

May 06, 2024

RESULT REPORT Q4 FY24 | Sector: Consumer Staples

# Britannia Industries Ltd

## Earning growth to rebound in FY25 led by volumes

Britannia Industries Ltd. (BRIT) 4QFY24 headline performance was below our estimates even while volume growth was in-line at ~6% YoY. Slightly lower realizations and other operating income versus our estimates meant that topline was below our expectations. Gross margin surprised us positively, improving ~100bps QoQ (80bps ahead of our expectation), largely led by soft commodity basket. High overheads especially A&SP meant that operating margin was in-line. Pricing interventions have also meant that market share trends continued to grow in 4QFY24 post challenges in 1H. Going ahead, as expected, volume growth momentum will improve with BRIT aiming for double-digit growth in FY25. It also expects to maintain margin while not holding back on spends. We upgrade our rating a notch to ADD (NEUTRAL earlier) with a revised target price (TP) of Rs5,570.

### 4QFY24 Result Highlights

- **Headline performance:** Consolidated sales was up 3.1% YoY but revenues (including OOI) was only up 1.1% YoY to Rs40.7bn (vs est. of Rs42.3bn) as OOI was down ~58% YoY. Consol. EBITDA was down 1.7% YoY to Rs7.9bn (vs est. Rs8.2bn). Adjusted PAT (APAT) down by 3.6% YoY to Rs5.4bn (vs est. Rs5.6bn).
- **Standalone** revenues grew by 0.8% YoY to Rs39.2bn (sales up 2.8% YoY) led by 6% volume growth YoY, in-line with our estimate. EBITDA margin stood at 19.6% (down 80bps YoY).
- **Consolidated gross margin** was flat YoY to 44.9% (up 100bps QoQ). Employee cost was down 30bps YoY while other overheads were up 80bps YoY as a % of revenue. Thus, consolidated EBITDA margin was down 60bps YoY to 19.4% (vs est. 19.5%).
- **FY24:** Consol. revenues, EBITDA & APAT up 2.9%, 12% & 9.2% YoY, respectively. Gross/EBITDA margin up 220bps/150bps YoY to 43.4%/18.9%, respectively.

### Key Conference Call Highlights

- (1) BRIT will try to drive topline much faster in FY25 led by volume growth (aiming for double-digit volume growth).
- (2) Outlook for commodity in FY25 is of slight inflation at ~3%. 1QFY25 will be flattish in terms of inflation and post-election inflation is expected to pick-up.
- (3) Company will make sure BRIT will spend right on overheads in FY25 while maintaining margins.

### View & Valuation

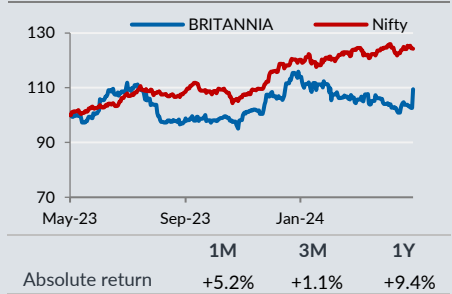
Over FY24-26E, we are currently building revenue CAGR of 9.7% driven by volume growth of 7.6% CAGR. Drivers: (a) Volume growth expected to touch double digits in FY25. Rural recovery and distribution expansion would be key drivers of volume growth. (b) Volume growth in base business will now be supported by some pricing. (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 11.5% EBITDA CAGR over FY24-FY26E (~60bps EBITDA margin expansion as we expect gross margin to expand by 120bps over FY24-FY26E) as company is now looking to grow topline aggressively while maintaining the current peak level of margin profile. The stock is trading at ~48x/44x FY25E/FY26E EPS as we build in 13.8% earnings CAGR over FY24-26E. We upgrade our rating a notch to ADD (NEUTRAL earlier) with a revised TP of Rs5,570 (Rs5,140 earlier) as we roll-forward to March'2026E EPS and valuing it at ~48x (3yr/5yr avg fwd. multiple: ~46x) due to strong volume growth expectation in near term, continues market share gains, decent return ratios and healthy dividend payout.

Reco	: ADD
CMP	: Rs 5,062
Target Price	: Rs 5,570
Potential Return	: +10.0%

### Stock data (as on May 06, 2024)

Nifty	22,443
52 Week h/l (Rs)	5386 / 4348
Market cap (Rs/USD mn)	1142824 / 13690
Outstanding Shares (mn)	241
6m Avg t/o (Rs mn):	1,656
Div yield (%):	1.5
Bloomberg code:	BRIT IN
NSE code:	BRITANNIA

### Stock performance



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

Promoter	50.6%
FII+DII	34.0%
Others	15.5%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	NEUTRAL
Target Price	5,570	5,140

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	105.7	115.1
EPS (Old)	103.0	113.7
% change	+2.5	+1.2

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	167,693	188,064	201,943
YoY Growth (%)	2.9	12.1	7.4
EBIDTA	31,698	36,508	39,414
Margins (%)	18.9	19.4	19.5
PAT	21,427	25,168	27,727
EPS	88.9	104.5	115.1
YoY Growth (%)	9.2	17.5	10.2
Pre-tax RoCE (%)	45.6	54.7	57.5
ROE (%)	57.3	59.8	59.0
P/E (x)	56.9	48.4	44.0
EV/EBITDA (x)	38.1	32.9	30.3

### VISHAL PUNMIYA

Lead Analyst

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## Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	40,694	42,250	41,216	(3.7)	(1.3)
EBITDA	7,875	8,239	7,834	(4.4)	0.5
EBITDA Margin (%)	19.4	19.5	19.0	(0.2)	0.3
Adjusted PAT	5,383	5,627	5,455	(4.3)	(1.3)

Source: Bloomberg, YES Sec

## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenues	40,232	42,563	40,694	1.1	-4.4	163,006	167,693	2.9
COGS	22,159	23,891	22,425	1.2	-6.1	95,913	94,920	-1.0
Gross margin %	44.9	43.9	44.9	0.0	1.0	41.2	43.4	2.2
Employee costs	1,706	1,985	1,620	-5.0	-18.4	6,584	7,087	7.6
% of sales	4.2	4.7	4.0	-0.3	-0.7	4.0	4.2	0.2
Other expenses	8,358	8,477	8,774	5.0	3.5	32,200	33,987	5.6
% of sales	20.8	19.9	21.6	0.8	1.6	19.8	20.3	0.5
EBITDA	8,009	8,211	7,875	-1.7	-4.1	28,309	31,698	12.0
EBITDA margin %	19.9	19.3	19.4	-0.6	0.1	17.4	18.9	1.5
Depreciation	653	781	799	22.3	2.4	2,259	3,005	33.0
EBIT	7,356	7,430	7,075	-3.8	-4.8	26,050	28,694	10.1
EBIT margin %	18.3	17.5	17.4	-0.9	-0.1	16.0	17.1	1.1
Interest expense	349	311	264	-24.2	-15.0	1,691	1,640	-3.0
Other income	564	506	573	1.7	13.4	2,159	2,142	-0.8
Exceptional items	0	-29	0	-	-	3,590	-29	-
PBT	7,571	7,596	7,384	-2.5	-2.8	30,107	29,167	-3.1
Tax	2,035	2,026	1,980	-2.7	-2.3	6,998	7,793	11.4
Effective tax rate %	26.9	26.7	26.8	-0.1	0.1	23.2	26.7	3.5
Adj. PAT	5,587	5,593	5,383	-3.6	-3.8	19,628	21,427	9.2
Adj. PAT margin %	13.9	13.1	13.2	-0.7	0.1	12.0	12.8	0.7
EPS	23.2	23.2	22.3	-3.6	-3.8	81.5	88.9	9.2

Source: Company, YES Sec

## Exhibit 3: Quarterly snapshot (Standalone)

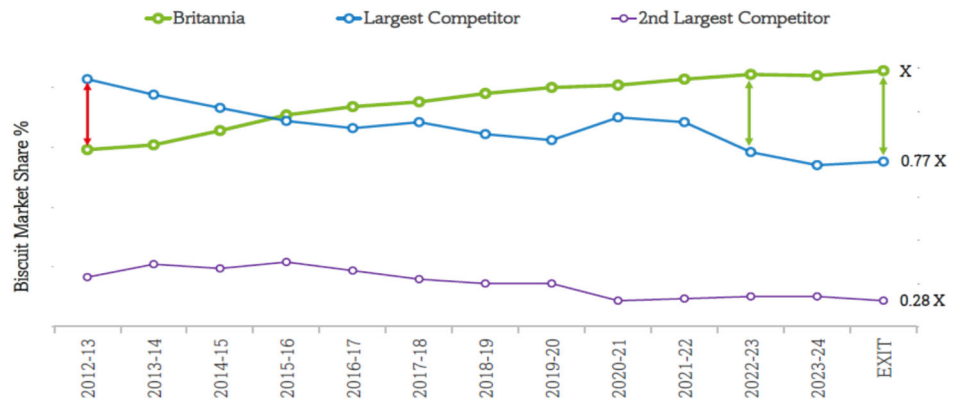
Particulars (Rs. Mn)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenues	38,947	41,024	39,242	0.8	-4.3	156,184	161,861	3.6
COGS	22,158	23,682	22,269	0.5	-6.0	94,554	94,281	-0.3
Gross margin %	43.1	42.3	43.3	0.1	1.0	39.5	41.8	2.3
Employee costs	1,365	1,632	1,249	-8.5	-23.5	5,206	5,653	8.6
% of sales	3.5	4.0	3.2	-0.3	-0.8	3.3	3.5	0.2
Other expenses	7,477	7,781	8,021	7.3	3.1	29,007	31,219	7.6
% of sales	19.2	19.0	20.4	1.2	1.5	18.6	19.3	0.7
EBITDA	7,947	7,929	7,704	-3.1	-2.8	27,418	30,708	12.0
EBITDA margin %	20.4	19.3	19.6	-0.8	0.3	17.6	19.0	1.4
EBIT	7,372	7,222	6,977	-5.4	-3.4	25,467	27,996	9.9
EBIT margin %	18.9	17.6	17.8	-1.1	0.2	16.3	17.3	1.0
PBT	7,608	7,454	7,270	-4.4	-2.5	23,846	28,612	20.0
Adj. PAT	5,582	5,413	5,302	-5.0	-2.1	19,116	20,850	9.1
Adj. PAT margin %	14.3	13.2	13.5	-0.8	0.3	12.2	12.9	0.6
EPS	23.2	22.5	22.0	-5.0	-2.1	79.4	86.5	9.1

Source: Company, YES Sec

## KEY TAKEAWAYS/EXCERPT'S FROM BRITANNIA'S Q4FY24 CONFERENCE CALL/PRESENTATION

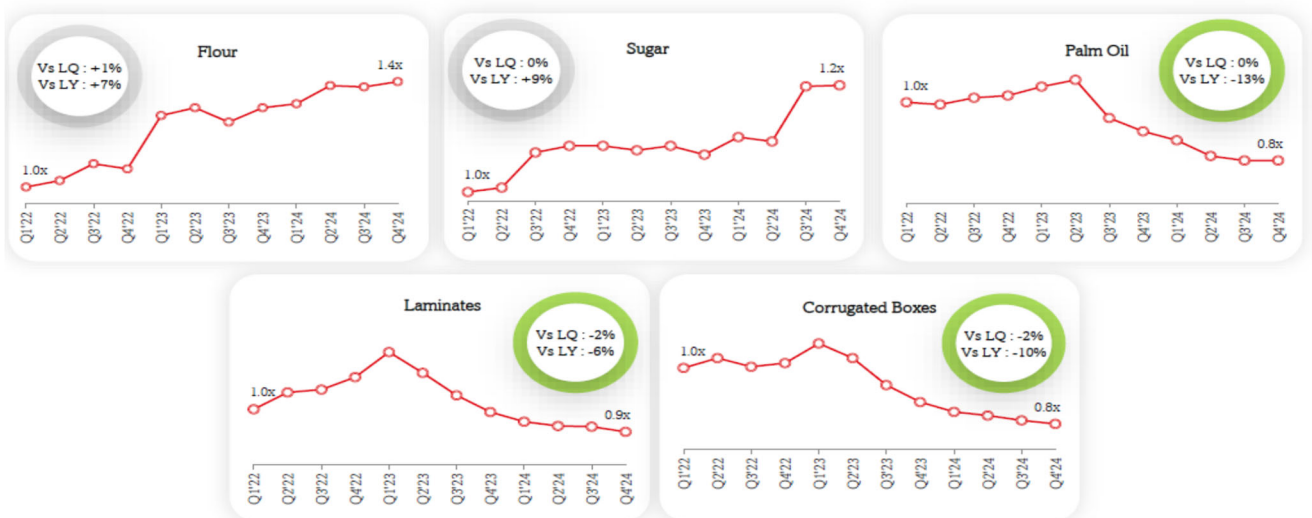
- **FY25 Outlook:** BRIT will try to drive topline much faster in FY25 led by volume growth (aiming for double-digit volume growth). Outlook for commodity in FY25 is of slight inflation at ~3%. Company will make sure BRIT will spend right on overheads in FY25 while maintaining margins. Target for NPD is ~3.5% of overall revenues.
- **Volume growth** for 4QFY24 was double of sales growth at ~6% YoY. While volume & revenue growth for FY24 was same.
- **Pricing action:** Taken measured pricing actions; strategic pricing actions in key SKUs & markets.
- **Focus states** growth grew 2.4x in FY24 versus Rest of India (ROI).
- **Market share:** Share looking good post pricing interventions. Rural share is still behind the urban share.
- **Distribution:** Direct reach improved to 2.79mn outlets in Mar'24. Rural distributors improved to 30k in Mar'24.
- **Commodity:** Overall 4Q commodity costs remained soft. Flour & Sugar have been inflationary, but was balanced by Palm Oil, Laminates & Corrugated Boxes. BRIT expects government buying in wheat in FY25 hence seeing inflationary outlook for wheat. Sugar crop has not been a great crop hence will be slightly inflationary as well. Overall commodity will be slightly inflationary at ~3% in FY25 but BRIT believes will be manageable. 1QFY25 will be flattish in terms of inflation and post-election inflation is expected to pick-up.
- **Channel:** Contribution of Modern Trade (MT) & E-commerce is now ~12% & 3.5% of revenues now, respectively. Market share across channel for BRIT is same while it believes potential of new channels is much higher. BRIT expects these channels to grow at a better rate to 16-17% mix.
- **Adjacencies:** Adjacent businesses are on strong footing and now contribute ~25% to revenues. Gross margins (GM) for the portfolio are slightly better than the average but EBITDA margins are still lower. The objective of adjacencies business is to grow 1.5x the core business. BRIT has taken big bet on Dairy in terms of investment and partnerships. It feels, they are still short of targets for dairy business but is very optimistic about future. Some of the products for the BEL portfolio still coming from Vietnam, which will eventually move to India once it reaches a scale. Cake, Rusk, Dairy and Bread are about the same size in terms of revenue now in FY24 at ~8-9bn. Croissant would be ~0.7% of revenues. Other small segments are negligible.
- **Route-To-Market (RTM) 2.0:** BRIT is working with Bain for the program. Objective is to multiply adjacent business revenues while continue to build core. Project is underway (11-12 month project time) and pilot is planned for 2HFY25. Full impact of this project will be seen at the end of FY25.
- **Overheads:** BRIT has been providing tremendous marketing support. Cost efficiencies was at 7x in FY24 compared to FY14.
- **International business** remained robust this quarter, led by GCC & America. Nepal has seen consistent performance both in revenues & profitability albeit on low base. The company is hopeful to replicate this story in other countries as well.
- **Innovation:** BRIT stated that there is no maida in any of the *Nutrichoice* products now. Recently launched Good Day – Fruit & Nut cookies, Cake Rusk and Bourbon – Milk Shake. In-market innovation / renovation are at Rs2.75bn revenue run-rate on annualized basis. Target NPD is 3.5% of overall revenues from the current levels of 2%.
- **ESG:** In the top quartile as far as FMCG is concerned.
- **Others:** The company has Commercialized cheese factory in Ranjangaon.

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



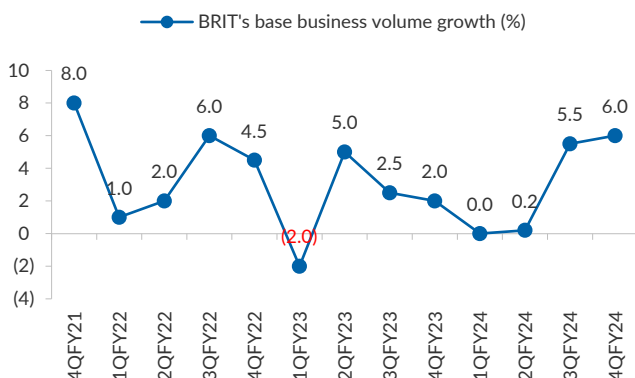
Source: Nielsen, Company, YES Sec

**Exhibit 5: Commodity cost remained soft in 4Q**



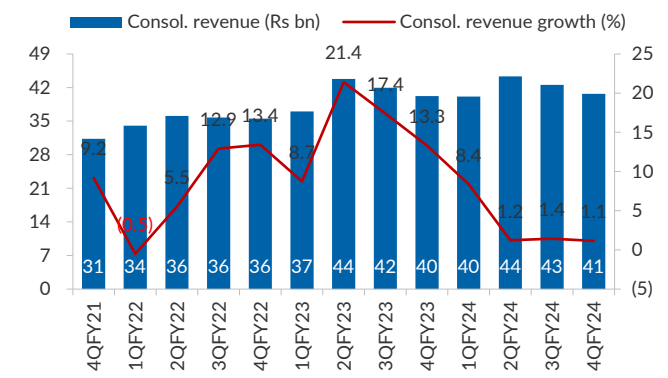
Source: Company, YES Sec; Note: Above values are average actual consumption rates for the quarter

**Exhibit 6: Volume growth was in-line at ~6% YoY in 4QFY24**



Source: Company, YES Sec

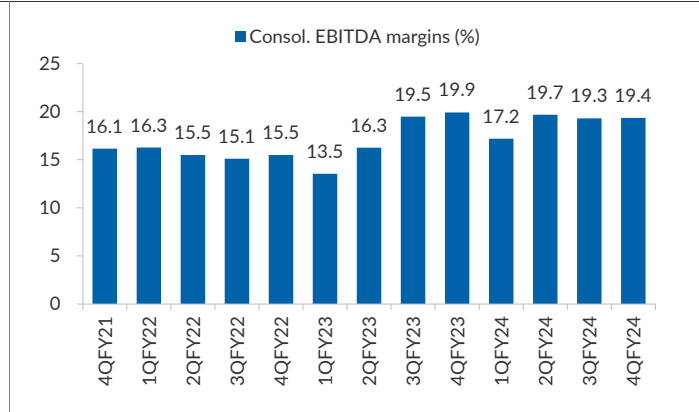
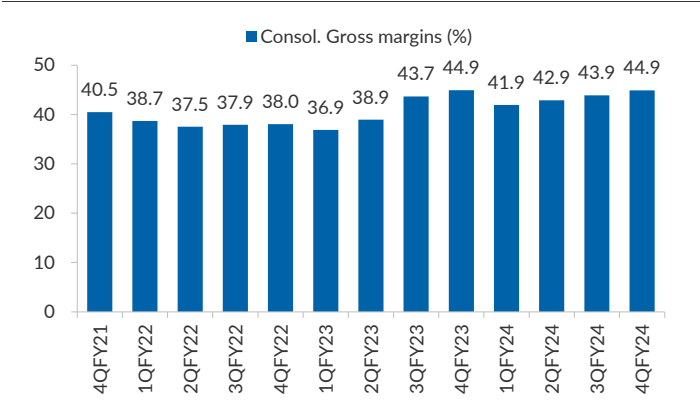
**Exhibit 7: Consol. revenue grew 1.1% YoY (consol. sales up 3.1% YoY)**



Source: Company, YES Sec

**Exhibit 8: Softer commodity cost meant that gross margin were up 100bps QoQ in 4Q to 44.9%**

**Exhibit 9: EBITDA margin stood at 19.4% (-60bps YoY)**

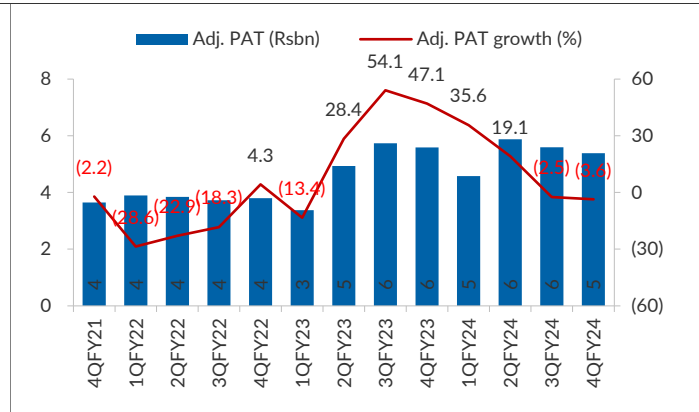
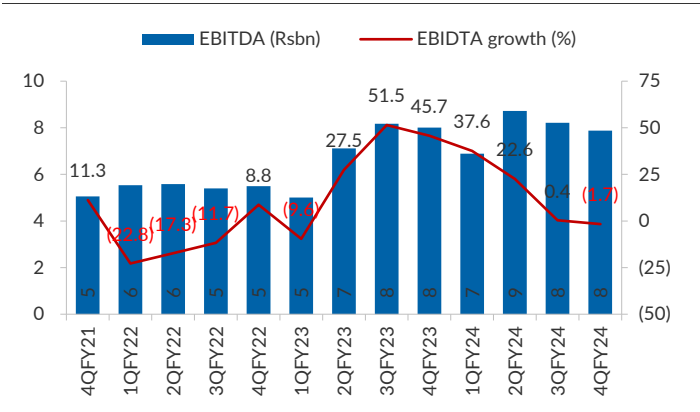


Source: Company, YES Sec

Source: Company, YES Sec

**Exhibit 10: EBITDA was thus down 1.7% YoY in 4QFY24**

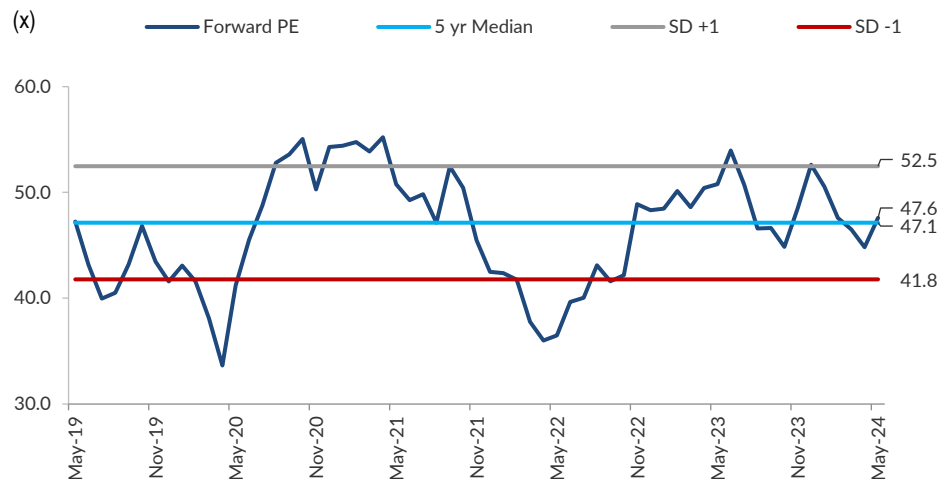
**Exhibit 11: While APAT down by 3.6% YoY**



Source: Company, YES Sec

Source: Company, YES Sec

**Exhibit 12: Currently trading at ~48x 1-yr fwd earnings**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 13: Balance Sheet**

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	241	241	241	241	241
Reserves	25,340	35,102	39,174	44,508	48,967
Minority Interest	275	302	245	245	245
Net worth	25,581	35,343	39,415	44,749	49,208
Total debt	24,812	29,974	20,650	16,650	14,650
Deferred tax liability	(509)	(554)	(418)	(418)	(418)
<b>Total liabilities</b>	<b>50,159</b>	<b>65,065</b>	<b>59,892</b>	<b>61,225</b>	<b>63,684</b>
Gross block	28,087	39,481	43,628	45,628	47,628
Depreciation	11,951	14,210	17,215	20,383	23,647
Net block	16,136	25,271	26,413	25,245	23,981
Intangible assets	1,396	1,282	1,298	1,298	1,298
Capital work-in-progress	5,357	1,050	1,875	1,875	1,875
Investments	17,624	33,242	27,667	29,719	35,126
Inventories	13,675	11,933	11,812	12,629	13,956
Debtors	3,319	3,289	3,933	4,103	4,390
Cash	1,849	1,980	4,464	4,829	5,184
Loans & advances	14,019	13,101	11,497	13,184	12,167
Other current assets	1,263	1,807	1,337	1,337	1,337
Total current assets	34,126	32,110	33,043	36,081	37,035
Creditors	12,852	14,488	16,275	17,543	18,727
Other current liabilities & provisions	11,627	13,402	14,130	15,451	16,903
Total current liabilities	24,479	27,890	30,405	32,993	35,630
Net current assets	9,647	4,220	2,638	3,088	1,405
<b>Total assets</b>	<b>50,159</b>	<b>65,065</b>	<b>59,892</b>	<b>61,225</b>	<b>63,684</b>

Source: Company, YES Sec

**Exhibit 14: Income statement**

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	141,363	163,006	167,693	188,064	201,943
<b>% Growth</b>	<b>7.6</b>	<b>15.3</b>	<b>2.9</b>	<b>12.1</b>	<b>7.4</b>
COGS	87,603	95,913	94,920	104,513	111,877
Staff costs	5,423	6,584	7,087	8,079	8,972
Other expenses	26,322	32,200	33,987	38,964	41,679
Total expenses	119,348	134,696	135,994	151,556	162,528
EBITDA	22,015	28,309	31,698	36,508	39,414
<b>% growth</b>	<b>-12.3</b>	<b>28.6</b>	<b>12.0</b>	<b>15.2</b>	<b>8.0</b>
<b>EBITDA margin (%)</b>	<b>15.6</b>	<b>17.4</b>	<b>18.9</b>	<b>19.4</b>	<b>19.5</b>
Other income	2,228	2,159	2,142	2,234	2,321
Interest costs	1,443	1,691	1,640	1,562	1,417
Depreciation	2,005	2,259	3,005	3,169	3,264

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax (before exceptional items)	20,795	26,518	29,196	34,011	37,054
Exceptional items	-10	3,590	0	0	0
Tax	5,624	6,998	7,793	8,843	9,326
Rate of Tax (%)	27.0	26.4	26.7	26.0	25.2
PAT	15,248	23,218	21,398	25,168	27,727
Adj PAT	15,258	19,628	21,427	25,168	27,727
<b>Adj PAT margin (%)</b>	<b>10.6</b>	<b>11.9</b>	<b>12.6</b>	<b>13.2</b>	<b>13.6</b>
<b>% Growth</b>	<b>-18.2</b>	<b>28.6</b>	<b>9.2</b>	<b>17.5</b>	<b>10.2</b>

Source: Company, YES Sec

## Exhibit 15: Cash flow statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
PAT	15,172	19,519	21,403	25,168	27,727
Depreciation	2,005	2,259	3,005	3,169	3,264
Other income	2,228	2,159	2,142	2,234	2,321
(Inc.)/dec. in working capital	(3,273)	4,057	3,066	(1,085)	1,038
<b>Cash flow from operations</b>	<b>12,995</b>	<b>25,262</b>	<b>27,108</b>	<b>26,580</b>	<b>31,126</b>
Capital expenditure (-)	(5,763)	(7,087)	(4,973)	(2,000)	(2,000)
<b>Net cash after capex</b>	<b>7,232</b>	<b>18,175</b>	<b>22,135</b>	<b>24,580</b>	<b>29,126</b>
Dividends paid (-)	(24,849)	(13,592)	(16,052)	(20,135)	(23,568)
Inc./(dec.) in investments	10,480	(10,249)	6,575	(1,052)	(4,407)
<b>Cash from financial activities</b>	<b>(22,458)</b>	<b>(10,284)</b>	<b>(27,016)</b>	<b>(25,697)</b>	<b>(26,985)</b>
Opening cash balance	2,113	1,849	1,980	4,464	4,828
Closing cash balance	1,849	1,980	4,464	4,828	5,184
Change in cash balance	(264)	131	2,484	365	355

## Exhibit 16: Growth and Ratio matrix

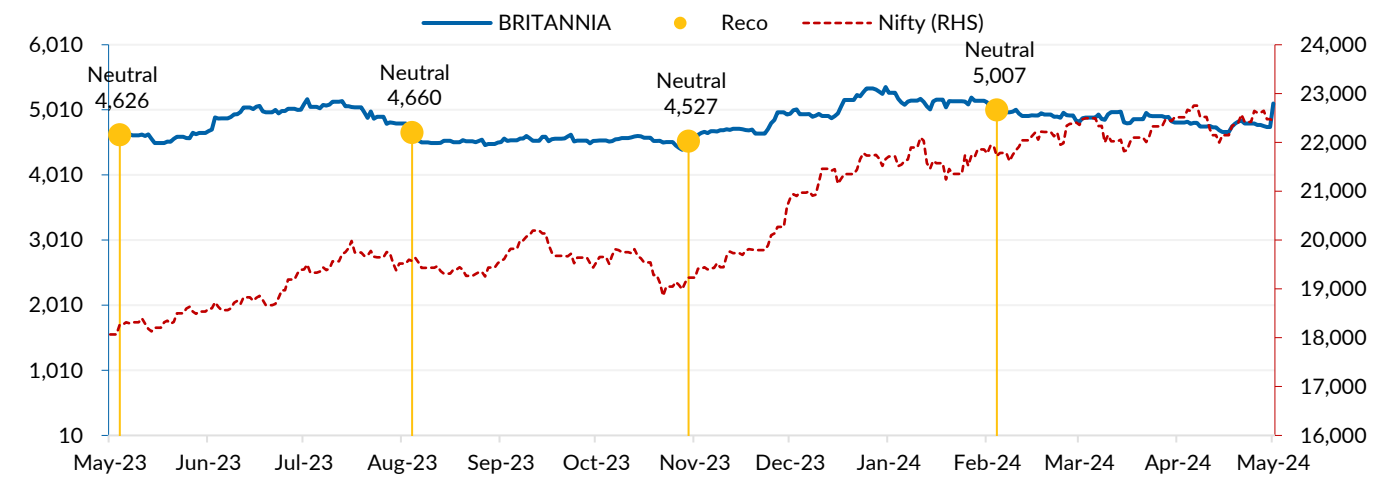
Y/E March	FY22	FY23	FY24	FY25E	FY26E
<b>Per share (Rs)</b>					
EPS	63.3	81.5	88.9	104.5	115.1
Book value	106.2	146.7	163.6	185.8	204.3
DPS	69.0	58.3	66.6	83.6	97.8
<b>Valuation (x)</b>					
EV/sales	8.7	7.5	7.3	6.4	5.9
EV/EBITDA	56.1	43.2	38.4	32.9	30.3
P/E	80.6	62.6	57.4	48.4	44.0
P/BV	48.0	34.8	31.2	27.2	24.8
<b>Return ratios (%)</b>					
RoCE*	37.2	44.8	45.6	54.7	57.5
RoE	49.7	64.1	57.3	59.8	59.0
RoIC*	77.5	94.4	103.1	129.4	153.4



Y/E March	FY22	FY23	FY24	FY25E	FY26E
<b>Profitability ratios (%)</b>					
Gross margin	38.0	41.2	43.4	44.4	44.6
EBITDA margin	15.6	17.4	18.9	19.4	19.5
EBIT margin	14.2	16.0	17.1	17.7	17.9
PAT margin	10.6	11.9	12.6	13.2	13.6
<b>Liquidity ratios (%)</b>					
Current ratio	1.4	1.2	1.1	1.1	1.0
Quick ratio	0.8	0.7	0.7	0.7	0.6
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	1.0	0.8	0.5	0.4	0.3
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	2.8	2.5	2.8	3.1	3.2
Fixed asset turnover ratio (x)	6.6	6.2	5.9	6.9	7.8
Inventory days	51	49	46	43	43
Debtors days	8	7	8	8	8
Creditor days	54	52	59	59	59

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

## Recommendation Tracker





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**ADD:** Upside between 10% to 20% over 12 months

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