



## Long-Term Story Remains Intact; Maintain BUY

Est. Vs. Actual for Q1FY24: Revenue – **MISS**; EBITDA – **MISS**; PAT – **MISS**

### Changes in Estimates post Q1FY24

FY24E/FY25E: Revenue: -3%/-3%; EBITDA: -9%/-10%; PAT: -10%/-10%

### Recommendation Rationale

- BRIT Q1FY24 Results were below our estimates on account of flat volume growth and lower-than-expected gross and EBITDA margins expansion. Moreover, competition intensified amidst the lower raw material prices. However, the management has guided volume recovery in FY24 on account of rural expansion, increase grammage, and price cuts. EBITDA margins are likely to remain at the current level and the management does not expect meaningful recovery owing to price cuts along with higher ad-spends and increased start-up costs on account of continued capacity expansion in the company's existing plants (Ranjangaon – Dairy expansion, Bihar and Orissa)
- Though Q1FY24 results were below our estimates, we believe the worst is behind for the company as 1) Raw material prices of palm and packaging costs are in a downward trajectory (though they are still firm for wheat and sugar prices), 2) Rural-led distribution expansion and focused approached in Hindi belt region is expected to help the company gain market share, and 3) Rural revival is expected in the coming quarters, supporting recovery. Moreover, BRIT's long-term prospects remain strong as the management has a proven execution track record, robust portfolio planning through NPD in core and adjacencies, and a focus on continued distribution expansion in direct as well as rural markets.

### Sector Outlook: Positive

**Company Outlook & Guidance:** We maintain our **BUY** rating on the stock as long term story remains intact

**Current Valuation:** 48x June-25 EPS (Earlier Valuation: 47x FY25 EPS).

**Current TP:** Rs 5,110/share (Earlier TP: Rs 5,300/share).

**Recommendation:** With an upside potential of 10% from the CMP, we maintain our **BUY** rating on the stock.

**Alternative BUY Ideas from our Sector Coverage:** [HUL \(TP – Rs 2,960\)](#); [Nestle \(TP – Rs 24,600\)](#); [VBL \(TP – Rs 920\)](#)

**Outlook:** We expect Britannia to deliver market-leading growth from here on as 1) Raw material prices, while still firm, have or will stabilize at the current levels, 2) Rural continues to remain stronger for Britannia (due to the company's robust distribution expansion strategy in these regions) while other FMCG companies continue to struggle in this section. Furthermore, the rural revival is expected to recover the overall FMCG sector in FY24, which will be supported by higher government spending and increased urban remittances. BRIT's own initiatives such as robust portfolio planning through NPD in core and adjacencies along with its continued focus on increasing direct reach, rural penetration, and a share of in-house manufacturing would help it improve its overall efficiency moving ahead. We believe that this will make BRIT stronger in the longer run.

**Valuation & Recommendation:** Based on the above thesis, we estimate Revenue/EBITDA/PAT CAGR of 11%/12%/13% over FY23-26E and maintain our **BUY** rating on the stock with a revised TP to Rs 5,110/share vs. the TP of Rs 5,300/share earlier. The revised TP implies an **upside of 10% from the CMP**.

### Key Financials (Consolidated)

(Rs Cr)	1QFY24	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	3,970	2.0	8.6	4,066	(2.4)
EBITDA	689	(14.0)	37.6	734	(6.1)
EBITDA Margin (%)	17.2	-273 bps	365 bps	17.8	-58 bps
Net Profit	458	(18.1)	35.6	509	(10.1)
EPS (Rs)	19.0	(18.1)	35.6	21.2	(10.4)

Source: Company, Axis Research

(CMP as of 07<sup>th</sup> Aug'23)

CMP (Rs)	4659
Upside /Downside (%)	10%
High/Low (Rs)	5268/3555
Market cap (Cr)	112,236
Avg. daily vol.(6m)Shrs '000.	336.001
No. of shares (Cr)	24

### Shareholding (%)

	Dec-22	Mar-23	Jun-23
Promoter	50.6	50.6	50.6
FIIs	18.5	19.4	21.3
MFs / UTI	5.7	5.3	4.8
FIs/ Banks	0.1	0.1	0.1
Others	25.2	24.7	23.3

### Financial & Valuations

Y/E Mar (Rs Cr)	FY24E	FY25E	FY26E
Net Sales	17,432	19,517	21,867
EBITDA	3,051	3,465	3,952
Net Profit	2,107	2,439	2,825
EPS (Rs.)	87.7	101.5	117.5
PER (x)	53.1	45.9	39.6
EV/EBITDA (x)	36.8	32.2	27.9
P/BV (x)	26.7	22.1	17.7
ROE (%)	50.2	48.0	44.6

### Change in Estimates (%)

Y/E Mar	FY24E	FY25E
Sales	(3)	(3)
EBITDA	(9)	(10)
PAT	(10)	(10)

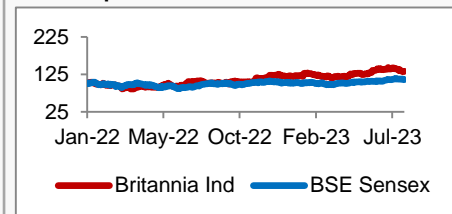
### ESG disclosure Score\*\*

Environmental Disclosure	41.68
Social Disclosure Score	26.81
Governance Disclosure	81.09
<b>Total ESG Disclosure</b>	<b>49.90</b>
<b>Sector Average</b>	<b>44.87</b>

Source: Bloomberg, Scale: 0,1-100

\*\*Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

### Relative performance



Source: Ace Equity, Axis Securities

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## Financial Performance

The company's revenue grew by 9% YoY (flat volume growth) due to weak rural demand along with higher competitive intensity. The company's gross margins were up 528bps YoY to 41.3%, while it was down 172bps sequentially owing to price cuts and raw material inflation in wheat and sugar. Nonetheless, the company expects raw material prices to remain stable in FY24. EBITDA grew 38% YoY. EBITDA margins stood at 17.2%, up 365bps YoY, though it declined 273bps on a QoQ basis owing to higher staff costs. The management highlighted that the revenue growth will be primarily led by volume growth in FY24 as it will undertake price cuts in the coming quarters owing to the decline in raw material prices and an increase in competitive intensity. Furthermore, it has maintained stable margin guidance for FY24. The company's PAT stood at Rs 458 Cr, up 36% YoY.

## Other key takeaways

- **Capex** – Britannia plans a Capex of Rs 400-450 Cr in FY24 towards the brownfield expansion in Ranjangaon (Dairy), Orissa and Greenfield facility in Bihar. Moreover, it has commercialized 5 new additional lines each in Barabanki (UP) and Tirunelveli (TN) during Q1FY24.
- **Rusk** – The company launched a regional Rusk portfolio – Butter Rusk in the East and scaled up Milk Rusk in Kerala. The management highlighted that there are 2,500 regional players in Rusk. However, Britannia is capable to gain market share from regional players as it now has its own manufacturing facility which would facilitate it in controlling costs and quality of the product.
- **Raw material** – The company expects raw material prices are likely to remain stable despite recent increases in wheat and sugar prices.
- **Distribution reach** – The company's direct distribution reach increased to 2.67 Mn outlets.
- **Hindi belt** continues to grow faster than the rest of India for Britannia as it continues to expand its distribution reach, mainly in rural India.
- **ICD** as on Jun-23 stands at Rs 760 Crs between Bombay Dyeing and Bombay Burmah.

## Key Risks to our Estimates and TP

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

## Change in Estimates

	Old		Revised		Change (%)	
	FY24	FY25	FY24	FY25	FY24	FY25
Revenue	18,052	20,217	17,432	19,517	(3)	(3)
EBITDA	3,355	3,832	3,051	3,465	(9)	(10)
PAT	2,346	2,718	2,107	2,439	(10)	(10)
EPS	97.6	113.1	88	101	(10)	(10)

Source: Company, Axis Securities

## Results Review

(Rs Cr)	1QFY23	4QFY23	Axis Sec Est.	1QFY24	YoY growth %	QoQ growth (%)	Axis Sec Var (%)
Volume growth (% yoy)	(2.0)	2.0	4.0	-			
Price growth (%yoy)	11.0	8.9	7.0	8.6			
Net Sales	3,654	3,892	4,066	3,970	8.6	2.0	(2.4)
Gross Profits	47	131	67	41	(13.4)	(68.8)	(38.9)
Gross Margin (%)	1,318	1,676	1,718	1,641	24.6	(2.1)	(4.5)
Staff costs	36.1	43.1	42.3	41.3	528 bps	-172 bps	-92 bps
Other operating expenses	147	171	176	188	28.1	10.4	6.8
EBITDA	717	836	875	805	12.2	(3.7)	(8.0)
EBITDA margin (%)	501	801	734	689	37.6	(14.0)	(6.1)
Depreciation	13.5	19.9	17.8	17.2	365 bps	-273 bps	-58 bps
EBIT	-51	-65	-69	-71	38.9	8.3	3.2
Interest	450	736	665	618	37.4	(16.0)	(7.1)
Other Income	-42	-35	-37	-53	26.4	52.2	44.9
PBT	56	56	59	54	(2.8)	(4.3)	(8.9)
Tax rate (%)	463	757	688	619	33.6	(18.2)	(10.0)
Adj. PAT	27.5	26.9	26.0	26.9	-60 bps	2 bps	90 bps
EPS	337	559	509	458	35.6	(18.1)	(10.1)

Source: Company, Axis Securities

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24E	FY25E	FY26E
Net sales	15,985	17,432	19,517	21,867
Growth, %	15	9	12	12
Other operating income	316	341	368	398
Total income	16,301	17,773	19,885	22,265
Raw material expenses	-9,591	-10,359	-11,550	-12,878
Employee expenses	-658	-737	-826	-925
Other Operating expenses	-3,220	-3,626	-4,044	-4,509
EBITDA (Core)	2,831	3,051	3,465	3,952
Growth, %	28.6	7.8	13.6	14.0
Margin, %	17.7	17.5	17.8	18.1
Depreciation	-226	-279	-306	-332
EBIT	2,605	2,772	3,160	3,620
Growth, %	30.2	6.4	14.0	14.6
Margin, %	16.3	15.9	16.2	16.6
Interest paid	-169	-135	-108	-87
Other Income	216	250	290	337
Pre-tax profit	3,033	2,887	3,342	3,870
Tax provided	-716	-780	-903	-1,046
Profit after tax	2,316	2,107	2,439	2,825
Others (Minorities, Associates)	5	0	0	0
Net Profit	2,322	2,107	2,439	2,825
Growth, %	27.5	8.3	15.8	15.8
Net Profit (adjusted)	1,946	2,107	2,439	2,825
Unadj. shares (Cr)	24	24	24	24
Wtdavg shares (Cr)	24	24	24	24

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

As of 31st Mar, Rs Cr	FY23	FY24E	FY25E	FY26E
Cash & bank	198	735	1,508	2,692
Marketable securities at cost	1,801	1,801	1,801	1,801
Debtors	329	359	402	450
Inventory	1,193	1,301	1,457	1,632
Loans & advances	560	560	560	560
Other current assets	665	665	665	665
Total current assets	4,746	5,421	6,393	7,801
Investments	1,523	1,523	1,523	1,523
Gross fixed assets	4,148	4,548	4,948	5,348
Less: Depreciation	-1,492	-1,771	-2,077	-2,409
Add: Capital WIP	105	105	105	105
Net fixed assets	2,760	2,881	2,976	3,044
Non-current assets	266	266	266	266
<b>Total assets</b>	<b>9,353</b>	<b>10,149</b>	<b>11,215</b>	<b>12,691</b>
Current liabilities	4,134	4,266	4,455	4,668
Provisions	26	26	26	26
Total current liabilities	4,160	4,291	4,480	4,693
Non-current liabilities	1,628	1,628	1,628	1,628
Total liabilities	5,788	5,919	6,108	6,321
Paid-up capital	24	24	24	24
Reserves & surplus	3,510	4,175	5,052	6,315
Shareholders' equity	3,565	4,229	5,107	6,369
<b>Total equity &amp; liabilities</b>	<b>9,353</b>	<b>10,149</b>	<b>11,215</b>	<b>12,691</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E Mar, Rs Cr	FY23	FY24E	FY25E	FY26E
Pre-tax profit	3,033	2,887	3,342	3,870
Depreciation	226	279	306	332
Chg in working capital	228	-7	-10	-11
Total tax paid	-722	-780	-903	-1,046
Other operating activities	0	0	0	0
<b>Cash flow from operating activities</b>	<b>2,765</b>	<b>2,379</b>	<b>2,735</b>	<b>3,146</b>
Capital expenditure	-697	-400	-400	-400
Chg in investments	-595	0	0	0
Chg in marketable securities	-967	0	0	0
Other investing activities	0	0	0	0
<b>Cash flow from investing activities</b>	<b>-2,254</b>	<b>-400</b>	<b>-400</b>	<b>-400</b>
Free cash flow	511	1,979	2,335	2,746
Equity raised/(repaid)	-158	0	0	0
Debt raised/(repaid)	845	0	0	0
Dividend (incl. tax)	-1,361	-1,442	-1,562	-1,562
Other financing activities	0	0	0	0
<b>Cash flow from financing activities</b>	<b>-666</b>	<b>-1,442</b>	<b>-1,562</b>	<b>-1,562</b>
Net chg in cash	-155	537	773	1,184
Opening cash balance	185	198	735	1,508
Closing cash balance	198	735	1,508	2,692

Source: Company, Axis Securities

**Ratio Analysis**

(%)

<b>Y/E March</b>	<b>FY23</b>	<b>FY24E</b>	<b>FY25E</b>	<b>FY26E</b>
Per Share data				
EPS (INR)	81.0	87.7	101.5	117.5
Growth, %	27.5	8.3	15.8	15.8
Book NAV/share (INR)	147.1	174.7	211.2	263.8
FDEPS (INR)	81.0	87.7	101.5	117.5
CEPS (INR)	74.8	99.3	114.2	131.4
CFPS (INR)	119.1	88.6	101.7	116.9
DPS (INR)	56.6	60.0	65.0	65.0
Return ratios				
Return on assets (%)	29.5	23.0	23.8	24.4
Return on equity (%)	55.1	50.2	48.0	44.6
Return on capital employed (%)	57.9	40.4	40.3	39.4
Turnover ratios				
Asset turnover (x)	5.8	6.2	6.7	7.3
Sales/Total assets (x)	1.9	1.8	1.8	1.8
Sales/Net FA (x)	6.3	6.2	6.7	7.3
Receivable days	7.5	7.5	7.5	7.5
Inventory days	27.2	27.2	27.2	27.2
Payable days	39.3	39.2	39.3	39.5
Working capital days	(31.7)	(28.9)	(25.6)	(22.7)
Liquidity ratios				
Current ratio (x)	1.1	1.3	1.4	1.7
Quick ratio (x)	0.9	1.0	1.1	1.3
Interest cover (x)	15.4	20.5	29.2	41.8
Total debt/Equity (%)	0.8	0.7	0.6	0.5
Net debt/Equity (%)	(0.0)	(0.1)	(0.3)	(0.4)
Valuation				
PER (x)	57.5	53.1	45.9	39.6
PEG (x) - y-o-y growth	2.1	6.4	2.9	2.5
Price/Book (x)	31.7	26.7	22.1	17.7
EV/Net sales (x)	7.1	6.4	5.7	5.1
EV/EBITDA (x)	39.9	36.8	32.2	27.9
EV/EBIT (x)	43.4	40.6	35.3	30.5

Source: Company, Axis Securities

## Britannia Industries Price Chart and Recommendation History



Date	Reco	TP	Research
01-Feb-22	HOLD	3,700	Result Update
05-May-22	HOLD	3,650	Result Update
05-Aug-22	HOLD	4,000	Result Update
09-Nov-22	BUY	4,550	Result Update
03-Feb-23	BUY	5,100	Result Update
08-May-23	BUY	5,300	Result Update
08-Aug-23	BUY	5,110	Result Update

Source: Axis Securities

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