

Britannia Industries Ltd

Volumes to improve; Current margins near peak

Britannia Industries Ltd. (BRIT) 3QFY24 headline performance was largely in-line with our subdued estimates. Volume growth for the quarter at 5.5% (3-3.5% pack growth) surprised us positively (vs est. 3% volume growth). This along with higher price cut QoQ and lower other operating income meant that topline was in-line with our expectations. Gross margin improved ~100bps QoQ (40bps ahead of our expectation), even after taking price cuts, largely led by commodity basket deflation of 3-4% in 3QFY24. Judicious pricing actions have also meant that market share trends have come back to growth from being flat in 1HFY24. Going ahead, we expect volume growth momentum to improve further but negative pricing along with peak margin base will mean that earnings growth will likely remain subdued in the very near term. Maintain NEUTRAL rating with a revised target price (TP) of Rs5,140.

3QFY24 Result Highlights

- **Headline performance:** Consolidated sales was up 2.2% YoY while revenues (including OOI) was up 1.4% YoY to Rs42.6bn (vs est. of Rs42.9bn). Consol. EBITDA was flat YoY to Rs8.2bn (vs est. Rs8.4bn). Adjusted PAT (APAT) down by 2.5% YoY to Rs5.6bn (vs est. Rs5.66bn).
- **Standalone revenues** grew by 2.3% YoY to Rs40.3bn (sales up 3.1% YoY). Volume growth for the quarter stood at 5.5% which was ahead of our expectation of ~3% growth. EBITDA margin stood at 19.3% (down 40bps YoY).
- **Consolidated gross margin** up by 20bps YoY to 43.9% (up 100bps QoQ). Employee cost was up 40bps YoY while other overheads were flat YoY as a % of revenue. Thus, consolidated EBITDA margin was down 20bps YoY to 19.3% (vs est. 19.5%).
- **9MFY24:** Consol. revenues, EBITDA & APAT up 3.4%, 17.4% & 14.3% YoY, respectively. Gross/EBITDA margin up 300bps/220bps YoY to 42.9%/18.8%, respectively.

Key Conference Call Highlights

- (1) Market share trends have come back to growth from being flat in 1HFY24. Market share gains largely came from Hindi Belt and some other states driven by premium portfolio.
- (2) Price cut from 2QFY24 levels stood at ~2-2.5% (~4% price cut versus last year).
- (3) Going forward, will look at keeping margins stable (~19% EBITDA margin looks peak levels) while growing topline aggressively.

View & Valuation

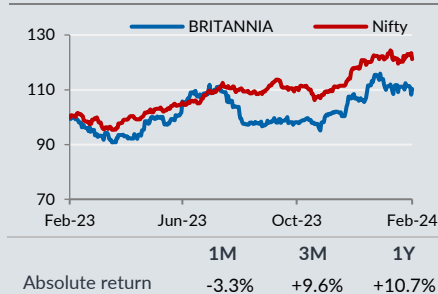
Over FY24E-26E, we are currently building revenue CAGR of ~8.4% driven by volume growth in base-business (~7.6% volume CAGR). Drivers: (a) Volume growth expected to touch double digits in the near term. Rural recovery and distribution expansion would be key drivers of volume growth. (b) Volume growth in base business to be slightly negated by price cuts & promotions in the very near term (to remain competitive and maintain market share trend gain). (c) Sharp growth expected in adjacent businesses ((almost 50% higher compared to the base business) led by company's initiatives will add delta. We build ~9.7% EBITDA CAGR over FY24E-FY26E (~50bps EBITDA margin expansion as we expect gross margin to expand by 40bps over FY24E-FY26E) as company is now looking to grow topline aggressively while maintaining the current peak level of margin profile. The stock is trading at ~56x/49x/44x FY24E/FY25E/FY26E EPS as we build in ~12.3% earnings CAGR over FY24E-26E. We continue to maintain our NEUTRAL rating with a revised TP of Rs5,140 (Rs4,920 earlier) valuing it at ~47x Sept'2025E EPS (3yr/5yr avg fwd. multiple: ~47x) due to the structural opportunity in the packaged foods space, decent return ratios, healthy dividend payout and continues market share gains.

Reco	: NEUTRAL
CMP	: Rs 5,007
Target Price	: Rs 5,140
Potential Return	: +2.7%

Stock data (as on Feb 07, 2024)

Nifty	21,522
52 Week h/l (Rs)	5386 / 4153
Market cap (Rs/USD mn)	1234330 / 14850
Outstanding Shares (mn)	241
6m Avg t/o (Rs mn):	1,695
Div yield (%):	1.4
Bloomberg code:	BRIT IN
NSE code:	BRITANNIA

Stock performance



Shareholding pattern (As of Dec'23 end)

Promoter	50.6%
FII+DII	34.0%
Others	15.5%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	5,140	4,920

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	90.2	103.0	113.7
EPS (Old)	90.3	100.1	109.4
% change	-0.2	+3.0	+4.0

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	169,555	185,679	199,109
YoY Growth (%)	4.0	9.5	7.2
EBITDA	32,164	35,585	38,680
Margins (%)	19.0	19.2	19.4
PAT	21,726	24,823	27,399
EPS	90.2	103.0	113.7
YoY Growth (%)	10.7	14.3	10.4
Pre-tax RoCE (%)	44.9	50.7	54.6
ROE (%)	56.7	56.7	56.4
P/E (x)	55.5	48.6	44.0
EV/EBITDA (x)	37.2	33.4	30.5

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Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	42,563	42,943	42,962	(0.9)	(0.9)
EBITDA	8,211	8,374	8,131	(1.9)	1.0
EBITDA Margin (%)	19.3	19.5	18.9	(0.2)	0.4
Adjusted PAT	5,593	5,657	5,528	(1.1)	1.2

Source: Bloomberg, YES Sec

Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	YoY (%)
Revenues	41,968	44,329	42,563	1.4	-4.0	122,774	126,999	3.4
COGS	23,647	25,318	23,891	1.0	-5.6	73,754	72,495	-1.7
Gross margin %	43.7	42.9	43.9	0.2	1.0	39.9	42.9	3.0
Employee costs	1,782	1,599	1,985	11.3	24.1	4,878	5,467	12.1
% of sales	4.2	3.6	4.7	0.4	1.1	4.0	4.3	0.3
Other expenses	8,363	8,688	8,477	1.4	-2.4	23,842	25,213	5.8
% of sales	19.9	19.6	19.9	0.0	0.3	19.4	19.9	0.4
EBITDA	8,176	8,724	8,211	0.4	-5.9	20,300	23,824	17.4
EBITDA margin %	19.5	19.7	19.3	-0.2	-0.4	16.5	18.8	2.2
Depreciation	580	717	781	34.7	8.9	1,606	2,205	37.3
EBIT	7,596	8,007	7,430	-2.2	-7.2	18,694	21,619	15.6
EBIT margin %	18.1	18.1	17.5	-0.6	-0.6	15.2	17.0	1.8
Interest expense	381	534	311	-18.5	-41.8	1,342	1,376	2.5
Other income	508	524	506	-0.4	-3.4	1,595	1,568	-1.7
Exceptional items	3,590	0	-29	-	-	3,590	-29	-
PBT	11,312	7,997	7,596	-32.9	-5.0	22,536	21,782	-3.3
Tax	2,003	2,121	2,026	1.1	-4.5	4,963	5,812	17.1
Effective tax rate %	17.7	26.5	26.7	9.0	0.1	22.0	26.7	4.7
Adj. PAT	5,734	5,876	5,593	-2.5	-4.8	14,041	16,044	14.3
Adj. PAT margin %	13.7	13.3	13.1	-0.5	-0.1	11.4	12.6	1.2
EPS	23.8	24.4	23.2	-2.5	-4.8	58.3	66.6	14.3

Source: Company, YES Sec

Exhibit 3: Quarterly snapshot (Standalone)

Particulars (Rs. Mn)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	YoY (%)
Revenues	40,112	42,889	41,024	2.3	-4.3	117,237	122,618	4.6
COGS	23,189	25,191	23,682	2.1	-6.0	72,396	72,013	-0.5
Gross margin %	42.2	41.3	42.3	0.1	1.0	38.2	41.3	3.0
Employee costs	1,415	1,251	1,632	15.3	30.5	3,840	4,404	14.7
% of sales	3.5	2.9	4.0	0.4	1.1	3.3	3.6	0.3
Other expenses	7,609	8,038	7,781	2.3	-3.2	21,530	23,198	7.7
% of sales	19.0	18.7	19.0	0.0	0.2	18.4	18.9	0.6
EBITDA	7,898	8,409	7,929	0.4	-5.7	19,471	23,004	18.1
EBITDA margin %	19.7	19.6	19.3	-0.4	-0.3	16.6	18.8	2.2
EBIT	7,398	7,765	7,222	-2.4	-7.0	18,095	21,019	16.2
EBIT margin %	18.4	18.1	17.6	-0.8	-0.5	15.4	17.1	1.7
PBT	5,251	7,817	7,454	42.0	-4.6	16,238	21,342	31.4
Adj. PAT	5,392	5,705	5,413	0.4	-5.1	13,462	15,561	15.6
Adj. PAT margin %	13.4	13.3	13.2	-0.2	-0.1	11.5	12.7	1.2
EPS	22.4	23.7	22.5	0.4	-5.1	55.9	64.6	15.6

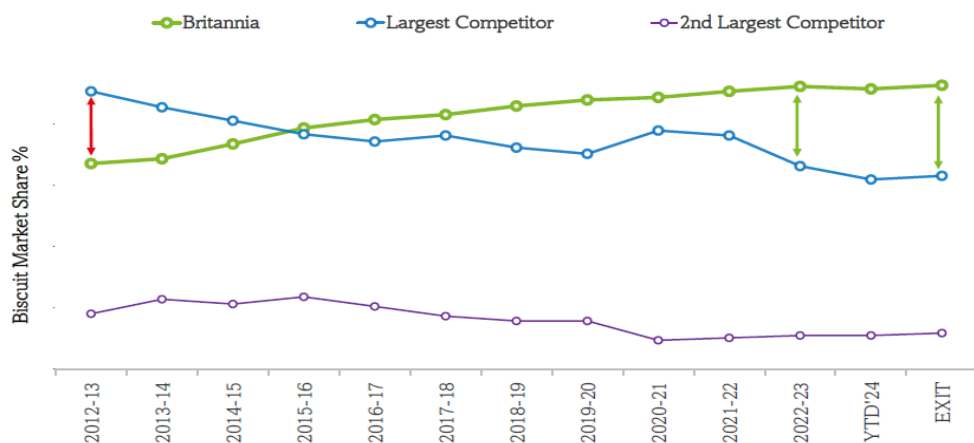
Source: Company, YES Sec

KEY TAKEAWAYS/EXCERPT'S FROM BRITANNIA'S Q3FY24 CONFERENCE CALL/PRESENTATION

- **Macro environment:** Economy doing very well amidst global slowdown, but private consumption spends remain subdued. Management believes it is matter of time private consumption will be back with stable inflation & improving economic environment.
- **Volume growth** for the quarter was at 5.5%. Management believes the time is ripe for BRIT to see higher volume growth rate. The company is moving towards double-digit levels but not sure that will happen immediately in the next quarter. Unit/Pack growth for the quarter stood at ~3-3.5% due to the grammage changes.
- **Urban-rural:** Urban growth still outpacing rural growths.
- **Distribution:** Expanded direct reach to 2.76mn outlets. Rural distributors increased to 29k as on Dec'23.
- **Focus states:** YTD growth in focus states at 2.4x higher than rest of India.
- **Price cuts:** BRIT has taken some strategic pricing actions in key SKUs & markets. Price cut from 2QFY24 levels stood at ~2-2.5%. Thus, there is a ~4% price cut versus last year. Promotions implemented to drive rural consumption which has not been doing well compared to earlier years. Don't think there will be a need for price hikes at this point of time as commodity cost continues to be benign. But company is watchful of geo-political events for commodity inflation.
- **Market share:** Market share trends have come back to growth from being flat in 1HFY24. Market share gains largely came from Hindi Belt and some other states driven by premium portfolio. Value portfolio has not been doing well for BRIT.
- **Commodity:** Overall commodity cost soft. Commodity deflation would have been around 3-4% in 3QFY24. Flour flat in 3Q vs 2Q. Sugar has gone up. While Palm Oil, Laminates and Corrugated Boxes have come down. Dairy cost has also seen a dip. BRIT will continue to closely monitor stock/price situation of commodities.
- **Outlook:** Going forward, will look at keeping margins stable (~19% EBITDA margin looks peak levels) while growing topline aggressively. Management believes, the company is already in the top quartile among Food FMCG companies are concerned in terms of profitability.
- **Competitive intensity** still there from local players. High competition visible in modern trade as well.
- **Innovations:** Relaunched *Treat* Creams seeing good response in market. Marketing support sustained to drive engagement across brands like *50-50*, *Milk Bikis*, *Nutri Choice*, *Rusk*, *Milk Shakes*. *JimJam Pops* and *50-50 GOLMAAL* showing consistent performance. This along with some fresh launches (*Tiger Coconut Crunch*, *Treat* variants, *Cakes* and *BeYou*), contributing Rs2+bn (annualized) in revenues.
- **Cake:** Base format (Bar Cake) back to growths.
- **Rusk** seeing volume recovery post restage & focus on distribution.
- **Bread:** Health & Variety segment outperform with healthy growths.
- **Cheese:** Differentiated formats continue to gain traction (differentiated cheese contributed ~10% to cheese business); Growth in Organized Trade under stress. Processed Cheese line commercialized in Jan'24. JV with BEL going quite well. This year is going to be good for the cheese business. Now participating with international standard products. BRIT will continue to create habit of cheese consumption in India. Potential of growth is very high in this category but do not see cheese becoming 10% of revenues. Target is to take cheese consumer business to Rs10bn in next 5 years (if BRIT enter B2B, it will be an added opportunity). In the medium term, BRIT will want to remain competitive in terms of market share in cheese category but with differentiated products.

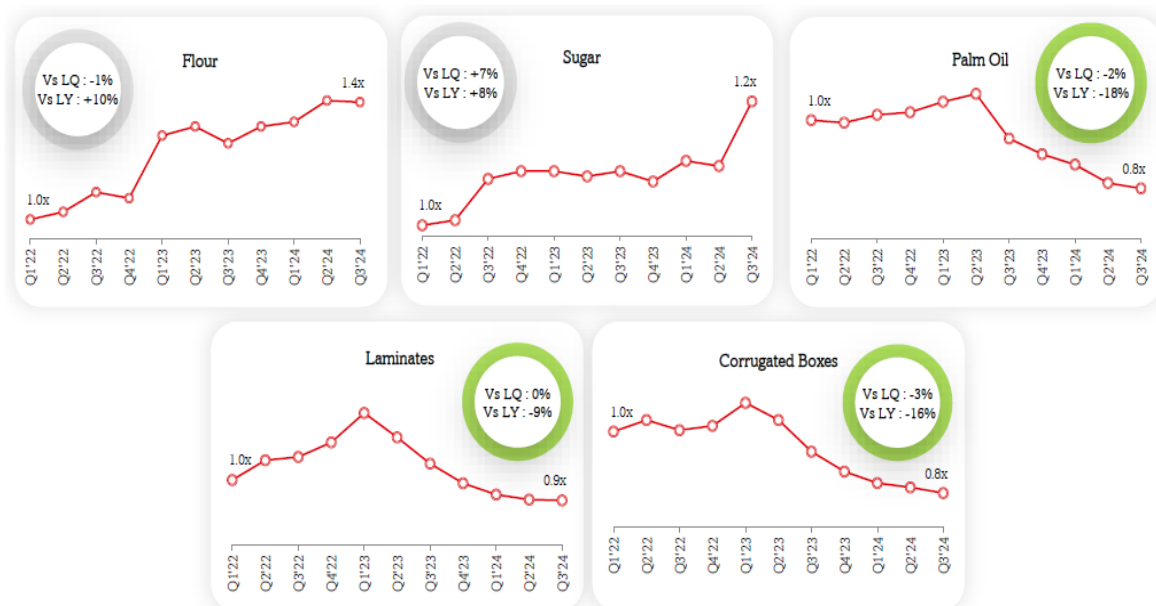
- **International:** Double-digit profitable growth across markets of Middle East & Africa, and Rest of International. Nepal stays on consistent growth path, both in revenues & profitability. Egypt has grown 5x through change in distribution. Egypt still a very small market.
- **Cost reduction** in 2023-24 to be 7x of 2013-14 levels. Management believes BRIT's cost efficiency programs are best in the industry.
- **Scale change over the years:** Moved from small factory (~1,800 TPM) to Integrated factory (~7,000 TPM) to Mega Food Park (~16,000 TPM; ~20,000 TPM including dairy). This has helped in reduce distance to markets, cost efficiencies, consistent product quality, optimize fiscal incentives, etc. BRIT also working on smart factories.
- **Adjacent business:** BRIT is committed to grow adjacent business at a much higher rate (almost 50% higher) compared to the base business.
- **Biscuit and non-biscuit mix** now stands at 65:35.

Exhibit 4: Market share rebound in 3QFY24 post challenges in 1HFY24



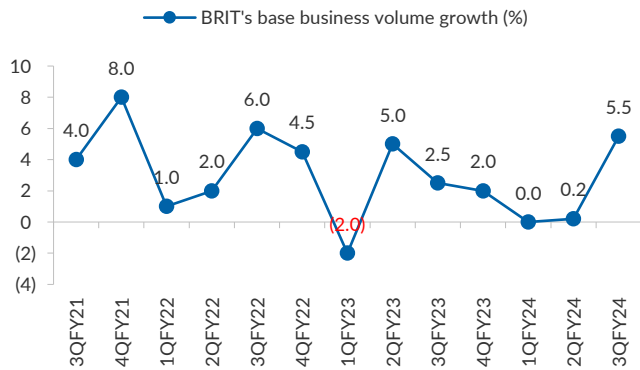
Source: Nielsen, Company, YES Sec

Exhibit 5: Commodity cost remained soft in 3Q



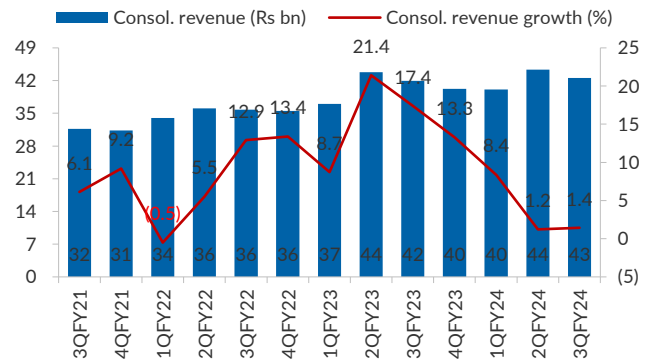
Source: Company, YES Sec; Note: Above values are average actual consumption rates for the quarter

Exhibit 6: Volumes surprised us positively growing at 5.5% YoY in 3QFY24



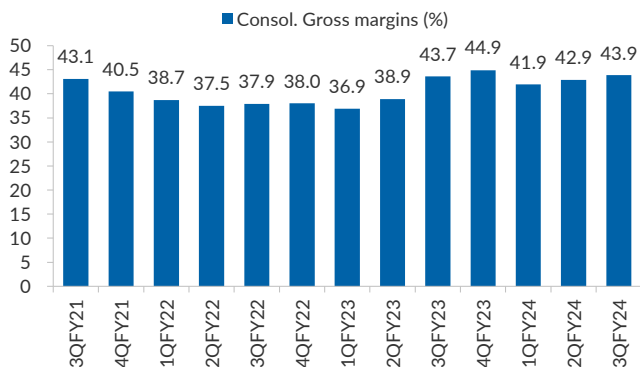
Source: Company, YES Sec

Exhibit 7: Consol. revenue grew 1.4% YoY (consol. sales up 2.2% YoY)



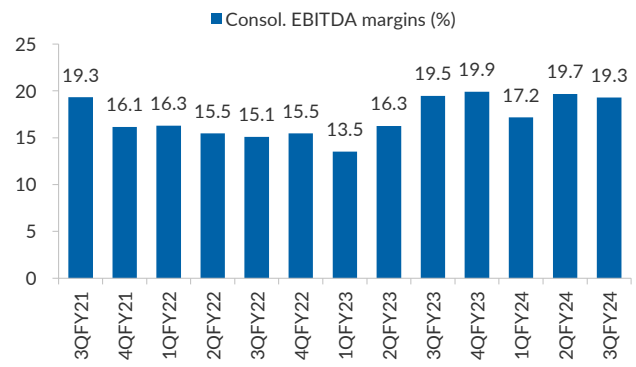
Source: Company, YES Sec

Exhibit 8: Softer commodity cost meant that gross margin were up 100bps QoQ in 3Q to 43.9%



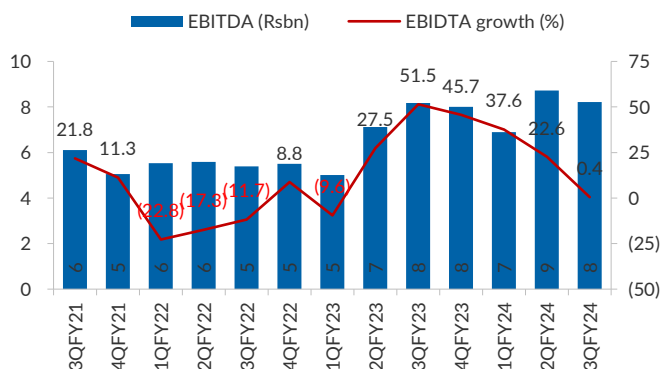
Source: Company, YES Sec

Exhibit 9: EBITDA margin stood at 19.3% (-20bps YoY)



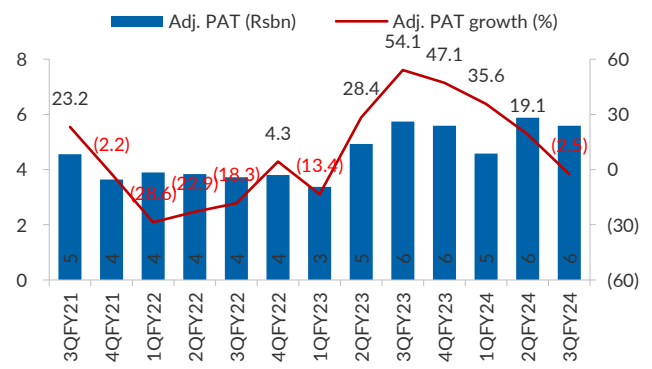
Source: Company, YES Sec

Exhibit 10: EBITDA thus flat YoY in 3QFY24



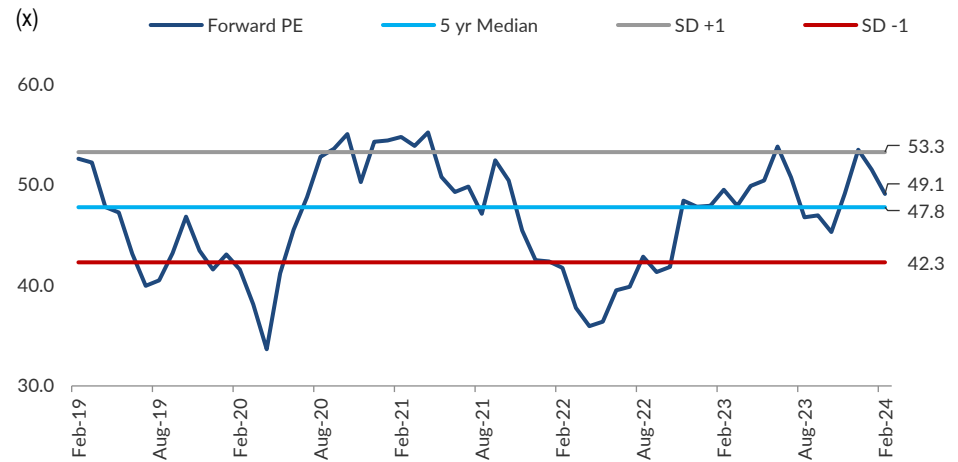
Source: Company, YES Sec

Exhibit 11: While APAT down by 2.5% YoY



Source: Company, YES Sec

Exhibit 12: Currently trading at ~49x 1-yr fwd earnings



Source: Company, YES Sec

FINANCIALS

Exhibit 13: Balance Sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	241	241	241	241	241
Reserves	25,340	35,102	40,874	46,139	50,549
Minority Interest	275	302	302	302	302
Net worth	25,581	35,343	41,115	46,380	50,790
Total debt	24,812	29,974	22,974	16,974	14,974
Deferred tax liability	(509)	(554)	(554)	(554)	(554)
Total liabilities	50,159	65,065	63,838	63,102	65,512
Gross block	28,087	39,481	43,981	45,981	47,981
Depreciation	11,951	14,210	17,214	20,363	23,652
Net block	16,136	25,271	26,766	25,617	24,329
Intangible assets	1,396	1,282	1,282	1,282	1,282
Capital work-in-progress	5,357	1,050	1,050	1,050	1,050
Investments	17,624	33,242	29,375	31,805	37,665
Inventories	13,675	11,933	12,497	13,687	14,672
Debtors	3,319	3,289	3,403	3,710	3,956
Cash	1,849	1,980	2,499	2,737	2,934
Loans & advances	14,019	13,101	14,233	13,184	12,167
Other current assets	1,263	1,807	1,807	1,807	1,807
Total current assets	34,126	32,110	34,440	35,125	35,538
Creditors	12,852	14,488	14,402	15,704	16,740
Other current liabilities & provisions	11,627	13,402	14,673	16,072	17,611
Total current liabilities	24,479	27,890	29,075	31,776	34,351
Net current assets	9,647	4,220	5,365	3,349	1,187
Total assets	50,159	65,065	63,838	63,102	65,512

Source: Company, YES Sec

Exhibit 14: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	141,363	163,006	169,555	185,679	199,109
% Growth	7.6	15.3	4.0	9.5	7.2
COGS	87,603	95,913	96,277	105,017	112,314
Staff costs	5,423	6,584	7,415	8,029	8,608
Other expenses	26,322	32,200	33,699	37,048	39,508
Total expenses	119,348	134,696	137,391	150,094	160,429
EBITDA	22,015	28,309	32,164	35,585	38,680
% growth	-12.3	28.6	13.6	10.6	8.7
EBITDA margin (%)	15.6	17.4	19.0	19.2	19.4
Other income	2,228	2,159	2,080	2,325	2,630
Interest costs	1,443	1,691	1,695	1,588	1,406
Depreciation	2,005	2,259	3,005	3,149	3,289

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax (before exceptional items)	20,795	26,518	29,544	33,173	36,615
Exceptional items	-10	3,590	0	0	0
Tax	5,624	6,998	7,873	8,350	9,216
Rate of Tax (%)	27.0	26.4	26.7	25.2	25.2
PAT	15,248	23,218	21,726	24,823	27,399
Adj PAT	15,258	19,628	21,726	24,823	27,399
Adj PAT margin (%)	10.6	11.9	12.7	13.2	13.6
% Growth	-18.2	28.6	10.7	14.3	10.4

Source: Company, YES Sec

Exhibit 15: Cash flow statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	15,172	19,519	21,671	24,823	27,399
Depreciation	2,005	2,259	3,005	3,149	3,289
Other income	2,228	2,159	2,080	2,325	2,630
(Inc.)/dec. in working capital	(3,273)	4,057	(1,625)	1,254	1,359
Cash flow from operations	12,995	25,262	22,665	28,490	30,823
Capital expenditure (-)	(5,763)	(7,087)	(4,500)	(2,000)	(2,000)
Net cash after capex	7,232	18,175	18,165	26,490	28,823
Dividends paid (-)	(24,849)	(13,592)	(16,253)	(19,859)	(23,289)
Inc./(dec.) in investments	10,480	(10,249)	4,867	(1,430)	(4,860)
Cash from financial activities	(22,458)	(10,284)	(24,948)	(27,447)	(26,695)
Opening cash balance	2,113	1,849	1,980	2,499	2,738
Closing cash balance	1,849	1,980	2,499	2,738	2,935
Change in cash balance	(264)	131	520	238	197

Exhibit 16: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	63.3	81.5	90.2	103.0	113.7
Book value	106.2	146.7	170.7	192.5	210.8
DPS	69.0	58.3	67.5	82.4	96.7
Valuation (x)					
EV/sales	8.6	7.4	7.1	6.4	5.9
EV/EBITDA	55.0	42.4	37.2	33.4	30.5
P/E	79.1	61.5	55.5	48.6	44.0
P/BV	47.2	34.1	29.3	26.0	23.7
Return ratios (%)					
RoCE*	37.2	44.8	44.9	50.7	54.6
RoE	49.7	64.1	56.7	56.7	56.4
RoIC*	77.5	94.4	95.9	109.0	134.9

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Profitability ratios (%)					
Gross margin	38.0	41.2	43.2	43.4	43.6
EBITDA margin	15.6	17.4	19.0	19.2	19.4
EBIT margin	14.2	16.0	17.2	17.5	17.8
PAT margin	10.6	11.9	12.7	13.2	13.6
Liquidity ratios (%)					
Current ratio	1.4	1.2	1.2	1.1	1.0
Quick ratio	0.8	0.7	0.8	0.7	0.6
Solvency ratio (%)					
Debt to Equity ratio	1.0	0.8	0.6	0.4	0.3
Turnover ratios					
Total asset turnover ratio (x)	2.8	2.5	2.6	2.9	3.0
Fixed asset turnover ratio (x)	6.6	6.2	6.1	7.0	7.8
Inventory days	51	49	46	46	46
Debtors days	8	7	7	7	7
Creditor days	54	52	55	52	53

Source: Company, YES Sec; * pre-tax

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