

Britannia Industries Ltd



Britannia Industries Ltd.
Volume growth improvement led by grammage additions; margins have likely peaked

CMP* INR 4,925	Target INR 5,367	Potential Upside 8.9%	Market Cap (INR Mn) 11,87,541	Recommendation ACCUMULATE	Sector Consumer
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Result highlights

- For Q3FY24, BRIT's revenue was INR 42,563 Mn, a muted growth of 1.4% YoY (-4.0% QoQ) and in line with our estimate. Volume growth was healthy at 5.5% YoY, supported by grammage additions even as the no. of packets sold grew by ~3.0% - 3.5% YoY. Price cuts were to the tune of 4.0% YoY/ ~2.0% QoQ. Revenue for 9MFY24 was INR 1,26,999 Mn, a growth of 3.4% YoY.
- EBITDA for Q3FY24 was flat on a YoY basis at INR 8,211 Mn (-5.9% QoQ). EBITDA was 2.8% higher than estimated due to further lowering of input costs. EBITDA margin contracted by 19 bps YoY/ 39 bps QoQ to 19.3%. For 9MFY24, EBITDA grew by 17.4% YoY while EBITDA margin expanded by 222 bps YoY.
- PAT for the quarter was INR 5,564 Mn, a decline of 40.3% YoY/ 5.3% QoQ, impacted on a YoY basis due to exceptional items in Q3FY23. Adj. PAT was flat YoY and declined by 4.8% QoQ due to the muted topline. Adj. PAT was 3.0% higher than our estimate aided by better operating performance.
- For 9MFY24, PAT was INR 16,015 Mn, a decline of 9.2% YoY. Adj. PAT grew by 15.6% YoY to INR 16,044 Mn.
- BRIT is focusing on driving volume growth and gaining market share through a combination of price cuts, grammage addition, innovations, brand investments, distribution expansion, and higher growth in the non-biscuit portfolio. As a result, the Management believes that the EBITDA margin has likely peaked. We believe BRIT will see high single digit/ low double-digit revenue growth in the next 2 years along with range-bound margins driven by operating efficiencies, premiumization and cost rationalization.

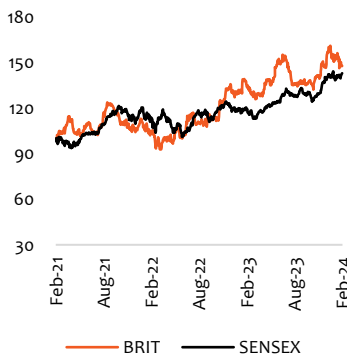
MARKET DATA

Shares O/S (Mn)	241
Equity Cap (INR Mn)	28,739
Mkt Cap (INR Mn)	11,87,541
52 Wk H/L (INR)	5,386/ 4,153
Volume Avg (3m K)	333
Face Value (INR)	1
Bloomberg Code	BRIT IN

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	131,361	141,363	163,006	167,945	184,159	203,499
EBITDA	25,093	22,015	28,309	31,754	34,898	38,815
PAT	18,639	15,248	23,218	21,566	24,426	27,509
Adj. PAT	18,645	15,258	19,462	21,595	24,426	27,509
EPS	77.4	63.3	96.4	89.5	101.4	114.2
Adj. EPS	77.4	63.3	80.8	89.6	101.4	114.2
EBITDA Margin (%)	19.1%	15.6%	17.4%	18.9%	18.9%	19.1%
Adj. NPM (%)	14.2%	10.8%	11.9%	12.9%	13.3%	13.5%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE

MARKET INFO

SENSEX	72,708
NIFTY	22,122

Revenue growth remains muted, while volume growth sees an improvement

For Q3FY24, BRIT's revenue was INR 42,563 Mn, a muted growth of 1.4% YoY and a decline of 4.0% QoQ. The volume (tonnage) growth was ~5.5% as BRIT undertook some grammage additions while the no. of packets sold grew by a lower rate of ~3.0% to 3.5%. The volume growth was an improvement compared to flattish YoY volumes seen in H1FY24. BRIT took strategic pricing action in some of its key brands to pass on the benefit of cooling down of the commodity costs, to maintain its competitiveness and gain market share. The effect of price cuts was about 4.0% YoY and ~2.0%-2.5% QoQ. BRIT also undertook tactical consumer promotions to drive consumption, which is seeing slower traction, especially in rural. Urban growth continued to outpace rural. Revenue for 9MFY24 was INR 1,26,999 Mn, a growth in the low single digits of 3.4% YoY. So far in YTD-FY24, BRIT's growth in its focus states was 2.4x its growth in the Rest of India.

Margins remained at healthy levels in the quarter, but likely to have peaked

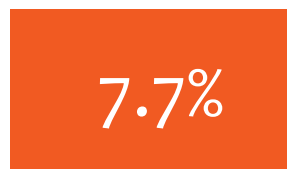
Gross margin in Q3FY24 expanded by 21 bps YoY/ 98 bps QoQ to 43.9% as commodity costs remained soft in the quarter due to a QoQ decline in flour, palm oil, and corrugated boxes while laminates saw stable prices QoQ and sugar saw some uptick. The overall raw material basket softened by ~3.0% to 4.0% QoQ. EBITDA for the quarter was flattish on a YoY basis at INR 8,211 Mn (-5.9% QoQ). EBITDA margin contracted by 19 bps YoY/ 39 bps QoQ to 19.3% due to a sharp uptick in employee costs. For 9MFY24, the gross margin expanded by 299 bps YoY to 42.9% while the EBITDA margin expanded by 222 bps YoY to 18.8% due to the raw material softening and cost optimization. BRIT's cost efficiency program has continued to deliver savings, which are at 7.0x of FY14 levels in 9MFY24 with projects focusing on space utilization, truck utilization, distance travelled by products, market damages, renewable energy, fuel consumption and line throughput.

Management's focus is on driving volume growth to high single-digits/ low double digits

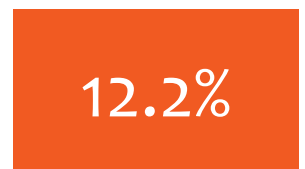
Management aspires to gradually start delivering high single-digit or double-digit volume growth and focus on driving market share. The growth in adjacent businesses will be faster by at least 50.0% vs. the biscuits business. BRIT will continue to invest on brands and innovation. The margin levels of 19.0%+ currently are peak levels and BRIT will aspire to deliver these levels, but topline growth will be prioritized.

SHARE HOLDING PATTERN (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	50.6	50.6	50.6
FIIIs	18.9	19.7	21.3
DIIs	14.8	13.8	12.4
Others	15.7	15.9	15.7
Total	100.0	100.0	100.0



Revenue CAGR between FY23 and FY26E



Adj. PAT CAGR between FY23 and FY26E

*Based on yesterday's closing price

Britannia Industries Ltd.

Key Concall Highlights:

Segment-wise comments

- In Cakes, growth has returned in the base format. Rusk has started to see volume recovery.
- In Breads, the health and variety segment has outperformed the regular segments.
- The differentiated cheese products- spreadable cheese portions in a triangular form, and the INR 10 sachet of cheese are both gaining traction. These now contribute to ~10.0% of overall cheese sales.
- BRIT's objective for the consumer cheese business is to deliver revenue of ~INR 10,000 Mn in the next 5 years by unleashing innovation, improving the go-to-market and expanding distribution.
- BRIT will focus on improving market share in the cheese business with products which are best-in-class and differentiated.

Performance in international markets

- BRIT has seen double-digit profitability growth across all international markets- Middle East, Africa, rest of international.
- Nepal has been a very good story for BRIT and continues to see good growth and profitability.
- In Egypt, BRIT had set up a contract packing unit and had started to seed its products in the market. While it is still a small market, BRIT has grown almost 5.0x – 6.0x.

Market share

- BRIT has returned to gaining market share and widening the share gap vs. its nearest competitor.
- BRIT has gained higher growth and market share in the Hindi belt, driven by the premium and differentiated portfolio while the value portfolio has not done well.

Distribution

- BRIT expanded its direct reach to 2.76 Mn outlets as of Dec-23 vs. 2.64 Mn outlets as of Dec-22. The pace of distribution expansion has reduced due to the base effect. However, management believes there is further scope to add at least 1 Mn more outlets due to a big opportunity in the Hindi belt and in rural.
- BRIT's rural distribution has strengthened to 29,000 distributors from 28,000 as of Dec-22.
- The B2C e-commerce business is doing well and contributes to ~3.0% of revenue, up from just 1.0% a few years ago.

Capacity addition

- Earlier, BRIT only had contract packing in case of cake. In the last 1.5 years, BRIT has added 3 manufacturing lines in addition to the 1 existing line in south India. This will help BRIT to deliver good quality and efficiency.
- BRIT commercialized its processed cheese line in January 2024 and expects to see good traction in the segment going ahead.
- BRIT's new state-of-the-art factory in UP has 4 lines for biscuits and 1 for Rusk. This factory will help to grow business in the focus state of UP and also drive operational performance. BRIT has plans to further expand this capacity in the next year.
- BRIT also has plans to further expand its Bihar factory, which was commercialized this year. This is BRIT's 2nd factory in Bihar and will help to further grow business in the state.
- BRIT had two manufacturing lines for Jim Jam in the last two years and is still running out of capacity. BRIT will add 2 more lines for the premium product.

New launches

- Jam Pops and Golmaal which have been in the market for some time have seen success.
- New products launched in the quarter included Treat Cremes, Tiger Coconut, some large cake formats, and energy and protein bars under the Be You brand name.
- The new products are contributing INR 2,000+ Mn on an annualized basis.

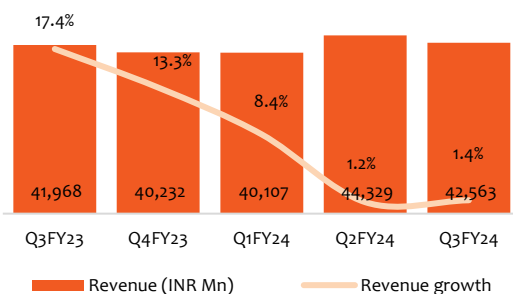
Scale and Technology advantages

- BRIT uses the 21C oven which is patented by the Company and is fuel-agnostic, giving BRIT the flexibility to choose fuels depending on fuel prices.
- BRIT has done some product technology upgrades which gives it superior product quality and the ability to launch products which competitors cannot do at the moment.
- Over the years, BRIT has moved from small factories with a capacity of ~1,800 ton per month to Integrated factories with a capacity of 7,000 ton per month and now to the Mega Food park in Ranjangaon which has an overall capacity of 16,000 ton per month (20,000 ton per month including dairy).

Valuation and view

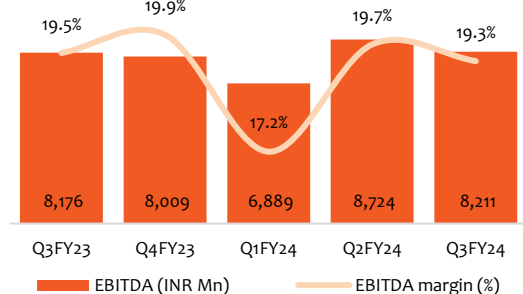
BRIT is focusing on driving volume growth and gaining market share through a combination of maintaining competitiveness in the market, launching innovative products, focusing on the non-biscuit categories, and tapping the potential for further distribution expansion. The Management believes that the EBITDA margin has likely peaked as it will invest in brand building and engage in competitive pricing/ promotional offers to combat the competitive pressures. We believe BRIT will see high single-digit/ low double-digit revenue growth in FY25E/ FY26E led by easing macro environment and demand conditions, innovation, premiumization, increasing penetration in the Hindi belt and rural India and focus on the non-biscuit adjacent categories. We expect margins to remain healthy and range-bound driven by operating efficiencies, premiumization and cost rationalization which will largely offset the brand investments and price cuts taken to combat competitive pressure. **We revise our FY24E/ FY25E Adj. EPS estimates by +2.5%/ 0.4%, respectively as we factor in a high-single-digit revenue growth in FY25E along with largely stable margins. We introduce our FY26E estimates and expect a Revenue/ EBITDA/ Adj. PAT CAGR of 7.7%/ 11.1%/ 12.2% respectively over FY23-FY26E. The stock is currently trading at 55.0x/ 48.6x/ 43.1x our FY24E/ FY25E/ FY26E Adj. EPS, respectively. We apply a P/E multiple of 47.0x to FY26E EPS of INR 114.2 (50.0x to FY25E EPS of INR 101.1 previously) and arrive at the target price of INR 5,367 per share (INR 5,094 per share previously), implying an upside of 8.9% over the CMP. Accordingly, we maintain our "ACCUMULATE" rating on the shares of Britannia Industries.**

Revenue growth remains in low single digits



Source: Company, KRChoksey Research

EBITDA margin remains above 19.0%



Source: Company, KRChoksey Research

RESEARCH ANALYST

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KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

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Britannia Industries Ltd.

KEY FINANCIALS

Particulars (INR Mn)	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY	9MFY24	9MFY23	YoY
Sales	42,563	44,329	41,968	-4.0%	1.4%	126,999	122,774	3.4%
Total Expenditure	34,352	35,605	33,792	-3.5%	1.7%	103,175	102,474	0.7%
Cost of Raw Materials	21,290	22,826	20,983	-6.7%	1.5%	64,910	63,036	3.0%
Purchase of Stock	2,386	2,640	2,896	-9.6%	-17.6%	7,481	11,476	-34.8%
Changes in Inventories	215	-148	-231	245.2%	192.8%	103	-758	113.7%
Employee Cost	1,985	1,599	1,782	24.1%	11.3%	5,467	4,878	12.1%
Other Expenses	8,477	8,688	8,363	-2.4%	1.4%	25,213	23,842	5.8%
EBITDA	8,211	8,724	8,176	-5.9%	0.4%	23,824	20,300	17.4%
EBITDA Margins (%)	19.3%	19.7%	19.5%	-39 bps	-19 bps	18.8%	16.5%	222 bps
Depreciation	781	717	580	8.9%	34.7%	2,205	1,606	37.3%
EBIT	7,430	8,007	7,596	-7.2%	-2.2%	21,619	18,694	15.6%
Interest Expense	311	534	381	-41.8%	-18.5%	1,376	1,342	2.5%
Other income	506	524	508	-3.4%	-0.4%	1,568	1,595	-1.7%
PBT	7,625	7,997	7,722	-4.7%	-1.3%	21,811	18,947	15.1%
Exceptional items	-29	0	3,756	NA	-100.8%	-29	3,756	-100.8%
Tax	2,026	2,121	2,169	-4.5%	-6.6%	5,812	5,130	13.3%
Share of associates/ Minority income	-6	1	15	NM	NM	45	58	-21.5%
PAT	5,564	5,876	9,324	-5.3%	-40.3%	16,015	17,631	-9.2%
PAT Margin	13.1%	13.3%	22.2%	-18 bps	-914 bps	12.6%	14.4%	-175 bps
Adj. PAT	5,593	5,876	5,568	-4.8%	0.4%	16,044	13,875	15.6%
Adj. PAT Margin	13.1%	13.3%	13.3%	-12 bps	-13 bps	12.6%	11.3%	133 bps
EPS	23.1	24.4	38.7	-5.3%	-40.3%	66.5	73.2	-9.1%
Adj. EPS	23.2	24.4	23.1	-4.8%	0.5%	66.6	57.6	15.6%

Source: Company, KRChoksey Research

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	141,363	163,006	167,945	184,159	203,499
COGS	87,603	95,913	95,724	105,036	116,067
Gross profit	53,760	67,093	72,221	79,123	87,432
Employee cost	5,423	6,584	7,227	7,761	8,325
Other expenses	26,322	32,200	33,239	36,463	40,293
EBITDA	22,015	28,309	31,754	34,898	38,815
EBITDA Margin	15.6%	17.4%	18.9%	18.9%	19.1%
Depreciation & amortization	2,005	2,259	2,993	3,349	3,524
EBIT	20,010	26,050	28,762	31,549	35,291
Interest expense	1,443	1,691	1,785	1,627	1,381
PBT	20,785	30,274	29,142	32,547	36,655
Tax	5,624	7,165	7,616	8,202	9,237
Share of JVs/ Minority interest	86	109	39	81	91
PAT	15,248	23,218	21,566	24,426	27,509
Adj. PAT	15,258	19,462	21,595	24,426	27,509
EPS (INR)	63.3	96.4	89.5	101.4	114.2
Adj. EPS	63.3	80.8	89.6	101.4	114.2

Source: Company, KRChoksey Research

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	12,995	25,262	24,234	27,319	30,313
Net Cash Flow from/(used in) Investing Activities	9,109	(15,171)	(4,850)	(2,022)	(1,930)
Net Cash Flow from Financing Activities	(22,458)	(10,284)	(19,084)	(25,342)	(26,895)
Net Inc/Dec in cash equivalents	(354)	(192)	300	(46)	1,487
Opening Balance	1,415	1,093	1,024	1,324	1,278
Adjustments	120	123	(0)	0	0
Closing Balance Cash and Cash Equivalents	1,180	1,024	1,324	1,278	2,765

Source: Company, KRChoksey Research

Britannia Industries Ltd.

Balance Sheet (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Property, plant and equipment	15,841	24,722	27,729	26,880	25,856
Capital work-in-progress	5,357	1,050	1,050	1,050	1,050
Investment Property	140	406	406	406	406
Goodwill	1,396	1,282	1,282	1,282	1,282
Other intangible assets	156	142	142	142	142
Investment in Associate	21	4,952	4,952	4,952	4,952
Financial assets					
Investments	9,266	10,281	10,281	10,281	10,281
Loans	1,000	1,500	1,500	1,500	1,500
Other financial assets	318	236	236	236	236
Income Tax Assets (Net)	449	436	450	493	545
Deferred Tax Assets (Net)	517	573	590	647	715
Other non-current assets	992	486	500	549	606
Total non-current assets	35,451	46,065	49,118	48,417	47,571
Inventories	13,675	11,933	11,909	13,068	14,440
Financial assets					
Investments	8,337	18,010	19,010	21,010	23,010
Trade receivables	3,319	3,289	3,389	3,716	4,107
Cash and cash equivalents	1,180	1,024	1,324	1,278	2,765
Other Balances with Banks	669	956	956	956	956
Loans	6,980	5,600	5,600	5,600	5,600
Other financial assets	4,280	4,520	4,657	5,106	5,642
Other current assets	1,382	2,131	2,186	2,366	2,580
Total current assets	39,823	47,462	49,030	53,099	59,100
TOTAL ASSETS	75,274	93,527	98,148	101,516	106,670
Equity share capital	241	241	241	241	241
Other equity	25,340	35,102	39,323	45,501	52,459
Equity attributable to the equity shareholders	25,581	35,343	39,564	45,742	52,700
Non-controlling interests	275	302	349	381	417
Total equity	25,856	35,645	39,912	46,123	53,117
Financial liabilities					
Borrowings	7,070	15,518	15,518	13,018	11,018
Other financial liabilities	664	745	745	745	745
Deferred tax liabilities, (net)	8	19	19	21	23
Provisions	205	256	256	256	256
Total non-current liabilities	7,947	16,538	16,539	14,041	12,043
Financial liabilities					
Borrowings	17,586	14,287	14,287	11,287	8,287
Trade payables	13,228	14,488	14,460	15,866	17,532
Other financial liabilities	3,959	4,987	5,138	5,634	6,226
Other current liabilities	1,307	1,763	1,817	1,992	2,201
Provisions	4,646	5,134	5,289	5,800	6,409
Current tax liabilities, (net)	746	684	705	773	854
Total current liabilities	41,471	41,344	41,696	41,353	41,511
Total liabilities	49,418	57,882	58,235	55,394	53,553
TOTAL EQUITY AND LIABILITIES	75,274	93,527	98,148	101,516	106,670

Source: Company, KRChoksey Research

Key Ratio	FY22	FY23	FY24E	FY25E	FY26E
EBITDA Margin (%)	15.6%	17.4%	18.9%	18.9%	19.1%
Tax rate (%)	27.1%	23.7%	26.1%	25.2%	25.2%
Adj. Net Profit Margin (%)	10.8%	11.9%	12.9%	13.3%	13.5%
RoE (%)	59.0%	65.1%	54.0%	53.0%	51.8%
RoCE (%)	39.6%	39.8%	41.3%	44.8%	48.7%
Adj. EPS (INR)	63.3	80.8	89.6	101.4	114.2
Adj. PE	77.8x	61.0x	54.9x	48.6x	43.1x

Source: Company, KRChoksey Research

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Date	CMP (INR)	TP(INR)	Recommendation
20-Feb-24	4,930	5,367	ACCUMULATE
16-Nov-23	4,711	5,094	ACCUMULATE
08-Aug-23	4,606	5,094	ACCUMULATE
08-May 23	4,600	5,094	ACCUMULATE
06-Feb 23	4,628	5,094	ACCUMULATE
03-Jan 23	4,250	4,829	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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