
Growth, %	12	(3)	14	12
Margin, %	19	18	18	18
Depreciation	(300)	(296)	(315)	(335)
EBIT	2,869	2,784	3,183	3,582
Growth, %	10	(3)	14	13
Margin, %	17	16	16	16
Interest paid	(164)	(115)	(92)	(73)
Other Income	214	236	273	317
Pre-tax profit	2,913	2,905	3,365	3,825
Tax provided	(779)	(775)	(898)	(1,021)
Profit after tax	2,134	2,129	2,467	2,804
Others (Minorities, Associates)	6	-	-	-
Net Profit	2,140	2,129	2,467	2,804
Growth, %	10	(1)	16	14
Net Profit (adjusted)	2,143	2,129	2,467	2,804
Unadj. shares (Cr)	24	24	24	24
Wtdavg shares (Cr)	24	24	24	24

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Cash & bank	446	1,013	1,939	3,223
Marketable securities at cost	1,697	1,697	1,697	1,697
Debtors	393	418	466	521
Inventory	1,181	1,254	1,399	1,565
Loans & advances	460	460	460	460
Other current assets	671	671	671	671
Total current assets	4,849	5,512	6,632	8,137
Investments	1,070	1,070	1,070	1,070
Gross fixed assets	4,558	4,858	5,158	5,458
Less: Depreciation	(1,787)	(2,083)	(2,398)	(2,733)
Add: Capital WIP	188	188	188	188
Net fixed assets	2,959	2,963	2,948	2,913
Non-current assets	152	152	152	152
Total assets	9,074	9,741	10,846	12,316
Current liabilities	4,084	4,185	4,384	4,613
Provisions	31	31	31	31
Total current liabilities	4,115	4,215	4,415	4,643
Non-current liabilities	993	993	993	993
Total liabilities	5,108	5,208	5,408	5,636
Paid-up capital	24	24	24	24
Reserves & surplus	3,917	4,485	5,389	6,631
Shareholders' equity	3,966	4,533	5,438	6,680
Total equity & liabilities	9,074	9,741	10,846	12,316

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar, Rs Cr	FY24	FY25E	FY26E	FY27E
Pre-tax profit	2,913	2,905	3,365	3,825
Depreciation	300	296	315	335
Chg in working capital	122	3	6	7
Total tax paid	(766)	(775)	(898)	(1,021)
Other operating activities	-	-	-	-
Cash flow from operating activities	2,570	2,428	2,788	3,146
Capital expenditure	(499)	(300)	(300)	(300)
Chg in investments	453	-	-	-
Chg in marketable securities	104	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing activities	55	(300)	(300)	(300)
Free cash flow	2,625	2,128	2,488	2,846
Equity raised/(repaid)	3	-	-	0
Debt raised/(repaid)	(647)	-	-	-
Dividend (incl. tax)	(1,770)	(1,562)	(1,562)	(1,562)
Other financing activities	-	-	-	-
Cash flow from financing activities	(2,414)	(1,562)	(1,562)	(1,562)
Net chg in cash	211	566	926	1,284
Opening cash balance	198	446	1,013	1,939
Closing cash balance	446	1,013	1,939	3,223

Source: Company, Axis Securities

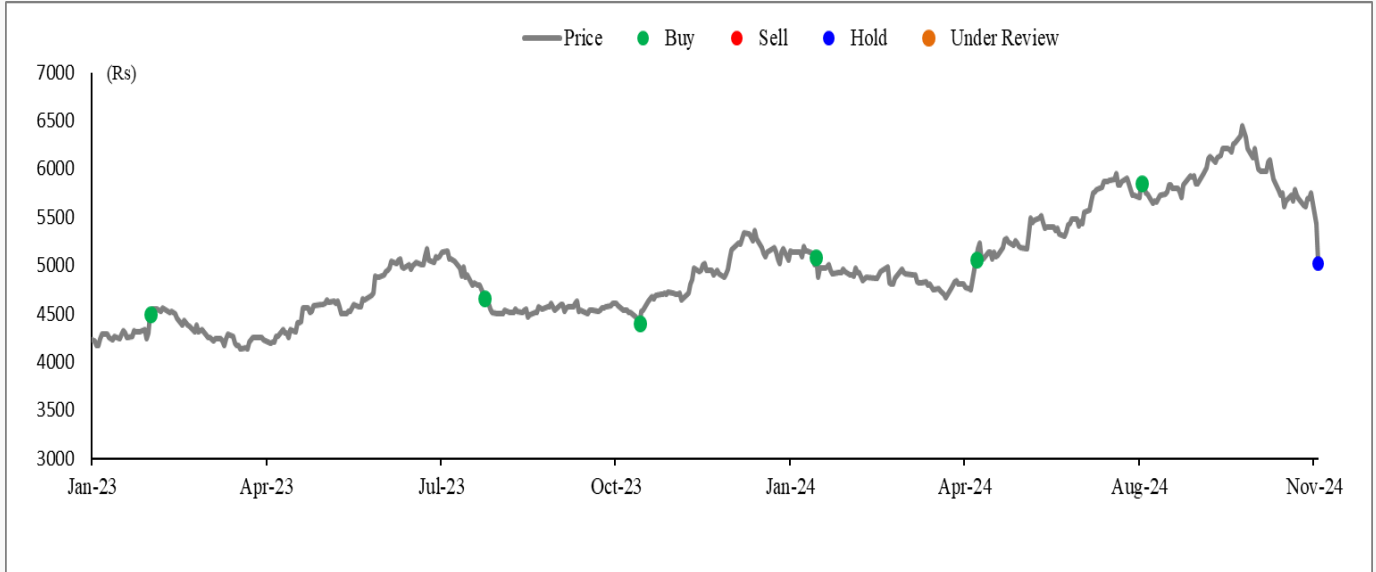
Ratio Analysis

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Per Share data				
EPS (INR)	89.2	88.6	102.6	116.7
Growth, %	10.1	(0.6)	15.8	13.7
Book NAV/share (INR)	164.0	187.6	225.3	276.9
FDEPS (INR)	89.2	88.6	102.6	116.7
CEPS (INR)	101.8	100.9	115.8	130.6
CFPS (INR)	105.6	91.2	104.7	117.7
DPS (INR)	73.7	65.0	65.0	65.0
Return ratios				
Return on assets (%)	24.9	23.9	24.9	24.8
Return on equity (%)	54.4	47.2	45.6	42.1
Return on capital employed (%)	45.0	42.6	42.6	40.6
Turnover ratios				
Asset turnover (x)	6.2	6.7	7.5	8.5
Sales/Total assets (x)	1.8	1.9	1.9	1.9
Sales/Net FA (x)	5.8	5.9	6.6	7.5
Receivable days	8.7	8.7	8.7	8.7
Inventory days	26.1	26.1	26.1	26.1
Payable days	43.7	42.8	43.0	43.0
Working capital days	(30.4)	(28.7)	(25.9)	(23.2)
Liquidity ratios				
Current ratio (x)	1.2	1.3	1.5	1.8
Quick ratio (x)	0.9	1.0	1.2	1.4
Interest cover (x)	17.5	24.3	34.7	48.7
Total debt/Equity (%)	0.5	0.5	0.4	0.3
Net debt/Equity (%)	(0.2)	(0.3)	(0.4)	(0.5)
Valuation				
PER (x)	56.4	56.7	49.0	43.1
PEG (x) - y-o-y growth	5.6	(91.5)	3.1	3.1
Price/Book (x)	30.7	26.8	22.3	18.2
EV/Net sales (x)	7.3	6.8	6.1	5.4
EV/EBITDA (x)	38.1	39.0	34.1	30.1
EV/EBIT (x)	42.1	43.2	37.4	32.9

Source: Company, Axis Securities

Britannia Industries Price Chart and Recommendation History



Date	Reco	TP	Research
02-Feb-23	BUY	5,100	Result Update
05-May-23	BUY	5,300	Result Update
07-Aug-23	BUY	5,110	Result Update
02-Nov-23	BUY	5,150	Result Update
08-Feb-24	BUY	5,800	Result Update
07-May-24	BUY	5,800	Result Update
06-Aug-24	BUY	6,350	Result Update
13-Nov-24	HOLD	5,000	Result Update

Source: Axis Securities

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Compliance Officer Details: Name – Mr. Maneesh Mathew, Tel No. – 022-68555574, Email id – compliance.officer@axisdirect.in;

Registered Office Address – Axis Securities Limited, Unit No.002, Building- A, Agastya Corporate Park, Piramal Realty, Kamani Junction, Kurla (W), Mumbai – 400070.

Administrative office address: Axis Securities Limited, Aurum Q Parc, Q2 Building, Unit No. 1001, 10th Floor, Level – 6, Plot No. 4/1 TTC, Thane – Belapur Road, Ghansoli, Navi Mumbai, Pin Code – 400710.

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