

BUY

TP: Rs 5,980 | ▲ 16%

BRITANNIA INDUSTRIES

Consumer Staples

08 May 2024

Expect strong volume growth ahead

- Subdued growth in Q4 and FY24; however, volume recovery seen in second half of FY25
- Margins remain stable on favourable raw materials base; adjacent businesses continue to perform in line with expectations
- Innovation, increased penetration, and rural recovery to drive growth; maintain BUY with an unchanged TP of Rs 5,980

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Subdued quarter; volumes pickup remains key: BRIT's Q4FY24 revenue growth was flat at 1.1% YoY; volumes growth remains healthy at 2x of revenue growth on YoY basis (excluding other operating income). The company continued to take price corrections in the wake of sustained regional competition. BRIT expects continued growth momentum in the coming quarters and guides for a double-digit uptick in volumes in FY25. The company's domestic market share inched up in Q4.

Adjacent business and innovation key for growth: BRIT's adjacent business now contributes 25% of revenue and the company expects it to grow at 1.5x compared to its biscuit portfolio. New launches continue to do well for the company and revenue contribution from these products now stand at more than Rs 2.75bn on annualised basis. BRIT is targeting 3.5%+ revenue contribution from new products going ahead.

Margins flat: Gross margin remained flat on YoY whereas EBITDA margin contracted by 50bps YoY and 40bps QoQ to 19.4% on account of higher advertisement & promotional spends. Adj. PAT margin contracted by 70bps to 13.2% in Q4FY24.

Distribution network widens: Direct distribution rose to 2.79mn outlets compared to 2.68mn in FY23 and 2.49mn in FY22. The rural distribution footprint increased to 30k distributors at the end of FY24 as against 28k in FY23 and 26k in FY22. Despite a challenging demand environment, the company continues to grow 2.4x faster in focus states compared to its markets in the rest of India.

Maintain BUY: BRIT delivered muted Q4 and FY24 performances as local competition intensified amid easing input costs. BRIT has taken adequate pricing action to remain competitive which resulted in subdued performance. However, volume growth pickup remains key going ahead. 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 51.3x/45.9x FY25E/FY26E EPS. We maintain BUY and continue to value the stock at a P/E of 53x – ~20% premium to the long-term average multiple – maintaining a TP of Rs 5,980.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	BRIT IN/Rs 5,174
Market cap	US\$ 15.2bn
Free float	49%
3M ADV	US\$ 21.8mn
52wk high/low	Rs 5,386/Rs 4,348
Promoter/FPI/DII	51%/19%/30%

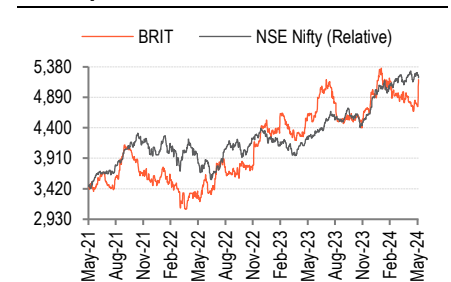
Source: NSE | Price as of 7 May 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	163,006	167,693	188,273
EBITDA (Rs mn)	28,309	31,698	36,319
Adj. net profit (Rs mn)	19,461	21,427	24,295
Adj. EPS (Rs)	80.8	88.9	100.9
Consensus EPS (Rs)	80.8	89.5	102.0
Adj. ROAE (%)	65.1	54.0	51.6
Adj. P/E (x)	64.0	58.2	51.3
EV/EBITDA (x)	44.0	39.3	34.3
Adj. EPS growth (%)	27.6	10.1	13.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

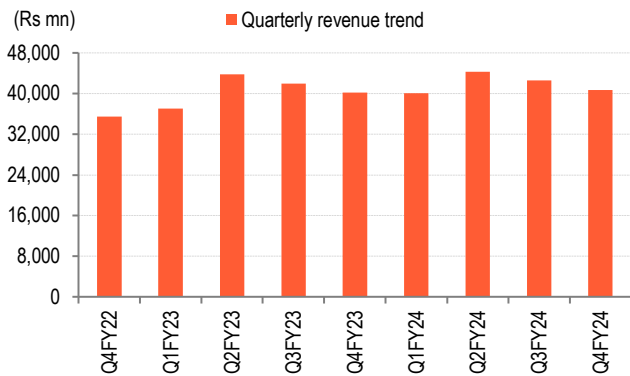


Fig 1 – Financial performance

(Rs mn)	Q4FY24	Q3FY24	Q4FY23	QoQ (%)	YoY (%)	FY24	FY23	YoY (%)
Revenue	40,694	42,563	40,232	(4.4)	1.1	167,693	163,006	2.9
EBITDA	7,874	8,211	8,009	(4.1)	(1.7)	31,698	28,309	12.0
Adj. PAT	5,383	5,593	5,587	(3.8)	(3.7)	21,427	19,461	10.1
Gross Margin (%)	44.9	43.9	44.9	100bps	0bps	43.4	41.2	220bps
EBITDA Margin (%)	19.4	19.3	19.9	10bps	(50bps)	18.9	17.4	150bps
Adj. PAT Margin (%)	13.2	13.1	13.9	10bps	(70bps)	12.8	11.9	90bps

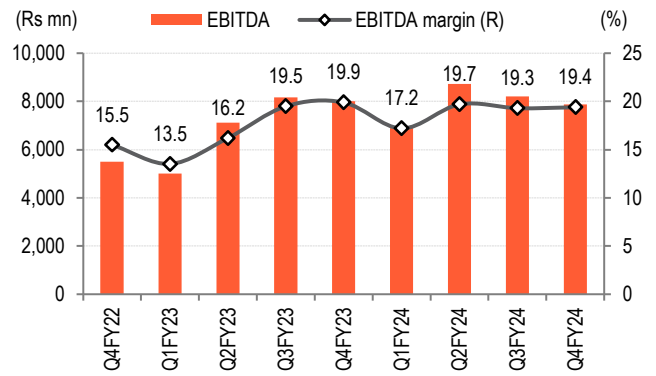
Source: Company, BOBCAPS Research

Fig 2 – Quarterly revenue trend



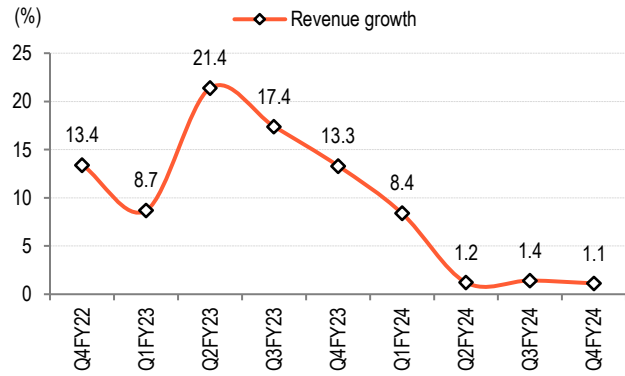
Source: Company, BOBCAPS Research

Fig 3 – EBITDA and margin



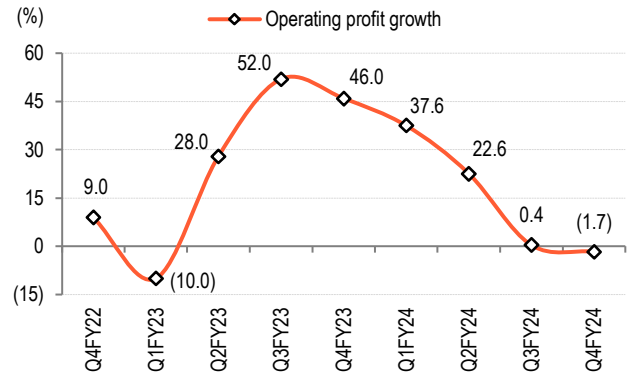
Source: Company, BOBCAPS Research

Fig 4 – Revenue growth YoY



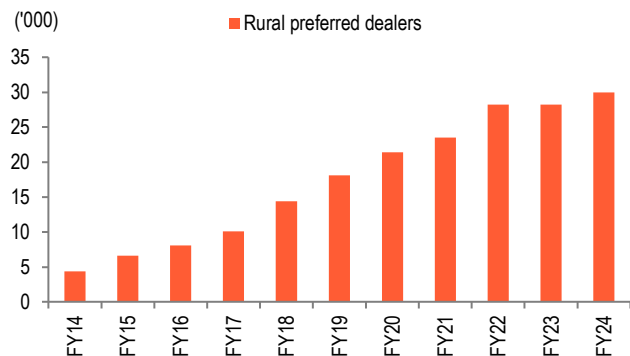
Source: Company, BOBCAPS Research

Fig 5 – Operating profit growth YoY



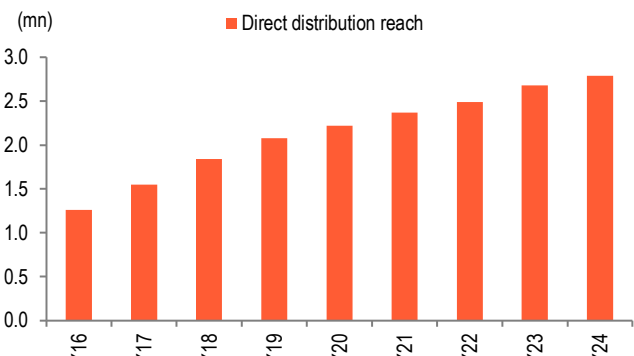
Source: Company, BOBCAPS Research

Fig 6 – Rural preferred distributors



Source: Company, BOBCAPS Research

Fig 7 – Direct distribution footprint



Source: Company, BOBCAPS Research

Earnings call highlights

- BRIT's consolidated revenue for Q4FY24 stands at Rs 40,694mn, growing 1.1% YoY. In FY24, consolidated revenue grew by 2.9% YoY to Rs 167,693mn. BRIT's market share rebounded during the year owing to strategic pricing actions to maintain competitiveness and intensified investments in brands, supported by expansion of distribution network.
- BRIT is now reaching ~2.79mn outlets directly and added around 2,000 rural distributors over the past year to reach 30,000 rural distributors.
- Focus states surpassed other regions in terms of growth, despite generally subdued rural demand.
- Focus for the company remains on growing volumes and the outlook for FY25 is inflationary at about 3% which is manageable. In Q4FY24, volume growth was 2x of revenue growth. In FY25, the company is expecting double-digit volume growth.
- For BRIT, adjacent business now contributes 25% of revenue and the company's objective is to grow the adjacent business to 1.5x of the biscuit portfolio.
- For BRIT, modern trade and e-commerce both experienced double-digit growth in FY24 compared to the previous year.
- On the cost and profitability front, the company remains vigilant of commodity prices and the evolving geopolitical landscape. BRIT's cost efficiency programme continues to yield operational savings of ~2% of revenues, ensuring healthy operating margins.
- The company will continue to invest in the brands and stay price competitive with the objective of driving market share while sustaining profits.
- In cakes, the base formats did well in traditional trade while specialty products leveraged modern trade channels with healthy sequential growth.
- Strong double-digit volume growth seen in rusk while maintaining price competitiveness. Growth in bread led by health & variety segment, with improved profitability on YoY basis.
- Cheese registered double-digit growth in India business; differentiated cheese continued to gain traction during the quarter. In drinks, the company is leveraging the ongoing summer with the focus on improving distribution.
- BRIT is capitalising on established brands like Bourbon to enhance brand awareness and encourage trials.
- International business remained robust during Q4, led by the Gulf Cooperation Council countries and America, while Nepal stays on a consistent growth path in revenues and profitability.
- The board of directors recommended a final dividend of Rs 73.5 per share of face value Rs 1/share.

Valuation methodology

BRIT delivered muted Q4 and FY24 performances as local competition intensified amid easing input costs. BRIT has taken adequate pricing action to remain competitive which resulted in subdued performance. However, going ahead volume growth pickup remains key. 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 51.3x/45.9x FY25E/FY26E EPS. We maintain BUY and continue to value the stock at a P/E of 53x – ~20% premium to long-term average multiple – maintaining a TP of Rs 5,980.

Key risks

Key downside risks to our estimates are:

- delayed rural recovery,
- lower-than-expected volume growth, and
- heightened regional competition.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	15.2	5,174	5,980	BUY
Dabur India	DABUR IN	12.0	558	673	BUY
Godrej Consumer Products	GCPL IN	16.4	1,322	1,363	HOLD
Hindustan Unilever	HUVR IN	68.1	2,379	2,617	BUY
ITC	ITC IN	66.9	440	532	BUY
Marico	MRCO IN	9.2	584	618	BUY
Nestle India	NEST IN	29.4	2,509	2,826	HOLD
Tata Consumer Products	TATACONS IN	12.8	1,099	1,330	BUY
Zydus Wellness	ZYWL IN	1.3	1,660	1,531	HOLD

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	141,363	163,006	167,693	188,273	208,835
EBITDA	22,015	28,309	31,698	36,319	40,233
Depreciation	2,005	2,259	3,005	3,159	3,159
EBIT	20,010	26,050	28,694	33,160	37,074
Net interest inc./(exp.)	1,443	1,691	1,640	1,823	1,823
Other inc./(exp.)	2,228	2,159	2,142	1,790	1,790
Exceptional items	10	(3,756)	29	0	0
EBT	20,785	30,274	29,167	33,127	37,041
Income taxes	5,624	7,165	7,793	8,944	10,001
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(88)	(55)	(56)	(112)	(125)
Reported net profit	15,248	23,217	21,398	24,295	27,166
Adjustments	10	(3,756)	29	0	0
Adjusted net profit	15,258	19,461	21,427	24,295	27,166

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	13,228	14,488	16,275	16,033	17,855
Other current liabilities	1,307	1,763	1,673	2,037	2,259
Provisions	4,851	5,390	5,898	6,235	6,883
Debt funds	24,655	29,805	20,412	29,205	28,905
Other liabilities	5,377	6,435	6,818	7,437	8,152
Equity capital	241	241	241	241	241
Reserves & surplus	25,615	35,404	39,419	46,820	55,095
Shareholders' fund	25,856	35,645	39,660	47,061	55,336
Total liab. and equities	75,275	93,527	90,736	108,008	119,390
Cash and cash eq.	1,181	1,024	3,228	16,516	23,037
Accounts receivables	3,319	3,289	3,933	3,799	4,214
Inventories	13,675	11,933	11,812	13,205	14,705
Other current assets	13,312	13,207	12,548	13,517	14,356
Investments	17,763	33,649	27,942	27,942	27,942
Net fixed assets	15,841	24,722	26,029	27,766	29,683
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	661	733
Other assets	2,759	2,658	1,521	1,320	1,436
Total assets	75,275	93,527	90,736	108,008	119,390

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	18,864	32,520	33,379	35,282	41,334
Capital expenditures	(5,502)	(7,115)	(5,615)	(4,895)	(5,430)
Change in investments	12,495	(10,300)	8,302	0	0
Other investing cash flows	2,116	2,244	2,068	1,770	1,604
Cash flow from investing	9,109	(15,171)	4,755	(3,125)	(3,826)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(3,387)	2,292	(10,275)	8,793	(300)
Interest expenses	(1,186)	(1,957)	(1,643)	(1,823)	(1,823)
Dividends paid	(24,848)	(13,592)	(17,325)	(17,006)	(19,016)
Other financing cash flows	6,963	2,974	938	112	125
Cash flow from financing	(22,458)	(10,284)	(28,305)	(9,924)	(20,985)
Chg in cash & cash eq.	(353)	(192)	2,180	13,288	6,521
Closing cash & cash eq.	1,181	1,024	3,228	16,516	23,037

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	63.3	96.4	88.8	100.9	112.8
Adjusted EPS	63.3	80.8	88.9	100.9	112.8
Dividend per share	74.5	56.4	48.9	70.6	78.9
Book value per share	107.3	148.0	164.6	195.4	229.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	8.8	7.6	7.4	6.6	6.0
EV/EBITDA	56.6	44.0	39.3	34.3	31.0
Adjusted P/E	81.7	64.0	58.2	51.3	45.9
P/BV	48.2	35.0	31.4	26.5	22.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	73.4	76.7	73.4	73.3	73.3
Interest burden (PBT/EBIT)	76.2	89.1	74.6	73.3	73.3
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	174.3	174.9
Leverage (Avg TA/Avg Equity)	2.9	2.6	2.3	2.3	2.2
Adjusted ROAE	59.0	65.1	54.0	51.6	49.1

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	7.6	15.3	2.9	12.3	10.9
EBITDA	(12.3)	28.6	12.0	14.6	10.8
Adjusted EPS	(18.2)	27.6	10.1	13.4	11.8
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	12.9	13.0
Adjusted ROAE	59.0	65.1	54.0	51.6	49.1
ROCE	39.6	39.8	47.8	43.5	44.0
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	1.5	1.5	1.5
Current ratio	1.0	1.1	1.2	1.4	1.5
Net interest coverage ratio	13.9	15.4	17.5	18.2	20.3
Adjusted debt/equity	1.0	0.8	0.5	0.6	0.5

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

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BUY – Expected return >+15%

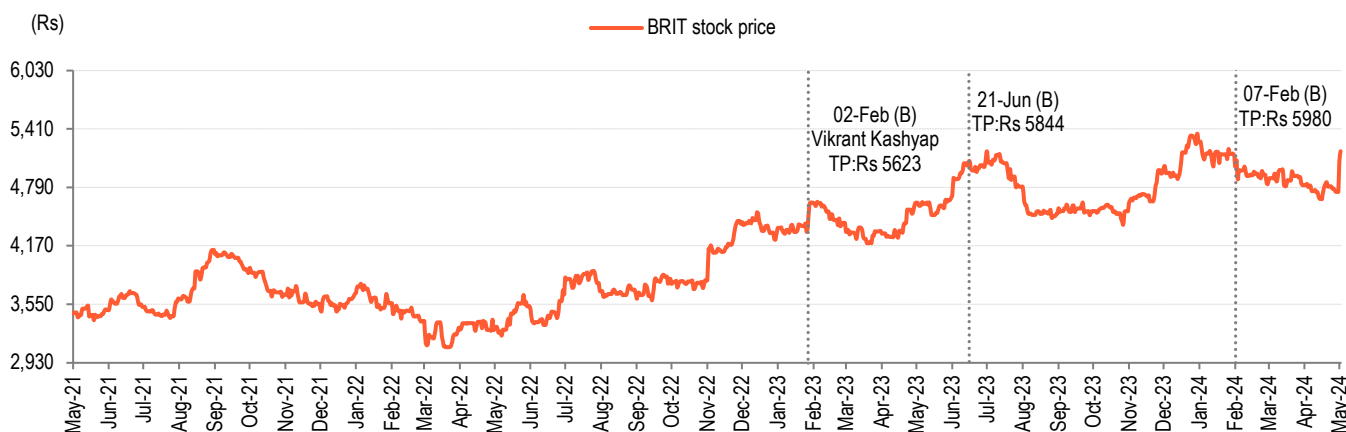
HOLD – Expected return from -6% to +15%

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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