

Britannia

Metamorphosis into a 'total food' company

We believe Britannia's biscuits portfolio can deliver mid to high single-digit volume growth (6% volume CAGR over FY14-24) in the medium term, courtesy (a) formalization being visible in the foods segment, given a high share of the unorganised market; (b) ramping up of its distribution network in focus states (predominantly Hindi heart belt), currently under-indexed; (c) focus on innovation and premiumization; (d) prioritising of in-house manufacturing (65% of sales), which improves product quality and reduces distance travelled, which helps bring down market returns; (e) increasing consumer preference for INR 10 SKU vs INR 5 SKU, as the former helps to satiate one's appetite. The cherry on the cake is that the management realises there might be not enough growth coming from the well-penetrated biscuits category once it has covered gaps in distribution. As a result, it has started its transition from being a 'biscuits and bakery' company to a 'food' company via (a) emphasis on launching value-added products and customization in traditional and highly competitive categories (bread, cake rusk); (b) tying with strategic partners (Bel SA- cheese, croissant - Chipita), where it lacks strategic acumen; and (c) leveraging its distribution network for incubating high potential fast-growing categories (wafers, healthy snacks, etc.). EBITDA margin is expected to see c50bps expansion over FY24-26 to 19.7%, despite being at its highest range (19.2% in FY24) owing to economies of scale, superior product mix and cost optimisation measures. We upgrade Britannia to ADD from REDUCE with a TP of INR 5,500 (50x FY26 EPS) and recommend investors with a long-term bias to accumulate the stock on every dip, given solid historical track record (revenue/EBITDA and PAT CAGR of 9/18/18% respectively over the last decade). In the near term, the stock might remain sideways from current levels as there is no near-term trigger on the volume front and further upside from current levels will be contingent upon if management can walk the talk on its guided double-digit volume growth starting from 2QFY25. The icing on the cake will be if it can hold its margins while making required investments in brand building and distribution infrastructure.

- **Biscuits to remain mainstay:** Britannia management is gunning for double-digit volume growth starting from 2QFY25; however, we believe 6-8% volume growth is more feasible in the medium term as it deploys strategic resources to drive growth—(a) ramping up distribution network in Hindi heart belt, which is the weakest link; (b) focusing on NPD, with an eye on launching high margin premium products; (c) increasing salience of in-housing manufacturing.
- **Adjacencies to get a leg-up:** We believe Adjacencies (25% of sales) have not got the desired attention, which they deserve; courtesy (a) lag in the development of backend infra (dairy business); (b) lower margins in traditional, fragmented and highly competitive categories (bread, rusk and cakes); (c) slower-than-expected scale-up in newer categories (croissant, cheese) courtesy lack of strategic acumen; (d) intense focus on biscuits category, given there are a lot of low hanging fruits to be plucked. However, this is likely to change, from a medium-term perspective, given management's long-term ambition of achieving c50% of sales from adjacent categories and self-realization that, in the long term, the biscuits portfolio might see growth similar to industry growth, which remains low. As a result, it has started taking the required steps to tackle the challenge—(a) Emphasis on launching value-added products and customization in traditional and highly competitive categories (bread, cake rusk); (b) tying with strategic partners (Bel SA - cheese, croissant - Chipita); (c) leveraging its distribution network for incubating high potential fast-growing categories (wafers, healthy snacks, etc.); and (d) creation of GTM 2.0 where it intends to target high potential outlets via improving service levels and hiring more feet on the street.

ADD

CMP (as on 6 May 2024)	INR 5,062
Target Price	INR 5,556
NIFTY	22,443

KEY CHANGES	OLD	NEW
Rating	REDUCE	ADD
Price Target	INR 4,700	INR 5,556
	FY25E	FY26E
EPS %	2%	1%

KEY STOCK DATA

Bloomberg code	BRIT IN
No. of Shares (mn)	241
MCap (INR bn) / (\$ mn)	1,219/14,595
6m avg traded value (INR mn)	1,580
52 Week high / low	INR 5,386/4,348

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.1	9.5	9.4
Relative (%)	(1.3)	(4.3)	(11.6)

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	50.55	50.55
FIs & Local MFs	14.97	15.77
FPIs	18.99	18.23
Public & Others	15.49	15.45
Pledged Shares	-	-

Source : BSE

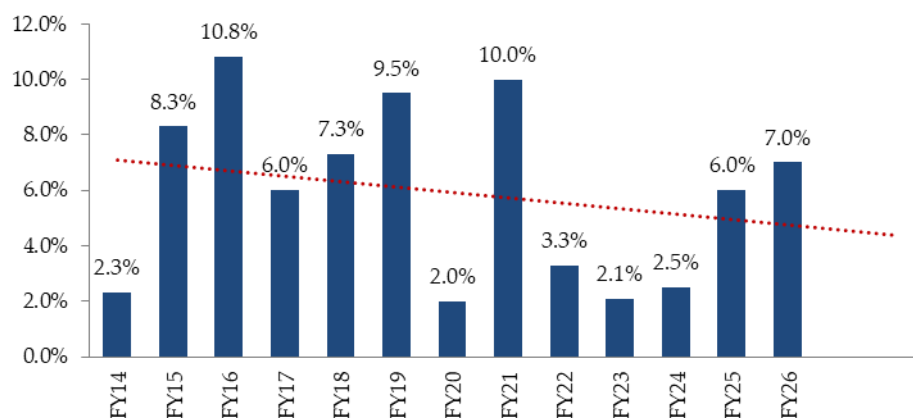
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Structurally sound but trading at fair valuation: We upgrade Britannia to ADD from REDUCE with a TP of INR 5,500 (50x FY26 EPS, 10% premium to its 3-year average PE multiple) and recommend investors with a long-term bias to accumulate the stock on every dip, given a solid historical track record (revenue/EBITDA and PAT CAGR of 9/18/18% respectively over the last decade). We expect Britannia to see revenue/EBITDA and PAT CAGR of 7/11/11% over FY23-26, which is somewhat similar to Nestle. In the near term, the stock might remain sideways from current levels as there is no near-term trigger on the volume front and further upside from current levels will be contingent upon whether management can walk the talk on its guided double-digit volume growth. The icing on the cake will be if it can hold its margins while making required investments in brand building and distribution infrastructure. Levers for multiple rerating– (a) showcasing execution capabilities that it can scale up any other category apart from biscuits; (b) sustaining mid-single-digit volume in the core biscuits segment along with improvement in profitability and market share gains.

Britannia has delivered 6% volume CAGR over past decade



Source: Companies, HSIE Research

Con call Takeaways

(1) To adopt RTM (Go To Market) 2.0 strategy for building salience in adjacent business via distribution at high potential outlets courtesy improving service levels and hiring feet on the street. (2) Revenue contribution from NPD stood at INR 2.75 bn for FY24 (2% of overall sales vs 3.5% targeted for the entire year). (3) EBITDA margin guidance for FY25 to remain at around 19.2%. (4) Adjacencies contribute 25% of sales and the gross margin for Adjacencies is slightly better than biscuits. (6) Cake, rusk, dairy and bread sub-segments are of equivalent size, with each business annually contributing about INR 8 bn. Croissant (new category) contributes 0.7% of sales. (7) Focus is on driving volume-led double-digit growth in FY25, starting from 2QFY25. (8) RM inflation outlook – management expects RM inflation of 3% in FY25 and moderate inflation in wheat flour and sugar is expected to be compensated via softness in palm oil, laminates, and corrugated boxes. (9) MT and e-commerce channels contribute 15% of total sales, out of which 3.5% contribution comes from e-commerce channels. (10) International business - GCC and America doing well; Nepal doing well on a consistent basis.

Quarterly/annual financial summary

(INR mn)	Q4 FY24	Q4 JFY23	YoY (%)	Q3 FY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	40,141	38,920	3.1	41,918	(4.2)	1,39,447	1,59,801	1,65,462	1,78,684	1,97,917
EBITDA	7,874	8,009	(1.7)	41,918	(81.2)	22,015	28,261	31,698	34,328	39,021
APAT	5,383	5,587	(3.6)	5,593	(3.8)	15,258	19,414	21,427	23,428	26,766
EPS (INR)	22.0	23.2	(5.0)	22.3	(1.5)	63.3	80.6	89.0	97.3	111.1
P/E (x)						79.9	62.8	56.9	52.0	45.6
EV / EBITDA (x)						56.4	44.1	39.3	36.2	31.7
RoCE (%)						49.8	56.6	57.0	58.0	64.0

Consolidated P&L (INR mn)

Year End	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	1,39,447	1,59,801	1,65,462	1,78,684	1,97,917
Growth (%)	8.2	14.6	3.5	8.0	10.8
Material Expenses	87,603	95,913	94,920	1,02,514	1,13,278
Employee Expense	5,423	6,584	7,087	7,654	8,419
ASP Expense	4,173	6,751	7,426	8,168	9,148
Other expenses	22,149	25,449	26,561	28,585	30,872
EBITDA	22,015	28,261	31,698	34,328	39,021
EBITDA Growth (%)	(12.3)	28.4	12.2	8.3	13.7
EBITDA Margin (%)	15.8	17.7	19.2	19.2	19.7
Depreciation	2,005	2,259	3,005	3,584	3,959
EBIT	20,010	26,002	28,694	30,744	35,062
Other Income (Including EO Items)	2,219	5,915	2,113	2,356	2,592
Interest	1,443	1,691	1,640	1,143	1,143
PBT	20,795	26,470	29,196	31,957	36,511
Tax	5,624	7,165	7,793	8,530	9,745
RPAT	15,248	23,170	21,398	23,428	26,766
adjustment	-	-	-	-	-
Adjusted PAT	15,258	19,414	21,427	23,428	26,766
APAT Growth (%)	(18.2)	27.2	10.4	9.3	14.2
Adjusted EPS (Rs)	63.3	80.6	89.0	97.3	111.1
EPS Growth (%)	(18.2)	27.2	10.4	9.3	14.2

Consolidated Balance Sheet (INR mn)

Year End	FY22	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital - Equity	241	241	241	241	241
Reserves	25,340	35,102	38,796	42,954	49,246
Total Shareholders' Funds	25,581	35,343	39,037	43,195	49,487
Minority Interest	275	302	302	302	302
Long Term Debt	7,070	15,518	15,518	8,533	1,548
Short Term Debt	17,586	14,287	14,287	14,287	14,287
Total Debt	24,655	29,805	29,805	22,820	15,835
Net Deferred Taxes	(509)	(554)	(554)	(554)	(554)
Long Term Provisions & Others	664	745	745	745	745
TOTAL SOURCES OF FUNDS	50,667	65,641	69,336	66,509	65,816
APPLICATION OF FUNDS					
Net Block	17,393	26,146	28,641	30,057	31,098
CWIP	5,357	1,050	1,050	1,050	1,050
Other Non-current Assets	12,185	18,297	18,297	18,297	18,297
Total Non-current Assets	34,934	45,492	47,988	49,404	50,445
Inventories	13,675	11,933	12,355	13,343	14,779
Debtors	3,319	3,289	3,406	3,678	4,074
Other Current Assets	20,861	30,261	30,256	30,256	30,256
Cash & Equivalentents	1,849	1,980	3,158	(1,146)	(2,968)
Total Current Assets	39,704	47,462	49,174	46,130	46,140
Creditors	12,852	14,488	15,001	16,200	17,944
Other Current Liabilities & Provns	11,120	12,825	12,825	12,825	12,825
Total Current Liabilities	23,972	27,313	27,827	29,025	30,769
Net Current Assets	15,732	20,149	21,348	17,105	15,371
TOTAL APPLICATION OF FUNDS	50,667	65,641	69,336	66,509	65,816

Source: Company, HSIE Research

Consolidated Cash Flow (INR mn)

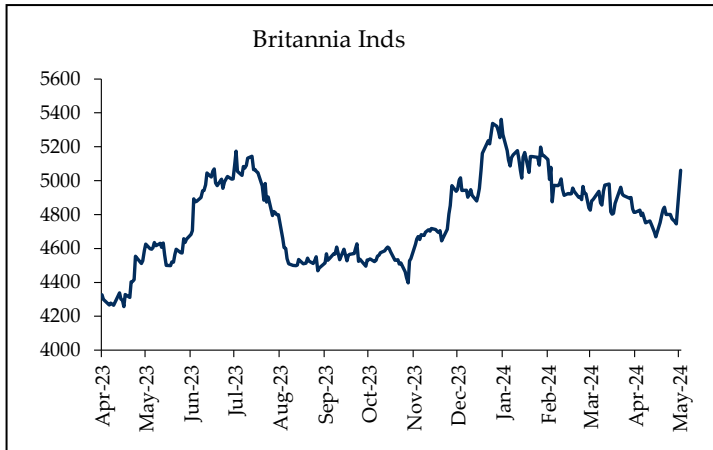
Year End	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	20,785	30,274	29,196	31,957	36,511
Non-operating & EO Items	(251)	(4,129)	-	-	-
Interest Expenses	3,289	3,323	-	-	-
Depreciation	2,005	2,259	3,005	3,584	3,959
Working Capital Change	(3,273)	4,057	(26)	(61)	(88)
Tax Paid	(5,869)	(7,258)	(7,793)	(8,530)	(9,745)
OPERATING CASH FLOW (a)	16,687	28,525	24,382	26,951	30,637
Capex	(5,502)	(7,115)	(5,500)	(5,000)	(5,000)
Free Cash Flow (FCF)	11,185	21,411	18,882	21,951	25,637
Investments & Acquisition	12,495	(9,369)	-	-	-
Non-operating Income	2,116	1,313	-	-	-
INVESTING CASH FLOW (b)	9,109	(15,171)	(5,500)	(5,000)	(5,000)
Debt Issuance/(Repaid)	6,454	2,994	-	(6,985)	(6,985)
Interest Expenses	(1,186)	(1,957)	-	-	-
FCFE	20,529	12,317	18,882	28,936	32,622
Share Capital Issuance	-	-	-	-	-
Dividend	(24,849)	(13,592)	(17,704)	(19,269)	(20,474)
Others	(2,877)	2,271	-	-	-
FINANCING CASH FLOW (c)	(22,458)	(10,284)	(17,704)	(26,254)	(27,459)
NET CASH FLOW (a+b+c)	3,338	3,071	1,178	(4,304)	(1,822)
EO Items, Others	39,608	46,017	50,265	47,139	41,014
Closing Cash & Equivalents	42,946	49,087	51,443	42,836	39,191

Ratios

Year End	FY22	FY23	FY24	FY25E	FY26E
PROFITABILITY (%)					
GPM	37.2	40.0	42.6	42.6	42.8
EBITDA Margin	15.8	17.7	19.2	19.2	19.7
EBIT Margin	14.3	16.3	17.3	17.2	17.7
APAT Margin	10.9	12.1	12.9	13.1	13.5
RoE	50.0	63.7	57.6	57.0	57.8
RoIC (or Core RoCE)	49.8	56.6	57.0	58.0	64.0
RoCE	30.2	35.4	33.4	35.6	41.6
EFFICIENCY					
Tax Rate (%)	27.0	27.1	26.7	26.7	26.7
Fixed Asset Turnover (x)	5.0	4.0	3.7	3.6	3.6
Inventory (days)	35.8	27.3	27.3	27.3	27.3
Debtors (days)	8.7	7.5	7.5	7.5	7.5
Other Current Assets (days)	54.6	69.1	66.7	61.8	55.8
Payables (days)	33.6	33.1	33.1	33.1	33.1
Other Current Liab & Provs (days)	29.1	29.3	28.3	26.2	23.7
Cash Conversion Cycle (days)	36.3	41.5	40.1	37.3	33.8
Net D/E (x)	0.9	0.8	0.7	0.6	0.4
Interest Coverage(x)	13.9	15.4	17.5	26.9	30.7
PER SHARE DATA (Rs)					
EPS	63.3	80.6	89.0	97.3	111.1
CEPS	71.7	90.0	101.4	112.1	127.6
Dividend	131.0	72.0	73.5	80.0	85.0
Book Value	106.2	146.7	162.1	179.3	205.5
VALUATION					
P/E (x)	80	63	57	52	46
P/BV (x)	47.7	34.5	31.2	28.2	24.6
EV/EBITDA (x)	56.4	44.1	39.3	36.2	31.7
EV/Revenues (x)	8.9	7.8	7.5	7.0	6.3
OCF/EV (%)	1.3	2.3	2.0	2.2	2.5
FCF/EV (%)	0.9	1.7	1.5	1.8	2.1
FCFE/Mkt Cap (%)	1.7	1.0	1.5	2.4	2.7
Dividend Yield (%)	2.6	1.4	1.5	1.6	1.7

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

Disclosure:

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