

**BUY**

TP: Rs 5,844 | ▲ 29%

**BRITANNIA INDUSTRIES**

Consumer Staples

02 November 2023

## Margin expands despite muted growth

- Another soft quarter from BRIT (revenue up just 1% YoY), though EBITDA margin expanded due to lower input cost and savings
- Volume and pricing growth tepid, but management expects a rebound in H2FY24
- Investment in brands, expansion in rural markets and innovation to spur profitable growth; retain BUY, TP Rs 5,844

**Vikrant Kashyap**

research@bobcaps.in

**Muted growth in Q2 as well:** BRIT's Q2FY24 revenue growth was flat at 1.2% YoY (0.2% volume growth and 1% price growth) to Rs 44.3bn as the company took price corrections in the wake of sustained regional competition. Management expects growth to revive in H2FY24. Despite a slowdown in rural markets, BRIT sees strong demand potential and continues to expand rural distribution. The company's domestic market share inched up, widening the gap with the second largest player. International markets are also driving profitable growth.

**Substantial margin expansion:** During Q2, EBITDA grew 23% YoY to Rs 8.7bn, with margin expansion of 340bps YoY (+250bps QoQ) to 19.7%. This stemmed from softer raw material prices and concerted efforts by the company to drive cost savings.

**Innovation to fuel growth:** BRIT remains focused on new product development and indicated that revenue contribution from innovation has risen to 10%. The company continues to strengthen its portfolio, launching two biscuit variants, the *Better* brand of snacks and creamy cheese in Q2 and guiding for annualised revenue contribution of Rs 2bn from these products. BRIT continues to drive growth in adjacent businesses as well, with the launch of three variants in the cake segment.

**Distribution network deepens:** Direct distribution rose to 2.73mn outlets at end-Q2FY24. Despite a challenging demand environment, the company continues to grow faster in its focus states of Uttar Pradesh, Madhya Pradesh, Gujarat and Rajasthan as compared to its markets in the rest of India.

**Maintain BUY:** BRIT has reported a muted first half as local competition intensified due to easing input costs. Even so, margins expanded during Q2 as the company stepped up cost-saving initiatives and derived continued benefits from lower input costs. We believe BRIT's focus on innovation, brand investment, rural reach expansion and product launches will spur profitable growth. The stock is trading at 49x/41.1x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 53x FY25E EPS, assigning a 30% premium to the 10Y average multiple, for an unchanged TP of Rs 5,844.

## Key changes

| Target | Rating |
|--------|--------|
| ◀ ▶    | ◀ ▶    |

|                  |                   |
|------------------|-------------------|
| Ticker/Price     | BRIT IN/Rs 4,527  |
| Market cap       | US\$ 13.3bn       |
| Free float       | 49%               |
| 3M ADV           | US\$ 22.8mn       |
| 52wk high/low    | Rs 5,270/Rs 3,705 |
| Promoter/FPI/DII | 51%/20%/29%       |

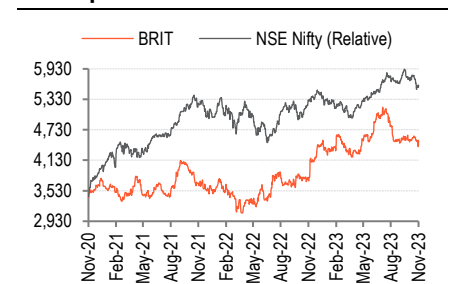
Source: NSE | Price as of 2 Nov 2023

## Key financials

| Y/E 31 Mar              | FY23A   | FY24E   | FY25E   |
|-------------------------|---------|---------|---------|
| Total revenue (Rs mn)   | 163,006 | 171,708 | 191,206 |
| EBITDA (Rs mn)          | 28,309  | 32,794  | 38,604  |
| Adj. net profit (Rs mn) | 19,461  | 22,276  | 26,564  |
| Adj. EPS (Rs)           | 80.8    | 92.5    | 110.3   |
| Consensus EPS (Rs)      | 80.8    | 88.3    | 101.3   |
| Adj. ROAE (%)           | 65.1    | 48.7    | 49.3    |
| Adj. P/E (x)            | 56.0    | 49.0    | 41.1    |
| EV/EBITDA (x)           | 38.5    | 33.2    | 28.2    |
| Adj. EPS growth (%)     | 27.6    | 14.5    | 19.2    |

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE

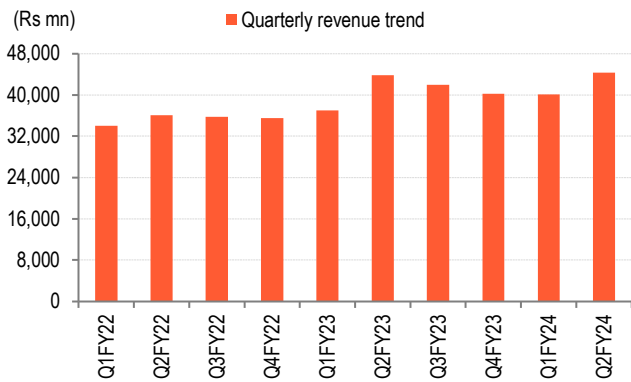


**Fig 1 – Quarterly performance**

| (Rs mn)             | Q2FY24 | Q1FY24 | Q2FY23 | QoQ (%) | YoY (%) | Estimates | Variance (%) |
|---------------------|--------|--------|--------|---------|---------|-----------|--------------|
| Revenue             | 44,329 | 40,107 | 43,796 | 10.5    | 1.2     | 46,117    | (3.9)        |
| EBITDA              | 8,724  | 6,889  | 7,117  | 26.6    | 22.6    | 8,024     | 8.7          |
| Adj. PAT            | 5,876  | 4,576  | 4,908  | 28.4    | 19.7    | 5,496     | 6.9          |
| Gross Margin (%)    | 42.9   | 41.9   | 38.9   | 100bps  | 400bps  | 41.3      | 160bps       |
| EBITDA Margin (%)   | 19.7   | 17.2   | 16.3   | 250bps  | 340bps  | 17.4      | 230bps       |
| Adj. PAT Margin (%) | 13.3   | 11.4   | 11.2   | 190bps  | 210bps  | 11.9      | 140bps       |

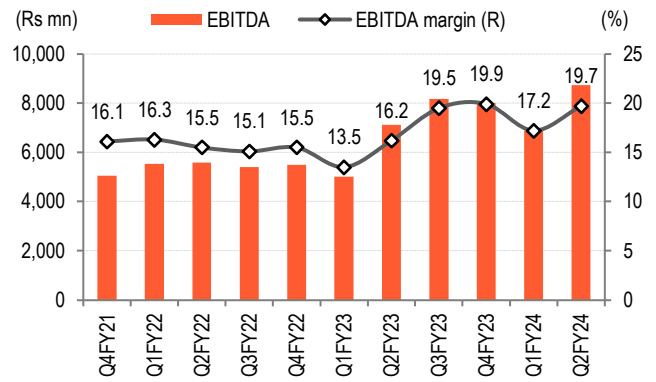
Source: Company, BOBCAPS Research

**Fig 2 – Quarterly revenue trend**



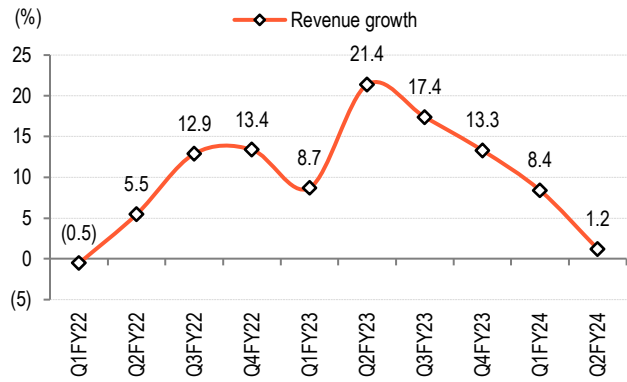
Source: Company, BOBCAPS Research

**Fig 3 – EBITDA and margin**



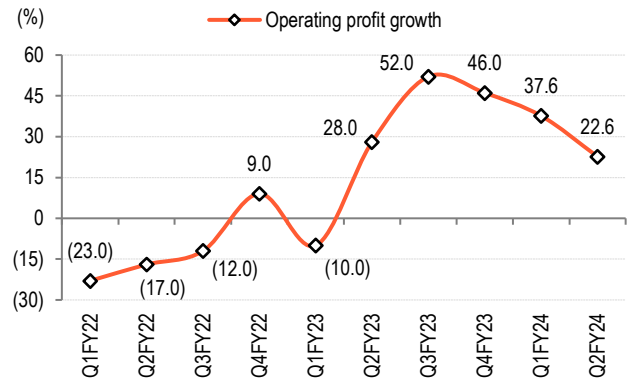
Source: Company, BOBCAPS Research

**Fig 4 – Revenue growth YoY**



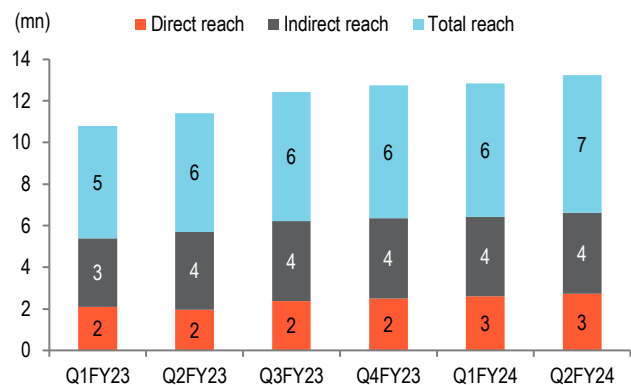
Source: Company, BOBCAPS Research

**Fig 5 – Operating profit growth YoY**



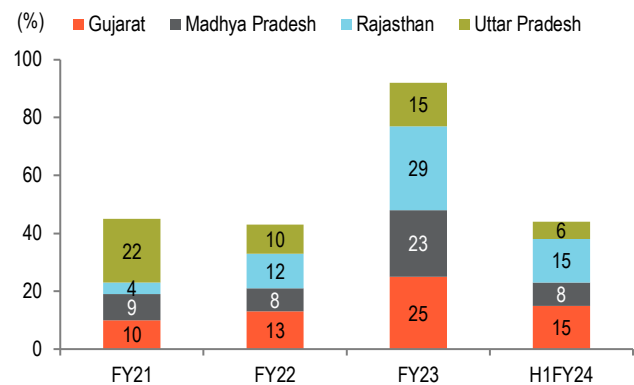
Source: Company, BOBCAPS Research

**Fig 6 – Distribution footprint**



Source: Company, BOBCAPS Research

**Fig 7 – Focus states grow faster**



Source: Company, BOBCAPS Research

## Earnings call highlights

- BRIT pegs its total addressable market at Rs 1tn after an 11% CAGR over the last five years. Per management, biscuit consumption occasions numbered 303 during 2018 which has risen to 370 in 2023. The growth in branded food & beverages is being largely fuelled by the rise of nuclear families, higher participation of women in the workforce and growing per capita income.
- Biscuit, bread and rusk have high market penetration, ranging from 82% to 94%, and the company expects consumption-led growth in these categories. According to BRIT, biscuit consumption per capita in India is only 2kg.
- The company's Q2FY24 revenue grew 1.2% YoY, operating profit grew 23% YoY and market share inched up during the quarter. Volume growth was flat owing to increased local competition, though management expects a rebound in H2FY24.
- BRIT reported good growth in international markets for the quarter, with the Middle East and Africa region growing in high-double-digits and reporting improved margins. The rest of its international markets saw double-digit, profitable growth led by the Americas. Growth momentum in Nepal continues.
- The company saw ~6% YoY inflation in flour and 1% inflation in sugar during Q2. On the flip side, there was substantial deflation in palm oil by 28% YoY, in corrugated boxes by 22% and in laminates by 16%.
- Direct distribution reach in India now stands at ~2.73mn outlets and its focus geographies continue to grow faster than the rest of its markets in India.
- BRIT's market share is currently more urban-centric (1.3x of rural markets) and its distribution reach is also 1.2x of rural distribution. Urban growth is helping it counter the rural slowdown though the latter markets remain a focus area for the company.
- Management believes its biscuit brands such as *Glucose* and *Marie* along with the cookie segment have scope for market penetration-led growth. The same applies to categories such as cake, dairy drinks, wafers, cheese and croissants that have low household consumption.
- Revenues from rusk declined in Q2 amid increasing competitive intensity from local players. BRIT is focused on distribution and differentiation to aid growth.
- In the adjacent cake business, the company launched a large Swiss roll, brownies and a low-unit cupcake pack. The bread segment continues its profitable growth trajectory.
- The cheese business posted high-double-digit growth contributed by base and differentiated formats. BRIT commercialised a cheese plant during Q2 for the manufacture of cheddar cheese and will start making processed cheese by Q4 as planned.

## Valuation methodology

BRIT has reported a muted H1FY24 as local competition intensified due to easing input costs. Even so, margins expanded during the July to September quarter as the company stepped up cost-saving initiatives and derived continued benefits from lower input costs. We believe management's focus on innovation, brand investment, rural reach expansion and product launches will spur profitable growth.

The stock is trading at 49x/41.1x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 53x FY25E EPS, assigning a 30% premium to the 10-year average multiple, for an unchanged TP of Rs 5,844.

## Key risks

Key downside risks to our estimates are:

- delayed rural recovery, and
- increased regional competition.

## Sector recommendation snapshot

| Company                  | Ticker      | Market Cap (US\$ bn) | Price (Rs) | Target (Rs) | Rating |
|--------------------------|-------------|----------------------|------------|-------------|--------|
| Britannia Industries     | BRIT IN     | 13.3                 | 4,527      | 5,844       | BUY    |
| Dabur India              | DABUR IN    | 11.4                 | 530        | 669         | BUY    |
| Godrej Consumer Products | GCPL IN     | 12.3                 | 991        | 1,159       | BUY    |
| Hindustan Unilever       | HUVR IN     | 71.1                 | 2,487      | 3,069       | BUY    |
| ITC                      | ITC IN      | 65.2                 | 431        | 523         | BUY    |
| Marico                   | MRCO IN     | 8.4                  | 534        | 646         | BUY    |
| Nestle India             | NEST IN     | 28.3                 | 24,112     | 28,260      | BUY    |
| Tata Consumer Products   | TATACONS IN | 10.3                 | 911        | 1,038       | BUY    |
| Zydus Wellness           | ZYWL IN     | 1.2                  | 1,548      | 1,556       | HOLD   |

Source: BOBCAPS Research, NSE | Price as of 2 Nov 2023

## Financials

### Income Statement

| Y/E 31 Mar (Rs mn)         | FY21A          | FY22A          | FY23A          | FY24E          | FY25E          |
|----------------------------|----------------|----------------|----------------|----------------|----------------|
| <b>Total revenue</b>       | <b>131,361</b> | <b>141,363</b> | <b>163,006</b> | <b>171,708</b> | <b>191,206</b> |
| EBITDA                     | 25,093         | 22,015         | 28,309         | 32,794         | 38,604         |
| Depreciation               | 1,979          | 2,005          | 2,259          | 2,682          | 2,801          |
| EBIT                       | 23,114         | 20,010         | 26,050         | 30,112         | 35,803         |
| Net interest inc./(exp.)   | 1,109          | 1,443          | 1,691          | 1,985          | 1,823          |
| Other inc./(exp.)          | 3,129          | 2,228          | 2,159          | 2,183          | 2,241          |
| Exceptional items          | 6              | 10             | (3,756)        | 0              | 0              |
| EBT                        | 25,128         | 20,785         | 30,274         | 30,310         | 36,221         |
| Income taxes               | 6,630          | 5,624          | 7,165          | 8,140          | 9,780          |
| Extraordinary items        | 0              | 0              | 0              | 0              | 0              |
| Min. int./Inc. from assoc. | (133)          | (88)           | (55)           | (87)           | (123)          |
| <b>Reported net profit</b> | <b>18,639</b>  | <b>15,248</b>  | <b>23,217</b>  | <b>22,276</b>  | <b>26,564</b>  |
| Adjustments                | 6              | 10             | (3,756)        | 0              | 0              |
| <b>Adjusted net profit</b> | <b>18,645</b>  | <b>15,258</b>  | <b>19,461</b>  | <b>22,276</b>  | <b>26,564</b>  |

### Balance Sheet

| Y/E 31 Mar (Rs mn)              | FY21A         | FY22A         | FY23A         | FY24E          | FY25E          |
|---------------------------------|---------------|---------------|---------------|----------------|----------------|
| Accounts payables               | 13,148        | 13,228        | 14,488        | 14,845         | 16,252         |
| Other current liabilities       | 1,405         | 1,307         | 1,763         | 1,858          | 2,068          |
| Provisions                      | 3,875         | 4,851         | 5,390         | 5,664          | 6,278          |
| Debt funds                      | 20,872        | 24,655        | 29,805        | 29,505         | 29,205         |
| Other liabilities               | 4,949         | 5,377         | 6,435         | 6,738          | 7,415          |
| Equity capital                  | 241           | 241           | 241           | 241            | 241            |
| Reserves & surplus              | 35,599        | 25,615        | 35,404        | 45,515         | 53,607         |
| Shareholders' fund              | 35,840        | 25,856        | 35,645        | 45,756         | 53,848         |
| <b>Total liab. and equities</b> | <b>80,088</b> | <b>75,275</b> | <b>93,527</b> | <b>104,365</b> | <b>115,067</b> |
| Cash and cash eq.               | 1,427         | 1,181         | 1,024         | 9,009          | 15,014         |
| Accounts receivables            | 2,573         | 3,319         | 3,289         | 3,465          | 3,858          |
| Inventories                     | 10,915        | 13,675        | 11,933        | 12,226         | 13,385         |
| Other current assets            | 15,349        | 13,312        | 13,207        | 13,562         | 14,357         |
| Investments                     | 27,949        | 17,763        | 33,649        | 33,649         | 33,649         |
| Net fixed assets                | 16,343        | 15,841        | 24,722        | 26,671         | 28,841         |
| CWIP                            | 1,165         | 5,357         | 1,050         | 1,050          | 1,050          |
| Intangible assets               | 1,444         | 1,552         | 1,424         | 1,424          | 1,424          |
| Deferred tax assets, net        | 97            | 517           | 573           | 603            | 672            |
| Other assets                    | 2,825         | 2,759         | 2,658         | 2,707          | 2,817          |
| <b>Total assets</b>             | <b>80,088</b> | <b>75,275</b> | <b>93,527</b> | <b>104,366</b> | <b>115,067</b> |

### Cash Flows

| Y/E 31 Mar (Rs mn)                 | FY21A           | FY22A           | FY23A           | FY24E           | FY25E           |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| <b>Cash flow from operations</b>   | <b>25,083</b>   | <b>18,864</b>   | <b>32,520</b>   | <b>33,046</b>   | <b>39,286</b>   |
| Capital expenditures               | (2,405)         | (5,502)         | (7,115)         | (4,464)         | (4,971)         |
| Change in investments              | 4,675           | 12,495          | (10,300)        | 0               | 0               |
| Other investing cash flows         | 2,086           | 2,116           | 2,244           | 2,105           | 2,065           |
| <b>Cash flow from investing</b>    | <b>4,356</b>    | <b>9,109</b>    | <b>(15,171)</b> | <b>(2,360)</b>  | <b>(2,907)</b>  |
| Equities issued/Others             | 1,032           | 0               | 0               | 0               | 0               |
| Debt raised/repaid                 | 5,690           | (3,387)         | 2,292           | (300)           | (300)           |
| Interest expenses                  | (1,013)         | (1,186)         | (1,957)         | (1,985)         | (1,823)         |
| Dividends paid                     | (28,238)        | (24,848)        | (13,592)        | (12,252)        | (18,595)        |
| Other financing cash flows         | 104             | 6,963           | 2,974           | 87              | 123             |
| <b>Cash flow from financing</b>    | <b>(22,425)</b> | <b>(22,458)</b> | <b>(10,284)</b> | <b>(14,540)</b> | <b>(20,595)</b> |
| <b>Chg in cash &amp; cash eq.</b>  | <b>686</b>      | <b>(353)</b>    | <b>(192)</b>    | <b>8,007</b>    | <b>6,005</b>    |
| <b>Closing cash &amp; cash eq.</b> | <b>1,427</b>    | <b>1,181</b>    | <b>1,025</b>    | <b>9,009</b>    | <b>15,014</b>   |

### Per Share

| Y/E 31 Mar (Rs)      | FY21A | FY22A | FY23A | FY24E | FY25E |
|----------------------|-------|-------|-------|-------|-------|
| Reported EPS         | 77.4  | 63.3  | 96.4  | 92.5  | 110.3 |
| Adjusted EPS         | 77.4  | 63.3  | 80.8  | 92.5  | 110.3 |
| Dividend per share   | 118.0 | 74.5  | 56.4  | 50.9  | 77.2  |
| Book value per share | 148.8 | 107.3 | 148.0 | 189.9 | 223.5 |

### Valuations Ratios

| Y/E 31 Mar (x) | FY21A | FY22A | FY23A | FY24E | FY25E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales       | 8.3   | 7.7   | 6.7   | 6.3   | 5.7   |
| EV/EBITDA      | 43.4  | 49.5  | 38.5  | 33.2  | 28.2  |
| Adjusted P/E   | 58.5  | 71.5  | 56.0  | 49.0  | 41.1  |
| P/BV           | 30.4  | 42.2  | 30.6  | 23.8  | 20.3  |

### DuPont Analysis

| Y/E 31 Mar (%)               | FY21A       | FY22A       | FY23A       | FY24E       | FY25E       |
|------------------------------|-------------|-------------|-------------|-------------|-------------|
| Tax burden (Net profit/PBT)  | 74.2        | 73.4        | 76.7        | 73.5        | 73.3        |
| Interest burden (PBT/EBIT)   | 80.6        | 76.2        | 89.1        | 74.0        | 74.2        |
| EBIT margin (EBIT/Revenue)   | 17.6        | 14.2        | 16.0        | 17.5        | 18.7        |
| Asset turnover (Rev./Avg TA) | 164.0       | 187.8       | 174.3       | 164.5       | 166.2       |
| Leverage (Avg TA/Avg Equity) | 2.2         | 2.9         | 2.6         | 2.3         | 2.1         |
| <b>Adjusted ROAE</b>         | <b>52.0</b> | <b>59.0</b> | <b>65.1</b> | <b>48.7</b> | <b>49.3</b> |

### Ratio Analysis

| Y/E 31 Mar                                   | FY21A      | FY22A      | FY23A      | FY24E      | FY25E      |
|--|------------|------------|------------|------------|------------|
| <b>YoY growth (%)</b>                        |            |            |            |            |            |
| Revenue                                      | 13.2       | 7.6        | 15.3       | 5.3        | 11.4       |
| EBITDA                                       | 36.1       | (12.3)     | 28.6       | 15.8       | 17.7       |
| Adjusted EPS                                 | 31.1       | (18.2)     | 27.6       | 14.5       | 19.2       |
| <b>Profitability &amp; Return ratios (%)</b> |            |            |            |            |            |
| EBITDA margin                                | 19.1       | 15.6       | 17.4       | 19.1       | 20.2       |
| EBIT margin                                  | 17.6       | 14.2       | 16.0       | 17.5       | 18.7       |
| Adjusted profit margin                       | 14.2       | 10.8       | 11.9       | 13.0       | 13.9       |
| Adjusted ROAE                                | 52.0       | 59.0       | 65.1       | 48.7       | 49.3       |
| ROCE   | 40.8       | 39.6       | 39.8       | 40.0       | 43.1       |
| <b>Working capital days (days)</b>           |            |            |            |            |            |
| Receivables                                  | 7          | 9          | 7          | 7          | 7          |
| Inventory                                    | 52         | 57         | 45         | 45         | 45         |
| Payables                                     | 63         | 55         | 55         | 55         | 55         |
| <b>Ratios (x)</b>                            |            |            |            |            |            |
| Gross asset turnover                         | 1.5        | 1.6        | 1.5        | 1.4        | 1.4        |
| Current ratio                                | 1.2        | 1.0        | 1.1        | 1.3        | 1.4        |
| Net interest coverage ratio                  | 20.8       | 13.9       | 15.4       | 15.2       | 19.6       |
| <b>Adjusted debt/equity</b>                  | <b>0.6</b> | <b>1.0</b> | <b>0.8</b> | <b>0.6</b> | <b>0.5</b> |

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

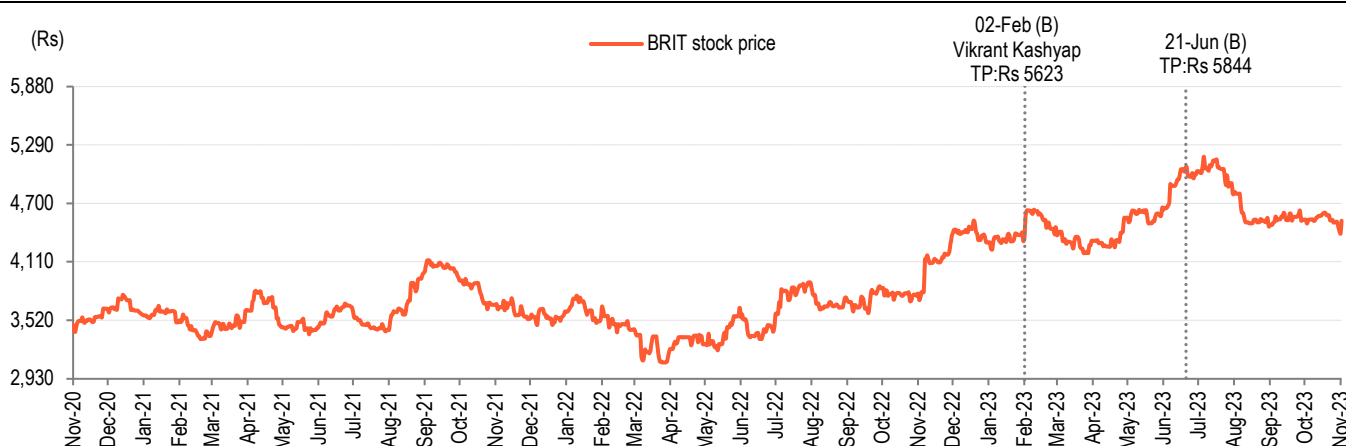
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

## Ratings and Target Price (3-year history): BRITANNIA INDUSTRIES (BRIT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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