

SELL
 TP: Rs 4,395 | ▼ 10%

BRITANNIA INDUSTRIES | Consumer Staples | 08 February 2025

Sell: Inflation too high to offset with planned actions

- Compared to consensus, there was a beat on sales at 1% and on EBITDA at 6%. EBITDA beat on lower SG&A as a % of sales
- 3QFY25 pricing was insufficient to offset inflation and, on our estimates, will remain so in 4QFY25 and FY26
- Delayed and insufficient pricing keeps us cautious on BRIT’s ability to offset inflation with pricing in 4QFY25 and FY26. Downgrade to Sell

Lokesh Gusain
 research@bobcaps.in

Low quality EBITDA beat in 3QFY25: Britannia sales were 1% above consensus (4% above BoB) with EBITDA 6% above consensus. COGS inflation of 11% was in line with our estimates and so was gross profit. Our January 2025 analysis on Britannia COGS and gross profit estimates can be found here [Is it FY22 again? Impact of inflation on FY25 and FY26 earnings](#). See key charts detailing inflation and our FY25 and FY26 assumptions on pricing on page 2.

Efficiencies and pricing are insufficient to offset Inflation: Britannia is taking pricing and improving efficiencies to offset inflation. The schedule for pricing is; 4.5% by March 2025 and 6.0% by June 2025 quarter; on efficiencies; 4.0% of sales in the March 2025 quarter and 2.5% of sales in FY26. On our estimates, inflation will sequentially increase from 11%-12% in the December 2024 quarter to 17%-18% in the March 2025 quarter to ultimately ~15% in FY26. Pricing and efficiencies that are due will not be a full offset and so gross profit per unit will decline.

Earnings downgrades: Ingredient costs remain elevated. Our FY25 earnings are revised upwards due to larger than expected cuts in the expenses below the gross profit line. Pricing is however more moderate than inflation and so our FY26 and FY27 forecasts are revised down. To restore FY27 gross margins to FY24 levels, Britannia needs to take 15% pricing.

Valuation and our view: Delayed and lower than expected pricing amidst continued inflation has resulted in EBITDA downgrades of 2% in FY26 and 15% in FY27. We value BRIT in line with its 5Yr historical average P/E of 48x on 12m to December 2026 EPS. Our target price has come down from Rs5,131 to Rs4,395 due to lower earnings. Downgrade to Sell with a -10% return.

Key changes

Target	Rating
▼	▼

Ticker/Price	BRIT IN/Rs 4,871
Market cap	US\$ 13.4bn
Free float	49%
3M ADV	US\$ 25.2mn
52wk high/low	Rs 6,470/Rs 4,641
Promoter/FPI/DII	51%/19%/30%

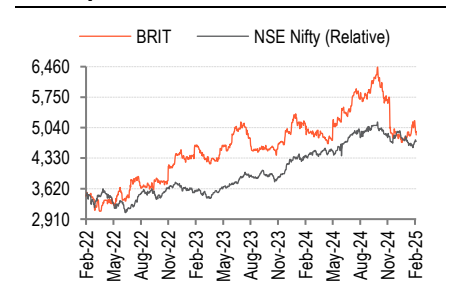
Source: NSE | Price as of 7 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	167,693	179,091	196,825
EBITDA (Rs mn)	31,698	30,805	27,178
Adj. net profit (Rs mn)	21,427	20,926	18,557
Adj. EPS (Rs)	88.9	86.9	77.0
Consensus EPS (Rs)	88.9	89.9	103.7
Adj. ROAE (%)	56.9	50.7	42.2
Adj. P/E (x)	54.8	56.1	63.2
EV/EBITDA (x)	37.8	38.8	43.8
Adj. EPS growth (%)	10.1	(2.3)	(11.3)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

(Rs mn)	Actual			Reported vs (%)	
	3Q24	3Q25	YoY (%)	BoB	Cons.
Sales	42,563	45,926	7.9	4.2	1.0
Gross profit	18,673	17,784	(4.8)	(0.4)	(7.1)
EBITDA	8,211	8,449	2.9	23.0	5.5
EBITDA margin (%)	19.3	18.4	(89bps)	281bps	79bps

Source: Company, Bloomberg, BOBCAPS Research



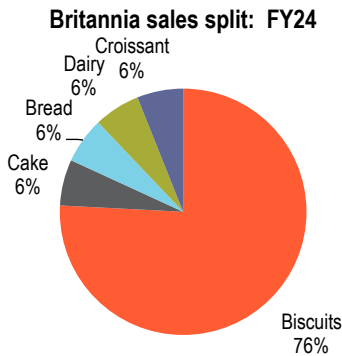
2QFY25 result review

Fig 1 – COGS inflation vs pricing vs gross margins

Britannia	3QFY25	4QFY25	FY26
Commodities included in analyses	Sugar, Maida, Vegetable / Palm oil, Milk, Water / packaging / others		
Commodities with the largest impact on COGS base	Wheat, Palm / vegetable oil		
Inflation in total COGS base (%)	11.7	17.7	14.9
Gross Margin Headwind	(664bps)	(1,004bps)	(888bps)
Pricing offset to COGS inflation (%)			
Offset only absolute inflation	6.6	10.0	8.9
Gross margin % impact	(270bps)	(396bps)	(330bps)
Pricing assumed	1.8	5.0	5.7
Gross Margin % impact	(553bps)	(684bps)	(521bps)

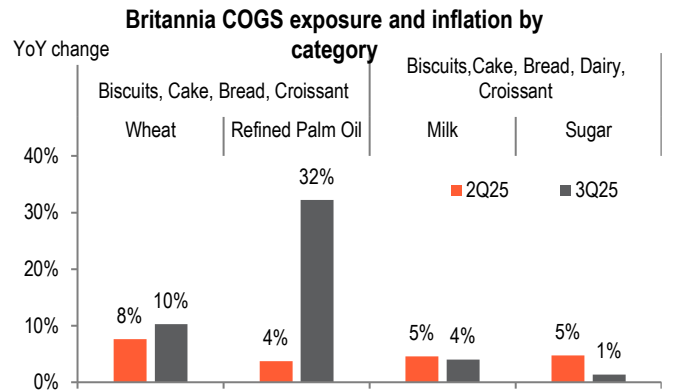
Source: Company, Bloomberg, BOBCAPS Research

Fig 2 – Palm oil is a key ingredient across 94% of Britannia’s portfolio



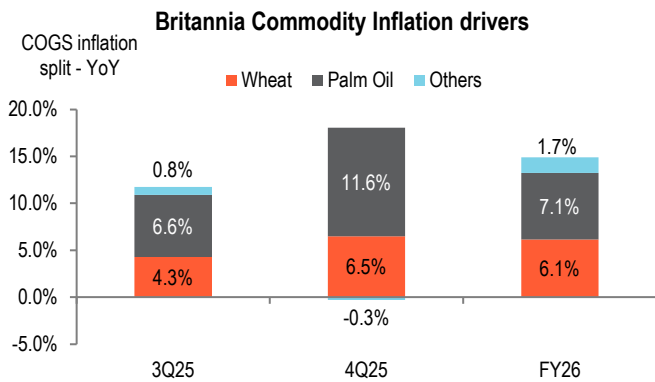
Source: Company, Bloomberg, BOBCAPS Research

Fig 3 – Refined palm oil and wheat had the highest inflation in 2QFY25 and 3QFY25



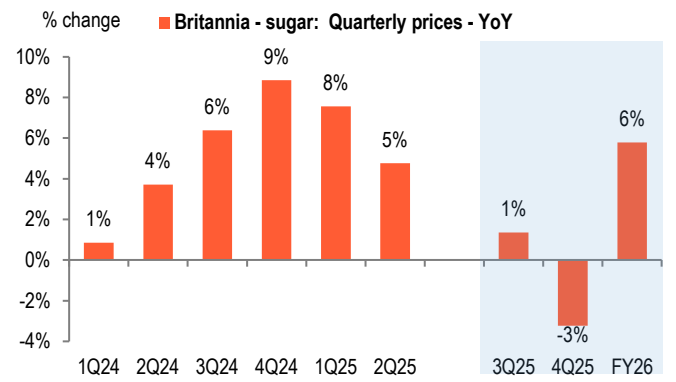
*Assume 3m lag; Source: Company, Bloomberg, BOBCAPS Research

Fig 4 – Palm oil and wheat are the largest contributors to inflation in 4QFY25 and FY26

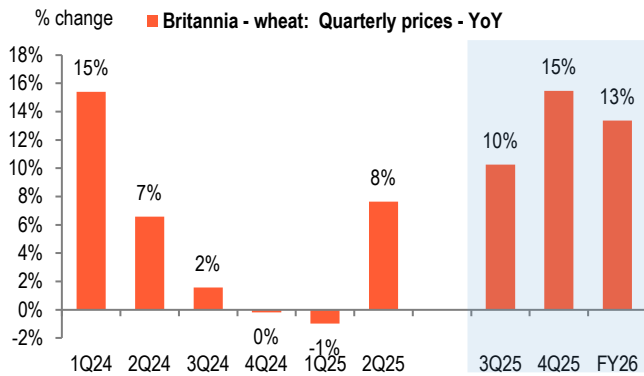


*Assume 3m lag; Source: Company, Bloomberg, BOBCAPS Research

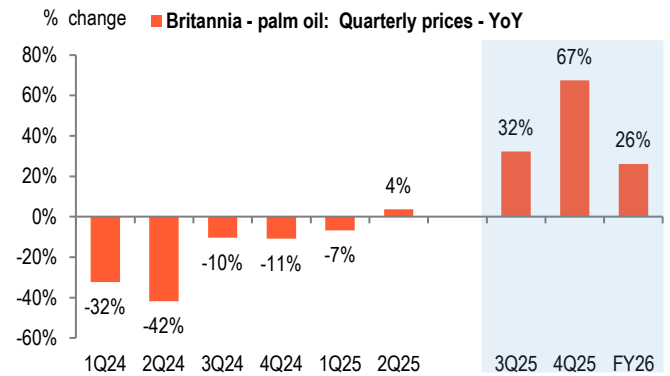
Fig 5 – Sugar is turning inflationary in FY26



*Assume 3m lag; Source: Company, Bloomberg, BOBCAPS Research

Fig 6 – Wheat inflation is in double digits in FY26

*Assume 3m lag; Source: Company, Bloomberg, BOBCAPS Research

Fig 7 – Refined palm oil inflation in 4QFY25 is at 67%

*Assume 3m lag; Source: Company, Bloomberg, BOBCAPS Research

Earnings revisions

- Sales** – Our sales growth is revised upwards in FY25 due to higher-than-expected volume driven sales in 3QFY25. We have downward revisions in FY26 and FY27 reflecting lower than expected pricing.
- Margins** – Our EBITDA margins are higher in FY25 due to higher-than-expected spending cuts in the operating cost. However, this benefit in FY26 is being offset by lower-than-expected pricing which is compressing gross margins greater than our previous estimates. We have margins going down in FY27 as well. Britannia had high inflation FY22/23, when gross margins were down to 38.0%. The company took ~14% pricing to recover gross margins to 41.2%. However, at this stage, given the delayed and lower than expected pricing action, we remain cautious if Britannia would be able repeat such aggressive pricing actions to restore margins. For now, we have assigned a moderate 2.5% pricing for FY27. To restore gross margins to FY24 levels of 43.4%, Britannia needs to take 15% pricing, which seems unlikely at this time given the delay that the company has done in 3QFY25.

Fig 8 – Britannia earnings revisions

(Rs mn)	Actual	New	Old	(%)	New	Old	(%)	New	Old	(%)
	FY24	FY25	FY25	Change	FY26	FY26	Change	FY27	FY27	Change
Sales	167,693	179,091	177,102	1.1	196,825	200,869	(2.0)	212,841	226,610	(6.1)
EBITDA	31,698	30,805	28,540	7.9	27,198	27,835	(2.3)	32,645	38,165	(14.5)
EBITDA Margin (%)	18.9	17.2	16.1	109bps	13.8	13.9	(4bps)	15.3	16.8	(150bps)
Adj. PAT	21,427	20,926	19,446	7.6	18,572	19,004	(2.3)	23,285	27,197	(14.4)
Adj. EPS	88.95	86.87	80.72	7.6	77.09	78.89	(2.3)	96.66	112.90	(14.4)

Source: Company, Bloomberg, BOBCAPS Research

Valuation

Britannia is currently trading at 63x FY26E EPS. The stock has traded at 5Yr average P/E of 48x on 1-year forward EPS. We value Britannia in line with its 5Yr historical average P/E on 12m to December 2026 EPS. Our target price changes to Rs4,395 from Rs5,131. Share price return of -10% – Downgrade to Sell.

Risks

Key upside risks to our estimates are:

- Sharp decline in commodity prices,
- Stronger and faster rural / urban recovery,
- Lower than expected demand elasticity on pricing,
- Reduced competitive intensity

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	163,006	167,693	179,091	196,825	212,841
EBITDA	28,309	31,698	30,805	27,178	32,624
Depreciation	2,259	3,005	3,131	3,103	2,963
EBIT	26,050	28,694	27,674	24,075	29,661
Net interest inc./(exp.)	(1,691)	(1,640)	(1,426)	(1,658)	(1,033)
Other inc./(exp.)	2,159	2,142	1,834	2,269	2,249
Exceptional items	(3,756)	29	248	0	0
EBT	26,518	29,196	28,082	24,685	30,876
Income taxes	7,165	7,793	7,057	6,048	7,565
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	(88)	(84)	(66)	(31)
Reported net profit	23,218	21,398	20,678	18,557	23,269
Adjustments	(3,756)	29	248	0	0
Adjusted net profit	19,462	21,427	20,926	18,557	23,269

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	14,488	16,275	17,875	20,211	21,466
Other current liabilities	12,569	13,204	15,572	15,572	15,572
Provisions	275	326	339	339	339
Debt funds	29,805	20,412	26,313	16,313	11,313
Other liabilities	745	858	986	986	986
Equity capital	241	241	241	241	241
Reserves & surplus	35,404	39,419	42,647	44,732	54,370
Shareholders' fund	35,645	39,660	42,888	44,973	54,611
Total liab. and equities	93,527	90,736	103,973	98,395	104,287
Cash and cash eq.	1,024	3,228	9,736	6,828	12,071
Accounts receivables	3,289	3,933	5,395	5,911	6,392
Inventories	11,933	11,812	19,943	18,187	19,190
Other current assets	31,217	29,513	26,562	26,562	26,562
Investments	5,358	5,194	5,149	5,149	5,149
Net fixed assets	25,772	27,905	28,564	27,133	26,298
CWIP	0	0	0	0	0
Intangible assets	1,424	1,407	1,396	1,396	1,396
Deferred tax assets, net	0	0	0	0	0
Other assets	13,511	7,743	7,229	7,229	7,229
Total assets	93,527	90,736	103,973	98,395	104,287

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	25,262	25,730	17,017	25,080	25,237
Capital expenditures	(7,115)	(5,615)	(3,769)	(1,673)	(2,128)
Change in investments	(10,286)	8,302	5,311	0	0
Other investing cash flows	2,230	2,068	1,324	1,815	1,799
Cash flow from investing	(15,171)	4,755	2,867	142	(329)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	5,182	(9,402)	5,847	(10,000)	(5,000)
Interest expenses	0	0	0	0	0
Dividends paid	(13,592)	(17,325)	(17,650)	(16,471)	(13,631)
Other financing cash flows	(1,874)	(1,578)	(1,634)	(1,658)	(1,033)
Cash flow from financing	(10,284)	(28,305)	(13,437)	(28,130)	(19,665)
Chg in cash & cash eq.	(27)	2,182	6,399	(2,908)	5,244
Closing cash & cash eq.	1,024	3,228	9,736	6,828	12,071

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	96.4	88.8	85.8	77.0	96.6
Adjusted EPS	80.8	88.9	86.9	77.0	96.6
Dividend per share	72.0	73.5	68.4	56.6	76.1
Book value per share	148.0	164.6	178.0	186.7	226.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	7.3	7.1	6.7	6.0	5.6
EV/EBITDA	42.2	37.8	38.8	43.8	36.3
Adjusted P/E	60.3	54.8	56.1	63.2	50.4
P/BV	32.9	29.6	27.4	26.1	21.5

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.4	73.4	74.5	75.2	75.4
Interest burden (PBT/EBIT)	101.8	101.7	101.5	102.5	104.1
EBIT margin (EBIT/Revenue)	16.0	17.1	15.5	12.2	13.9
Asset turnover (Rev./Avg TA)	193.3	182.0	184.0	194.5	210.0
Leverage (Avg TA/Avg Equity)	2.7	2.4	2.4	2.3	2.0
Adjusted ROAE	63.3	56.9	50.7	42.2	46.7

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	15.3	2.9	6.8	9.9	8.1
EBITDA	28.6	12.0	(2.8)	(11.8)	20.0
Adjusted EPS	27.6	10.1	(2.3)	(11.3)	25.4
Profitability & Return ratios (%)					
EBITDA margin	17.4	18.9	17.2	13.8	15.3
EBIT margin	16.0	17.1	15.5	12.2	13.9
Adjusted profit margin	11.9	12.8	11.7	9.4	10.9
Adjusted ROAE	63.3	56.9	50.7	42.2	46.7
ROCE	49.9	57.5	52.9	44.3	46.3
Working capital days (days)					
Receivables	7	8	10	10	11
Inventory	49	46	54	55	51
Payables	52	59	58	54	57
Ratios (x)					
Gross asset turnover	4.0	3.7	3.6	3.9	4.0
Current ratio	1.1	1.2	1.2	1.3	1.6
Net interest coverage ratio	15.4	17.5	19.4	14.5	28.7
Adjusted debt/equity	0.8	0.5	0.6	0.4	0.2

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**

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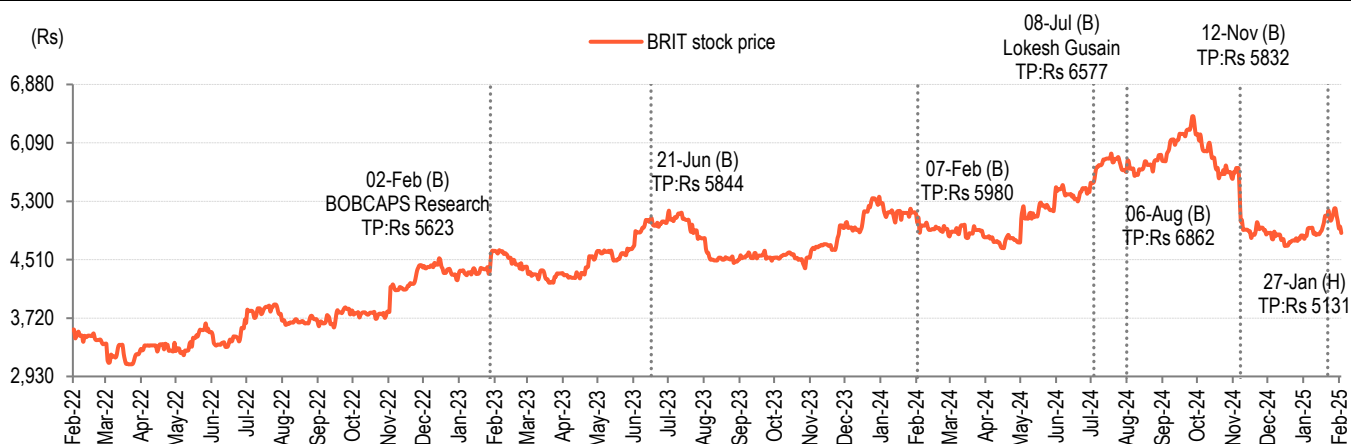
HOLD – Expected return from -6% to +15%

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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