

# Britannia Industries Ltd

## Sharp price correction offers some value; Maintain ADD

Britannia Industries Ltd. (BRIT) 2QFY25 volume growth of 8% YoY was slightly lower than our estimate. Margins saw a sharp miss led by higher COGS. In a tough demand scenario, YoY volume growth continues to be robust for BRIT led by gradual recovery in rural as urban remains under pressure. Negative realizations will reverse in the coming quarter led by anniversarization of earlier cuts along with fresh price actions initiated by BRIT. Few more months of strategic forward covers and price hikes should make the margins better, but food inflation is also unexpectedly high and choppy. In the near-term, we expect some impact on volume growth compared to earlier expectations due to pricing actions as BRIT aims to maintain stable margins. We expect earnings to remain subdued for the very near-term, but reasonable valuations make us maintain our ADD rating with a revised target price (TP) of Rs5,770.

### 2QFY25 Result Highlights

- **Headline performance:** Consolidated sales was up 4.5% YoY while revenues (including OOI which was up ~62.4% YoY) was up 5.3% YoY to Rs46.7bn (vs est. of Rs47.9bn). Consol. EBITDA was down 10.2% YoY to Rs7.8bn (vs est. Rs9.3bn). Adjusted PAT (APAT) was down by 9.5% YoY to Rs5.3bn (vs est. Rs6.6bn).
- **Standalone** revenues grew by 4.9% YoY to Rs45bn (sales up 4.1% YoY). Volume growth for the quarter by 8% versus our estimate of 10% growth YoY. EBITDA margin stood at 16.6% (down 300bps YoY).
- **Consolidated gross margin** was down 140bps YoY to 41.5% (down 190bps QoQ). Higher overheads: Other overheads up 20bps YoY and Employee cost up 140bps YoY meant that consolidated EBITDA margin was down by 290bps YoY to 16.8% (vs est. 19.5%).
- **1HFY25:** Revenue, EBITDA and APAT grew by +5.6%, -1.6% and +1.6% YoY. Gross margin was flat YoY at 42.4% while EBITDA margin was down 130bps to 17.2%.

### Key Conference Call Highlights

- (1) Phantom stocks being revalued based on share price led to sharp rise in staff costs. Impact in 2QFY25 was around Rs500mn.
- (2) There could be some impact on volumes in the very near-term due to price actions.
- (3) BRIT has initiated focused pricing actions in specific channels and brand to counter inflation. BRIT will look to take 4-5% price increase (will be executed before Dec'24-Jan'25) over and above some pricing which is already executed.
- (4) In the near-term, management is looking to maintain a stable margin profile.

### View & Valuation

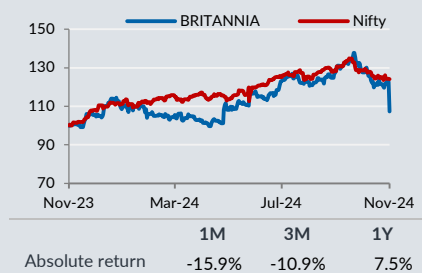
There is 8.6%/5.4% downward revision in our FY25E/FY26E EPS. Over FY24-27E, we are building revenue CAGR of 9.6% driven by volume CAGR of 7.2%. Drivers: (a) Expecting maintenance of robust volume growth led by rural recovery and benefits from distribution expansion. (b) Better growth expected in adjacent businesses compared to the base business led by company's initiatives will add delta. (c) While innovation led premiumization efforts continues, value growth will be supported by reversal of negative realization starting 3Q. We build ~10% EBITDA CAGR over FY24-FY27E (only ~10bps EBITDA margin improvement on high base) we believe company will now looking to prioritize growing topline while maintaining the peak level of margin profile band without cutting on A&SP spends. After recent correction, the stock is now trading at ~54x/45x/41x FY25E/FY26E/FY27E EPS as we build in 11.7% earnings CAGR over FY24-27E. While we expect earnings to remain subdued for the very near-term, reasonable valuations makes us maintain our ADD rating on a one-year forward basis. We now derive a revised TP of Rs5,770 (Rs Rs6,300 earlier) as we roll-forward to Mar'2027E EPS, assigning a target multiple of ~46.5x (3yr/5yr avg fwd. multiple: ~49x) due to relatively strong volume growth expectation in near-term, decent return ratios with improvement over next two years and healthy dividend payout.

Reco	: ADD
CMP	: Rs 5,028
Target Price	: Rs 5,770
Potential Return	: +14.8%

### Stock data (as on November 12, 2024)

Nifty	23,883
52 Week h/l (Rs)	6470 / 4626
Market cap (Rs/USD mn)	1309035 / 15519
Outstanding Shares (mn)	241
6m Avg t/o (Rs mn):	1,805
Div yield (%):	1.2
Bloomberg code:	BRIT IN
NSE code:	BRITANNIA

### Stock performance



### Shareholding pattern (As of Jun'24 end)

Promoter	50.6%
FII+DII	34.2%
Others	15.2%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	5,770	6,300

### Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	93.5	111.0	124.1
EPS (Old)	102.3	117.3	NA
% change	-8.6	-5.4	NA

### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	183,327	203,497	221,024
YoY Growth (%)	9.3	11.0	8.6
EBIDTA	32,587	38,099	41,951
Margins (%)	17.8	18.7	19.0
PAT	22,518	26,747	29,892
EPS	93.5	111.0	124.1
YoY Growth (%)	5.1	18.8	11.8
Pre-tax RoCE (%)	48.6	55.9	59.5
ROE (%)	53.8	57.7	58.7
P/E (x)	53.8	45.3	40.5
EV/EBITDA (x)	36.6	31.1	28.1

**VISHAL PUNMIYA**  
Lead Analyst

[vishal.punmiya@ysil.in](mailto:vishal.punmiya@ysil.in)



**MANAS RASTOGI**, Associate

## Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	46,676	47,933	47,482	(2.6)	(1.7)
EBITDA	7,834	9,347	8,947	(16.2)	(12.4)
EBITDA Margin (%)	16.8	19.5	18.8	(2.7)	(2.1)
Adjusted PAT	5,316	6,595	6,302	(19.4)	(15.7)

Source: Bloomberg, YES Sec

## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	1HFY24	1HFY25	YoY (%)
Revenues	44,329	42,503	46,676	5.3	9.8	84,436	89,179	5.6
COGS	25,318	24,054	27,294	7.8	13.5	48,604	51,349	5.6
Gross margin %	42.9	43.4	41.5	-1.4	-1.9	42.4	42.4	0.0
Employee costs	1,599	2,020	2,323	45.3	15.0	3,482	4,342	24.7
% of sales	3.6	4.8	5.0	1.4	0.2	4.1	4.9	0.7
Other expenses	8,688	8,893	9,224	6.2	3.7	16,736	18,117	8.3
% of sales	19.6	20.9	19.8	0.2	-1.2	19.8	20.3	0.5
EBITDA	8,724	7,537	7,834	-10.2	3.9	15,613	15,371	-1.6
EBITDA margin %	19.7	17.7	16.8	-2.9	-0.9	18.5	17.2	-1.3
Depreciation	717	739	761	6.1	2.9	1,424	1,500	5.3
EBIT	8,007	6,797	7,073	-11.7	4.1	14,189	13,871	-2.2
EBIT margin %	18.1	16.0	15.2	-2.9	-0.8	16.8	15.6	-1.3
Interest expense	534	290	346	-35.2	19.7	1,065	636	-40.3
Other income	524	556	460	-12.1	-17.3	1,063	1,016	-4.4
Exceptional items	0	-246	-2	-	-	0	-248	-
PBT	7,997	6,817	7,186	-10.1	5.4	14,187	14,003	-1.3
Tax	2,121	1,762	1,836	-13.4	4.2	3,787	3,598	-5.0
Effective tax rate %	26.5	25.8	25.6	-1.0	-0.3	26.7	25.7	-1.0
Adj. PAT	5,876	5,303	5,316	-9.5	0.2	10,451	10,619	1.6
Adj. PAT margin %	13.3	12.5	11.4	-1.9	-1.1	12.4	11.9	-0.5
EPS	24.4	22.0	22.1	-9.5	0.2	43.4	44.1	1.6

Source: Company, YES Sec

## Exhibit 3: Quarterly snapshot (Standalone)

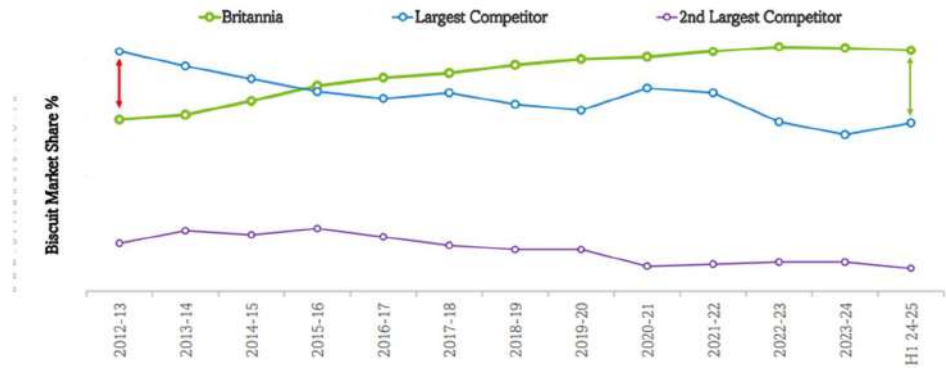
Particulars (Rs. Mn)	2QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	1HFY24	1HFY25	YoY (%)
Revenues	42,889	40,944	45,008	4.9	9.9	81,595	85,953	5.3
COGS	25,191	23,870	27,153	7.8	13.8	48,330	51,024	5.6
Gross margin %	41.3	41.7	39.7	-1.6	-2.0	40.8	40.6	-0.1
Employee costs	1,251	1,647	1,947	55.7	18.2	2,772	3,594	29.7
% of sales	2.9	4.0	4.3	1.4	0.3	3.4	4.2	0.8
Other expenses	8,038	8,144	8,446	5.1	3.7	15,417	16,590	7.6
% of sales	18.7	19.9	18.8	0.0	-1.1	18.9	19.3	0.4
EBITDA	8,409	7,283	7,462	-11.3	2.5	15,076	14,745	-2.2
EBITDA margin %	19.6	17.8	16.6	-3.0	-1.2	18.5	17.2	-1.3
EBIT	7,765	6,616	6,773	-12.8	2.4	13,798	13,389	-3.0
EBIT margin %	18.1	16.2	15.0	-3.1	-1.1	16.9	15.6	-1.3
PBT	7,817	7,249	6,952	-11.1	-4.1	13,888	14,201	2.3
Adj. PAT	5,705	5,267	5,146	-9.8	-2.3	10,135	10,413	2.7
Adj. PAT margin %	13.3	12.9	11.4	-1.9	-1.4	12.4	12.1	-0.3
EPS	23.7	21.9	21.4	-9.8	-2.3	42.1	43.2	2.7

Source: Company, YES Sec

## KEY TAKEAWAYS FROM Q2FY25 CONFERENCE CALL

- **Demand Environment:** BRIT is seeing tough demand scenario coupled with high inflation. Rural is doing better but still in MSD range for FMCG. Rural growth for BRIT was 2x of urban (includes Q-comm & MT). Slowdown was higher in Metros, which contributes to 30% of FMCG business. Non-salaried urban workforce mix increased to 51% in AMJ quarter from 50.8% last year. They have also seen a nominal increase in earnings over 12-months period at 3.4% vs ~6% for salaried, which is slower than CPI inflation. Housing costs in urban areas, especially in metro have reached 22% of total urban consumer expenditure.
- **Focus states** performed better but company still not satisfied.
- **Inflation:** The inflation in Palm oil is about 45% driven by 40% import duty and shortage in countries of origin. There are still some strategic covers with BRIT on Palm oil. Cocoa inflation remains bad. Laminates and corrugated boxes prices have also started to inch up. BRIT believes, import duty levied on palm oil will have limited shelf life so eventually it will go away. While wheat inflation is fundamental. BRIT is hoping acreage will improve as more farmers will look at the crop because of better pricing.
- **Volume growth:** There will be some impact on volumes in the near term due to change in grammage. BRIT will be very careful in the next 6-9months on pricing to balance volume & value. Pack size growth in 2QFY25 was similar to volume growth. The divergence in volume growth vs the revenue growth is only for the quarter.
- **Pricing:** Initiated focused pricing actions in specific channels and brand to counter inflation. BRIT will look to take 4-5% price increase (will be executed before Dec'24-Jan'25) over and above some pricing which is already executed.
- **Margins:** The company wants to maintain the current margin band.
- **Cost efficiencies:** Company will exceed this year on cost efficiency program due to the cost environment.
- **RTM 2.0:** Partnered with a consulting firm to rewrite Route-to-Market (RTM). Pilots in Q2'25 covering 25 cities, 44 distributors & more than 50,000 outlets showing encouraging results. Started a split model where the distributors with high potential outlets are split into deciles. 1<sup>st</sup> decile contributes ~53% of the business. Top 3 decline contributes 80% of urban business. It will take 12-15 months to fully embedded into the system. While it's a long-term project but already seeing greenshoots. Consultant and new team cost incurred for this are not material. It will cover 0.45mn outlets (almost 85% of target audience) reaching 100 cities.
- **Channel:** Seeing good growth in Ecom and Qcom. MT is also doing reasonably well but competition is high in MT. BRIT is gaining share in quick commerce, e-commerce, as well as modern trade. GT growing slower. Rural is coming back slowly. When rural comes back to double digit growth then GT growth will improve.
- **Staff costs:** Phantom stocks are being revalued on the basis of share price leading to sharp rise in employee costs. The quantum of these cost was Rs500mn in 2Q.
- **Competition:** There will be some amount of cleaning up in terms of smaller regional players which had expanded in other areas but are now facing difficulty in surviving.
- **Innovation:** Any product launched in the last 24months is considered as innovation. Currently innovations are 2% of revenues.
- **Others:** (1) Within International, Middle East doing extremely well. (2) Average price of product sold in India is Rs115/kg which is much lower than other categories along with delivering consistent profits. (3) 50% of 2.85mn direct outlets are urban. (4) Biscuit today has 100% household penetration. (5) Three new factories already in play: UP, Bihar and Tirunelveli. It also recently expanded capacities in Ranjangaon.

**Exhibit 4: Market share flat in 1HFY25 vs last year**



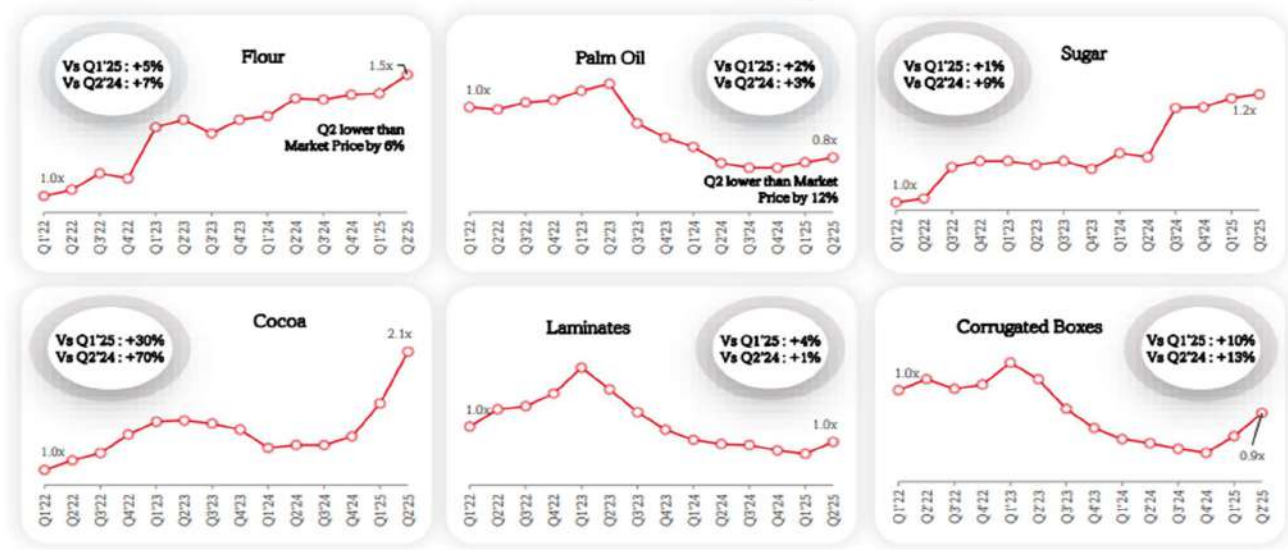
Source: Nielsen, Company, YES Sec

**Exhibit 5: Growth in focus states for BRIT were 1.9x the Rest of India**



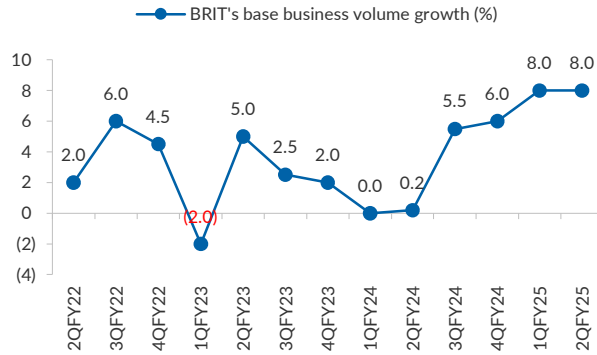
Source: Company, YES Sec

**Exhibit 6: Strategic covers in Flour & Palm Oil enabled input costs lower than market prices**



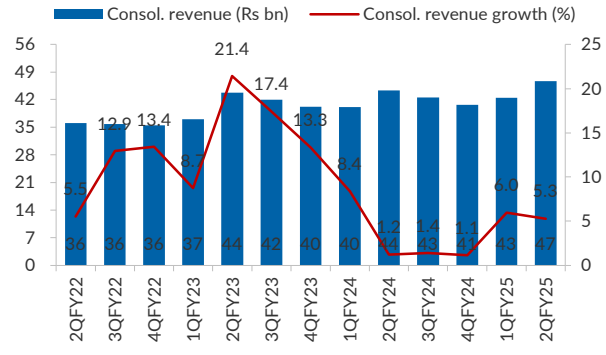
Source: Company, YES Sec; Note: Above values are average actual consumption rates for the quarter

**Exhibit 7: Volume growth was 8% YoY in 2QFY25**



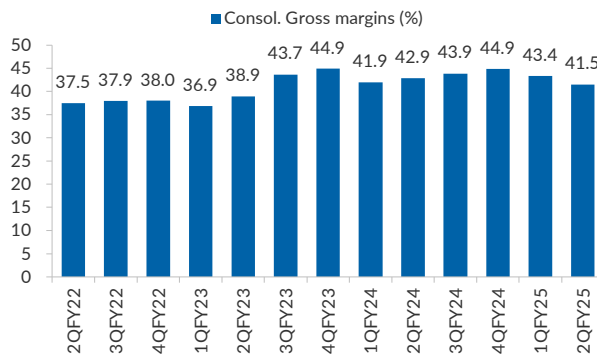
Source: Company, YES Sec

**Exhibit 8: Consol. revenue grew 5.3% YoY (consol. sales up 4.5% YoY)**



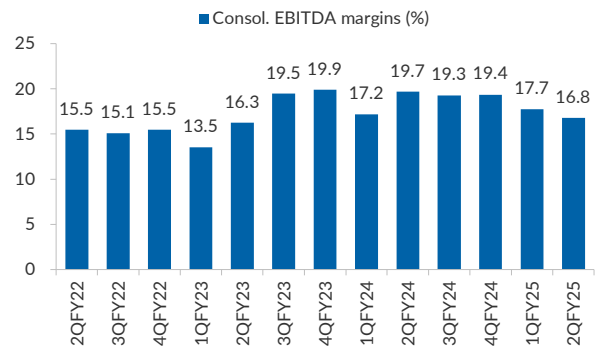
Source: Company, YES Sec

**Exhibit 9: Uptick in commodity cost led to ~190bps QoQ decline in gross margins (down 140bps YoY)**



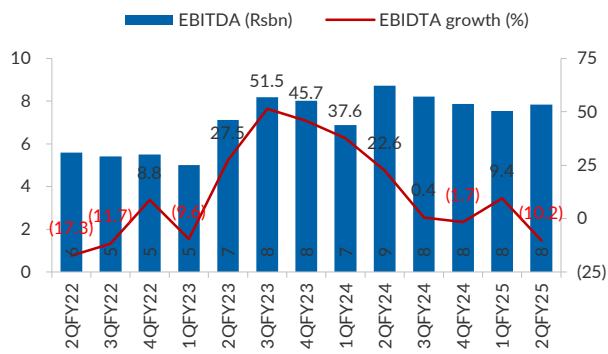
Source: Company, YES Sec

**Exhibit 10: EBITDA margin stood at 16.8% (down 290bps YoY)**



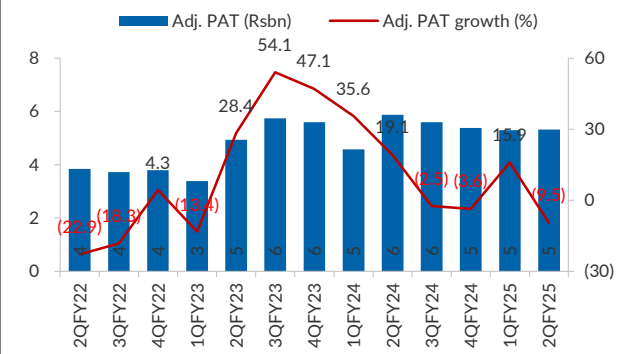
Source: Company, YES Sec

**Exhibit 11: EBITDA was thus down 10.2% YoY in 2QFY25 to Rs7.8bn**



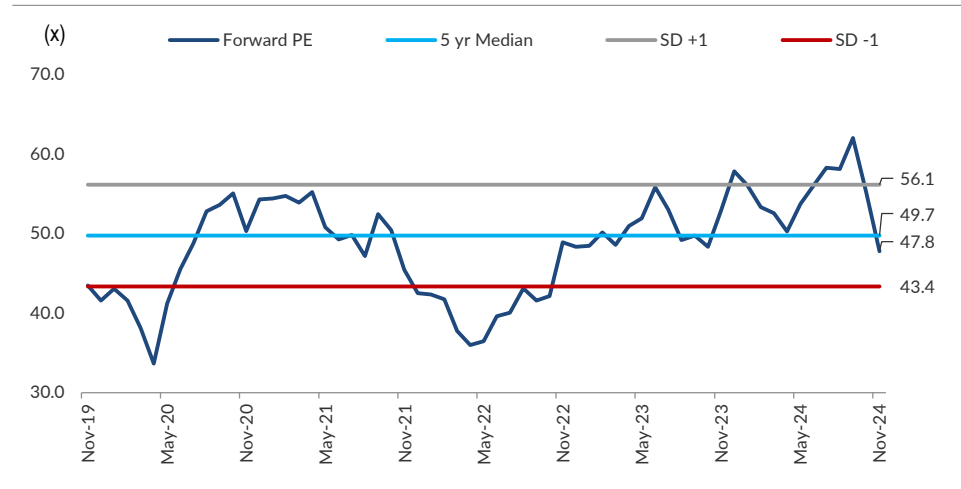
Source: Company, YES Sec

**Exhibit 12: APAT was down by 9.5% YoY to 5.3bn**



Source: Company, YES Sec

**Exhibit 13: Currently trading below 5yr Median**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 14: Balance Sheet

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	241	241	241	241	241
Reserves	35,102	39,174	43,978	48,290	53,074
Minority Interest	302	245	245	245	245
Net worth	35,343	39,415	44,219	48,531	53,315
Total debt	29,974	20,650	16,650	14,650	12,650
Deferred tax liability	(554)	(418)	(418)	(418)	(418)
<b>Total liabilities</b>	<b>65,065</b>	<b>59,892</b>	<b>60,695</b>	<b>63,007</b>	<b>65,791</b>
Gross block	39,481	43,628	45,628	47,628	49,628
Depreciation	14,210	17,215	20,294	23,558	26,962
Net block	25,271	26,413	25,334	24,070	22,666
Intangible assets	1,282	1,298	1,298	1,298	1,298
Capital work-in-progress	1,050	1,875	1,875	1,875	1,875
Investments	33,242	27,667	29,730	34,732	40,714
Inventories	11,933	11,812	12,154	13,924	15,135
Debtors	3,289	3,933	4,101	4,490	4,856
Cash	1,980	4,464	4,647	5,172	5,622
Loans & advances	13,101	11,497	13,184	12,167	11,498
Other current assets	1,807	1,337	1,337	1,337	1,337
Total current assets	32,110	33,043	35,423	37,090	38,448
Creditors	14,488	16,275	17,515	19,156	20,710
Other current liabilities & provisions	13,402	14,130	15,451	16,903	18,500
Total current liabilities	27,890	30,405	32,966	36,059	39,210
Net current assets	4,220	2,638	2,457	1,031	(762)
<b>Total assets</b>	<b>65,065</b>	<b>59,892</b>	<b>60,695</b>	<b>63,007</b>	<b>65,791</b>

Source: Company, YES Sec

### Exhibit 15: Income statement

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	163,006	167,693	183,327	203,497	221,024
<b>% Growth</b>	<b>15.3</b>	<b>2.9</b>	<b>9.3</b>	<b>11.0</b>	<b>8.6</b>
COGS	95,913	94,920	105,669	115,295	124,467
Staff costs	6,584	7,087	8,222	9,150	9,946
Other expenses	32,200	33,987	36,850	40,954	44,660
Total expenses	134,696	135,994	150,741	165,398	179,073
EBITDA	28,309	31,698	32,587	38,099	41,951
<b>% growth</b>	<b>28.6</b>	<b>12.0</b>	<b>2.8</b>	<b>16.9</b>	<b>10.1</b>
<b>EBITDA margin (%)</b>	<b>17.4</b>	<b>18.9</b>	<b>17.8</b>	<b>18.7</b>	<b>19.0</b>
Other income	2,159	2,142	2,062	2,303	2,673
Interest costs	1,691	1,640	1,344	1,394	1,274
Depreciation	2,259	3,005	3,079	3,264	3,404
Profit before tax (before exceptional items)	26,518	29,196	30,226	35,744	39,947

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
Exceptional items	3,590	0	0	0	0
Tax	6,998	7,793	7,708	8,997	10,055
Rate of Tax (%)	26.4	26.7	25.5	25.2	25.2
PAT	23,218	21,398	22,518	26,747	29,892
Adj PAT	19,628	21,427	22,518	26,747	29,892
<b>Adj PAT margin (%)</b>	<b>11.9</b>	<b>12.6</b>	<b>12.1</b>	<b>13.0</b>	<b>13.4</b>
<b>% Growth</b>	<b>28.6</b>	<b>9.2</b>	<b>5.1</b>	<b>18.8</b>	<b>11.8</b>

Source: Company, YES Sec

## Exhibit 16: Cash flow statement

Y/E March (Rsmn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	19,519	21,403	22,518	26,747	29,892
Depreciation	2,259	3,005	3,079	3,264	3,404
Other income	2,159	2,142	2,062	2,303	2,673
(Inc.)/dec. in working capital	4,057	1,611	(636)	950	1,244
<b>Cash flow from operations</b>	<b>25,262</b>	<b>25,730</b>	<b>24,243</b>	<b>30,053</b>	<b>33,140</b>
Capital expenditure (-)	(7,087)	(4,973)	(2,000)	(2,000)	(2,000)
<b>Net cash after capex</b>	<b>18,175</b>	<b>20,757</b>	<b>22,243</b>	<b>28,053</b>	<b>31,140</b>
Dividends paid (-)	(13,592)	(17,325)	(18,014)	(22,735)	(25,408)
Inc./(dec.) in investments	(10,249)	5,802	(1,063)	(4,002)	(4,981)
<b>Cash from financial activities</b>	<b>(10,284)</b>	<b>(28,305)</b>	<b>(23,358)</b>	<b>(26,129)</b>	<b>(28,682)</b>
Opening cash balance	1,849	1,980	4,463	4,647	5,171
Closing cash balance	1,980	4,463	4,647	5,171	5,622
Change in cash balance	131	2,484	184	524	450

## Exhibit 17: Growth and Ratio matrix

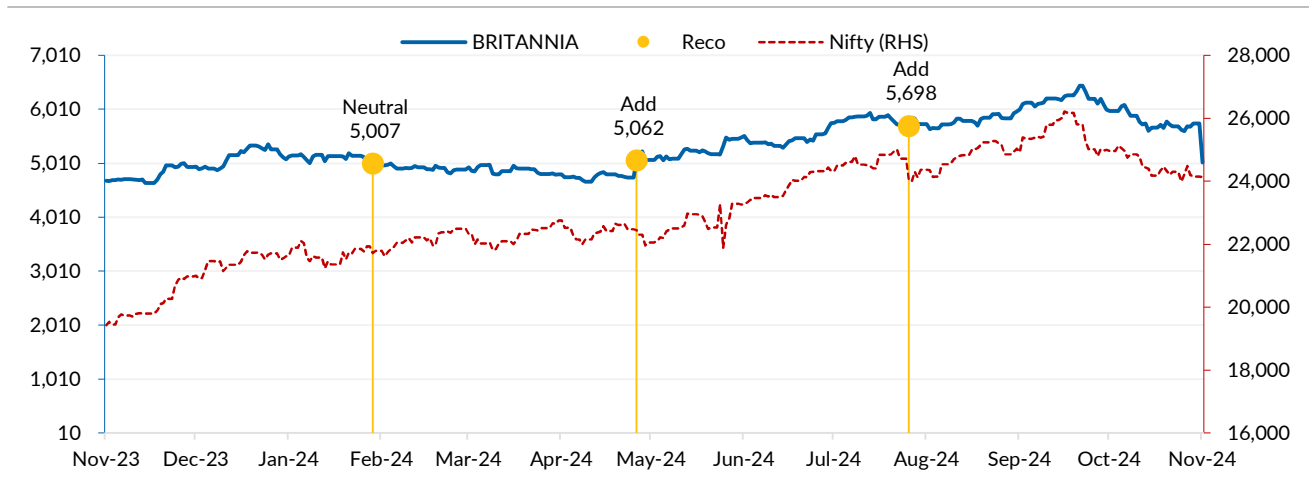
Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Per share (Rs)</b>					
EPS	81.5	88.9	93.5	111.0	124.1
Book value	146.7	163.6	183.6	201.5	221.3
DPS	58.3	66.6	74.8	94.4	105.5
<b>Valuation (x)</b>					
EV/sales	7.4	7.2	6.5	5.8	5.3
EV/EBITDA	42.6	37.8	36.6	31.1	28.1
P/E	61.7	56.5	53.8	45.3	40.5
P/BV	34.3	30.7	27.4	25.0	22.7
<b>Return ratios (%)</b>					
RoCE*	44.8	45.6	48.6	55.9	59.5
RoE	64.1	57.3	53.8	57.7	58.7
RoIC*	94.4	103.1	115.3	149.8	194.5
<b>Profitability ratios (%)</b>					
Gross margin	41.2	43.4	42.4	43.3	43.7
EBITDA margin	17.4	18.9	17.8	18.7	19.0



Y/E March	FY23	FY24	FY25E	FY26E	FY27E
EBIT margin	16.0	17.1	16.1	17.1	17.4
PAT margin	11.9	12.6	12.1	13.0	13.4
<b>Liquidity ratios (%)</b>					
Current ratio	1.2	1.1	1.1	1.0	1.0
Quick ratio	0.7	0.7	0.7	0.6	0.6
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.8	0.5	0.4	0.3	0.2
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	2.5	2.8	3.0	3.2	3.3
Fixed asset turnover ratio (x)	6.2	5.9	6.7	7.8	9.0
Inventory days	49	46	41	41	43
Debtors days	7	8	8	8	8
Creditor days	52	59	58	58	58

Source: Company, YES Sec; \* pre-tax

## Recommendation Tracker



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Analyst signature

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