

# Britannia Industries | BUY

## On expected lines

Britannia's Dec-Q earnings were broadly inline with our estimates with a tad better-than-expected topline, though still soft. Volumes grew c.5% with pricing down 2-2.5% yoy during the quarter after the steep pricing growth seen from end-FY22 to early-FY24. Management commented that demand scenario is progressively recovering, but rural demand was generally subdued and challenges relating to heightened competition remained. Gross margin continued to expand well and surprised positively again (50bps beat vs our forecast) - up yoy and also qoq despite the price-cuts undertaken during the quarter - a rather benign input-costs environment helped in this regard. Staff costs were significantly above recent run-rate but the impact from the same was partly offset by very well-controlled 'Other Expenses' which rose just 1.4% - likely helped by some rationalisation in ad-spends as well. We expect Britannia's topline and profit growth to remain soft over the near-term.

- Revenue performance tad better than expected; market context remains challenging:** Britannia's 3QFY24 consolidated sales grew 2.2% to INR 41.9bn while EBITDA and adjusted net profit were broadly flattish at INR 8.2bn and INR 5.6bn respectively. Standalone sales growth was tad higher at 3.1% - likely helped by some re-classification with some part of Dairy sales moving to the standalone entity; on the other hand, consolidated figures have some impact of the Cheese business now being accounted as 'share of profits from JV and associates' vs a line-by-line consolidation earlier. Revenue for the quarter was a tad better than we expected - with volume growth of c.5% vs our forecast of 4% - Britannia's 4yr volume CAGR has been in the 4-4.5% ballpark over the past three quarters. Volume growth for the quarter was offset by lower realisations - down 2-2.5% yoy - owing to anniversarisation plus some reversals of the steep price-hikes taken during FY23 - these were necessary to improve price-value equation given higher competitive intensity in the space; management had earlier alluded to pricing-activity by competition in certain categories in response to which the company did some strategic pricing corrections in some of its key brands and SKUs. While rural demand remained subdued, Britannia's focus markets outperformed other regions led by its initiatives around expanding direct reach in these markets.
- Better gross margin delivery and strong control on overheads helped profitability performance:** Britannia's gross margin performance surprised positively yet again - consolidated gross margin expanded 66bps yoy to 43% (50bps higher vs our expectation), led by softer input-costs environment (palm-oil, laminates). Interestingly, gross margin expanded by a further 94bps qoq despite price-corrections of c.2-2.5% taken to help improve price-value equation given the rise in competitive intensity in the space. Steep rise in staff costs (11% higher yoy and 24% higher qoq) was a surprise but impact of the same was offset by better gross margin and savings in Other Expenses which grew by just 1.4% yoy (2.4% lower qoq) - possibly helped by some rationalisation in A&P spends as well. Other operating income was 32% lower yoy as base quarter benefitted from bunched-up PLI incentives. As a result, reported EBITDA margin was 35bps lower yoy at 19.6% (vs JMFc:19.8%); on an intrinsic basis, however, margin was c.51bps higher vs year-ago level, as per our workings.



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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	5,380
Upside/(Downside)	7.4%
Previous Price Target	5,190
Change	3.7%

### Key Data – BRIT IN

Current Market Price	INR5,007
Market cap (bn)	INR1,206.0/US\$14.5
Free Float	42%
Shares in issue (mn)	240.0
Diluted share (mn)	240.9
3-mon avg daily val (mn)	INR1,538.4/US\$18.5
52-week range	5,386/4,153
Sensex/Nifty	72,186/21,929
INR/US\$	83.1

### Price Performance

%	1M	6M	12M
Absolute	-5.0	4.3	8.2
Relative*	-5.2	-5.0	-9.3

\* To the BSE Sensex

### Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	139,447	159,849	166,012	180,096	198,313
Sales Growth (%)	8.2	14.6	3.9	8.5	10.1
EBITDA	22,015	28,309	32,022	34,292	38,625
EBITDA Margin (%)	15.6	17.4	19.0	18.8	19.2
Adjusted Net Profit	15,255	19,462	21,986	23,709	27,004
Diluted EPS (INR)	63.3	80.8	91.3	98.4	112.1
Diluted EPS Growth (%)	-18.2	27.6	13.0	7.8	13.9
ROIC (%)	74.1	87.2	85.3	84.2	93.9
ROE (%)	50.0	63.9	58.4	55.1	53.2
P/E (x)	79.1	62.0	54.9	50.9	44.7
P/B (x)	47.2	34.1	30.2	26.2	21.8
EV/EBITDA (x)	54.7	42.2	37.3	34.6	30.5
Dividend Yield (%)	1.4	1.4	1.5	1.5	1.7

Source: Company data, JM Financial. Note: Valuations as of 06/Feb/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on:  
Bloomberg - JMFR <GO>,  
Thomson Publisher & Reuters,  
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

**Exhibit 1. 3QFY24 result snapshot – Overall performance largely inline with our expectations (INR mn)**

	CONSOLIDATED FINANCIALS					PARENT COMPANY		
	3QFY24	3QFY23	YoY growth	3QFY24E	% var	3QFY24	3QFY23	YoY growth
<b>Net Sales</b>	<b>41,918</b>	<b>41,015</b>	<b>2.2%</b>	<b>41,568</b>	<b>0.8%</b>	<b>40,314</b>	<b>39,114</b>	<b>3.1%</b>
Other Operating Income	645	953	-32.3%	850	-24.1%	710	998	-28.9%
<b>Gross Profit</b>	<b>18,028</b>	<b>17,368</b>	<b>3.8%</b>	<b>18,520</b>	<b>-2.7%</b>	<b>17,341</b>	<b>16,922</b>	<b>2.5%</b>
Gross Profit Margin - % of Net Sales	43.0%	42.3%	66 bps	42.5%	50 bps	41.3%	40.7%	54 bps
Staff Cost	1,985	1,782	11.3%	1,600	24.0%	1,632	1,415	15.3%
Other Expenses	8,477	8,363	1.4%	8,683	-2.4%	7,781	7,609	2.3%
<b>EBITDA</b>	<b>8,211</b>	<b>8,176</b>	<b>0.4%</b>	<b>8,237</b>	<b>-0.3%</b>	<b>7,929</b>	<b>7,898</b>	<b>0.4%</b>
EBITDA margin - % of Net Sales	19.6%	19.9%	-35 bps	19.8%	-23 bps	19.7%	20.2%	-53 bps
Depreciation	781	580	34.7%	727	7.3%	707	500	41.4%
<b>EBIT</b>	<b>7,430</b>	<b>7,596</b>	<b>-2.2%</b>	<b>7,510</b>	<b>-1.1%</b>	<b>7,222</b>	<b>7,398</b>	<b>-2.4%</b>
Interest Expense	311	381	-18.5%	450	-30.9%	292	354	-17.5%
Other Income	506	508	-0.4%	540	-6.4%	496	484	2.5%
<b>PBT before exceptional items</b>	<b>7,625</b>	<b>7,722</b>	<b>-1.3%</b>	<b>7,600</b>	<b>0.3%</b>	<b>7,425</b>	<b>7,528</b>	<b>-1.4%</b>
PBT after exceptional items	7,596	11,478	-33.8%	7,600	-0.1%	7,396	9,806	-24.6%
<b>Reported Net Profit</b>	<b>5,564</b>	<b>9,324</b>	<b>-40.3%</b>	<b>5,645</b>	<b>-1.4%</b>	<b>5,384</b>	<b>7,669</b>	<b>-29.8%</b>
<b>Adjusted Net Profit</b>	<b>5,586</b>	<b>5,568</b>	<b>0.3%</b>	<b>5,645</b>	<b>-1.1%</b>	<b>5,405</b>	<b>5,392</b>	<b>0.2%</b>

Source: Company, JM Financial

**Exhibit 2. Costs breakdown (%)**

% of sales	CONSOLIDATED FINANCIALS			PARENT COMPANY	
	3QFY24	3QFY23	3QFY24E	3QFY24	3QFY23
Cost of Goods Sold	57.0%	57.7%	57.5%	58.7%	59.3%
Staff Cost	4.7%	4.3%	3.9%	4.0%	3.6%
Other Expenses	20.2%	20.4%	20.9%	19.3%	19.5%
Depreciation	1.9%	1.4%	1.8%	1.8%	1.3%

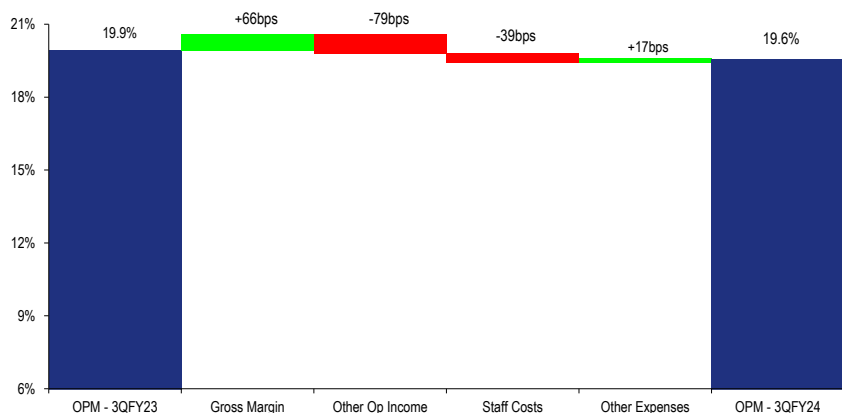
Source: Company, JM Financial

**Exhibit 3. Subsidiaries performance snapshot – subsidiaries' financials remained impacted due to Cheese getting accounted as 'share of profits from JV'. As per management, international business performed well with double-digit growths across key markets (INR mn)**

Subsidiaries	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY
Sales (incl excise)	2,186	1,834	1,929	1,901	1,333	1,456	1,502	1,604	-15.6%
YoY	20%	8%	5%	-6%	-39%	-21%	-22%	-16%	
Gross Profit	1,303	1,403	1,461	1,444	1,332	1,309	1,375	1,396	-3.3%
% GPM	59.6%	76.5%	75.7%	75.9%	99.9%	89.9%	91.6%	87.0%	
EBITDA	276	309	243	278	62	223	315	282	1.7%
% OPM	12.6%	16.8%	12.6%	14.6%	4.7%	15.3%	21.0%	17.6%	
YoY	57%	3%	-11%	2%	-78%	-28%	29%	2%	
PAT	-336	158	7	1,655	5	145	171	180	-89.1%

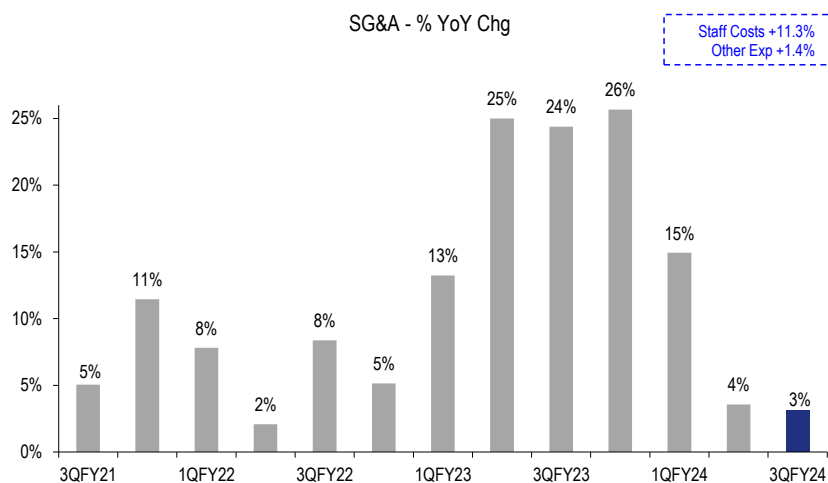
Source: Company, JM Financial

**Exhibit 4. Drop in other op income and higher staff costs were partially offset by GPM expansion and lower other expenses, resulting in reported OPM compression of 35bps**



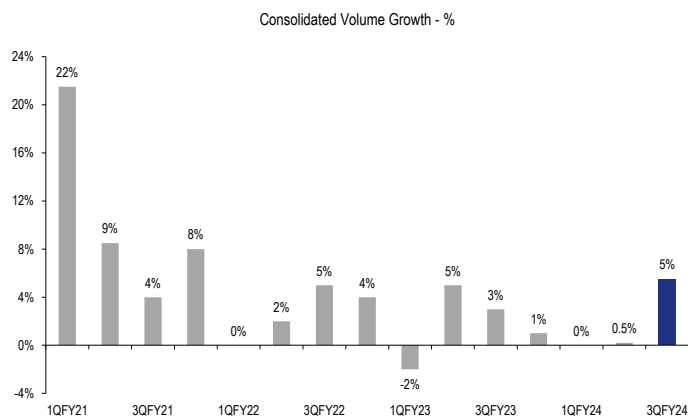
Source: Company, JM Financial

**Exhibit 5. SG&A grew by 3% overall during 3Q**



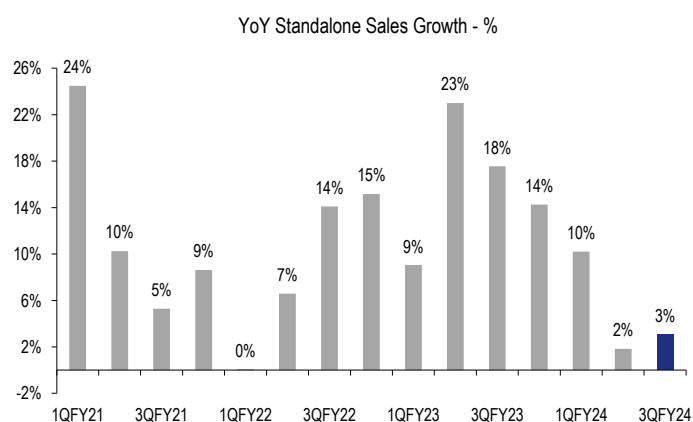
Source: Company, JM Financial

**Exhibit 6. Volumes improved to mid-single-digit during the quarter**



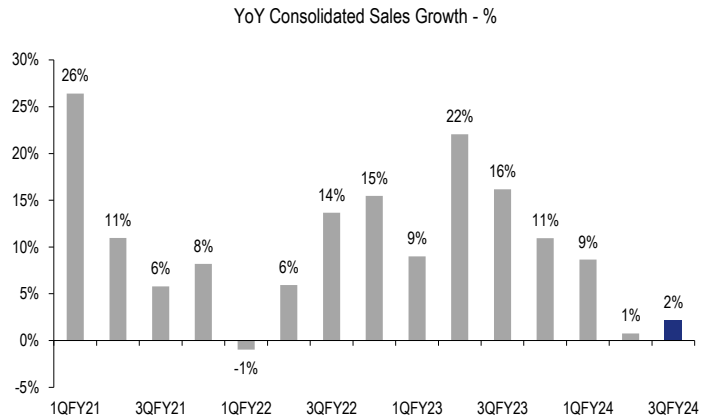
Source: Company, JM Financial

**Exhibit 7. Standalone sales grew 3% yoy**



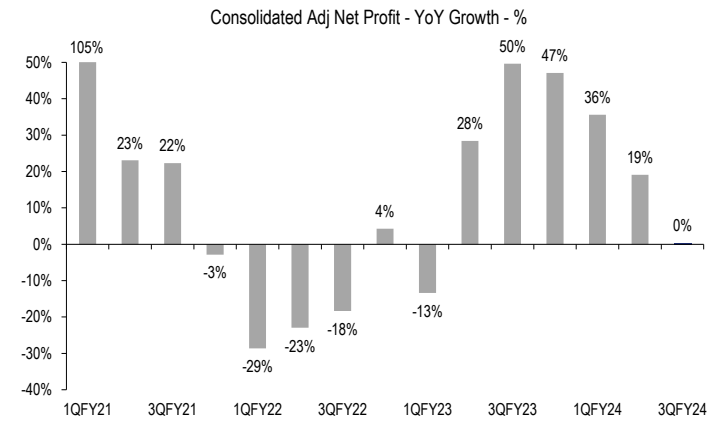
Source: Company, JM Financial

**Exhibit 8. Consolidated sales growth was fairly muted at 2% with mid-single-digit volume growth offset by lower pricing**



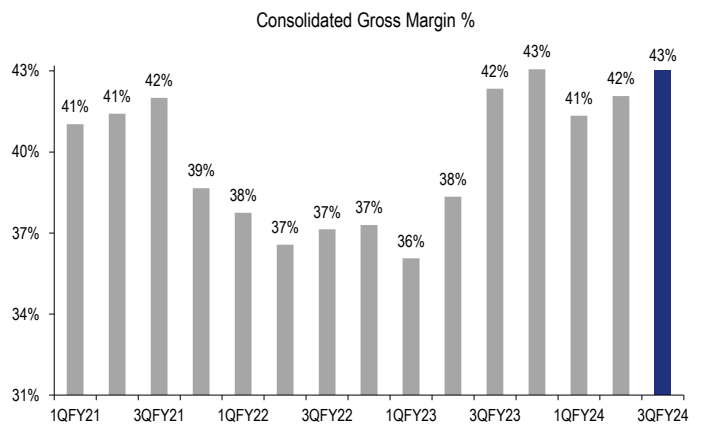
Source: Company, JM Financial

**Exhibit 9. Bottomline was flat during the quarter**



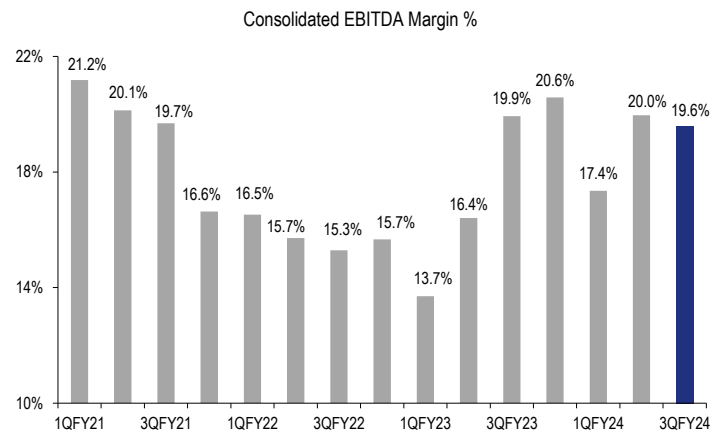
Source: Company, JM Financial

**Exhibit 10. GPM expanded 66bps yoy and 94bps qoq**



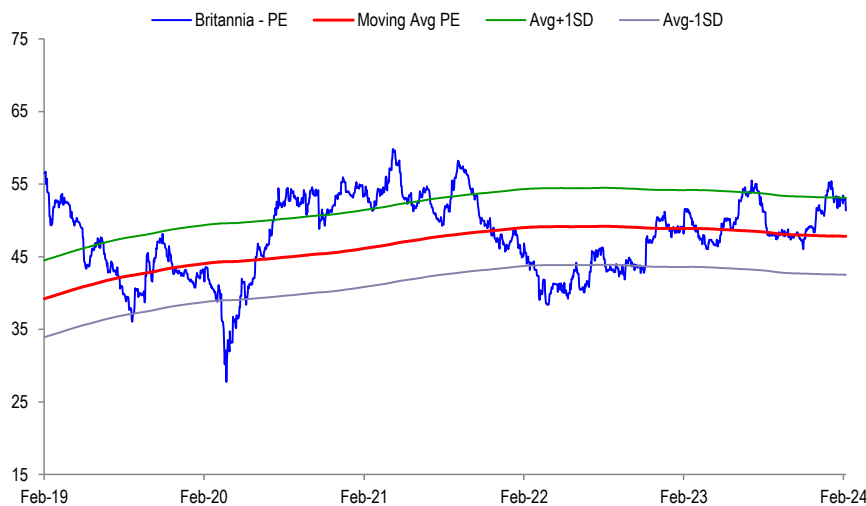
Source: Company, JM Financial

**Exhibit 11. Reported EBITDA margin down 35bps yoy but c.50bps higher on intrinsic basis**



Source: Company, JM Financial

**Exhibit 12. Britannia one-year forward PE**



Source: Company, Bloomberg, JM Financial

## Financial Tables (Consolidated)

Profit & Loss Statement					
	(INR mn)				
Year-ended March	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Sales (net of taxes)</b>	<b>139,447</b>	<b>159,849</b>	<b>166,012</b>	<b>180,096</b>	<b>198,313</b>
Sales Growth	8.2%	14.6%	3.9%	8.5%	10.1%
Other Operating Income	1,916	3,157	2,560	2,777	3,058
<b>Total Revenue</b>	<b>141,363</b>	<b>163,006</b>	<b>168,572</b>	<b>182,873</b>	<b>201,372</b>
Cost of Goods Sold/Op. Exp.	87,603	95,913	95,546	104,480	114,874
Personnel cost	5,423	6,584	7,305	7,888	8,587
Other expenses	26,322	32,200	33,699	36,212	39,286
<b>EBITDA</b>	<b>22,015</b>	<b>28,309</b>	<b>32,022</b>	<b>34,292</b>	<b>38,625</b>
EBITDA (%)	15.6%	17.4%	19.0%	18.8%	19.2%
EBITDA Growth (%)	-12.3%	28.6%	13.1%	7.1%	12.6%
Deprn & Amort	2,005	2,259	2,980	3,241	3,570
EBIT	20,010	26,050	29,041	31,052	35,055
Other Income	2,228	2,159	2,303	2,083	2,225
Finance Cost	1,443	1,691	1,730	1,286	982
PBT before Excep & Forex	20,795	26,518	29,614	31,848	36,298
Excep & forex Inc/Loss(-)	-10	3,756	0	0	0
PBT	20,785	30,274	29,614	31,848	36,298
Taxes	5,624	7,165	7,702	8,283	9,440
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	86	109	74	144	146
Reported Net profit	15,248	23,218	21,986	23,709	27,004
<b>Adjusted Net Profit</b>	<b>15,255</b>	<b>19,462</b>	<b>21,986</b>	<b>23,709</b>	<b>27,004</b>
Net Margin (%)	10.9%	12.2%	13.2%	13.2%	13.6%
Diluted share capital (mn)	240.9	240.9	240.9	240.9	240.9
<b>Diluted EPS (Rs)</b>	<b>63.3</b>	<b>80.8</b>	<b>91.3</b>	<b>98.4</b>	<b>112.1</b>
Diluted EPS Growth	-18.2%	27.6%	13.0%	7.8%	13.9%
Total Dividend + Tax	16,622	17,345	17,589	17,782	20,253
Dividend Per Share (Rs)	69.0	72.0	73.0	73.8	84.1

Source: Company, JM Financial

Balance Sheet					
	(INR mn)				
Year-ended March	FY22A	FY23A	FY24E	FY25E	FY26E
Shareholders' Fund	25,581	35,343	39,984	46,105	55,326
Share capital	241	241	241	241	241
Reserves & Surplus	25,340	35,102	39,743	45,864	55,085
Preference Share Capital	0	0	0	0	0
Minority Interest	275	302	258	235	248
Total Loans	24,655	29,805	25,336	15,597	15,597
Def. Tax Liab / Assets (-)	-509	-554	-478	-396	-302
<b>Total - Equity &amp; Liab</b>	<b>50,003</b>	<b>64,896</b>	<b>65,101</b>	<b>61,541</b>	<b>70,869</b>
Net Fixed Assets	22,732	27,434	31,294	32,332	34,608
Gross Fixed Assets	28,073	40,183	45,578	51,161	57,012
Intangible Assets	1,396	1,282	1,282	1,282	1,282
Less: Deprn. & Amort.	11,937	14,926	17,907	21,147	24,717
Capital WIP & Net lease assets	5,201	895	2,341	1,036	1,032
Investments	25,604	40,342	30,257	25,718	27,004
Current Assets	26,265	25,010	32,600	35,451	44,208
Inventories	13,675	11,933	13,645	14,309	15,213
Sundry Debtors	3,319	3,289	3,303	3,459	3,809
Cash & Bank Balances	1,849	1,980	7,513	8,948	15,716
Loans & Advances	5,048	5,192	5,392	5,849	6,441
Other Current Assets	2,374	2,617	2,747	2,885	3,029
Current Liab. & Prov.	24,598	27,890	29,050	31,960	34,951
Current Liabilities	19,001	21,815	22,489	24,878	27,250
Provisions & Others	5,597	6,075	6,561	7,082	7,701
Net Current Assets	1,667	-2,880	3,549	3,491	9,257
<b>Application of Funds</b>	<b>50,003</b>	<b>64,896</b>	<b>65,101</b>	<b>61,541</b>	<b>70,869</b>

Source: Company, JM Financial

Cash Flow Statement					
	(INR mn)				
Year-ended March	FY22A	FY23A	FY24E	FY25E	FY26E
Profit before Tax	20,785	30,274	29,614	31,848	36,298
Deprn. & Amort.	2,005	2,259	2,980	3,241	3,570
Net Interest Exp. / Inc. (-)	-785	-468	-573	-796	-1,243
Inc (-) / Dec in WCcap.	-3,273	4,057	-935	1,440	892
Others	131	-3,602	0	0	0
Taxes Paid	-5,869	-7,258	-7,586	-8,146	-9,238
<b>Operating Cash Flow</b>	<b>12,995</b>	<b>25,262</b>	<b>23,500</b>	<b>27,586</b>	<b>30,278</b>
Capex	-5,470	-6,330	-6,845	-4,283	-5,850
Free Cash Flow	7,525	18,932	16,655	23,303	24,428
-Inc/dec in investments	10,480	-10,249	10,086	4,539	-1,286
Other current assets	4,099	1,408	2,333	2,203	2,384
<b>Investing Cash Flow</b>	<b>9,109</b>	<b>-15,171</b>	<b>5,573</b>	<b>2,459</b>	<b>-4,752</b>
Inc(dec) in capital	0	0	0	0	0
Dividend+Tax Thereon	-24,849	-13,592	-17,345	-17,589	-17,782
Inc/dec in loans	3,599	5,182	-4,470	-9,739	0
Other assets	-1,208	-1,874	-1,725	-1,282	-977
<b>Financing Cash Flow</b>	<b>-22,458</b>	<b>-10,284</b>	<b>-23,540</b>	<b>-28,609</b>	<b>-18,759</b>
<b>Inc / Dec (-) in Cash</b>	<b>-354</b>	<b>-192</b>	<b>5,533</b>	<b>1,435</b>	<b>6,767</b>
Opening cash balance	2,203	2,172	1,980	7,513	8,948
Closing cash balance	1,849	1,980	7,513	8,948	15,716

Source: Company, JM Financial

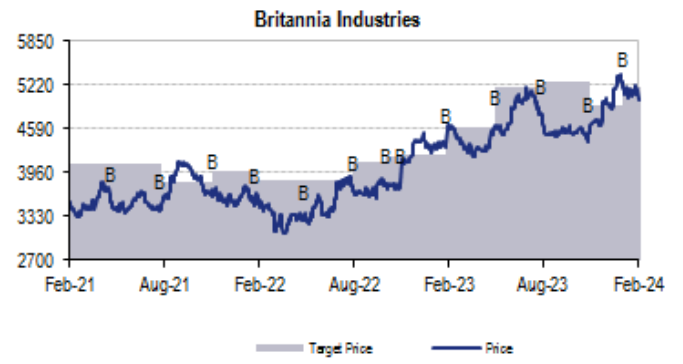
Dupont Analysis					
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	10.9%	12.2%	13.2%	13.2%	13.6%
Asset Turnover (x)	2.6	2.8	2.6	2.8	3.0
Leverage Factor (x)	1.8	1.9	1.7	1.5	1.3
RoE	50.0%	63.9%	58.4%	55.1%	53.2%
Key Ratios					
Year-ended March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	106.2	146.7	166.0	191.4	229.7
ROIC (%)	74.1%	87.2%	85.3%	84.2%	93.9%
ROE (%)	50.0%	63.9%	58.4%	55.1%	53.2%
Net Debt-equity ratio (x)	0.3	0.6	0.0	-0.1	-0.2
PER	79.1	62.0	54.9	50.9	44.7
PBV	47.2	34.1	30.2	26.2	21.8
EV/EBITDA	54.7	42.2	37.3	34.6	30.5
EV/Net Sales	8.6	7.5	7.2	6.6	5.9
Debtor days	9	8	7	7	7
Inventory days	36	27	30	29	28
Creditor days	17	16	18	17	17

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
2-Jun-20	Buy	3,500	
8-Jul-20	Buy	3,490	-0.3
17-Jul-20	Buy	3,870	10.9
8-Oct-20	Buy	3,870	0.0
19-Oct-20	Buy	3,970	2.6
1-Jan-21	Buy	4,105	3.4
5-Feb-21	Buy	4,095	-0.2
27-Apr-21	Buy	4,095	0.0
31-Jul-21	Buy	3,830	-6.5
8-Nov-21	Buy	3,980	3.9
29-Jan-22	Buy	3,850	-3.3
3-May-22	Buy	3,850	0.0
5-Aug-22	Buy	4,120	7.0
7-Oct-22	Buy	4,200	1.9
5-Nov-22	Buy	4,210	0.2
1-Feb-23	Buy	4,620	9.7
6-May-23	Buy	5,190	12.3
4-Aug-23	Buy	5,270	1.5
2-Nov-23	Buy	4,925	-6.5
8-Jan-24	Buy	5,190	5.4

Recommendation History



**APPENDIX I**

**JM Financial Institutional Securities Limited**

Corporate Identity Number: U67100MH2017PLC296081  
 Member of BSE Ltd. and National Stock Exchange of India Ltd.  
 SEBI Registration Nos.: Stock Broker - INZ000163434, Research Analyst - INH000000610  
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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

\* REITs refers to Real Estate Investment Trusts.

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