

BUY

TP: Rs 6,862 | ▲ 20%

BRITANNIA INDUSTRIES

Consumer Staples

06 August 2024

Leading by example: Topline focus amidst macro tailwinds

- Sales were 2% higher, EBITDA 3% lower vs Bloomberg consensus. Volumes +8% along with rise in both EBITDA margins and A&P
- As expected, rural recovery is eventuating with a lag. We expect strong rebound in 2H with sales of +16.5% vs 1H with +7.6%
- Retain BUY with revised TP of Rs 6,862. There is an upside potential to FY25 sales and earnings from the impending La Niña

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Sales beat, EBITDA miss: Compared to consensus, sales were 2% higher, EBITDA 3% lower, EPS 5% higher. Continued investments to drive sales and share restricted EBITDA margin expansion as gross margins were up 150bps YoY.

Focus on topline: BRIT's volumes rose 8% YoY despite the adverse impact from heatwave. We think distribution gains helped results. For FY25 and beyond Britannia is focused on sales growth and intends to increase market share especially in under-indexed categories and regions – cheese, drinks, etc, and the Hindi belt.

Rural recovery to reflect with a lag: Focus markets did not perform as well as internal expectations. In line with our view, rural recovery is reflecting in a lagged manner. Britannia's 100% exposure to Food is limiting growth as elastic categories are the first to benefit. We expect sales to rebound strongly in 2HFY25.

Indicators of upside potential from La Niña: The sequential demand trends from 1QFY25 to 2QFY25 are showing a higher-than-average acceleration. This likely reflects increased consumption in hot beverages and accompaniments on the pickup in monsoon actively. We view this as an indicator of demand trends that will likely follow once the La Niña-driven harsher and extended winter season kicks in.

Savings rate to offset inflation: There was concern on inflation vs pricing vs the impact on margins and/or market shares. We think the annual savings target of ~2% of sales should be sufficient to offset inflation of ~3%-4%. We retain our forecasts with slightly higher sales and margins to reflect the benefit of incentives related to manufacturing operations in Ranjangaon, Uttar Pradesh and Bihar.

Our view & valuation: Britannia remains our preferred stock in FMCG given its 40+% rural sales exposure and an increasing distribution network. Recovery will be slightly delayed but there is a potential upside scenario from La Niña driven by unseasonal rains and extended/harsh winter season. We value BRIT at 57x 12M to Jun'26 EPS – a 10% premium to its historical average vs NIFTY 50. We raise the TP to Rs 6,862 from Rs 6,577. Maintain BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	BRIT IN/Rs 5,698
Market cap	US\$ 16.4bn
Free float	49%
3M ADV	US\$ 23.8mn
52wk high/low	Rs 6,005/Rs 4,348
Promoter/FPI/DII	51%/19%/30%

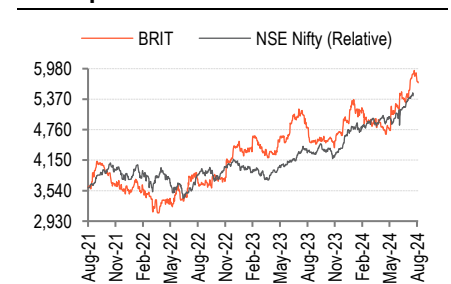
Source: NSE | Price as of 5 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	167,693	187,788	212,382
EBITDA (Rs mn)	31,698	36,302	41,032
Adj. net profit (Rs mn)	21,427	25,038	28,272
Adj. EPS (Rs)	88.9	103.9	117.4
Consensus EPS (Rs)	88.9	100.5	113.3
Adj. ROAE (%)	54.0	52.6	50.8
Adj. P/E (x)	64.1	54.8	48.6
EV/EBITDA (x)	43.3	37.8	33.4
Adj. EPS growth (%)	10.1	16.9	12.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Britannia's 1QFY25 result summary

(Rs mn)	Q1FY24	Q1FY25	YoY (%)	Reported vs (%)	
				BOBCAPS	Cons
Sales	40,107	42,503	6	1	2
EBITDA	6,889	7,537	9	(2)	(3)
EBITDA margin (%)	17.2	17.7	56bps	(55bps)	(80bps)
Adj. EPS (Rs)	18.99	22.01	16	2	5

Source: Company, Bloomberg, BOBCAPS Research

Summary of earnings

We retain our forecasts with slightly higher sales and margins to reflect the benefit of incentives related to manufacturing operations in Ranjangaon, Uttar Pradesh and Bihar. We show our forecasts below.

Fig 2 – Britannia's financial forecast summary

Rs million	FY22	FY23	FY24	FY25E	FY26E
Sales	141,356	163,006	167,693	187,788	212,382
...YoY (%)	-	15	3	12	13
EBITDA	22,015	28,309	31,698	36,302	41,032
...YoY (%)	-	29	12	15	13
EBITDA margin (%)	15.6	17.4	18.9	19.3	19.3
...YoY (%)	-	180bps	154bps	43bps	(1bps)

Source: Company, BOBCAPS Research

Valuation

The stock is currently trading at 55x FY25E EPS. BRIT has historically traded at 2.5x vs the NSE NIFTY 50 1-year forward EPS. We value BRIT at 57x 12M to Jun'26 EPS – a 10% premium to its historical average vs NIFTY 50. We raise the TP to Rs 6,862 from Rs 6,577. Maintain BUY.

Risks

Key downside risks to our estimates are:

- delayed rural recovery;
- lower-than-expected volume growth;
- excess or deficit monsoon, both of which are detrimental to agriculture and rural demand;
- heightened regional competition; and
- hyperinflation.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	141,363	163,006	167,693	187,788	212,382
EBITDA	22,015	28,309	31,698	36,302	41,032
Depreciation	2,005	2,259	3,005	3,206	3,289
EBIT	20,010	26,050	28,694	33,096	37,744
Net interest inc./(exp.)	1,443	1,691	1,640	1,201	1,216
Other inc./(exp.)	2,228	2,159	2,142	2,162	2,142
Exceptional items	10	(3,756)	29	246	0
EBT	20,785	30,274	29,167	33,811	38,670
Income taxes	5,624	7,165	7,793	9,050	10,441
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(88)	(55)	(56)	(37)	(42)
Reported net profit	15,248	23,217	21,398	24,791	28,272
Adjustments	10	(3,756)	29	246	0
Adjusted net profit	15,258	19,461	21,427	25,038	28,272

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	13,228	14,488	16,275	17,987	20,348
Other current liabilities	1,307	1,763	1,673	1,873	2,119
Provisions	4,851	5,390	5,898	6,568	7,388
Debt funds	24,655	29,805	20,412	20,112	19,812
Other liabilities	5,377	6,435	6,818	7,528	8,397
Equity capital	241	241	241	241	241
Reserves & surplus	25,615	35,404	39,419	46,894	55,418
Shareholders' fund	25,856	35,645	39,660	47,135	55,659
Total liab. and equities	75,275	93,527	90,736	101,203	113,723
Cash and cash eq.	1,181	1,024	3,228	8,628	14,941
Accounts receivables	3,319	3,289	3,933	4,405	4,982
Inventories	13,675	11,933	11,812	13,055	14,769
Other current assets	13,312	13,207	12,548	13,352	14,337
Investments	17,763	33,649	27,942	27,942	27,942
Net fixed assets	15,841	24,722	26,029	28,374	31,056
CWIP	5,357	1,050	1,875	1,875	1,875
Intangible assets	1,552	1,424	1,407	1,407	1,407
Deferred tax assets, net	517	573	439	491	556
Other assets	2,759	2,658	1,521	1,673	1,859
Total assets	75,275	93,527	90,736	101,203	113,723

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	18,864	32,520	33,379	36,941	42,466
Capital expenditures	(5,502)	(7,115)	(5,615)	(5,634)	(6,371)
Change in investments	12,495	(10,300)	8,302	0	0
Other investing cash flows	2,116	2,244	2,068	1,961	1,895
Cash flow from investing	9,109	(15,171)	4,755	(3,673)	(4,477)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3,387)	2,292	(10,275)	(300)	(300)
Interest expenses	(1,186)	(1,957)	(1,643)	(1,201)	(1,216)
Dividends paid	(24,848)	(13,592)	(17,325)	(17,354)	(19,790)
Other financing cash flows	6,963	2,974	938	37	42
Cash flow from financing	(22,458)	(10,284)	(28,305)	(18,818)	(21,235)
Chg in cash & cash eq.	(353)	(192)	2,180	5,400	6,313
Closing cash & cash eq.	1,181	1,024	3,228	8,628	14,941

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	63.3	96.4	88.8	102.9	117.4
Adjusted EPS	63.3	80.8	88.9	103.9	117.4
Dividend per share	74.5	56.4	71.9	72.0	82.2
Book value per share	107.3	148.0	164.6	195.7	231.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	9.7	8.4	8.2	7.3	6.5
EV/EBITDA	62.3	48.5	43.3	37.8	33.4
Adjusted P/E	90.0	70.5	64.1	54.8	48.6
P/BV	53.1	38.5	34.6	29.1	24.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	73.4	76.7	73.4	73.3	73.1
Interest burden (PBT/EBIT)	76.2	89.1	74.6	74.9	74.9
EBIT margin (EBIT/Revenue)	14.2	16.0	17.1	17.6	17.8
Asset turnover (Rev./Avg TA)	187.8	174.3	184.8	185.6	186.8
Leverage (Avg TA/Avg Equity)	2.9	2.6	2.3	2.1	2.0
Adjusted ROAE	59.0	65.1	54.0	52.6	50.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	7.6	15.3	2.9	12.0	13.1
EBITDA	(12.3)	28.6	12.0	14.5	13.0
Adjusted EPS	(18.2)	27.6	10.1	16.9	12.9
Profitability & Return ratios (%)					
EBITDA margin	15.6	17.4	18.9	19.3	19.3
EBIT margin	14.2	16.0	17.1	17.6	17.8
Adjusted profit margin	10.8	11.9	12.8	13.3	13.3
Adjusted ROAE	59.0	65.1	54.0	52.6	50.8
ROCE	39.6	39.8	47.8	49.2	50.0
Working capital days (days)					
Receivables	9	7	9	9	9
Inventory	57	45	45	45	45
Payables	55	55	63	63	63
Ratios (x)					
Gross asset turnover	1.6	1.5	1.5	1.5	1.5
Current ratio	1.0	1.1	1.2	1.3	1.4
Net interest coverage ratio	13.9	15.4	17.5	27.6	31.0
Adjusted debt/equity	1.0	0.8	0.5	0.4	0.4

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

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BUY – Expected return >+15%

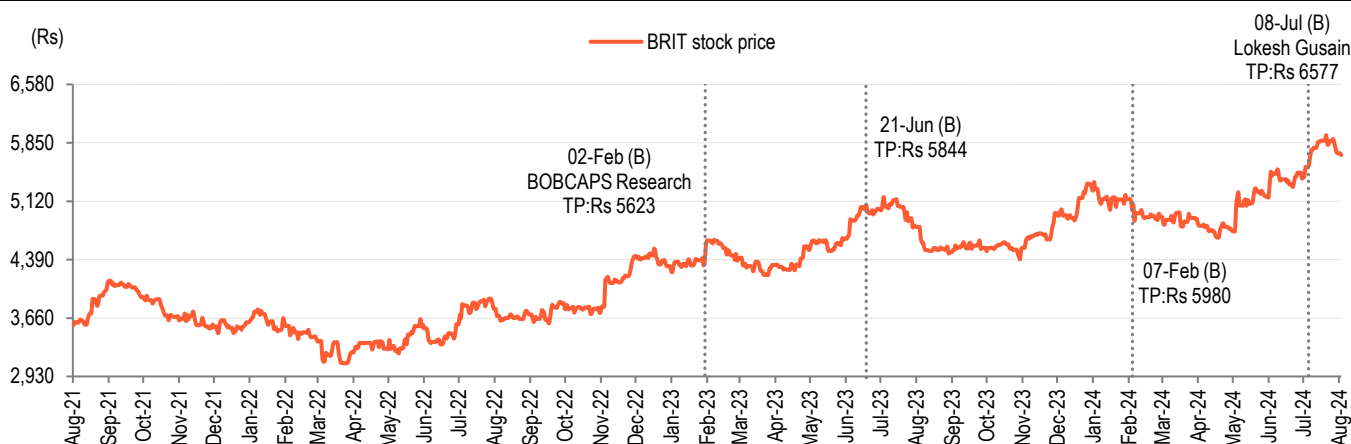
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SELL – Expected return <-6%

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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