

We downgrade Britannia to REDUCE from Add, cutting Sep-25E TP to Rs5,200 from Rs6,750 earlier. Britannia's near-term outlook has turned weak, given the double whammy of demand slowdown and inflationary pressures. The inflationary setting ahead is likely to have a bearing on volume and margin delivery. The company is looking at 4-5% price hikes to address the inflationary stress, but as the strategic cover ends, we sense inflationary stress persisting in the business. We cut earnings by 9-13% ahead, to factor in the near-term demand pressure/margin headwind. Q2 results were weaker than expected, with consolidated topline growth at 4.5% (8% volume growth; biscuits market share steady in 1HFY25), and 10% drop in earnings. Q2 OPM contracted by 290bps YoY to 16.8%, with gross margin down by 135bps YoY to 41.5%.

Britannia Industries: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	163,006	167,693	176,857	191,549	209,460
EBITDA	28,309	33,486	31,513	34,935	38,928
Adj. PAT	19,462	23,215	21,876	24,639	27,486
Adj. EPS (Rs)	80.8	96.4	90.8	102.3	114.1
EBITDA margin (%)	17.4	20.0	17.8	18.2	18.6
EBITDA growth (%)	28.6	18.3	(5.9)	10.9	11.4
Adj. EPS growth (%)	27.5	19.3	(5.8)	12.6	11.6
RoE (%)	63.9	62.1	52.7	52.6	51.2
RoIC (%)	70.7	84.1	78.9	83.6	94.3
P/E (x)	62.2	52.2	55.4	49.2	44.1
EV/EBITDA (x)	42.6	35.8	38.0	34.1	30.4
P/B (x)	34.3	30.7	27.8	24.1	21.2
FCFF yield (%)	1.6	1.7	1.5	2.0	2.2

Source: Company, Emkay Research

Urban slowdown with inflationary pressure to hurt volume delivery ahead

Britannia reported 4.5% consol revenue growth in Q2FY25, with 8% volume growth. Its Biscuits market-share was steady YoY in 1HFY25. Mgmt attributes the slowdown in sector growth to demand weakness in the metro segment, which represents 30% of sales, entailing 2.4x contribution to the slowdown. Mgmt, after analyzing the Urban CPI basket, highlighted that 22% of the CPI weight is in housing, wherein real estate prices have surged and rentals seen expansion. On income, the salaried workforce has seen 6.5% income growth YoY, while the non-salaried (51% of the urban workforce) has seen 3.4% income growth YoY. Amid a weak demand setting, the management sounded concerned about its adjacent businesses. Going ahead, with 4-5% price hikes in the business, the management is looking at balanced growth. We now see 9% sales CAGR over FY25-27E.

Margin headwinds to have a bearing on profitability

Management called out the severe raw material inflation in the business, where so far stress is controlled given that the company has strategic covers in place. Palm oil prices, which saw 45% inflation QoQ (22% inflation due to duty increases), stand 12% lower for Britannia in Q2, given its strategic covers. The overall raw-material basket remains inflationary. While the management has taken price actions, thus showcasing its competitiveness, these are likely to lead to margin pressure ahead. We build in ~100bps YoY EBITDA margin contraction in 2HFY25. Focus on topline will have a bearing on margin delivery ahead; as such, we cut earnings by 9-13% over FY25-27E. On a low base of FY25 (-6%), we see 13% earnings CAGR over FY25-27E.

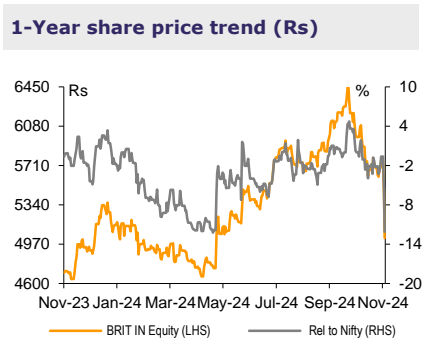
Valuations factor in demand/inflationary stress; downgrade to REDUCE

After the ~16% stock price correction in the last 1M, we note that valuations factor in business stress in the near term. We roll back the 15% valuation premium and cut our target valuation multiple to 48x (in line with the 5YF avg P/E) from 55x. After these changes, Sep-25E TP is cut to Rs5,200. Given limited upside, we downgrade to REDUCE.

Target Price – 12M	Sep-25
Change in TP (%)	(23.0)
Current Reco.	REDUCE
Previous Reco.	ADD
Upside/(Downside) (%)	3.4
CMP (12-Nov-24) (Rs)	5,027.6

Stock Data	BRIT
52-week High (Rs)	6,473
52-week Low (Rs)	4,626
Shares outstanding (mn)	240.9
Market-cap (Rs bn)	1,211
Market-cap (USD mn)	14,349
Net-debt, FY25E (Rs mn)	-12,721
ADTV-3M (mn shares)	-
ADTV-3M (Rs mn)	1,865.5
ADTV-3M (USD mn)	22.1
Free float (%)	49.5
Nifty-50	23,883
INR/USD	84.4
Shareholding, Sep-24	
Promoters (%)	50.6
FPIs/MFs (%)	17.9/16.4

Price Performance (%)	1M	3M	12M
Absolute	(15.9)	(10.9)	7.5
Rel. to Nifty	(12.1)	(9.2)	(12.1)

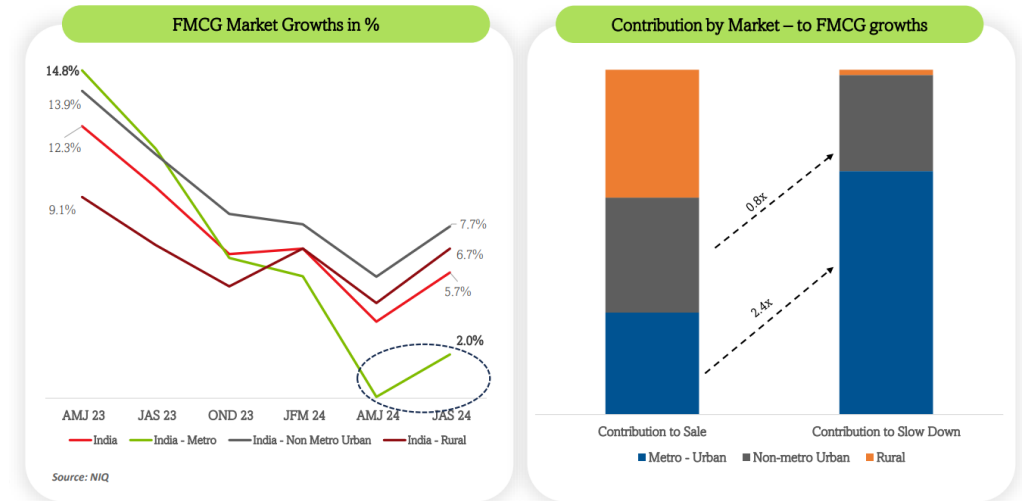


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Quarterly performance

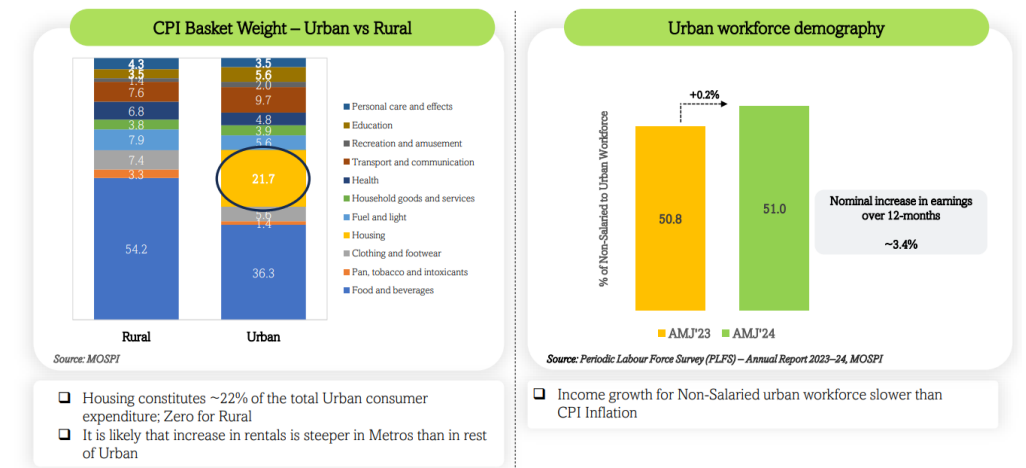
Exhibit 1: Assessing sector growth



Source: Company, Emkay Research

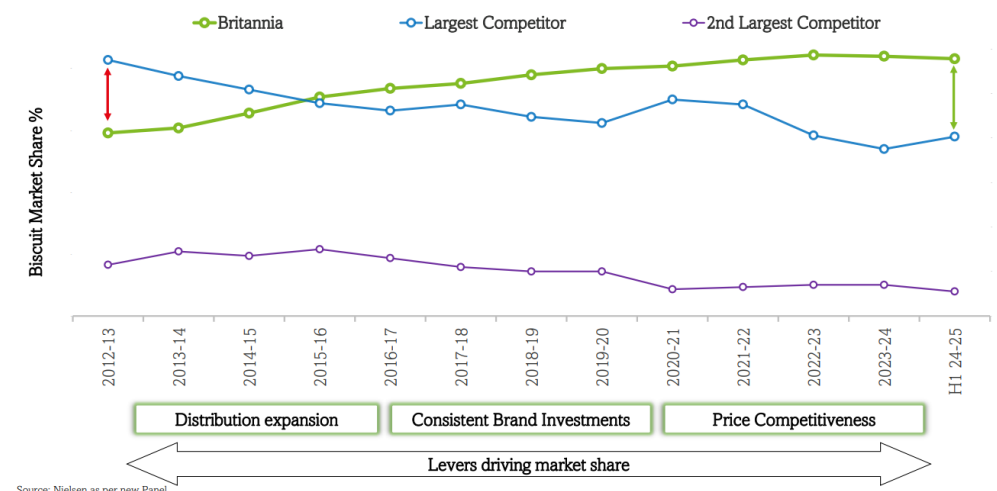
Exhibit 2: Assessing YoY FMCG slowdown

Low income growth for >50% of Urban working population...



Source: Company, Emkay Research

Exhibit 3: Britannia's biscuits 'value' market share steady in 1HFY25



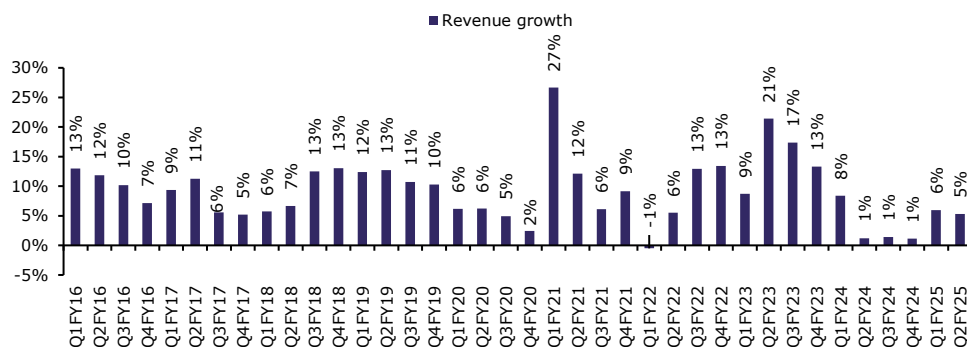
Source: Company, Emkay Research

Exhibit 4: Quarterly performance

(Rs mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	Emkay Est	Var.(%)	1HFY25	1HFY24	YoY (%)
Total income	46,676	44,329	5.3	42,503	9.8	47,664	(2.1)	89,179	84,436	5.6
Cost of goods	27,294	25,318	7.8	24,054	13.5	27,168	0.5	51,349	48,604	5.6
Employee expenses	2,323	1,599	45.3	2,020	15.0	1,764	31.7	4,342	3,482	24.7
Other expenses	9,224	8,688	6.2	8,893	3.7	9,342	(1.3)	18,117	16,736	8.3
EBITDA	7,834	8,724	(10.2)	7,537	3.9	9,390	(16.6)	15,371	15,613	(1.6)
EBITDAM (%)	16.8	19.7	-290bps	17.7	-90bps	19.7	-290bps	17.2	18.5	-130bps
Depreciation	761	717	6.1	739	2.9	753	1.1	1,500	1,424	5.3
EBIT	7,073	8,007	(11.7)	6,797	4.1	8,637	(18.1)	13,871	14,189	(2.2)
EBITM (%)	15.2	18.1	-290bps	16.0	-80bps	18.1	-300bps	15.6	16.8	-130bps
Interest cost	346	534	(35.2)	290	19.7	350	(1.0)	636	1,065	(40.3)
Other income	460	524	(12.1)	556	(17.3)	576	(20.1)	1,016	1,063	(4.4)
PBT	7,187	7,997	(10.1)	7,064	1.7	8,863	(18.9)	14,251	14,187	0.5
Tax	1,836	2,121	(13.4)	1,825	0.6	2,349	(21.8)	3,661	3,787	(3.3)
Tax rate(%)	25.5	26.5	-100bps	25.8	-30bps	26.5	-100bps	25.7	26.7	-100bps
Non-recurring items	-2	0.0		-183		0		-185	0	
Minority Interest	-1	11		8		12		(41)	20	
Share of profit from associate / JV	-34	10		(7)		(15)		7	32	
PAT	5,315	5,897	(9.9)	5,056	5.1	6,511	(18.4)	10,371	10,451	(0.8)
Adj Profit	5,316	5,897	(9.8)	5,240	1.5	6,511	(18.4)	10,556	10,451	1.0
Net profit margin (%)	11.4	13.3	-190bps	12.3	-90bps	13.7	-230bps	11.8	12.4	-50bps
EPS (Rs)	22.1	24.4	(9.5)	21.0	5.1	26.2	(15.8)	43.9	43.5	0.9

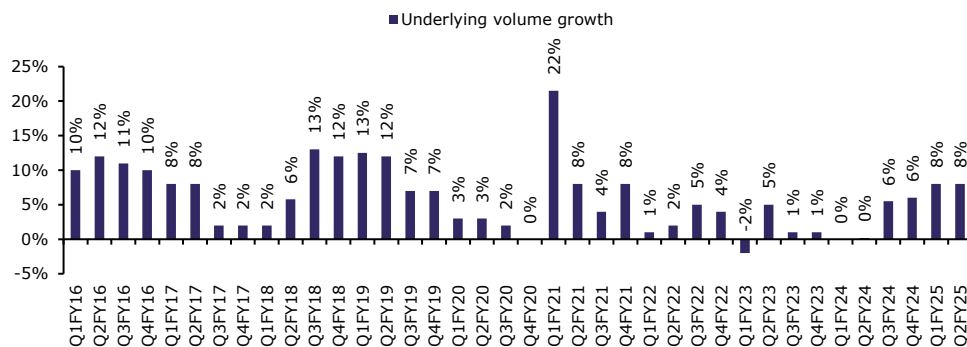
Source: Company, Emkay Research

Exhibit 5: Q2FY25 revenue (including other operating income) growth for Britannia



Source: Company, Emkay Research


Exhibit 6: Volume growth




Source: Company, Emkay Research

Exhibit 7: New product launches

Fresh launches to strengthen Adjacent categories




Milk Bikis Wafer Rolls




Layer Cake – Jam & Cream

In-market launches



Tiger Coconut

Distribution-led scale up across regions



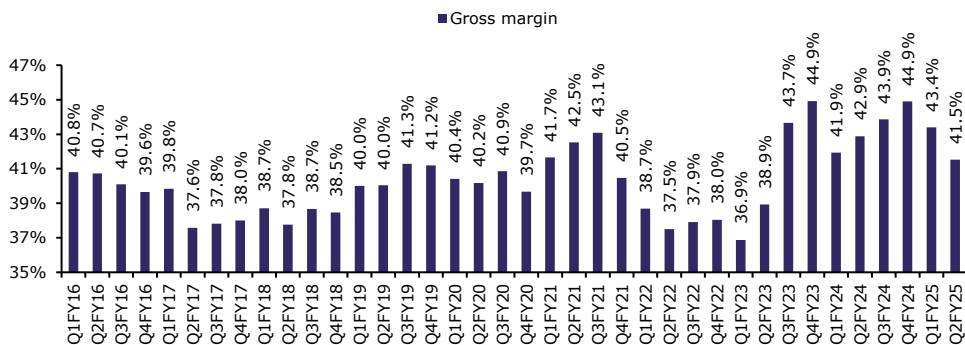
Golmaal Butter

Building on the Golmaal franchisee

Innovation Pipeline to cater to Regional preferences & drive Premiumization..

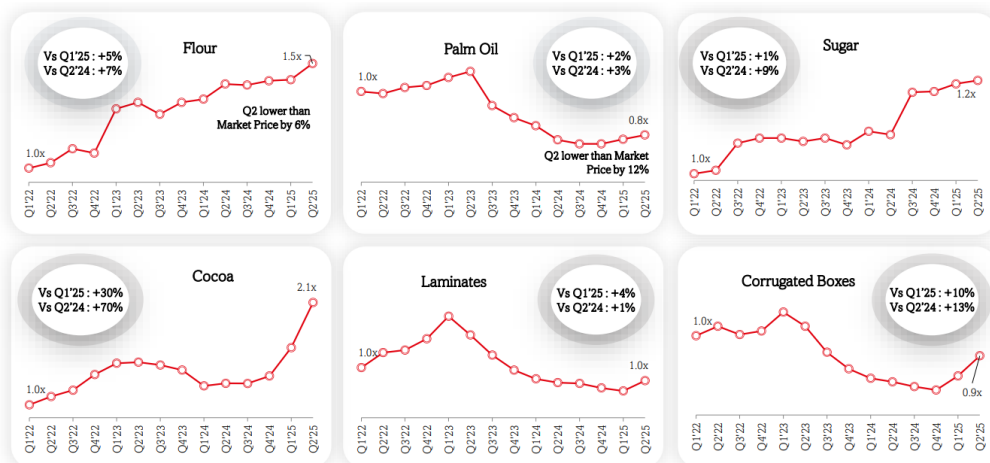
Source: Company, Emkay Research

Exhibit 8: Gross margin



Source: Company, Emkay Research

Exhibit 9: Commodity inflation for Britannia (with strategic covers)



Note:
Strategic covers in Flour & Palm Oil enabled input costs lower than market prices
Prices of Palm Oil impacted with a customs duty increase of 22% wef 14th September 2024

Note: Above values are average actual consumption rates for the quarter

Source: Company, Emkay Research

Exhibit 10: Spot wheat prices



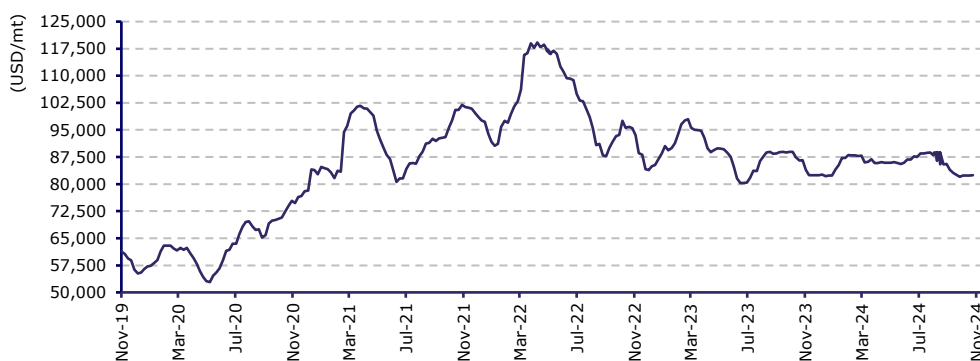
Source: NCDEX, Emkay Research

Exhibit 11: Spot Crude Palm oil prices



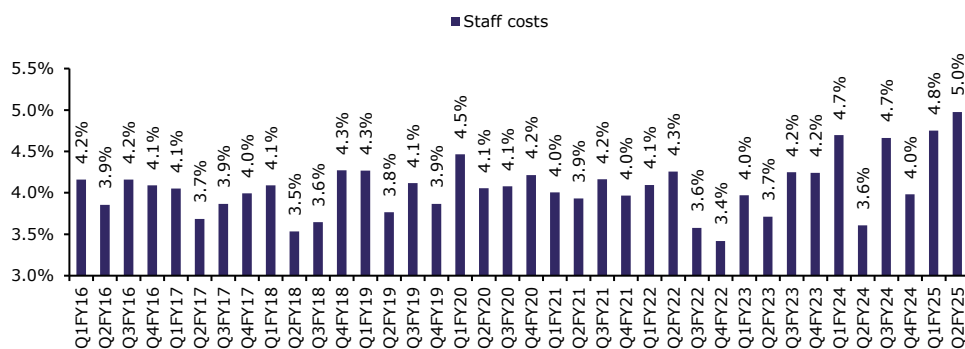
Source: Bloomberg, Emkay Research

Exhibit 12: Spot HDPE prices



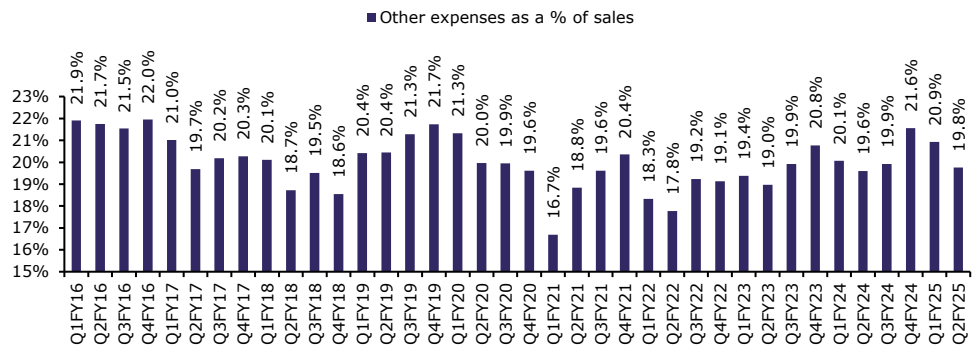
Source: Bloomberg, Emkay Research

Exhibit 13: Staff costs as a % of sales



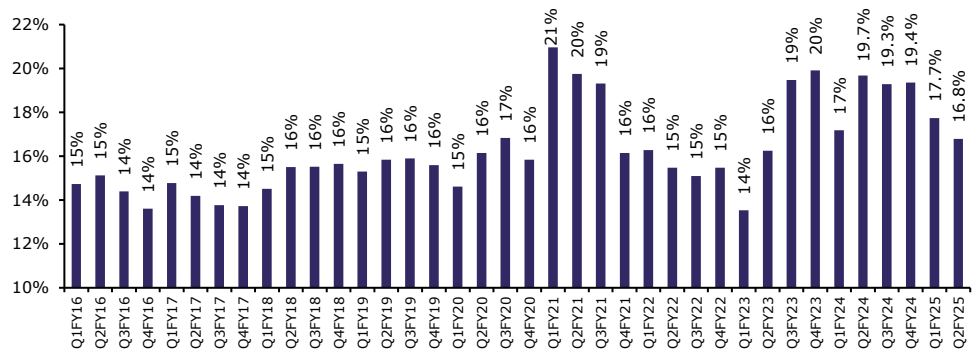
Source: Company, Emkay Research

Exhibit 14: Other expenses as a % of sales



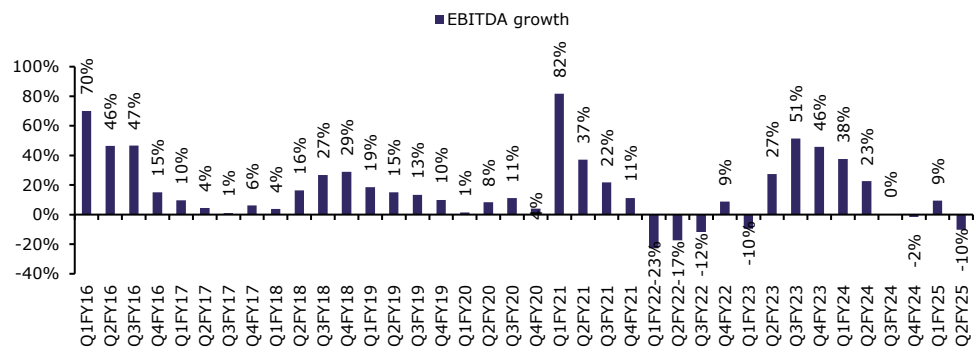
Source: Company, Emkay Research

Exhibit 15: EBITDA margin trend



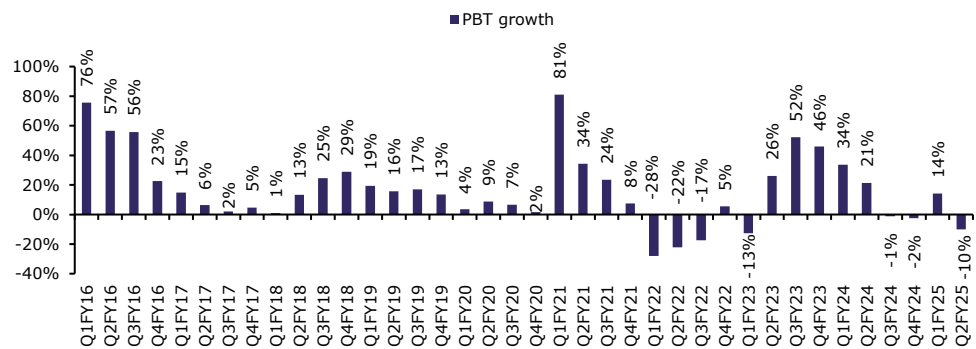
Source: Company, Emkay Research

Exhibit 16: EBITDA growth trend



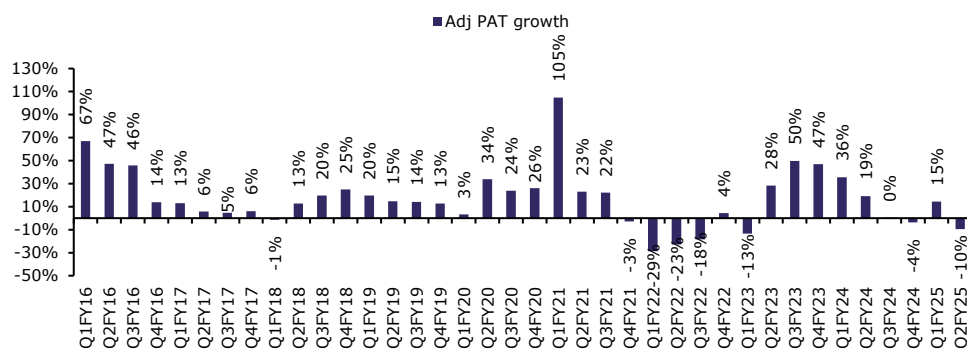
Source: Company, Emkay Research

Exhibit 17: Profit-before-tax growth (YoY)



Source: Company, Emkay Research

Exhibit 18: Adjusted profit-after-tax growth (YoY)



Source: Company, Emkay Research

Exhibit 19: Changes to Emkay estimates

(Rs mn)	New estimates			Old estimates			Changes to our estimates		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue from operations	176,857	191,549	209,460	179,658	200,784	224,176	-2%	-5%	-7%
Growth	4.6%	8.6%	9.6%	6.2%	11.8%	11.7%			
EBITDA	31,513	34,935	38,928	34,531	39,476	45,073	-9%	-12%	-14%
Growth	-5.9%	10.9%	11.4%	3.1%	14.3%	14.2%			
<i>EBITDA margin</i>	<i>17.8%</i>	<i>18.2%</i>	<i>18.6%</i>	<i>19.2%</i>	<i>19.7%</i>	<i>20.1%</i>			
Adj PAT	21,876	24,639	27,486	23,770	27,963	31,737	-8%	-12%	-13%
Growth	-5.8%	12.6%	11.6%	2.4%	17.6%	13.5%			
EPS (Rs)	90.8	102.3	114.1	98.7	116.1	131.7	-8%	-12%	-13%

Source: Company, Emkay Research

Exhibit 20: Key assumptions

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Income Statement									
Standalone revenue growth	12%	4%	12%	9%	16%	4%	6%	9%	10%
International revenue growth	-21%	22%	29%	-9%	18%	10%	12%	12%	12%
Consolidated revenue growth	12%	5%	13%	8%	15%	3%	5%	8%	9%
Biscuits volume growth	10%	2%	10%	3%	1%	2%	5%	5%	6%
Biscuits value growth	12%	3%	12%	9%	15%	2%	4%	8%	9%
Earnings growth	15%	22%	31%	-18%	28%	19%	-6%	13%	12%
Gross margin	41%	40%	42%	38%	41%	43%	43%	43%	43%
A&P spends as a % of sales	5%	4%	4%	3%	4%	4%	5%	5%	5%
Conversation costs as a % of sales	5%	4%	4%	5%	5%	5%	5%	5%	5%
Freight and handling costs as a % of sales	5%	5%	5%	5%	4%	4%	5%	4%	4%
EBITDA margin	16%	16%	19%	16%	17%	20%	18%	18%	19%
Adj EPS (Rs)	48.2	59.0	77.4	63.3	80.8	96.4	90.8	102.3	114.1
DPS (Rs)	15.0	35.0	157.5	69.0	72.0	73.5	75.0	85.0	95.0
Dividend payout	31%	59%	203%	109%	89%	76%	83%	83%	83%
Balance Sheet									
RoE (%)	30%	33%	47%	50%	64%	62%	53%	53%	51%
ROCE (%)	39%	32%	40%	38%	45%	49%	46%	48%	48%
Total debt (Rs bn)	1.4	15.1	20.9	24.7	29.8	20.4	19.7	20.1	20.4
Capex (Rs bn)	5.1	4.1	1.5	1.9	12.1	4.1	3.0	3.0	3.0
Investments	14.8	28.9	27.8	17.6	33.2	27.7	20.0	20.0	25.0
Inventory days (no of)	26	24	31	36	27	26	30	30	30
Receivable days (no of)	13	10	7	9	8	9	9	9	9
Payable days (no of)	38	36	37	34	33	36	36	36	36
Net working capital days (no of)	1	-2	1	11	2	-1	3	3	3

Source: Company, Emkay Research

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Britannia Industries: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	163,006	167,693	176,857	191,549	209,460
Revenue growth (%)	15.3	2.9	5.5	8.3	9.4
EBITDA	28,309	33,486	31,513	34,935	38,928
EBITDA growth (%)	28.6	18.3	(5.9)	10.9	11.4
Depreciation & Amortization	2,259	3,005	3,050	3,200	3,350
EBIT	26,050	30,481	28,463	31,735	35,578
EBIT growth (%)	30.2	17.0	(6.6)	11.5	12.1
Other operating income	3,157	2,231	3,860	3,670	3,497
Other income	527	354	650	750	825
Financial expense	1,691	1,640	1,374	997	610
PBT	26,518	30,983	29,189	32,688	37,143
Extraordinary items	0	0	0	0	0
Taxes	7,165	7,793	7,443	8,499	9,657
Minority interest	55	56	80	100	0
Income from JV/Associates	54	(32)	50	350	0
Reported PAT	23,218	23,186	21,876	24,639	27,486
PAT growth (%)	52.3	(0.1)	(5.6)	12.6	11.6
Adjusted PAT	19,462	23,215	21,876	24,639	27,486
Diluted EPS (Rs)	80.8	96.4	90.8	102.3	114.1
Diluted EPS growth (%)	27.5	19.3	(5.8)	12.6	11.6
DPS (Rs)	72.0	73.5	75.0	85.0	95.0
Dividend payout (%)	89.1	76.3	82.6	83.1	83.3
EBITDA margin (%)	17.4	20.0	17.8	18.2	18.6
EBIT margin (%)	16.0	18.2	16.1	16.6	17.0
Effective tax rate (%)	27.0	25.2	25.5	26.0	26.0
NOPLAT (pre-IndAS)	19,012	22,815	21,205	23,484	26,328
Shares outstanding (mn)	240.9	240.9	240.9	240.9	240.9

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	26,518	30,983	29,189	32,688	37,143
Others (non-cash items)	(4,129)	(256)	130	450	0
Taxes paid	(7,258)	(7,649)	(7,443)	(8,499)	(9,657)
Change in NWC	4,057	1,611	(2,512)	(145)	(89)
Operating cash flow	25,262	25,730	21,687	26,741	29,182
Capital expenditure	(6,345)	(4,970)	(3,625)	(3,000)	(3,000)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,747	1,703	2,100	1,950	2,175
Investing cash flow	(15,171)	4,755	6,143	(1,050)	(5,825)
Equity raised/(repaid)	0	0	(80)	(100)	0
Debt raised/(repaid)	5,182	(9,342)	(682)	323	355
Payment of lease liabilities	0	0	0	0	0
Interest paid	(1,957)	(1,643)	(1,374)	(997)	(610)
Dividend paid (incl tax)	(13,592)	(17,325)	(17,706)	(18,068)	(20,477)
Others	83	4	0	0	0
Financing cash flow	(10,284)	(28,305)	(19,842)	(18,841)	(20,731)
Net chg in Cash	(192)	2,180	7,988	6,850	2,626
OCF	25,262	25,730	21,687	26,741	29,182
Adj. OCF (w/o NWC chg.)	21,206	24,119	24,199	26,886	29,271
FCFF	18,917	20,760	18,063	23,741	26,182
FCFE	18,973	20,822	18,789	24,694	27,747
OCF/EBITDA (%)	89.2	76.8	68.8	76.5	75.0
FCFE/PAT (%)	97.5	89.7	85.9	100.2	101.0
FCFF/NOPLAT (%)	99.5	91.0	85.2	101.1	99.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	241	241	241	241	241
Reserves & Surplus	35,102	39,174	43,344	49,916	56,925
Net worth	35,343	39,415	43,585	50,156	57,166
Minority interests	302	245	165	65	65
Deferred tax liability (net)	(554)	(418)	(418)	(418)	(418)
Total debt	29,805	20,412	19,730	20,053	20,409
Total liabilities & equity	64,896	59,654	63,062	69,857	77,222
Net tangible fixed assets	25,271	26,413	26,363	26,163	25,813
Net intangible assets	1,282	1,298	1,298	1,298	1,298
Net ROU assets	1,987	2,087	2,191	2,301	0
Capital WIP	1,050	1,875	2,500	2,500	2,500
Goodwill	1,282	1,298	1,298	1,298	1,298
Investments [JV/Associates]	0	0	0	0	0
Cash & equivalents	35,222	32,131	32,452	39,301	46,928
Current assets (ex-cash)	30,130	28,579	32,602	35,604	39,089
Current Liab. & Prov.	28,058	30,643	32,153	35,010	38,406
NWC (ex-cash)	2,072	(2,063)	449	594	682
Total assets	64,896	59,654	63,062	69,857	77,222
Net debt	(5,417)	(11,719)	(12,721)	(19,248)	(26,519)
Capital employed	64,896	59,654	63,062	69,857	77,222
Invested capital	28,624	25,648	28,110	28,055	27,794
BVPS (Rs)	146.7	163.6	180.9	208.2	237.3
Net Debt/Equity (x)	(0.2)	(0.3)	(0.3)	(0.4)	(0.5)
Net Debt/EBITDA (x)	(0.2)	(0.3)	(0.4)	(0.6)	(0.7)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	46.3	49.5	47.4	48.9	49.5

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	62.2	52.2	55.4	49.2	44.1
P/CE(x)	55.8	46.2	48.6	43.5	39.3
P/B (x)	34.3	30.7	27.8	24.1	21.2
EV/Sales (x)	7.5	7.2	6.9	6.3	5.8
EV/EBITDA (x)	42.6	35.8	38.0	34.1	30.4
EV/EBIT(x)	46.3	39.3	42.1	37.6	33.3
EV/IC (x)	42.1	46.8	42.6	42.5	42.6
FCFF yield (%)	1.6	1.7	1.5	2.0	2.2
FCFE yield (%)	1.6	1.7	1.6	2.0	2.3
Dividend yield (%)	1.4	1.5	1.5	1.7	1.9
DuPont-RoE split					
Net profit margin (%)	11.9	13.8	12.4	12.9	13.1
Total asset turnover (x)	2.8	2.7	2.9	2.9	2.8
Assets/Equity (x)	1.9	1.7	1.5	1.4	1.4
RoE (%)	63.9	62.1	52.7	52.6	51.2
DuPont-RoIC					
NOPLAT margin (%)	11.7	13.6	12.0	12.3	12.6
IC turnover (x)	6.1	6.2	6.6	6.8	7.5
RoIC (%)	70.7	84.1	78.9	83.6	94.3
Operating metrics					
Core NWC days	(12.6)	(16.6)	(16.7)	(15.4)	(15.4)
Total NWC days	4.6	(4.5)	0.9	1.1	1.2
Fixed asset turnover	4.6	3.8	3.7	3.8	3.9
Opex-to-revenue (%)	23.8	23.4	25.2	25.1	24.9

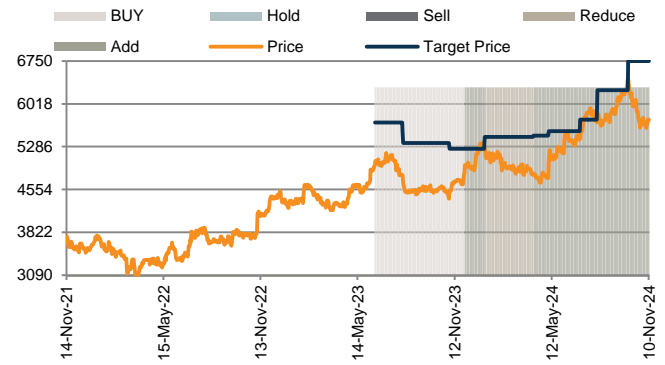
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
02-Oct-24	6,446	6,750	Add	Nitin Gupta
24-Sep-24	6,203	6,250	Add	Nitin Gupta
05-Aug-24	5,698	6,250	Add	Nitin Gupta
04-Jul-24	5,426	5,750	Add	Nitin Gupta
26-Jun-24	5,422	5,550	Add	Nitin Gupta
04-Jun-24	5,325	5,550	Add	Nitin Gupta
13-May-24	5,131	5,550	Add	Nitin Gupta
08-May-24	5,228	5,550	Add	Nitin Gupta
06-May-24	5,062	5,550	Add	Nitin Gupta
15-Apr-24	4,762	5,475	Add	Nitin Gupta
07-Apr-24	4,813	5,475	Add	Nitin Gupta
14-Mar-24	4,939	5,450	Reduce	Nitin Gupta
07-Feb-24	5,078	5,450	Reduce	Nitin Gupta
23-Jan-24	5,048	5,450	Reduce	Nitin Gupta
07-Jan-24	5,272	5,450	Reduce	Nitin Gupta
12-Dec-23	4,903	5,250	Add	Nitin Gupta
30-Nov-23	4,853	5,250	Add	Nitin Gupta
24-Nov-23	4,644	5,250	Buy	Nitin Gupta
02-Nov-23	4,527	5,250	Buy	Nitin Gupta
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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ADD	5-15% upside
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