



India

ADD (previously HOLD)

Consensus ratings*: Buy 19 Hold 14 Sell 5

Current price:	Rs5,698
Target price:	Rs6,300
Previous target:	Rs5,400
Up/downside:	10.6%
InCred Research / Consensus:	13.4%

Reuters:	
Bloomberg:	BRIT IN
Market cap:	US\$18,900m Rs1,372,444m
Average daily turnover:	US\$25.3m Rs1837.1m
Current shares o/s:	240.7m
Free float:	49.5%

*Source: Bloomberg

Key changes in this note

- Upgrade to ADD rating with a higher target price of Rs6,300.
- Introduce FY27F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.7	20.1	18.7
Relative (%)	4.3	12.7	(0.9)

Major shareholders	% held
Promoter	50.6
LIC	6.8
SBI	2.2

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Britannia Industries Ltd

Gradual volume recovery trend to sustain

- Britannia Industries posted 8%/3.7% standalone volume/value growth, respectively, in 1QFY25. Market share gains continued during the quarter.
- Gross/EBITDA margins stood at 43.4%/17.7%, +147bp/+56bp yoy, respectively. Margins are expected to remain range-bound in the medium term.
- Focus remains on driving volume growth over protecting margins. Revamped route to market to support growth. Upgrade to ADD rating with a TP of Rs6,300.

Strong volume growth led by price cuts; uptick expected to sustain

Britannia Industries (BRIT) posted 1QFY25 standalone/consolidated net revenue growth of 6%/3.7% yoy, respectively. Volume growth stood at 8%. Rural markets (largely the Hindi belt) grew 1.25x vs. urban markets. Market share continued to inch up sequentially, driven by healthy gains from the Hindi-speaking belt, where BRIT has stepped up the distribution of its premium range of cookies, crackers & other innovative products. BRIT has engaged Bain & Co to revamp its route-to-market strategy across both rural and urban markets, where rural markets will remain a focus area, as BRIT's revenue contribution has headroom to improve from 15% currently vs. the industry average of 33-35%. In terms of market share, rival Parle has over a 50% share in these markets vs. 18% for BRIT, which targets an improvement led by distribution gains and an enhanced route to market.

Scale-up in adjacent businesses trending positively

Cake and rusk (two large categories in adjacency businesses), which were not performing well earlier due to intense competition from local players, have been reworked and are aiding in volume growth recovery. Both cake and rusk businesses are now growing in double digits, with improving net margin (low double-digit) while bread business is touching double digits (from negative earlier). Cheese offerings saw price cuts to reduce its pricing premium vs. peers and may see another round of price cuts to drive market share higher from c.17-18% level (vs. 50-53% for Amul), with a large headroom to grow.

Focus will remain on driving volume growth over protecting margins

Gross/EBITDA margins at 43.4%/17.7%, respectively, were aided by opportunistic procurement and inventory management in 1QFY25. Prices were cut by 4.3% by way of grammage hikes and consumer promotions during the quarter. BRIT is targeting double-digit volume growth and expects a 4-5% inflation in FY25F. Management guidance entailed its focus on driving volume growth over protecting margins.

Upgrade to ADD rating with a higher target price of Rs6,300

BRIT's aggression on driving volume growth, even if it comes at the cost of margins, boosted by a revamped route-to-market initiatives, are in the right direction, and should fuel better growth in 2HFY25F. We upgrade to an ADD rating (from HOLD) with a target price of Rs6,300 (Rs5,400 earlier) based on 55x Sep 2026F EPS. Downside risks: Delay in volume recovery and scale-up of NPDs.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	163,006	167,693	182,315	199,709	221,110
Operating EBITDA (Rsm)	28,309	31,698	33,809	38,143	43,270
Net Profit (Rsm)	19,462	21,427	22,331	25,849	29,352
Core EPS (Rs)	80.8	88.9	92.7	107.3	121.8
Core EPS Growth	27.6%	10.1%	4.2%	15.8%	13.6%
FD Core P/E (x)	70.53	64.06	61.47	53.10	46.76
DPS (Rs)	72.0	72.0	83.3	96.1	109.1
Dividend Yield	0.99%	1.26%	1.46%	1.69%	1.92%
EV/EBITDA (x)	48.84	43.28	40.64	35.96	31.62
P/FCFE (x)	141.01	69.41	62.75	45.42	39.76
Net Gearing	27.5%	(2.6%)	2.6%	(3.2%)	(8.6%)
P/BV (x)	38.84	34.82	32.93	28.67	24.32
ROE	63.9%	57.3%	55.1%	57.7%	56.3%
% Change In Core EPS Estimates			(5.24%)	(2.70%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Strong volume growth led by price cuts

Highlights from 1QFY25 earnings conference call

Demand and operating environment

- Value/volume growth was similar, at 6%, for the FMCG industry. Rural growth has started to come back led by better monsoons, moderate inflationary pressure & better employment (rural employment at all-time high).
 - Rural markets saw market share improvement over urban markets by 1.25x on a yoy basis. BRIT is targeting improvement in rural distribution.
 - Management expects the volume to trend in high single digits in the near term.
- **The market share** continued to inch up gradually, but the second-largest competitor also gained sequential market share.
 - Focus markets have not delivered great results, as per management, (expected a better performance) because rural markets are still coming out of that phase where they were lagging urban markets and downtrading.
 - The Hindi belt contributes 15% to overall sales (vs. 33-35% for industry - large headroom), growing at 1.5x over the last three years. Salience is increasing every year. The resurgence that management expected is not yet visible.
 - The gap with Parle is high in these markets. It will be a slow and steady gain from here on. Gaining 1% per year over the last 8-10 years, now at 18% market share vs. 50% for Parle.
 - The growth in eastern markets was muted for BRIT in the recent past. The focus will remain on being nimble in terms of pricing, recipes (tailored per region), etc. Some regional companies have been expanding their footprint across India, which is showing an uptick for them. Overall, in their core regions, growth has remained similar for them as well.
- **Distribution:** The direct reach improved to 2.82m outlets in Jun 2024 vs. 2.79m in Mar 2024. The number of rural distributors was flat at 30k qoq.
 - Rural distributors saw increased intensity of order placements via BRIT's app. Targeting 50% orders digitally.
 - Real-time data analytics aided in increasing the facetime between distributors and sales teams.
 - All outlets are geo-tagged, which led to an increase in the time spent in the market by salesmen by +110 minutes.
 - The route-to-market strategy aided by consultants (Bain & Co) is leading to an uptick in sales efficiency. Feet-on-the-street will be expanded. Some pilots are being conducted in top metro cities.
 - The focus will remain on driving depth in urban markets and width in rural markets to improve salience in weak markets.
 - Weighted distribution in urban markets is 95% (90% at overall company level) in biscuits. Route-to-market 2.0 (with Bain & Co) is focusing on improving relevance.
 - In non-focus markets, the focus is on priority markets in rural India.
- **Organized channels** posted healthy growth, with new business growing the fastest on modern trade and e-commerce channels, followed by adjacent businesses. The focus is on improving fill rates.
 - The e-commerce channel focus is being stepped up (lower focus area earlier). Growth has been healthy from this channel (4% of sales currently).
 - OOH channels didn't see much of a negative impact (no impact from general elections in India historically). Management is targeting 2x higher growth.

- **Innovations:** Launched Pure Magic Stars, 5050 Golmaal Butter Garlic variants. Recent launches like 5050 Golmaal (base), JimJam Pops and Goodday Butter Jeera are doing well. Timepass is seeing a pilot in some markets like Mumbai to see if there is a right to win in the segment. Extensive rollout will be done once the pilot project yields results (can do 200t per month from the two lines in Ranjangaon, which are being used to test products).
- **Manufacturing:** Out of 52 factories pan-India, 16 are owned (55% sales contribution). Annual capacity is split 65%/35% between own/third parties.
 - Small factories operate two lines, with the avg. output at 1,800tpm.
 - Integrated factories have an avg. output of 7,000tpm.
 - Mega food park (Ranjangaon) has 22 lines (biscuits + adjacency businesses), with the avg. output at 18,000tpm.
 - Ranjangaon (dairy facility): Now collecting 300kL of milk, of which 90k/day is directly procured via partnered farmers (3,300+ farmers; 70 collection centres). Quality fodder and seeds are provided to farmers to improve farmer retention (now at 95%), with farmer yields up 30% over the last two years leading to better quality of milk. Processed cheese plant now ready (cubes, slices, blocks). Will allow for quick scale-up across formats.
- Other operating income was higher led by the factory in Ranjangaon qualifying as an ultra-mega plant (starting Apr 2024). Got benefits from the past one year, which led to higher other operating income.
 - Ranjangaon plant will receive better incentives.
 - Uttar Pradesh & Bihar incentives also seem to be higher.

Marketing

- Sustained investments made behind brands. The biscuit brands used to follow traditional marketing earlier, but now the focus is on making it more 'alive' with interesting products and marketing ideas.
- Rusk saw advertising on the Jio mobile app while Winking Cow saw advertising during the India Premier League or IPL cricket matches.
- Tactical consumer promotions across the portfolio.
- Won multiple awards for advertising initiatives.

Adjacent businesses

- **Cake:** Saw a sequential volume growth. Cake Fudge It, Treat Croissants have performed well.
- **Rusk:** Volume continues to grow in double digits.
- **Bread:** E-commerce drives growth in the health & variety segment.
- Net margin is reasonable (double-digit for cake and rusk), with rusk becoming accretive to margins. Bread business is now touching double-digit margin (negative earlier). Croissants' gross margin is 25% more than the base categories. The dairy business is in investment mode and hence, margins are weak currently.

Dairy (Bel SA partnership)

- **Cheese:** The focus is on building competitive consumer offering. Price cuts were taken to reduce price premium vs. peers. Looking at further reducing the price over three-to-four months) to improve competitiveness (led by efficiency gains from new lines). The market share for cheese is at lower double digits (No.2 player). Lots of players have a 2-3% market share. Amul is 6x larger vs. Britannia or BRIT in cheese market share. Following the tie-up with Bel SA (leading to better innovations & efficiency), gradual market share gains can be expected over the next three-to-six months.
- **Drinks:** Double-digit growth during the summer season.

Input costs and margins

- Cost-saving initiatives like truck upsizing, reducing the distance travelled, leveraging digital channel, etc. should lead to 8x higher cost savings in FY25F vs. FY14.
- **Input costs:** Flour costs were up 7% yoy, sugar was up 8%, palm oil was down 7%, cocoa was up 34% yoy, laminates were down 4% while corrugated boxes were up 1% yoy. Going ahead, skimmed milk powder prices will trend upwards (as milk prices are inching up), but management believes that inflation will be manageable.
- Investments in brands will be stepped up. Advertising expenses were higher in 1Q, which led to higher other expenses.
- **Pricing actions** will be taken to remain competitive. Management expects inflation to the tune of 4-5% in FY25F (driven by flour, sugar and cocoa prices) and will evaluate price hikes, if required. The volume/value gap is expected to minimize from 3QFY25F.
- **Outlook:** The focus is on driving topline growth as the FMCG industry has been posting lower topline growth. Management is okay with margins remaining at 16% (at the lower end).

Outlook

- The focus will be on driving topline growth while maintaining profitability.
- Management believes the industry is poised for a consumption-led growth in FY25F led by better monsoons, moderate inflation and falling unemployment.

Figure 1: Quarterly results summary - consolidated

Rs m	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Revenue	40,107	40,694	42,503	6.0	4.4
Expenditure	33,218	32,819	34,966	5.3	6.5
Consumption of raw materials	23,287	22,425	24,054	3.3	7.3
as % of sales	58.1	55.1	56.6		
Employee costs	1,883	1,620	2,020	7.2	24.6
as % of sales	4.7	4.0	4.8		
Other expenditure	8,048	8,774	8,893	10.5	1.4
as % of sales	20.1	21.6	20.9		
EBITDA	6,889	7,874	7,537	9.4	-4.3
Depreciation	708	799	739	4.5	-7.5
EBIT	6,181	7,075	6,797	10.0	-3.9
Other income	539	573	556	3.1	-3.0
Interest	531	264	290	-45.4	9.5
PBT	6,190	7,384	7,064	14.1	-4.3
Total Tax	1,665	1,980	1,762	5.8	-11.0
PAT	4,525	5,404	5,302	17.2	-1.9
Profit from associates / minority interest	-51	21	-1	-97.8	NM
APAT	4,576	5,383	5,303	15.9	-1.5
Extraordinary items	0	0	246	NA	NA
Reported PAT	4,576	5,383	5,056	10.5	-6.1
Adj. EPS	19.0	22.3	22.0	15.9	-1.5
Margins (%)				(bp)	(bp)
Gross margin	41.9	44.9	43.4	147	-149
EBITDA	17.2	19.4	17.7	56	-162
EBIT	15.4	17.4	16.0	58	-139
EBT	15.4	18.1	16.6	119	-153
PAT	11.3	13.3	12.5	119	-81
Effective tax rate	26.9	26.8	24.9	-196	-187

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Overall consumption trend has been improving

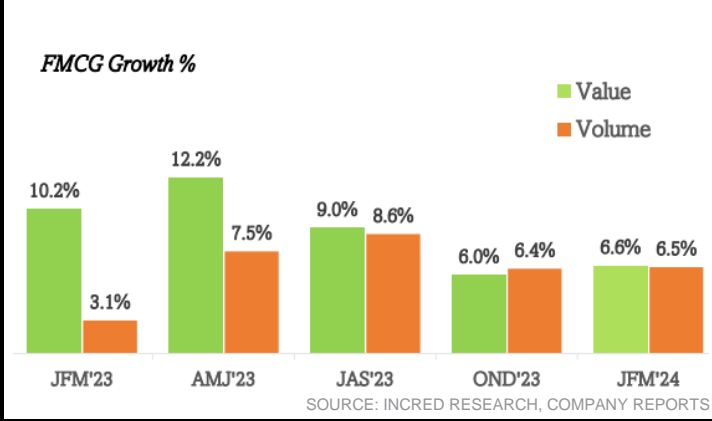


Figure 3: Rural markets overtook urban markets' growth by 4QFY24

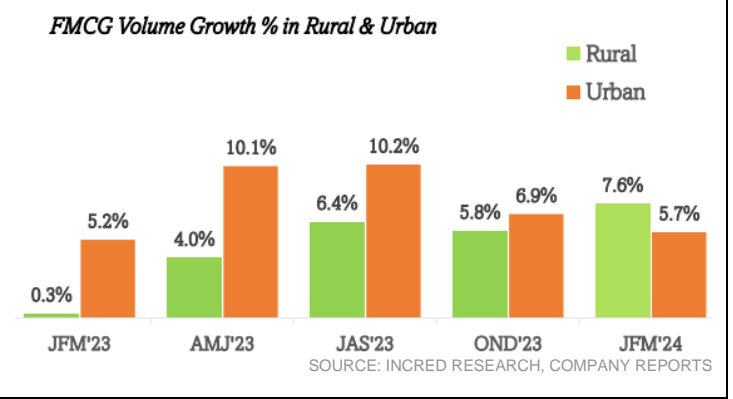


Figure 4: Organized channels saw improving contribution from new/adjacent businesses in 1QFY25

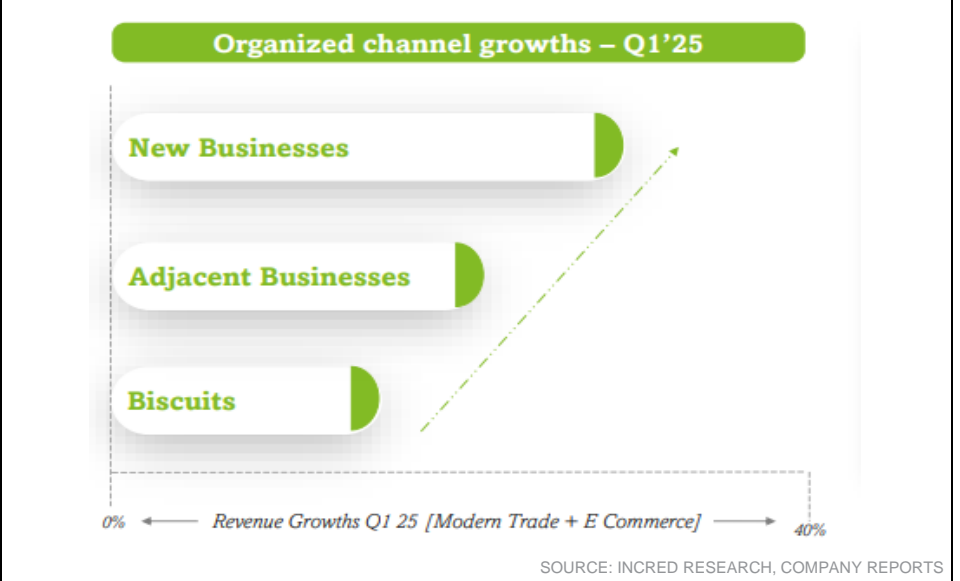


Figure 5: Revenue grew 6% yoy in 1QFY25

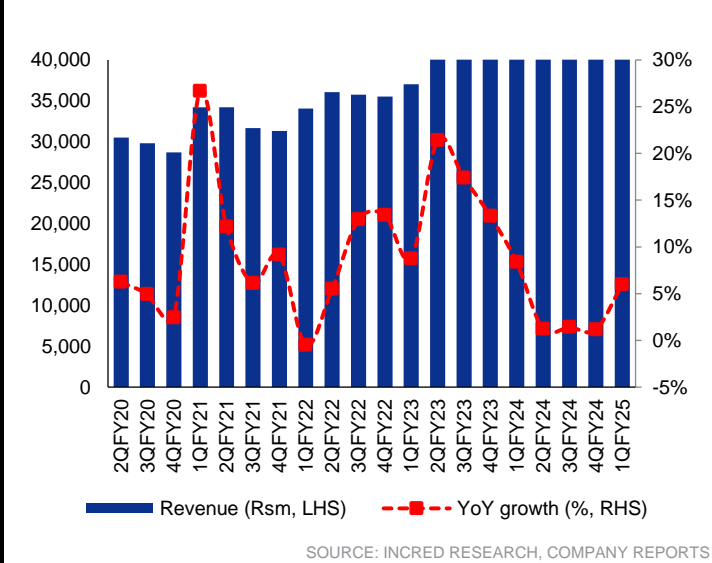


Figure 6: Gross margin expanded by 147bn yoy to 43.4% in 1QFY25

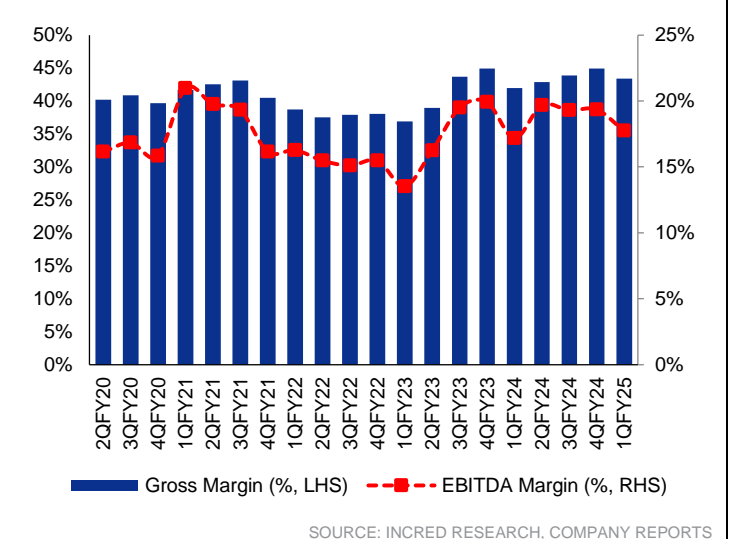
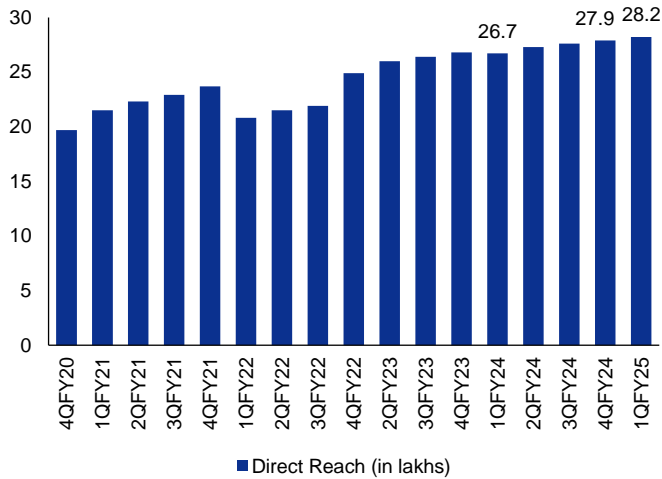
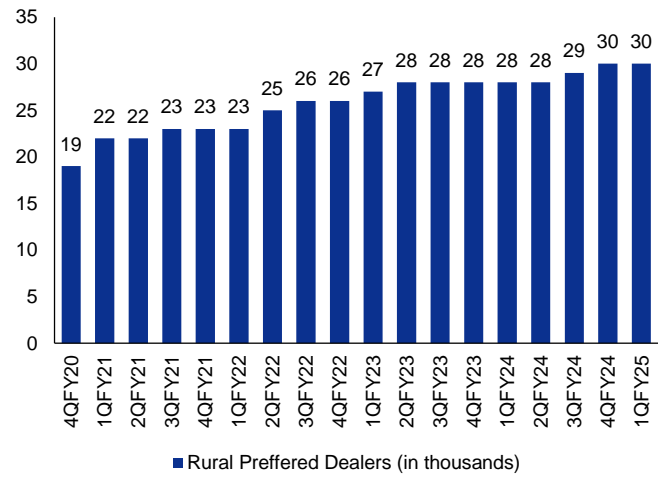


Figure 7: Direct reach increased 6%/1% yoy/qoq to 2.82m outlets in 1QFY25



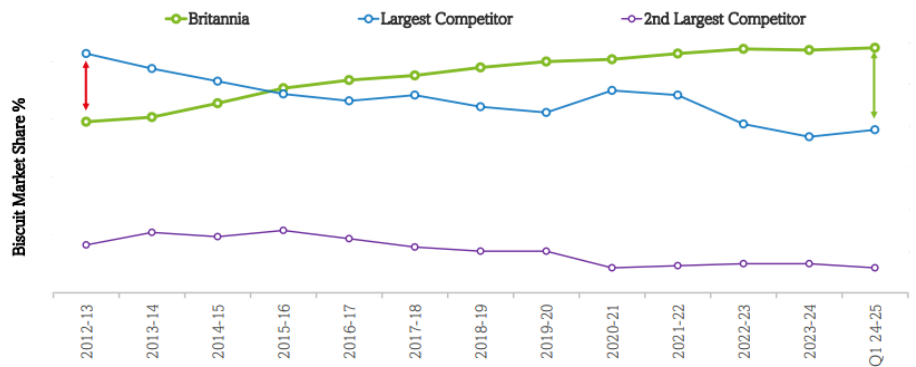
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Rural distributors increased 7% yoy to 30,000 outlets (flat qoq)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Market share continued to improve for the top two players



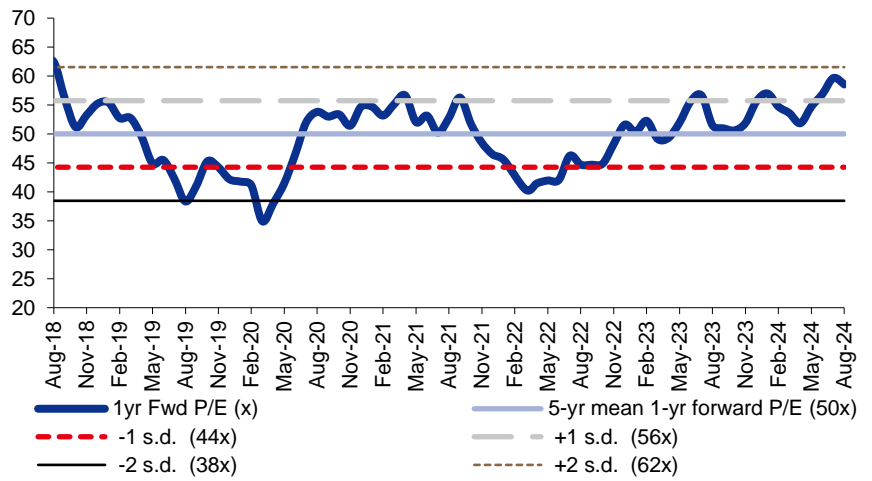
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Our revised earnings estimates

Rs m	FY25F			FY26F			FY27F
	Previous	Revised	% Change	Previous	Revised	% Change	Introduced
Revenue	1,90,973	1,82,315	(4.5)	2,09,241	1,99,709	(4.6)	2,21,110
EBITDA	35,890	33,809	(5.8)	39,826	38,143	(4.2)	43,270
EBITDA Margin (%)	18.8	18.5	-25bp	19.0	19.1	7bp	19.6
Net Profit	23,567	22,331	(5.2)	26,567	25,849	(2.7)	29,352
EPS	97.8	92.7	(5.2)	110.3	107.3	(2.7)	121.8

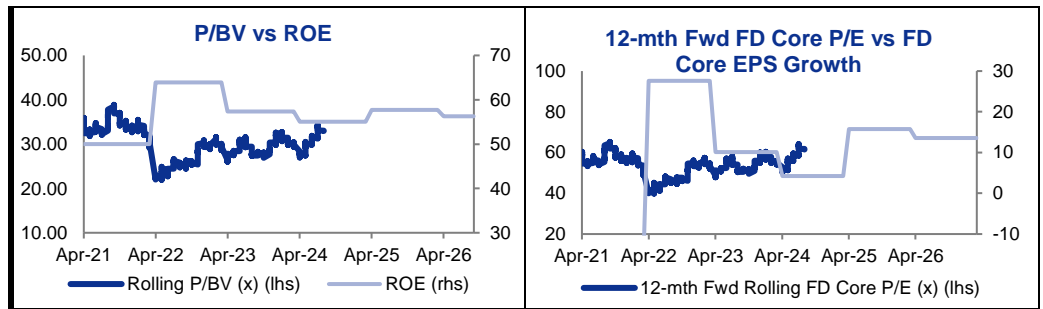
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: BRIT's one-year forward P/E trades between +1SD P/E and +2SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	163,006	167,693	182,315	199,709	221,110
Gross Profit	67,093	72,772	78,279	86,187	95,654
Operating EBITDA	28,309	31,698	33,809	38,143	43,270
Depreciation And Amortisation	(2,259)	(3,005)	(3,728)	(4,173)	(4,730)
Operating EBIT	26,050	28,694	30,081	33,970	38,539
Financial Income/(Expense)	2	40	241	1,139	1,337
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	465	462	71	74	78
Profit Before Tax (pre-EI)	26,518	29,196	30,393	35,184	39,954
Exceptional Items					
Pre-tax Profit	26,518	29,196	30,393	35,184	39,954
Taxation	(7,165)	(7,793)	(8,086)	(9,358)	(10,626)
Exceptional Income - post-tax					
Profit After Tax	19,353	21,403	22,307	25,825	29,328
Minority Interests	109	24	24	24	24
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	19,462	21,427	22,331	25,849	29,352
Recurring Net Profit	19,462	21,427	22,331	25,849	29,352
Fully Diluted Recurring Net Profit	19,462	21,427	22,331	25,849	29,352

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	28,309	31,698	33,809	38,143	43,270
Cash Flow from Invt. & Assoc.	109	24	24	24	24
Change In Working Capital	5,569	4,135	(4,984)	(1,099)	(1,360)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	2,159	2,142	2,562	3,463	3,664
Other Operating Cashflow					
Net Interest (Paid)/Received	(1,691)	(1,640)	(2,250)	(2,250)	(2,250)
Tax Paid	(7,165)	(7,793)	(8,086)	(9,358)	(10,626)
Cashflow From Operations	27,290	28,567	21,075	28,923	32,723
Capex	(6,820)	(5,104)	(3,200)	(3,200)	(3,200)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	(15,886)	5,707			
Other Investing Cashflow					
Cash Flow From Investing	(22,706)	603	(3,200)	(3,200)	(3,200)
Debt Raised/(repaid)	5,150	(9,393)	4,000	4,500	5,000
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(13,592)	(17,325)	(20,069)	(23,143)	(26,286)
Preferred Dividends					
Other Financing Cashflow	3,875	48	76	3,576	5,576
Cash Flow From Financing	(4,568)	(26,669)	(15,993)	(15,067)	(15,710)
Total Cash Generated	16	2,500	1,883	10,656	13,812
Free Cashflow To Equity	9,734	19,777	21,875	30,223	34,523
Free Cashflow To Firm	6,276	30,810	20,125	27,973	31,773

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	19,990	21,429	23,311	30,467	38,779
Total Debtors	3,289	3,933	4,079	4,473	4,950
Inventories	11,933	11,812	12,303	13,478	14,921
Total Other Current Assets	14,908	12,834	13,955	14,777	15,803
Total Current Assets	50,120	50,008	53,648	63,194	74,453
Fixed Assets	25,914	28,014	27,486	26,513	24,983
Total Investments	15,639	10,977	10,977	10,977	10,977
Intangible Assets	1,282	1,298	1,298	1,298	1,298
Total Other Non-Current Assets	554	418	418	418	418
Total Non-current Assets	43,389	40,707	40,179	39,206	37,676
Short-term Debt	14,287	11,365	13,865	16,365	18,865
Current Portion of Long-Term Debt					
Total Creditors	14,488	16,275	14,318	15,593	17,161
Other Current Liabilities					
Total Current Liabilities	28,775	27,640	28,183	31,958	36,026
Total Long-term Debt	15,518	9,047	10,547	12,547	15,047
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	15,518	9,047	10,547	12,547	15,047
Total Provisions	5,390	5,898	5,680	5,697	5,715
Total Liabilities	49,684	42,585	44,410	50,202	56,789
Shareholders Equity	35,343	39,415	41,678	47,884	56,449
Minority Interests	302	245	321	397	473
Total Equity	35,645	39,660	41,999	48,281	56,922

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	15.3%	2.9%	8.7%	9.5%	10.7%
Operating EBITDA Growth	28.6%	12.0%	6.7%	12.8%	13.4%
Operating EBITDA Margin	17.4%	18.9%	18.5%	19.1%	19.6%
Net Cash Per Share (Rs)	(40.74)	4.22	(4.57)	6.45	20.20
BVPS (Rs)	146.71	163.62	173.01	198.77	234.33
Gross Interest Cover	15.41	17.50	13.37	15.10	17.13
Effective Tax Rate	27.0%	26.7%	26.6%	26.6%	26.6%
Net Dividend Payout Ratio	69.8%	80.9%	89.9%	89.5%	89.6%
Accounts Receivables Days	7.40	7.86	8.02	7.81	7.78
Inventory Days	48.73	45.65	42.30	41.45	41.31
Accounts Payables Days	52.02	59.15	53.67	48.08	47.65
ROIC (%)	60.0%	68.3%	66.5%	74.9%	85.2%
ROCE (%)	48.5%	49.0%	51.5%	52.0%	50.1%
Return On Average Assets	22.9%	23.2%	23.9%	25.2%	26.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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