INSTITUTIONAL RESEARCH

Britannia Industries

Continues to emphasise on volume over margins

Britannia 3QFY25 results were broadly in line with our estimates; however, the margin number surprised us, it came back owing to a one-off element (stock appreciation rights) in employee costs (down 47% YoY) and higher-than-expected other operating income (up 100% YoY). Volume growth came in at 6% vs our expectation of 7%, as growth in urban areas remained muted. However, the distribution expansion agenda (expanded to 31,000 rural distributors vs 29,000 in base quarter) and strong growth in focus states (2.6x) continued their upward trajectory. Management stated that it intends to hold on to current margin levels of 17-18% and will focus on the following: a) taking price hikes (around 6%) over the next six months to combat hyperinflation in key RM; b) driving distribution expansion in focus states/rural states to drive penetration-led volume growth; and c) putting emphasis on split salesman route in order to drive volume growth of adjacencies.

- **3QFY25 results summary**: Britannia's volume growth of 6% YoY came marginally below our expectation of 7%. Gross margin contracted 606bps YoY to 36.9% in 3QFY25, owing to hyperinflation in key RM i.e. wheat, cocoa, and palm oil. However, EBITDA margin reported a contraction of only 66bps YoY to 18.9% despite GM pressure. EBITDA contraction was restricted owing to the sharp decline in employee costs (down 47%) as well as curtailment of ad spends (other expenses were down 2% YoY). Adjusted PAT growth was ahead of our estimates (up 4.8% YoY) owing to lower-than-expected tax rate.
- **Valuation and outlook:** We expect Britannia's biscuits portfolio to 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 unorganized 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) prioritizing of in-house manufacturing (65% of sales), which improves product quality and reduces distance travelled, which in turn helps bring down market returns; (e) increasing consumer preference for INR 10 SKUs vs INR 5 SKUs, as the former helps to satiate one's appetite. The cherry on the cake is that the management realizes 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) in areas where it lacks strategic acumen; and (c) leveraging its distribution network for incubating high-potential fast-growing categories (wafers, healthy snacks, etc.). We cut our EPS estimates by 3-5% for FY25-26 to account for higher RM inflation and maintain an ADD rating with a TP of INR 5,200 (45x FY27EPS) and recommend that investors with a long-term bias should 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).

Quarterly/annual financial summary

(INR mn)	3QFY25	3QFY24	YoY (%)	2QFY25	QoQ (%)	FY24	FY25E	FY26E	FY27E
Net Sales	44,633	41,918	6.5	45,662	(2.3)	1,65,462	1,75,002	1,93,026	2,11,599
EBITDA	8,449	8,211	2.9	7,834	7.9	31,698	31,059	35,615	40,255
APAT	5,817	5,593	4.0	5,316	9.4	21,427	20,929	24,516	28,151
AEPS (INR)	24.1	23.2	4.0	22.1	9.4	88.6	86.5	101.4	116.4
P/E (x)						58.7	60.1	51.3	44.7
EV/EBITDA (x)						39.5	40.2	34.9	30.7
Core RoCE (%)						233.0	172.6	192.6	237.6

Source: Company, HSIE Research

ADD

CMP *(as on 07 Feb 2025)*	INR 4,871
Target Price	INR 5,200
NIFTY	23,560

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 5,650	INR 5,200
	FY26E	FY27E
EPS %	-2.8%	-0.6%

KEY STOCK DATA

Bloomberg code	BRIT IN
No. of Shares (mn)	241
MCap (INR bn) / ($ mn)	1,173/13,418
6m avg traded value (INR mn)	2,041
52 Week high / low	INR 6,473/4,641

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(14.4)	(16.6)	(4.1)
Relative (%)	(12.3)	(14.5)	(12.0)

SHAREHOLDING PATTERN (%)

	Sep-24	Dec-24
Promoters	50.55	50.55
FIs & Local MFs	16.37	17.58
FPIs	17.90	16.46
Public & Others	15.18	15.41
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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3QFY25 Con call takeaways:

Biscuits (70% of Sales):

- Volume growth came in at 6% vs expectation of 7%
- However, management expects moderation in volume growth going ahead, owing to the steep hike in RM costs. Management hinted at following action plan to recoup margins as well as sustain current volume growth momentum – a) intends to take grammage reduction in low unit packs and 2) plans to take price hikes in large packs. Management would take 6% price hikes by end of 1QFY26 (2% in 3QFY25, 2.5% in 4Q25 and 1.5% in 1QFY26)
- Although commodity costs (wheat flour, palm oil, sugar, packaging materials) continue to be inflationary, management is taking selective price increases in specific brands and categories to mitigate the impact of elevated costs

Adjacencies Business (18% of Sales):

- Management stated adjacent businesses should grow at least 1.5x of base biscuits business going forward due to a strong and wide product portfolio, expanding distribution reach across markets (specifically in rural markets), media support, and launching new products with relevant SKUs. Moreover, during 3QFY25, the adjacent products portfolio delivered strong double-digit growth in categories such as milkshakes, wafers, and croissants.
- **Cake (35% market share):** Continued its growth momentum on the back of innovations and new variants. Launched dual flavoured layer cake during 3Q
- **Rusk (<5% of total sales, 23-24% market share in our view):** Healthy volume and value growth continued through efforts in rebranding, distribution expansion, region-specific product launches (butter rusk in the east and milk rusk in Kerala), adding new capacity (recently, BRIT has commissioned new line in UP plant) and competitive pricing (earlier it seems to be premium). Moreover, during 3Q, the company introduced rusk in the Rs 5 price-point pack
- **Bread:** Business was driven by healthy growth in the health and variety segment; however, focus remains on driving profitable growth as bread business margins are far lower than the company average of 19-20%
- **Wafers:** Reported consistent growth on the back of strong distribution and innovations.
- **Dairy business:**
  1. Annual business is around Rs 7 bn, out of which a meaningful share comes from Drinks (Rs 2.2 bn) and Cheese (Rs 2.5bn)
  2. Cheese - Leveraging in-house capabilities to stay competitive and augment growth.
  3. Drinks – On a strong footing with healthy double-digit growth. Have launched Winkin grow product in fortified milk segment at price point of Rs 20 in order to drive volumes

International: (6% of Sales)

- Continued to perform well on the back of healthy growth in the Middle East and Africa, operating at healthy margins.

Innovation/new launches:

- Jim-Jam Pops and Golmal 50-50 continue to witness strong growth on the back of distribution expansion

Distribution:

- Total distribution network available for biscuits category—9.3 mn outlets, out of which Britannia already reaches 6.7mn outlets (it has a direct reach of 2.88mn outlets – up 0.12 mn on a YoY basis)
- Management is redefining the distribution strategy to optimize product range and improve outlet servicing. The strategy has been successfully implemented in 25 cities, covering 50,000 outlets, and is yielding encouraging results.

- **RTM 2.0 (route-to-market)** aims to scale up by leveraging high-potential outlets, upgrading technology, and upscaling the sales team to improve distribution depth. The plan will take 12-15 months to be rolled out across 450k outlets in 100 cities.
- Growth in focus states (2.6x) comprising MP, RJ, UP and GJ was in line with management expectations as they plan to push this growth further.

Rural vs urban:

- Rural continued to outpace urban growth and it should accelerate further owing to a favourable base and a potentially bumper rabi harvest.
- Urban had previously contributed immensely to growth; however, owing to a slowdown, the growth has been subdued, slightly offset by rural pick-up.
- The management believes the urban demand has deteriorated, owing to (1) high inflation in key household essentials (CFPI up 8.4%).

Others

- E-commerce contribution: 4% for Biscuits; 10%+ for adjacent categories
- Capex for FY26 stands at Rs 1.5-2 (vs Rs5-6 bn annual run-rate). Management stated it has curtailed the same, given that majority of plant addition is already over

Consolidated P&L

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	**1,59,801**	**1,65,462**	**1,75,002**	**1,93,026**	**2,11,599**
Growth (%)	14.6	3.5	5.8	10.3	9.6
Material Expenses	95,913	94,920	1,04,887	1,14,537	1,24,272
Employee Expense	6,584	7,087	7,867	8,653	9,519
Other Expenses	32,200	33,987	34,982	38,392	42,142
EBITDA	**28,261**	**31,698**	**31,059**	**35,615**	**40,255**
EBITDA Growth (%)	**28.4**	**12.2**	**(2.0)**	**14.7**	**13.0**
EBITDA Margin (%)	**17.7**	**19.2**	**17.7**	**18.5**	**19.0**
Depreciation	2,259	3,005	3,163	3,351	3,518
EBIT	**26,002**	**28,694**	**27,896**	**32,264**	**36,737**
Other Income	2,159	2,142	2,185	2,403	2,643
Interest	1,691	1,640	1,532	1,226	980
PBT	**26,470**	**29,196**	**28,549**	**33,442**	**38,400**
Tax	7,165	7,793	7,620	8,926	10,249
Profit from minority/associates	109	24	-	-	-
RPAT	**23,170**	**21,398**	**20,929**	**24,516**	**28,151**
Adjustment	3,756	(29)	-	-	-
Adjusted PAT	**19,414**	**21,427**	**20,929**	**24,516**	**28,151**
APAT Growth (%)	**27.2**	**10.4**	**(2.3)**	**17.1**	**14.8**
Adjusted EPS (INR)	**80.6**	**88.6**	**86.5**	**101.4**	**116.4**
EPS Growth (%)	**27.2**	**9.9**	**(2.3)**	**17.1**	**14.8**

Source: Company, HSIE Research

Consolidated Balance Sheet

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS					
Share Capital - Equity	241	241	241	241	241
Reserves	35,102	39,174	43,360	48,263	53,894
Total Shareholders Funds	**35,343**	**39,415**	**43,601**	**48,504**	**54,134**
Minority Interest	302	245	245	245	245
Long Term Debt	15,518	9,047	9,047	9,047	9,047
Short Term Debt	14,287	11,365	4,378	4,378	4,378
Total Debt	**29,805**	**20,412**	**13,425**	**13,425**	**13,425**
Net Deferred Taxes	(554)	(419)	(419)	(419)	(419)
Other Non-current Liabilities & Provns	745	858	858	858	858
TOTAL SOURCES OF FUNDS	**65,641**	**60,511**	**57,710**	**62,614**	**68,244**
APPLICATION OF FUNDS					
Net Block	26,146	27,437	29,274	27,924	27,406
CWIP	1,050	1,875	1,875	1,875	1,875
Other Non Current Assets	8,016	6,716	6,716	6,716	6,716
Total Non-current Assets	**35,212**	**36,028**	**37,865**	**36,515**	**35,997**
Inventories	11,933	11,812	12,493	13,780	15,106
Debtors	3,289	3,933	4,160	4,589	5,030
Other Current Assets	12,251	11,313	11,313	11,313	11,313
Cash & Equivalents	30,271	27,211	22,173	28,440	34,601
Total Current Assets	**57,743**	**54,269**	**50,139**	**58,121**	**66,050**
Creditors	14,488	16,275	16,781	18,509	20,290
Other Current Liabilities & Provns	12,825	13,511	13,513	13,513	13,513
Total Current Liabilities	**27,313**	**29,786**	**30,294**	**32,022**	**33,803**
Net Current Assets	**30,430**	**24,484**	**19,845**	**26,099**	**32,247**
TOTAL APPLICATION OF FUNDS	**65,641**	**60,511**	**57,710**	**62,614**	**68,244**

Source: Company, HSIE Research

Consolidated Cash Flow

(INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	30,274	29,167	28,549	33,442	38,400
Non-operating & EO Items	(4,129)	(256)	-	-	-
Interest Expenses	60	(148)	-	-	-
Depreciation	2,259	3,005	3,163	3,351	3,518
Working Capital Change	4,057	1,611	(402)	13	14
Tax Paid	(7,258)	(7,649)	(7,620)	(8,926)	(10,249)
OPERATING CASH FLOW (a)	**25,262**	**25,730**	**23,690**	**27,879**	**31,682**
Capex	(7,115)	(5,615)	(5,000)	(2,000)	(3,000)
Free Cash Flow (FCF)	18,148	20,115	18,690	25,879	28,682
Investments	(9,369)	8,302	-	-	-
Non-operating Income	1,313	2,068	-	-	-
INVESTING CASH FLOW (b)	**(15,171)**	**4,755**	**(5,000)**	**(2,000)**	**(3,000)**
Debt Issuance/(Repaid)	2,994	(10,275)	(6,985)	-	-
Interest Expenses	(1,957)	(1,643)	-	-	-
FCFE	*9,054*	*42,402*	*25,675*	*25,879*	*28,682*
Share Capital Issuance	-	-	-	-	-
Dividend	(13,592)	(17,325)	(16,743)	(19,613)	(22,521)
Others	2,271	938	-	-	-
FINANCING CASH FLOW (c)	**(10,284)**	**(28,305)**	**(23,728)**	**(19,613)**	**(22,521)**
NET CASH FLOW (a+b+c)	(192)	2,180	(5,038)	6,267	6,162
EO Items, Others	101	13	-	-	-
Closing Cash & Equivalents	1,002	3,194	(1,844)	4,423	10,585

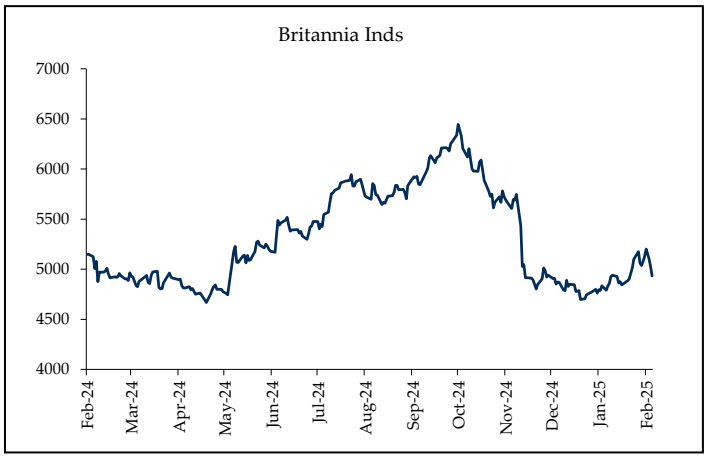
Source: Company, HSIE Research

Ratios

KEY RATIOS	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)					
GPM	40.0	42.6	40.1	40.7	41.3
EBITDA Margin	17.7	19.2	17.7	18.5	19.0
EBIT Margin	16.3	17.3	15.9	16.7	17.4
APAT Margin	12.1	12.9	12.0	12.7	13.3
RoE	63.7	57.3	50.4	53.2	54.9
RoIC (or Core RoCE)	179.1	233.0	172.6	192.6	237.6
RoCE	35.4	35.8	37.2	42.1	44.0
EFFICIENCY					
Tax Rate (%)	27.1	26.7	26.7	26.7	26.7
Fixed Asset Turnover (x)	4.0	3.8	3.6	3.8	3.9
Inventory (days)	27.3	26.1	26.1	26.1	26.1
Debtors (days)	7.5	8.7	8.7	8.7	8.7
Other Current Assets (days)	28.0	25.0	23.6	21.4	19.5
Payables (days)	33.1	35.9	35.0	35.0	35.0
Other Current Liab & Provns (days)	29.3	29.8	28.2	25.6	23.3
Cash Conversion Cycle (days)	0.4	(6.0)	(4.9)	(4.4)	(4.1)
Net D/E (x)	(0.0)	(0.2)	(0.2)	(0.3)	(0.4)
Interest Coverage (x)	15.4	17.5	18.2	26.3	37.5
PER SHARE DATA (Rs)					
EPS	80.6	88.6	86.5	101.4	116.4
CEPS	90.0	101.0	99.6	115.2	130.9
Dividend	72.0	72.0	69.2	81.1	93.1
Book Value	146.7	163.0	180.3	200.5	223.8
VALUATION					
P/E (x)	65	59	60	51	45
P/BV (x)	35.4	31.9	28.9	25.9	23.2
EV/EBITDA (x)	44.3	39.5	40.2	34.9	30.7
EV/Revenues (x)	7.8	7.6	7.1	6.4	5.8
OCF/EV (%)	2.0	2.1	1.9	2.2	2.6
FCF/EV (%)	1.4	1.6	1.5	2.1	2.3
FCFE/Mkt Cap (%)	0.7	3.4	2.0	2.1	2.3
Dividend Yield (%)	1.4	1.4	1.3	1.6	1.8

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

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