



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✗	↔	✓
RQ	✗	↔	✓
RV	✗	↔	✓

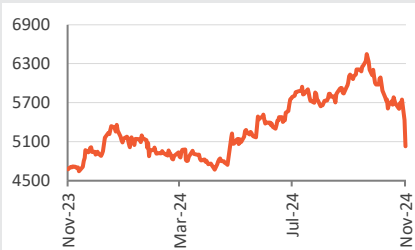
Company details

Market cap:	Rs. 1,21,115 cr
52-week high/low:	Rs. 6,473 / 4,628
NSE volume: (No of shares)	3.2 lakh
BSE code:	500825
NSE code:	BRITANNIA
Free float: (No of shares)	11.9 cr

Shareholding (%)

Promoters	50.6
FII	19.4
DII	16.4
Others	13.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-15.9	-10.9	-2.0	7.5
Relative to Sensex	-12.6	-9.7	-10.1	-13.1

Sharekhan Research, Bloomberg

Britannia Industries Ltd

Margins miss mark; volume growth sustains

Consumer Goods

Sharekhan code: BRITANNIA

Reco/View: Buy



CMP: Rs. 5,028

Price Target: Rs. 5,995



Upgrade



Maintain



Downgrade

Summary

- ♦ Britannia's Q2FY2025 numbers missed expectations due to lower-than-expected OPM at 16.8% (versus expectation of 19%) dragged down PAT by 9% y-o-y. Volume growth sustained at 8% better than large peers.
- ♦ Rural market is growing 2x the urban market. Urban slowdown and inflation might be a risk to near-term volume growth. Focus remains on expanding market share through relevant actions.
- ♦ Price hike of 4-5% will sufficiently cover raw material inflation and help maintain OPM at 18-19%.
- ♦ Stock has corrected by 22% from its high and trades at 55x/47x/42x its FY25E/FY26E/FY27E earnings, respectively. We retain a Buy on the stock with a revised PT of Rs. 5,995.

Britannia's Q2FY2025 numbers missed the mark due to lower-than-expected OPM at 16.8% versus our and street expectation of 19% resulting in a decline in the PAT. Domestic volume growth of 8% was in-line with expectation, sustained on q-o-q basis. Consolidated revenues grew by 5.3% y-o-y to Rs. 4,667 crore (net revenues grew by 4.5% y-o-y) with standalone revenues growing by 4.9% and subsidiaries' revenues growing by 15.8%. Gross margins fell by 136 bps y-o-y to 41.5% due to input cost inflation. This along with higher employee cost led to 290 bps y-o-y fall in consolidated OPM to 16.8%. Excluding one-time expenses related to ESOPs of Rs. 50 crore, OPM would have been ~18%. Operating profit decreased by 10.2% y-o-y to Rs. 783 crore and PAT fell by 8.9% y-o-y to Rs. 534 crore. For H1FY2025, consolidated revenues grew by 5.6% y-o-y to Rs. 8,918 crore, OPM decreased by 126 bps y-o-y to 17.2% and PAT grew marginally by 2.1% y-o-y to Rs. 1,064 crore.

Key positives

- ♦ Volumes grew 8% in Q2FY2025 in line with street expectation.
- ♦ Subsidiaries' revenues grew 16% with adjacencies such as cake, rusk and drinks (registered double-digit growth) performing well.
- ♦ Britannia maintained market share in a weak demand environment.

Key negatives

- ♦ Consolidated OPM fell by 290 bps y-o-y to 16.8%, lower than expectation of ~19%.

Management Commentary

- ♦ Urban growth for FMCG sector has moderated due to high housing costs and stagnation in the wage hike. Metros grew by just 2% compared to non-metro/rural market growing by 6.7%/8.7% respectively in Q2. For Britannia, the rural market grew 2x the urban market.
- ♦ In the wake of raw material inflation, the company is planning to take price increase of 4-5% to mitigate the input cost pressures. This along with cost efficiencies will help in maintaining OPM in H2FY2025.
- ♦ Domestic volumes rose ~8% in H1. It will align in-line with the price growth in the H2FY2025.
- ♦ Market share gains through relevant pricing action, distribution expansion, and new product launches should help volume growth improve in the medium to long run.
- ♦ Three new factories operational at Bihar, Uttar Pradesh and Tamil Nadu along with capacity expansion at Ranjangaon facility will help to expand in key markets.
- ♦ Route-to-Market (RTM) 2.0 has been piloted in 25 cities across 44 distributors and over 50,000 outlets showing good results. Emphasis is on high-potential outlets, boosting salesman capabilities, upgrading technology and increasing the field presence. Full rollout is likely to be in the next 12-15 months.
- ♦ Direct reach improved to 28.5 lakh outlets in September 2024 from 27.9 lakh outlets in March 2024. Rural distributors stood flat q-o-q at 30,000 in Q2FY2025. Focused states continued to grow at a faster pace of 1.9x of the rest of India in Q2FY2025.
- ♦ Some of the recent innovations are gaining strong traction. Innovation as percentage to sales stood at 2% in Q2.

Revision in earnings estimates – We have reduced our earnings estimates by 8.5% and 6.2% respectively for FY2025 and FY2026 to factor in lower OPM than earlier expected. We have introduced FY2027 estimates through this note.

Our Call

View – Maintain Buy with a revised PT of Rs. 5,995: The company has maintained its leadership position amid weak consumer demand with focus on expanding in new markets. Management is striving for higher growth with an expected recovery in volume growth, while distribution expansion and RTM 2.0 will provide strong back-end support to overall growth in the coming years. Input cost inflation might put stress on margins in the near term. Management is confident of maintaining OPM at 18-19% on back relevant pricing actions and cost efficiencies. The stock has corrected by 22% from its recent high and is trading at 55x/47x/42x its FY2025E/FY2026E/FY2027E EPS, respectively factoring the near-term uncertainties. Britannia's medium to long-term growth prospects are intact, considering its strong position in the snacking category. We maintain a Buy on the stock with a revised price target (PT) of Rs. 5,995.

Key Risks

Any sustained slowdown in key categories, higher competition from unorganised play, or spike in key input prices would act as a key risk to our earnings estimates in the coming years.

Valuation (Consolidated)

Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	16,301	16,769	17,912	19,745	21,457
OPM (%)	17.4	18.9	17.9	18.8	19.0
Adjusted PAT	1,951	2,140	2,198	2,558	2,891
% YoY growth	28.6	9.7	2.7	16.4	13.0
Adjusted EPS (Rs.)	81.0	88.8	91.2	106.2	120.0
P/E (x)	61.9	56.7	55.1	47.3	41.9
P/B (x)	34.3	30.7	24.5	19.3	15.2
EV/EBIDTA (x)	43.3	38.4	38.0	32.7	29.3
RoNW (%)	64.1	57.3	49.5	45.6	40.5
RoCE (%)	32.8	33.0	33.9	34.7	32.5

Source: Company; Sharekhan estimates

Q2FY25 – Volumes grew by 8%; OPM decreased by 290 bps y-o-y

Britannia's consolidated revenues grew by 5.3% y-o-y to Rs. 4,668 crore, largely in-line our and average street expectation of Rs. 4,760 crore. Volume growth came at 8% in-line with our expectation of 8%. Gross margin decreased by 136 bps y-o-y to 41.5%, while OPM fell by 290 bps y-o-y to 16.8%. OPM came in lower than our and average street expectation of 19.2% and 18.9%, respectively. Operating profit decreased by 10.2% y-o-y to Rs. 783 crore. In line with decline operating profit, adjusted PAT decreased by 8.9% y-o-y to Rs. 535 crore lower than our and average street expectation of Rs. 636 crore.

Subsidiaries revenue grew by 16% y-o-y; OPM up 44 bps y-o-y

Subsidiaries' revenue grew by 16% y-o-y to Rs. 167 crore, OPM rose 44 bps y-o-y to 22.3%, and PAT stood at Rs. 21.8 crore in Q2FY2025 against Rs. 16 crore in Q2FY2024.

Results (Consolidated)					Rs cr
Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Net sales	4,566.2	4,370.5	4.5	4,129.9	10.6
Other operating income	101.3	62.4	62.4	120.4	-15.8
Total revenues	4,667.6	4,432.9	5.3	4,250.3	9.8
Raw material cost	2,729.4	2,531.8	7.8	2,405.4	13.5
Employee cost	232.3	159.9	45.3	202.0	15.0
Other expenses	922.4	868.8	6.2	889.3	3.7
Total operating expenses	3,884.2	3,560.5	9.1	3,496.6	11.1
Operating Profit	783.4	872.4	-10.2	753.7	3.9
Other income	46.0	52.4	-12.1	55.6	-17.3
Interest expenses	34.6	53.4	-35.2	29.0	19.7
Depreciation	76.1	71.7	6.1	73.9	2.9
Profit before tax	718.7	799.7	-10.1	706.4	1.7
Tax charges	183.6	212.1	-13.4	176.2	4.2
Adjusted PAT	535.1	587.5	-8.9	530.2	0.9
Share of profit from associates	-0.7	-1.0	-37.5	-0.7	0.0
Reported PAT	534.4	586.5	-8.9	504.9	5.9
EPS (Rs. .)	22.2	24.4	-8.9	22.0	0.9
			BPS		BPS
GPM (%)	41.5	42.9	-136	43.4	-188
OPM (%)	16.8	19.7	-290	17.7	-95
NPM (%)	11.5	13.3	-179	12.5	-101
Tax rate (%)	25.5	26.5	-98	24.9	60

Source: Company; Sharekhan Research

Results (Subsidiaries)					Rs cr
Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Total revenues	166.7	144.0	15.8	155.9	7.0
Operating Profit	37.2	31.5	18.1	25.4	46.6
Reported PAT	21.8	16.0	35.9	2.8	-
OPM (%)	22.3	21.9	44	16.3	602
NPM(%)	13.1	11.1	194	1.8	-

Source: Company; Sharekhan Research

Results (Standalone)

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Total revenues	4,500.8	4,288.9	4.9	4,094.4	9.9
Operating Profit	746.2	840.9	-11.3	728.3	2.5
Other income	52.0	53.2	-2.3	67.3	-22.8
PBT	695.0	781.7	-11.1	700.3	-0.8
Reported PAT	512.7	570.5	-10.1	502.1	2.1
GPM (%)	39.7	41.3	-159	41.7	-203
OPM (%)	16.6	19.6	-303	17.8	-121
NPM (%)	11.4	13.3	-187	12.9	-143
Tax rate (%)	26.0	27.0	-106	24.8	118

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – H2FY2025 will be better as compared to H1

Monsoons were above normal and well spread out, which will help agri production to be better in the current year. This will not only boost rural consumption but will also help agri inflation to stabilise in the near term. Management of some consumer goods companies have indicated double-digit revenue growth in H2FY2025 driven by mix of volume and price-led growth. Global uncertainties will lead to volatility in the raw material prices and currency movement. This will put pressure on the margins of consumer goods companies in the quarters ahead. Companies might opt for a gradual price increase to mitigate the impact of higher raw material prices. We expect operating profit growth to be lower as compared to revenue growth in the near term. On the other hand, a rise in commodity prices will reduce competitive intensity from small/regional players in the quarters ahead. Thus, overall growth trends remain positive for most companies under our coverage.

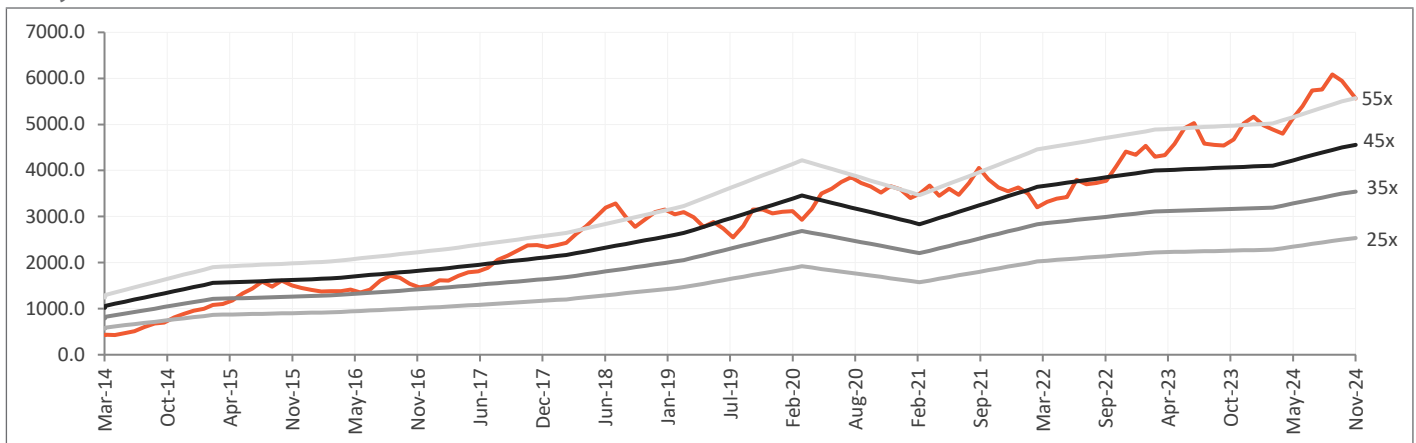
■ Company Outlook – Focus on achieving consistent volume growth in long run

FY2025 performance is expected to be impacted by weak consumer demand impacting the volume growth while input cost inflation expected to put stress on margins. The company is focusing on achieving high single-digit to low double-digit volume growth in the medium term, through market share gains, distribution expansion, better penetration in the Hindi-speaking belt, and product launches. The company has a strong product pipeline and will launch relevant products amid normal demand. Along with its focus on an improving mix, the company will stringently manage its discretionary costs and will continue to strengthen efficiencies at operational and distributional levels to reduce costs, which will help to achieve better OPM of high teens in the coming years.

■ Valuation – Maintain Buy with a revised PT of Rs. 5,995

The company has maintained its leadership position amid weak consumer demand with focus on expanding in new markets. Management is striving for higher growth with an expected recovery in volume growth, while distribution expansion and RTM 2.0 will provide strong back-end support to overall growth in the coming years. Input cost inflation might put stress on margins in the near term. Management is confident of maintaining OPM at 18-19% on back relevant pricing actions and cost efficiencies. The stock has corrected by 22% from its recent high and is trading at 55x/47x/42x its FY2025E/FY2026E/FY2027E EPS, respectively factoring the near-term uncertainties. Britannia's medium to long-term growth prospects are intact, considering its strong position in the snacking category. We maintain a Buy on the stock with a revised price target (PT) of Rs. 5,995.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Hindustan Unilever	58.4	54.9	50.4	40.9	39.1	35.8	25.9	26.9	29.2
Nestle India	-	67.2	60.5	-	45.2	39.8	-	106.1	113.5
Britannia	56.7	55.1	47.3	38.4	38.0	32.7	33.0	33.9	34.7

Source: Company, Sharekhan estimates

About company

Britannia is one of India's leading packaged food companies with a 100-year legacy and annual revenue in excess of Rs. . 16,000 crore. The company is among the most trusted food brands and manufactures well-known brands such as Good Day, Tiger, NutriChoice, Milk Bikis, and Marie Gold, which are household names in India. Britannia's product portfolio includes biscuits, bread, cakes, rusk, and dairy products, including cheese, beverages, milk, and yogurt. The company is the market leader in the biscuit category, with close to 34% market share in the domestic market.

Investment theme

Britannia is a strong brand with market leadership in the domestic biscuit market with a 40% share. Sustained new launches and entry into healthier and premium variants helped it gain market share and beat category growth. The company is also focusing on growing its adjacent categories such as dairy and bakery. Volume growth is expected to sustain in mid-single digits in the near term. Market share gains, expanding reach in rural India, and strong traction to innovation would help in improving the volume growth trajectory going ahead. Along with its focus on improving the mix, the company will stringently manage its discretionary cost and will continue to strengthen efficiencies at the operations and distribution level to reduce the cost, which will help to achieve better OPM in high teens in the coming years.

Key Risks

- Any further lockdown in some of the key domestic markets would act as an obstacle to the strong growth momentum and will consequently impact earnings growth.
- Dismal performance by some of the new ventures would affect the company's overall performance in the near to medium term.

Additional Data

Key management personnel

Nusli N. Wadia	Chairman
Varun Berry	Managing Director
N. Venkataraman	Chief Financial Officer
Rajneet Singh Kohli	Chief Executive Officer
T. V. Thulsidass	Company Secretary

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	4.13
2	SBI Funds Management Ltd	2.16
3	Vanguard Group Inc	1.99
4	BlackRock Inc	1.97
5	JPMorgan Chase & Co	1.44
6	Quant money managers Ltd	1.36
7	ICICI Prudential Asset Management Co.	1.32
8	General Insurance Corp of India	1.02
9	Touchstone Advisors Inc	0.54
10	UTI Asset Management Co Ltd	0.50

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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