

BUY

TP: Rs 5,980 | ▲ 18%

BRITANNIA INDUSTRIES

Consumer Staples

07 February 2024

Faster volume growth to boost profitability

- Urban markets grew ahead of rural centres largely driven by premium portfolio; volume growth revived to ~5.5% YoY in Q3
- Steady expansion of distribution footprint along with added investment in focus states to bolster growth
- Expect higher volumes and sustained margins; maintain BUY with revised TP of Rs 5,980 (vs. Rs 5,844) on rollover

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Volumes pick up pace: BRIT's Q3FY24 revenue growth was flat at 1.4% YoY, but volumes increased 5.5% YoY as compared to 0.2% in Q2. While the company continued to take price corrections in the wake of sustained regional competition, management highlighted higher growth in urban markets during the quarter as the premium portfolio gained traction. BRIT expects continued growth momentum in coming quarters and guides for a high-single-digit uptick in volumes. The company's domestic market share inched up in Q3 after a flattish trend for the last couple of quarters.

Focused on deepening presence in Hindi belt: BRIT saw continued market share gains in its focus states of Uttar Pradesh (UP) and Bihar during the quarter. The company has set up its second facility in Bihar and is committed to making further investments in UP as well. These investments are expected to drive growth and also yield operational efficiencies for the company.

Margins flat: Gross margin expanded by 20bps YoY and 100bps QoQ owing to favourable raw material prices, whereas EBITDA margin contracted by 20bps YoY and 40bps QoQ to 19.3% largely due to higher employee cost.

Distribution network widens: Direct distribution rose to 2.76mn outlets and the rural distribution footprint increased to 29k distributors at the end of Q3FY24. Despite a challenging demand environment, the company continues to grow 2.4x faster in focus states as compared to its markets in the rest of India.

Maintain BUY: BRIT has delivered a muted 9MFY24 performance as local competition intensified amid easing input costs, although we note the recovery in Q3 volume growth to 5.5%. We believe the company's focus on innovation, brand investment, rural reach expansion and product launches will spur profitable growth. The stock is trading at 50.3x/45x FY25E/FY26E EPS. We maintain BUY and continue to value the stock at a P/E multiple of 53x ~20% premium to long term average multiple – while rolling valuations forward to FY26E, yielding a revised TP of Rs 5,980 (earlier Rs 5,844).

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BRIT IN/Rs 5,078
Market cap	US\$ 14.9bn
Free float	49%
3M ADV	US\$ 19.4mn
52wk high/low	Rs 5,386/Rs 4,153
Promoter/FPI/DII	51%/19%/30%

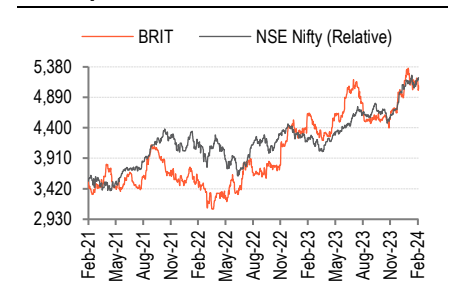
Source: NSE | Price as of 7 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	163,006	169,082	188,273
EBITDA (Rs mn)	28,309	31,988	35,888
Adj. net profit (Rs mn)	19,461	21,584	24,309
Adj. EPS (Rs)	80.8	89.6	100.9
Consensus EPS (Rs)	80.8	89.5	102.0
Adj. ROAE (%)	65.1	47.5	46.0
Adj. P/E (x)	62.9	56.7	50.3
EV/EBITDA (x)	43.2	38.2	34.1
Adj. EPS growth (%)	27.6	10.9	12.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

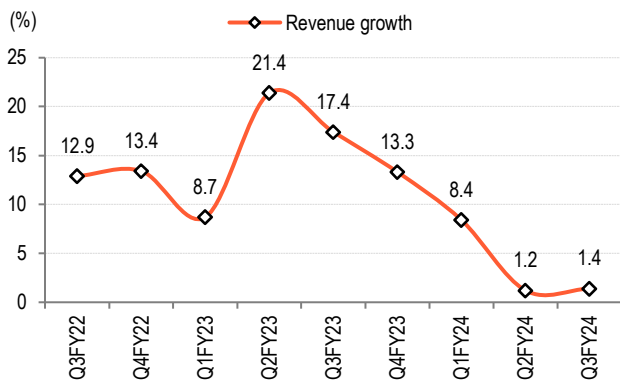


Fig 1 – Financial performance

(Rs mn)	Q3FY24	Q2FY24	Q3FY23	QoQ (%)	YoY (%)	9MFY24	9MFY23	YoY (%)
Revenue	42,563	44,329	41,968	(4.0)	1.4	126,999	122,774	3.4
EBITDA	8,211	8,724	8,176	(5.9)	0.4	23,824	20,300	17.4
Adj. PAT	5,593	5,876	5,568	(4.8)	0.4	16,044	13,850	15.8
Gross Margin (%)	43.9	42.9	43.7	100bps	20bps	43.0	39.9	310bps
EBITDA Margin (%)	19.3	19.7	19.5	(40bps)	(20bps)	18.8	16.5	230bps
Adj. PAT Margin (%)	13.1	13.3	13.3	(20bps)	(20bps)	12.6	11.3	130bps

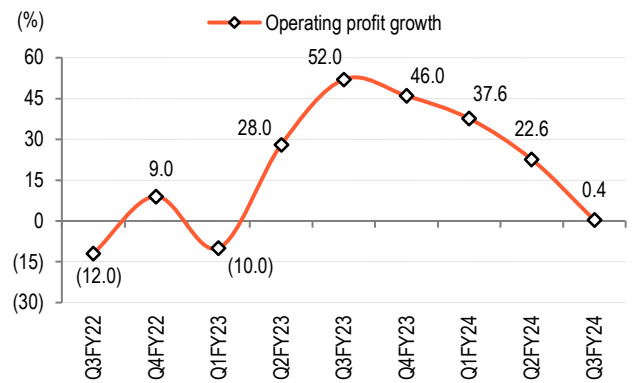
Source: Company, BOBCAPS Research

Fig 2 – Revenue growth YoY



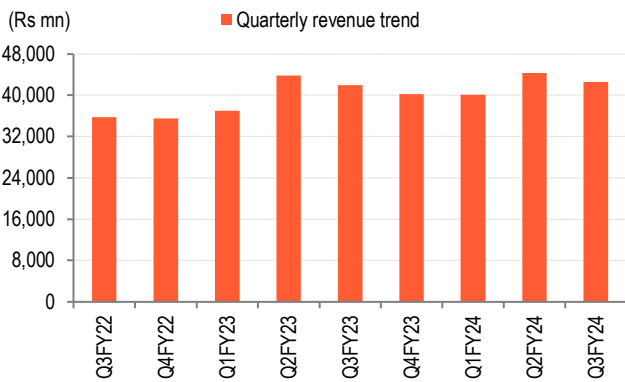
Source: Company, BOBCAPS Research

Fig 3 – Operating profit growth YoY



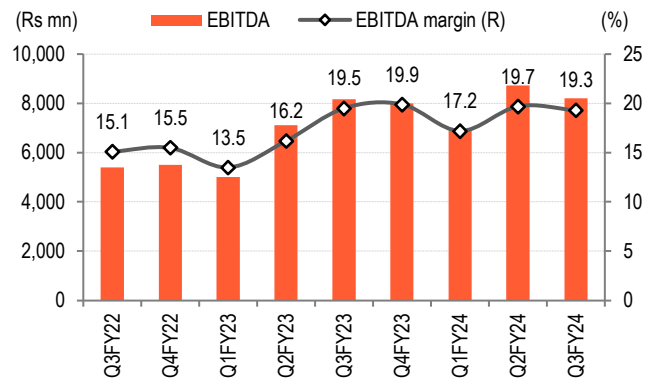
Source: Company, BOBCAPS Research

Fig 4 – Quarterly revenue trend



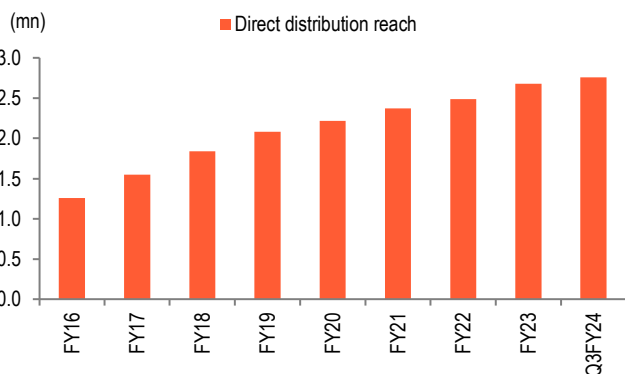
Source: Company, BOBCAPS Research

Fig 5 – EBITDA and margin



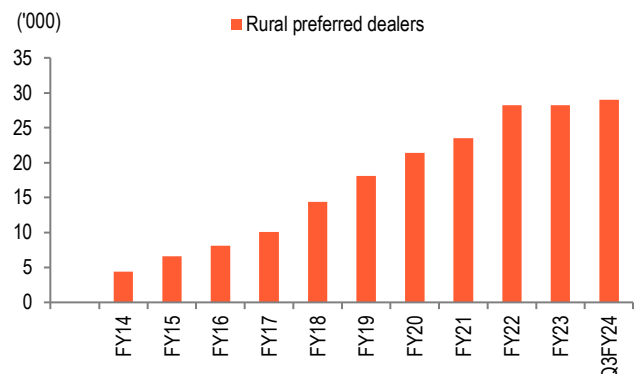
Source: Company, BOBCAPS Research

Fig 6 – Direct distribution footprint



Source: Company, BOBCAPS Research

Fig 7 – Rural preferred distributors



Source: Company, BOBCAPS Research

Earnings call highlights

- BRIT has seen 5.5% YoY volume growth in Q3FY24 despite a slowdown in rural markets and heightened competition from regional players. Management has guided for high-single-digit volume growth in coming quarters and expects EBITDA margin to hold at current levels.
- Most of the growth in the bottomline is expected come from aggressive topline expansion. The company aspires to return to double-digit volume growth soon.
- BRIT posted market share gains in Q3 after a flattish trend for the last couple of quarters. Management expects to continue investing in brands and innovation to augment its positioning. Most of the market share expansion has come from the Hindi belt.
- The company noted higher growth in urban markets compared to rural centres and better uptake of premium products over other categories during the quarter.
- Management has taken strategic price cuts in the range of 3-4% YoY in some key brands during Q3 and also stepped-up promotions to drive consumption of those products.
- Overall commodity costs have stayed soft this quarter. Flour prices have been on the higher side in the recent past but were flattish sequentially. Sugar prices went up, but price corrections were seen in palm oil, laminates, and corrugated boxes.
- BRIT's direct reach has expanded to 2.76mn outlets and the company now has 29,000 rural distributors, up from 28,000 in Dec'22.
- Innovation is expected to fuel the next phase of growth. Some of the company's new biscuit products, including *Treats Cream* and *Tiger Coconut*, along with some large cake formats and energy protein bars, are showing good trends. All these brands together have reached an annual revenue run-rate of ~Rs 2bn. The company also highlighted its success with two products, *Jim Jam Pops* and *Golmaal*, which have been on the market for some time.
- In *Jim Jam*, BRIT is running out of capacity despite putting up two manufacturing lines in the last two years. It plans to add two more lines for this brand.
- In the adjacent business, the cake segment has seen growth return in the base format. Rusk too has posted volume recovery in Q3.
- In cheese, BRIT has launched differentiated formats that are gaining traction. The company introduced spreadable cheese portions in triangular form and a Rs 10 sachet during the quarter. It also commercialised its processed cheese line in the month of January.
- In the international market, the company has seen double-digit profitable growth YoY across markets in Q3. It continues to invest in Nepal and has put up a plant there. Nepal operations continue to show topline and bottomline growth.
- In Egypt, BRIT has set up a contract packing unit. Though the sales figure is small, it has grown five to six-fold YoY in Q3.

- BRIT commissioned its second factory with three lines in the state of Bihar and has plans to expand this facility next fiscal, which should help boost sales in the state.
- Management also has plans to further expand the factory in UP. It has set aside provisions for the same and will make fresh investments in the next fiscal year.
- The factory in UP currently has four lines for biscuits and one for rusk. UP is a focus state for the company and capacity expansion is expected to spur operational performance and growth.

Valuation methodology

BRIT has delivered a muted 9MFY24 performance as local competition intensified amid easing input costs, although we note the recovery in Q3 volume growth to 5.5%. We believe the company's focus on innovation, brand investment, rural reach expansion and product launches will spur profitable growth.

The stock is trading at 50.3x/45x FY25E/FY26E EPS. We retain our FY24/FY25 forecasts and introduce FY26 projections with this report. Our TP stands revised to Rs 5,980 (from Rs 5,844) as we roll valuations forward to FY26E. We continue to value the stock at a P/E multiple of 53x – ~20% premium to the long-term average multiple – and maintain our BUY rating.

Key risks

Key downside risks to our estimates are:

- delayed rural recovery, and
- heightened regional competition.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	14.9	5,078	5,980	BUY
Dabur India	DABUR IN	11.6	537	673	BUY
Godrej Consumer Products	GCPL IN	15.4	1,238	1,363	HOLD
Hindustan Unilever	HUVR IN	69.4	2,425	2,895	BUY
ITC	ITC IN	65.6	432	532	BUY
Marico	MRCO IN	8.2	525	618	BUY
Nestle India	NEST IN	2.9	2,500	2,826	BUY
Zydus Wellness	ZYWL IN	1.3	1,629	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 7 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	141,363	163,006	169,082	188,273	208,835
EBITDA	22,015	28,309	31,988	35,888	39,806
Depreciation	2,005	2,259	2,916	3,161	3,161
EBIT	20,010	26,050	29,072	32,727	36,645
Net interest inc./(exp.)	1,443	1,691	1,836	1,823	1,823
Other inc./(exp.)	2,228	2,159	2,129	2,241	2,241
Exceptional items	10	(3,756)	29	0	0
EBT	20,785	30,274	29,336	33,145	37,063
Income taxes	5,624	7,165	7,852	8,949	10,007
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(88)	(55)	(65)	(112)	(126)
Reported net profit	15,248	23,217	21,555	24,309	27,182
Adjustments	10	(3,756)	29	0	0
Adjusted net profit	15,258	19,461	21,584	24,309	27,182

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	13,228	14,488	14,511	16,097	17,855
Other current liabilities	1,307	1,763	1,829	2,037	2,259
Provisions	4,851	5,390	5,582	6,186	6,834
Debt funds	24,655	29,805	29,505	29,205	28,905
Other liabilities	5,377	6,435	6,646	7,313	8,028
Equity capital	241	241	241	241	241
Reserves & surplus	25,615	35,404	45,169	52,573	60,854
Shareholders' fund	25,856	35,645	45,409	52,814	61,094
Total liab. and equities	75,275	93,527	103,482	113,652	124,975
Cash and cash eq.	1,181	1,024	8,981	14,765	21,282
Accounts receivables	3,319	3,289	3,412	3,799	4,214
Inventories	13,675	11,933	11,951	13,257	14,705
Other current assets	13,312	13,207	13,455	14,238	15,076
Investments	17,763	33,649	33,649	33,649	33,649
Net fixed assets	15,841	24,722	26,275	28,009	29,924
CWIP	5,357	1,050	1,050	1,050	1,050
Intangible assets	1,552	1,424	1,424	1,424	1,424
Deferred tax assets, net	517	573	594	661	733
Other assets	2,759	2,658	2,692	2,801	2,917
Total assets	75,275	93,527	103,482	113,652	124,975

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	18,864	32,520	32,075	36,587	40,896
Capital expenditures	(5,502)	(7,115)	(4,396)	(4,895)	(5,430)
Change in investments	12,495	(10,300)	0	0	0
Other investing cash flows	2,116	2,244	2,074	2,067	2,055
Cash flow from investing	9,109	(15,171)	(2,322)	(2,828)	(3,375)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3,387)	2,292	(300)	(300)	(300)
Interest expenses	(1,186)	(1,957)	(1,836)	(1,823)	(1,823)
Dividends paid	(24,848)	(13,592)	(11,855)	(17,016)	(19,027)
Other financing cash flows	6,963	2,974	65	112	126
Cash flow from financing	(22,458)	(10,284)	(13,922)	(19,027)	(20,997)
Chg in cash & cash eq.	(353)	(192)	7,978	5,784	6,517
Closing cash & cash eq.	1,181	1,025	8,981	14,765	21,282

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	63.3	96.4	89.5	100.9	112.8
Adjusted EPS	63.3	80.8	89.6	100.9	112.8
Dividend per share	74.5	56.4	49.2	70.6	79.0
Book value per share	107.3	148.0	188.5	219.2	253.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	8.7	7.5	7.2	6.5	5.9
EV/EBITDA	55.5	43.2	38.2	34.1	30.7
Adjusted P/E	80.2	62.9	56.7	50.3	45.0
P/BV	47.3	34.3	26.9	23.2	20.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	73.4	76.7	73.5	73.3	73.3
Interest burden (PBT/EBIT)	76.2	89.1	74.1	74.3	74.2
EBIT margin (EBIT/Revenue)	14.2	16.0	17.2	17.4	17.5
Asset turnover (Rev./Avg TA)	187.8	174.3	163.4	165.7	167.1
Leverage (Avg TA/Avg Equity)	2.9	2.6	2.3	2.2	2.0
Adjusted ROAE	59.0	65.1	47.5	46.0	44.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	7.6	15.3	3.7	11.4	10.9
EBITDA	(12.3)	28.6	13.0	12.2	10.9
Adjusted EPS	(18.2)	27.6	10.9	12.6	11.8
Profitability & Return ratios (%)					
EBITDA margin	15.6	17.4	18.9	19.1	19.1
EBIT margin	14.2	16.0	17.2	17.4	17.5
Adjusted profit margin	10.8	11.9	12.8	12.9	13.0
Adjusted ROAE	59.0	65.1	47.5	46.0	44.5
ROCE	39.6	39.8	38.8	39.9	40.7
Working capital days (days)					
Receivables	9	7	7	7	7
Inventory	57	45	45	45	45
Payables	55	55	55	55	55
Ratios (x)					
Gross asset turnover	1.6	1.5	1.4	1.4	1.4
Current ratio	1.0	1.1	1.3	1.4	1.5
Net interest coverage ratio	13.9	15.4	15.8	18.0	20.1
Adjusted debt/equity	1.0	0.8	0.6	0.6	0.5

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

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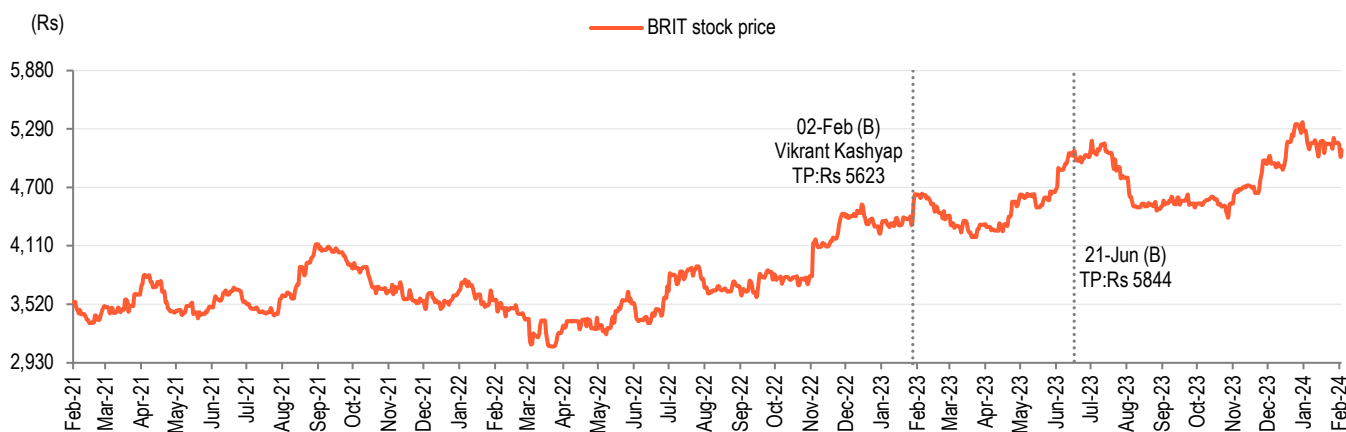
HOLD – Expected return from -6% to +15%

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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