

BUY **Britannia Industries****Structural growth remains key**Consumer Goods ▶ Result Update ▶ **November 2, 2023****TARGET PRICE (Rs): 5,250**

We have upheld our positive stance on Britannia, thanks to the management thrust on expanding TAM (now at ~Rs1trn; 11% of the Indian packaged food & beverage market) in adjacencies and preserving profitability. The focus ahead is likely to be on driving consumption in penetrated segments (biscuits, bread, rusk), while propelling penetration for cakes, wafers and dairy products. As a consequence of the muted demand setting, along with high revenue base and surge in regional competition, Britannia has delivered a lackluster topline show with 1% revenue growth (0.2% volume growth); but it surprised positively on EBITDA margin (up 340bps YoY to 19.7%), which helped to clock 23% EBITDA and 19% adj. PAT growth. Building-in the demand stress, we cut topline by 3% for FY24E. We maintain BUY, with new Sep-24E TP of Rs5,250 (on 48x PER).

Britannia Industries: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	141,363	163,006	170,960	188,494	207,795
EBITDA	22,015	28,309	31,814	35,715	40,337
Adj. PAT	15,258	19,462	21,647	24,408	28,262
Adj. EPS (Rs)	63.3	80.8	89.9	101.3	117.3
EBITDA margin (%)	15.6	17.4	18.6	18.9	19.4
EBITDA growth (%)	(12.3)	28.6	12.4	12.3	12.9
Adj. EPS growth (%)	(18.2)	27.5	11.2	12.8	15.8
RoE (%)	50.0	63.9	61.7	66.3	70.2
RoIC (%)	57.5	70.7	68.0	69.9	79.1
P/E (x)	69.4	54.4	48.9	43.4	37.5
EV/EBITDA (x)	48.3	37.2	33.3	29.6	26.2
P/B (x)	41.4	30.0	30.4	27.3	25.4
FCFF yield (%)	0.7	1.8	1.5	2.1	2.5

Source: Company, Emkay Research

Demand trajectory key for growth; premiumization thrust continues to aid

After ~22% price hikes (in past inflationary settings, since Covid-19), the company has effected ~1.5% price correction so far. The subdued demand environment has been a key factor for its flat volume growth in Q2; surge in regional competition (which had a greater impact in the initial 45 days of Q2) and a high base were the other two reasons for the modest growth. With necessary actions to counter regional competition already in place, Britannia awaits demand recovery in 2H. Notably, despite the demand weakness, there has been no down-trading; rather, premium offerings continue to do well. The company has been able to protect its shares and exit Q2 with share gains.

Margin trajectory depends on demand setting

In the poor demand conditions, the company has focused on margin which, according to the management, is an apt strategy, as effecting price cuts/increases in advertising is unlikely to help garner incremental revenue. Assessing the Management commentary, we see the company turning aggressive on any improvement in the demand setting. In Q2FY24, its gross margin expansion of 375bps YoY (to 42.1%) aided EBITDA margin expansion of 340bps to 19.7%. EBITDA grew 23% YoY, while earnings grew 19% YoY. The focus ahead is likely to be on stepping up topline growth, which the management is confident would be better in 2H.

Fundamentals firm, rural recovery key for growth acceleration; maintain BUY

We remain positive on the stock from the fundamentals viewpoint and on the packed-food opportunity. Factoring-in the near-term demand weakness, we cut topline by ~3% for FY24E, while maintaining growth estimates for FY25-26. Considering the muted 1H show, we raise our margin for FY24E, while lowering it for FY26E. As we enter H2FY24 on a high base, the company is likely to log weaker earnings. We see any stock weakness due to the muted show as an entry opportunity. We maintain BUY, with new Sep-24E TP of Rs5,250/share (Rs5,350 earlier) on 48x P/E (in line with its last 5Y avg. fwd. P/E).

Target Price – 12M	Sep-24
Change in TP (%)	(1.9)
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	19.4
CMP (01-Nov-23) (Rs)	4,397.3

Stock Data	Ticker
52-week High (Rs)	5,270
52-week Low (Rs)	3,705
Shares outstanding (mn)	240.9
Market-cap (Rs bn)	1,059
Market-cap (USD mn)	12,717
Net-debt, FY24E (Rs mn)	585
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	1,947.7
ADTV-3M (USD mn)	23.4
Free float (%)	49.5
Nifty-50	18,989
INR/USD	83.3
Shareholding, Sep-23	
Promoters (%)	50.6
FPIs/MFs (%)	19.7/14.0

Price Performance

(%)	1M	3M	12M
Absolute	(3.1)	(8.7)	16.1
Rel. to Nifty	0.2	(5.1)	10.9

1-Year share price trend (Rs)**Nitin Gupta**nitin.gupta@emkayglobal.com
+91 22 6612 1257

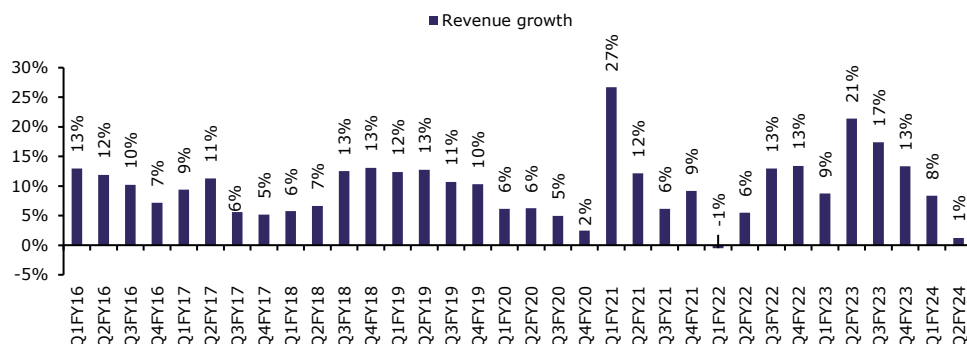
Quarterly performance

Exhibit 1: Q2 and 1HFY24 performance

(Rs mn)	2QFY24	2QFY23	YoY (%)	1QFY24	QoQ (%)	1HFY24	1QFY23	YoY (%)
Total income	44,329	43,796	1.2	40,107	10.5	84,436	80,806	4.5
Cost of goods	25,318	26,746	(5.3)	23,287	8.7	48,604	50,107	(3.0)
Employee expenses	1,599	1,626	(1.7)	1,883	(15.1)	3,482	3,096	12.5
Other expenses	8,688	8,308	4.6	8,048	8.0	16,736	15,479	8.1
EBITDA	8,724	7,117	22.6	6,889	26.6	15,613	12,124	28.8
EBITDA Margin (%)	19.7	16.3	340bps	17.2	250bps	18.5	15.0	350bps
Depreciation	717	517	38.8	708	1.3	1,424	1,026	38.8
EBIT	8,007	6,600	21.3	6,181	29.5	14,189	11,098	27.8
EBIT Margin (%)	18.1	15.1	300bps	15.4	270bps	16.8	13.7	310bps
Interest cost	534	541	(1.3)	531	0.7	1,065	961	10.8
Other income	524	532	(1.7)	539	(2.9)	1,063	1,087	(2.3)
PBT	7,997	6,591	21.3	6,190	29.2	14,187	11,225	26.4
Tax	2,121	1,686	25.8	1,665	27.4	3,787	2,960	27.9
Tax rate (%)	26.5	25.6		26.9		26.7	26.4	
Non-recurring items	0	0.0		0		0	0	
Minority Interest	10.9	27	(59.6)	21	(48.1)	51.4	43.1	19.3
PAT	5,886	4,932	19.3	4,546	29.5	10,451	8,307	25.8
Adj Profit	5,886	4,932	19.3	4,546	29.5	10,451	8,307	25.8
NPM (%)	13.3	11.3		11.3		12.4	10.3	
EPS (Rs)	24.4	20.5	19.1	19.0	28.4	43.5	34.6	25.7

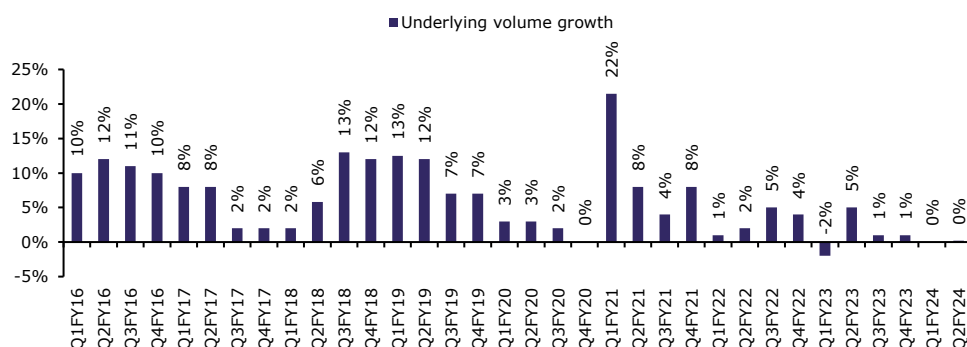
Source: Company, Emkay Research

Exhibit 2: Q2FY24 revenue growth for Britannia is low...



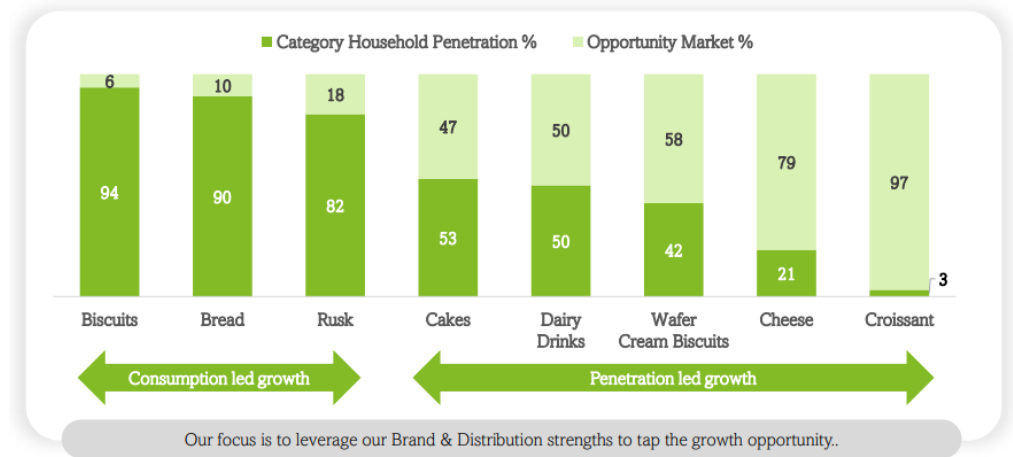
Source: Company, Emkay Research

Exhibit 3: ...as is its underlying volume growth



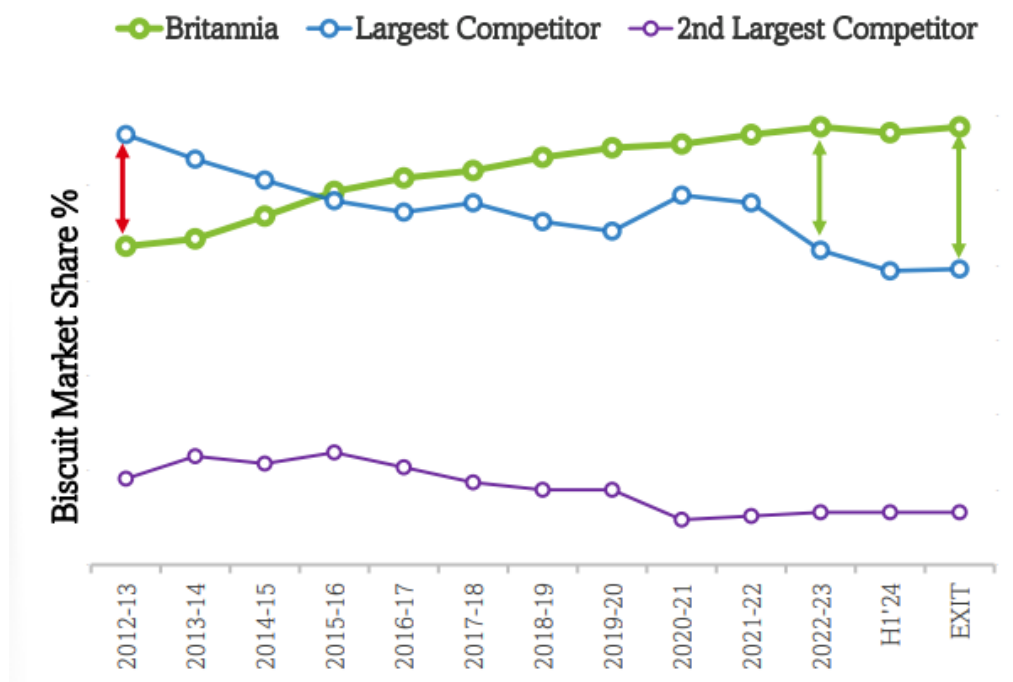
Source: Company, Emkay Research

Exhibit 4: Britannia – Penetration levels across categories



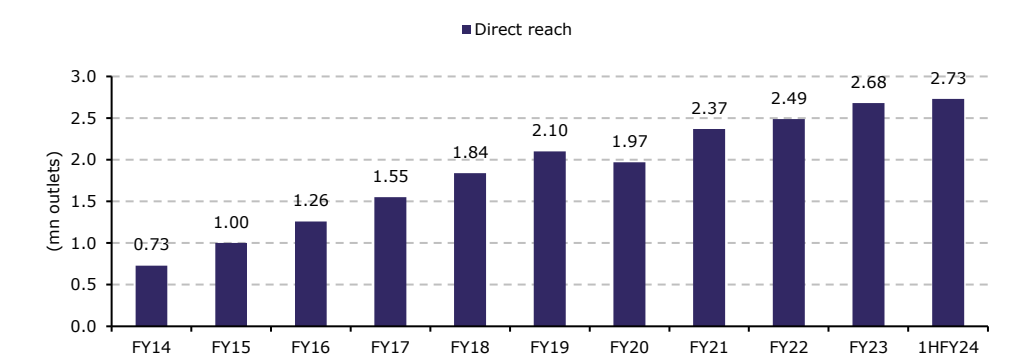
Source: Company, Emkay Research

Exhibit 5: Britannia – Biscuits category market share



Source: Company

Exhibit 6: Britannia – Direct outlet reach



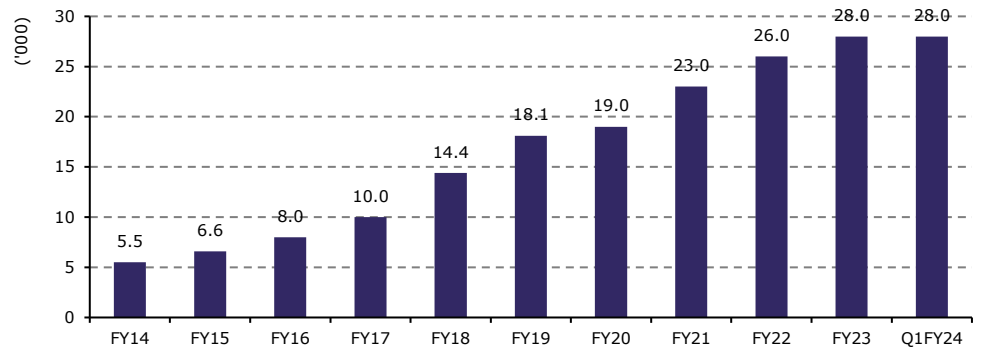
Source: Company, Emkay Research

Exhibit 7: Consumer promotions heighten



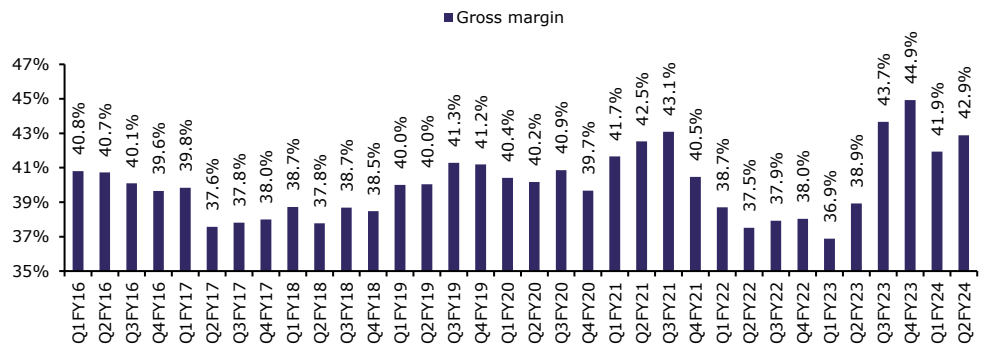
Source: Company

Exhibit 8: Rural distribution



Source: Company, Emkay Research

Exhibit 9: Gross margin



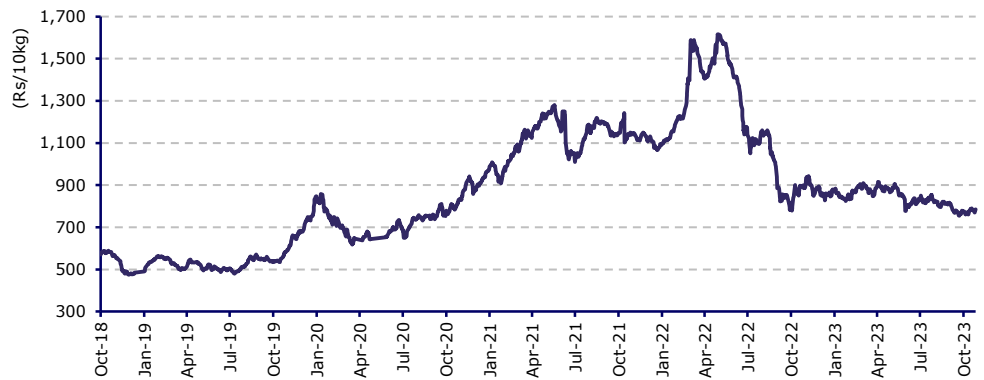
Source: Company, Emkay Research

Exhibit 10: Wheat prices



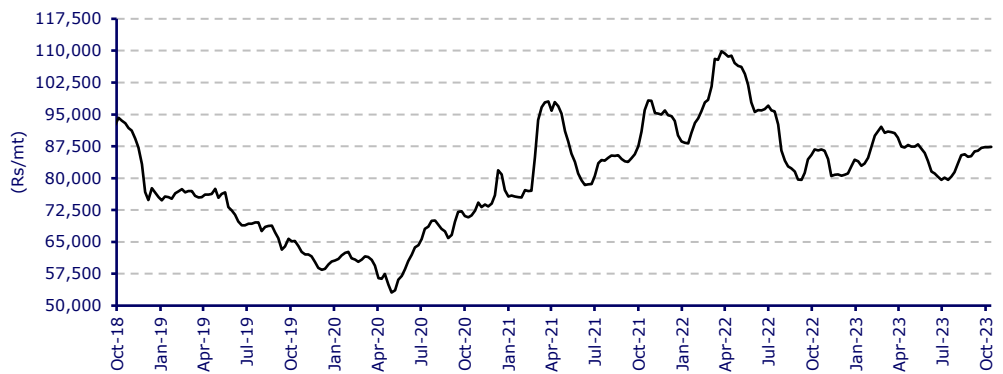
Source: Company, NCDEX, Emkay Research

Exhibit 11: Crude Palm oil prices



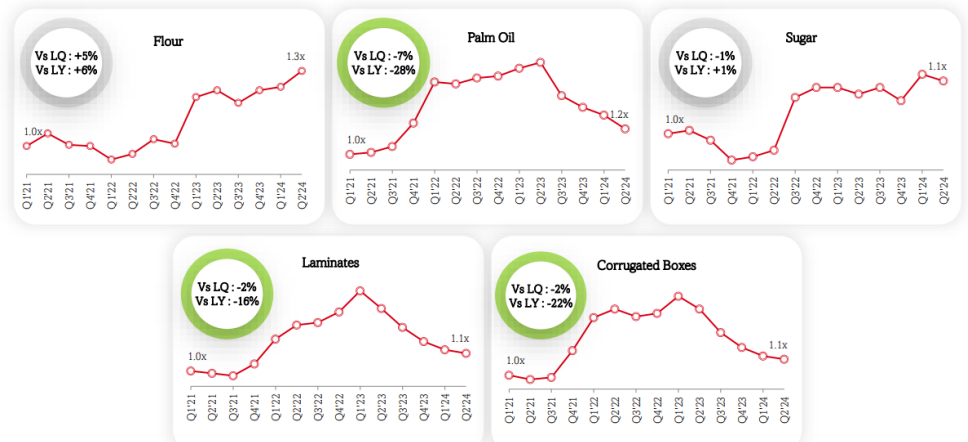
Source: Company, Bloomberg, Emkay Research

Exhibit 12: HDPE prices



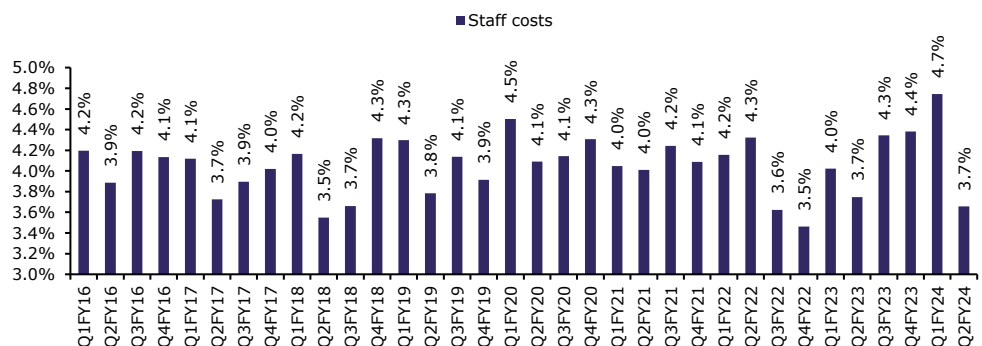
Source: Company, Bloomberg, Emkay Research

Exhibit 13: Commodity costs remain stable in Q1FY24



Source: Company

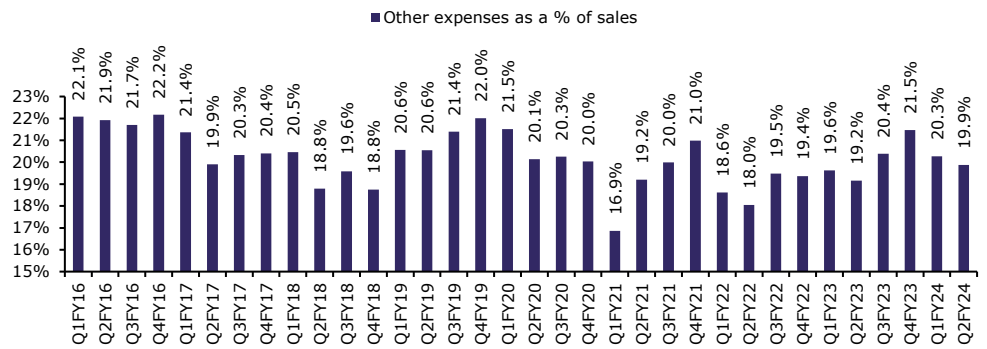
Exhibit 14: Staff costs, as a % of Sales



Source: Company, Emkay Research

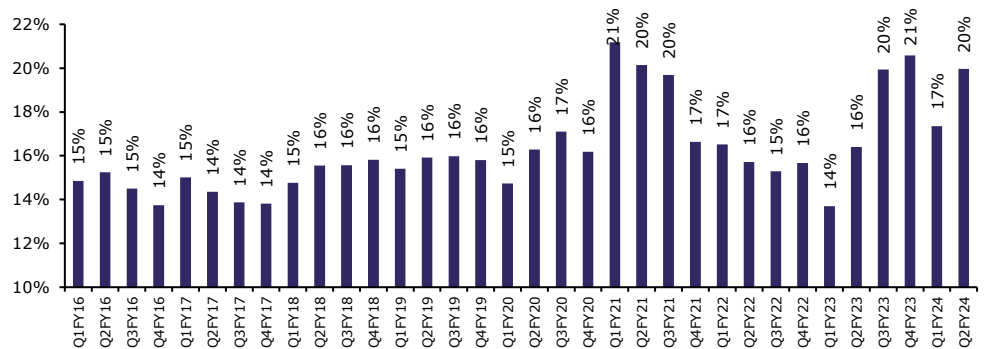
In Q1FY24, flour and sugar saw 3% and 1% YoY inflation, respectively, while Palm oil, laminates and corrugated boxes eased 21%, 18% and 25% YoY, respectively

Exhibit 15: Other expenses, as a % of Sales



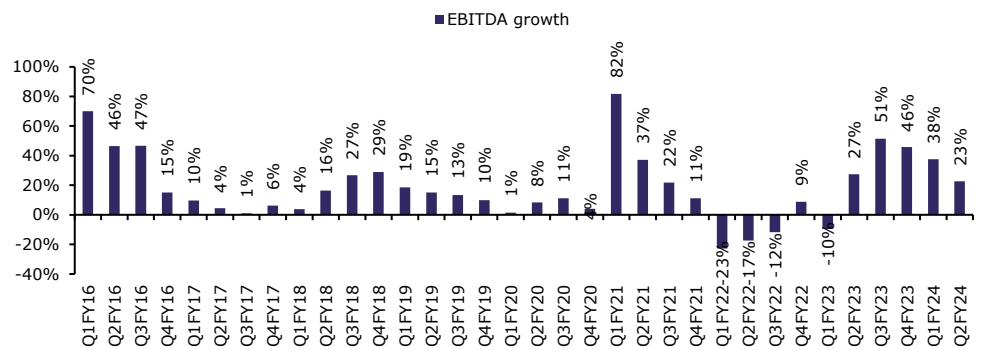
Source: Company, Emkay Research

Exhibit 16: EBITDA margin trend



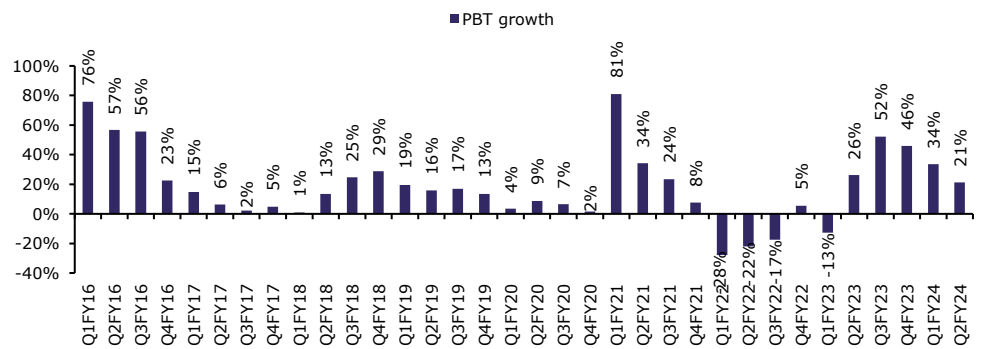
Source: Company, Emkay Research

Exhibit 17: EBITDA growth trend



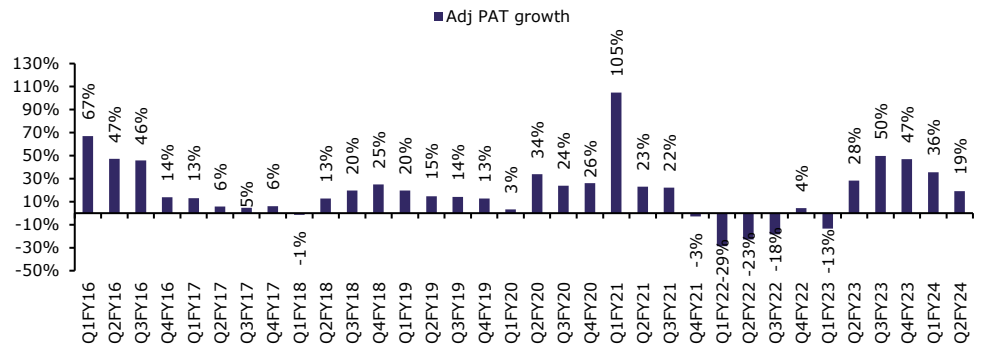
Source: Company, Emkay Research

Exhibit 18: Profit before tax growth (YoY)



Source: Company, Emkay Research

Exhibit 19: Adjusted Profit after tax growth (YoY)



Source: Company, Emkay Research

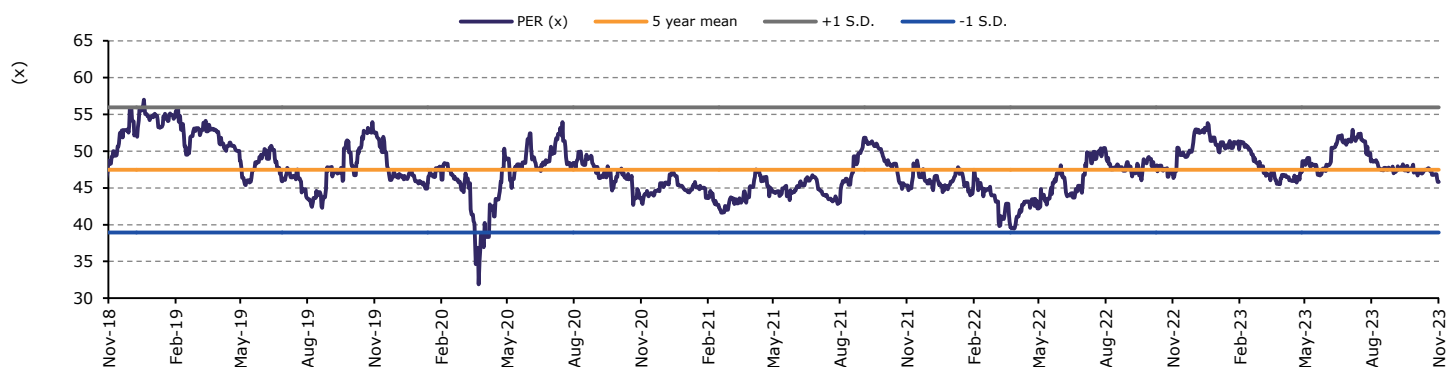
Exhibit 20: Uttar Pradesh and Tamil Nadu facilities scaled up



Source: Company

Valuations

Exhibit 21: Britannia's one-year forward P/E trend



Source: Bloomberg, Emkay Research

Exhibit 22: Changes to our estimate

(Rs mn)	New estimates			Old estimates			Changes to our estimates		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net sales	167,785	185,234	204,375	172,262	190,167	209,808	-3%	-3%	-3%
- growth	5.0%	10.4%	10.3%	7.8%	10.4%	10.3%			
EBITDA	31,814	35,715	40,337	31,642	35,826	41,531	1%	0%	-2%
- growth	12.4%	12.3%	12.9%	11.8%	13.2%	15.9%			
EBITDA margin	18.6%	18.9%	19.4%	18.4%	18.8%	19.8%			
Adj PAT	21,647	24,408	28,262	21,520	24,490	29,140	1%	0%	-2%
- growth	11.2%	12.8%	15.8%	10.6%	13.8%	19.0%			

Source: Emkay Research

Exhibit 23: Emkay estimates vs Consensus

(Rs mn)	Emkay estimates			Consensus estimates			Emkay estimate vs Consensus		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net sales	167,785	185,234	204,375	174,655	194,367	212,752	-4%	-5%	-4%
- growth	5.0%	10.4%	10.3%	9.3%	11.3%	9.5%			
EBITDA	31,814	35,715	40,337	30,703	35,007	38,871	4%	2%	4%
- growth	12.4%	12.3%	12.9%	8.5%	14.0%	11.0%			
EBITDA margin	18.6%	18.9%	19.4%	17.6%	18.0%	18.3%			
Adj PAT	21,647	24,408	28,262	21,302	24,522	27,569	2%	0%	3%
- growth	11.2%	12.8%	15.8%	9.5%	15.1%	12.4%			
EPS (Rs)	89.9	101.3	117.3	88.6	102.2	114.5	1%	-1%	3%

Source: Bloomberg, Emkay Research

Exhibit 24: Key assumptions

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Growth expectations								
Standalone revenue growth	12%	4%	12%	9%	16%	8%	10%	10%
International revenue growth	-6%	7%	23%	1%	-10%	8%	10%	10%
Consolidated revenue growth	11%	4%	13%	8%	15%	8%	10%	10%
Biscuits volume growth	10%	2%	10%	3%	1%	5%	8%	8%
Biscuits value growth	12%	3%	12%	9%	18%	7%	10%	10%
Earnings growth	15%	22%	31%	-18%	28%	11%	13%	16%
As a % of total revenue								
Gross margin	41%	40%	42%	38%	41%	43%	43%	42%
A&P spends	5%	4%	4%	3%	4%	4%	4%	4%
Conversion costs	5%	4%	4%	5%	5%	5%	5%	4%
Freight and handling costs	5%	5%	5%	5%	4%	4%	4%	4%
EBITDA margin	16%	16%	19%	16%	17%	19%	19%	19%
Per share								
Adj EPS (Rs/sh)	48.2	59.0	77.4	63.3	80.8	89.9	101.3	117.3
DPS (Rs/sh)	15.0	35.0	157.5	69.0	72.0	85.0	100.0	115.0
Dividend payout	31%	59%	203%	109%	89%	95%	99%	98%
Balance sheet								
Total debt (Rs bn)	1.4	15.1	20.9	24.7	29.8	26.4	19.7	20.1
Capex (Rs bn)	5.1	4.1	1.5	1.9	12.1	5.5	3.0	3.0
Investments (Rs mn)	14.8	28.9	27.8	17.6	33.2	20.0	20.0	20.0
Inventory days (no. of)	26	24	31	36	27	30	30	30
Receivable days (no. of)	13	10	7	9	8	9	9	9
Payable days (no. of)	38	36	37	34	33	33	33	33
Net working capital days (no. of)	1	-2	1	11	2	6	6	6

Source: Company, Emkay Research

Britannia Industries: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	141,363	163,006	170,960	188,494	207,795
Revenue growth (%)	7.6	15.3	4.9	10.3	10.2
EBITDA	22,015	28,309	31,814	35,715	40,337
EBITDA growth (%)	(12.3)	28.6	12.4	12.3	12.9
Depreciation & Amortization	2,005	2,259	2,800	3,200	3,350
EBIT	20,010	26,050	29,014	32,515	36,987
EBIT growth (%)	(13.4)	30.2	11.4	12.1	13.8
Other operating income	1,916	3,157	3,175	3,260	3,420
Other income	382	527	550	650	750
Financial expense	1,443	1,691	2,121	1,774	1,197
PBT	20,795	26,518	29,043	32,691	37,840
Extraordinary items	0	0	0	0	0
Taxes	5,624	7,165	7,697	8,663	10,028
Minority interest	88	55	60	80	100
Income from JV/Associates	(2)	54	240	300	350
Reported PAT	15,248	23,218	21,647	24,408	28,262
PAT growth (%)	(18.2)	52.3	(6.8)	12.8	15.8
Adjusted PAT	15,258	19,462	21,647	24,408	28,262
Diluted EPS (Rs)	63.3	80.8	89.9	101.3	117.3
Diluted EPS growth (%)	(18.2)	27.5	11.2	12.8	15.8
DPS (Rs)	69.0	72.0	85.0	100.0	115.0
Dividend payout (%)	108.9	89.1	94.6	98.7	98.0
EBITDA margin (%)	15.6	17.4	18.6	18.9	19.4
EBIT margin (%)	14.2	16.0	17.0	17.2	17.8
Effective tax rate (%)	27.0	27.0	26.5	26.5	26.5
NOPLAT (pre-IndAS)	14,599	19,012	21,326	23,898	27,185
Shares outstanding (mn)	240.9	240.9	240.9	240.9	240.9

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	20,795	26,518	29,043	32,691	37,840
Others (non-cash items)	(251)	(4,129)	0	0	0
Taxes paid	(5,869)	(7,258)	(7,697)	(8,663)	(10,028)
Change in NWC	(3,273)	4,057	(2,729)	(457)	(505)
Operating cash flow	12,995	25,262	21,389	26,594	29,804
Capital expenditure	(5,470)	(6,345)	(5,500)	(4,450)	(3,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	2,068	1,747	2,150	1,950	2,050
Investing cash flow	9,109	(15,171)	9,892	(2,500)	(950)
Equity raised/(repaid)	0	0	(60)	(80)	(100)
Debt raised/(repaid)	3,599	5,182	(3,383)	(6,692)	323
Payment of lease liabilities	22	0	0	0	0
Interest paid	(1,186)	(1,957)	(2,121)	(1,774)	(1,197)
Dividend paid (incl tax)	(24,849)	(13,592)	(22,160)	(20,474)	(25,291)
Others	(22)	83	0	0	0
Financing cash flow	(22,458)	(10,284)	(27,724)	(29,019)	(26,265)
Net chg in Cash	(354)	(192)	3,557	(4,925)	2,589
OCF	12,995	25,262	21,389	26,594	29,804
Adj. OCF (w/o NWC chg.)	16,268	21,206	24,118	27,052	30,309
FCFF	7,525	18,917	15,889	22,144	26,804
FCFE	8,150	18,973	15,918	22,320	27,657
OCF/EBITDA (%)	59.0	89.2	67.2	74.5	73.9
FCFE/PAT (%)	53.4	97.5	73.5	91.4	97.9
FCFF/NOPLAT (%)	51.5	99.5	74.5	92.7	98.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	241	241	241	241	241
Reserves & Surplus	25,340	35,102	34,589	38,523	41,494
Net worth	25,581	35,343	34,830	38,764	41,735
Minority interests	275	302	242	162	62
Deferred tax liability (net)	(509)	(554)	(554)	(554)	(554)
Total debt	24,655	29,805	26,422	19,730	20,053
Total liabilities & equity	50,003	64,896	60,940	58,103	61,297
Net tangible fixed assets	16,136	25,271	27,971	27,771	27,421
Net intangible assets	1,396	1,282	1,282	1,282	1,282
Net ROU assets	1,893	1,987	2,087	2,191	2,301
Capital WIP	5,357	1,050	1,050	2,500	2,500
Goodwill	1,396	1,282	1,282	1,282	1,282
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	19,473	35,222	25,837	21,292	24,331
Current assets (ex-cash)	32,277	30,130	34,327	37,831	41,680
Current Liab. & Prov.	24,636	28,058	29,526	32,573	35,917
NWC (ex-cash)	7,641	2,072	4,801	5,258	5,763
Total assets	50,003	64,896	60,940	58,103	61,297
Net debt	5,183	(5,417)	585	(1,562)	(4,278)
Capital employed	50,003	64,896	60,940	58,103	61,297
Invested capital	25,173	28,624	34,053	34,310	34,465
BVPS (Rs)	106.2	146.7	144.6	160.9	173.3
Net Debt/Equity (x)	0.2	(0.2)	0.0	0.0	(0.1)
Net Debt/EBITDA (x)	0.2	(0.2)	0.0	0.0	(0.1)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	38.2	46.3	47.0	55.7	63.2

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	69.4	54.4	48.9	43.4	37.5
P/CE(x)	61.4	48.8	43.3	38.4	33.5
P/B (x)	41.4	30.0	30.4	27.3	25.4
EV/Sales (x)	7.6	6.6	6.3	5.7	5.2
EV/EBITDA (x)	48.3	37.2	33.3	29.6	26.2
EV/EBIT(x)	53.2	40.5	36.5	32.5	28.5
EV/IC (x)	42.3	36.8	31.1	30.8	30.6
FCFF yield (%)	0.7	1.8	1.5	2.1	2.5
FCFE yield (%)	0.8	1.8	1.5	2.1	2.6
Dividend yield (%)	1.6	1.6	1.9	2.3	2.6
DuPont-RoE split					
Net profit margin (%)	10.8	11.9	12.7	12.9	13.6
Total asset turnover (x)	2.6	2.8	2.7	3.2	3.5
Assets/Equity (x)	1.7	1.9	1.8	1.6	1.5
RoE (%)	50.0	63.9	61.7	66.3	70.2
DuPont-RoIC					
NOPLAT margin (%)	10.3	11.7	12.5	12.7	13.1
IC turnover (x)	5.6	6.1	5.5	5.5	6.0
RoIC (%)	57.5	70.7	68.0	69.9	79.1
Operating metrics					
Core NWC days	(13.9)	(12.6)	(14.0)	(12.7)	(12.7)
Total NWC days	19.7	4.6	10.2	10.2	10.1
Fixed asset turnover	5.0	4.6	3.9	3.9	4.0
Opex-to-revenue (%)	22.5	23.8	24.2	23.6	23.1

Source: Company, Emkay Research

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Date	Closing Price (INR)	TP (INR)	Rating	Analyst
20-Oct-23	4,580	5,350	Buy	Nitin Gupta
03-Oct-23	4,495	5,350	Buy	Nitin Gupta
28-Aug-23	4,511	5,350	Buy	Nitin Gupta
15-Aug-23	4,500	5,350	Buy	Nitin Gupta
07-Aug-23	4,660	5,350	Buy	Nitin Gupta
06-Aug-23	4,799	5,550	Buy	Nitin Gupta
18-Jun-23	5,045	5,700	Buy	Nitin Gupta
15-Jun-23	4,975	5,700	Buy	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Emkay Global Financial Services Ltd.

CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India

Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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