MIRAE ASSET Sharekhan

Stock Update

Result Update

Britannia Industries Ltd

Profitability beat; eyeing recovery ahead

Consumer Goods	Sharekhan code: BRITANNIA
Reco/View: Buy ⇔	CMP: **Rs. 5,850**
	Price Target: **Rs. 6,862** ⇔

3R MATRIX

	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive   = Neutral   – Negative

What has changed in 3R MATRIX

	Old		New
RS	=	↑	+
RQ	+	⇔	+
RV	+	⇔	+

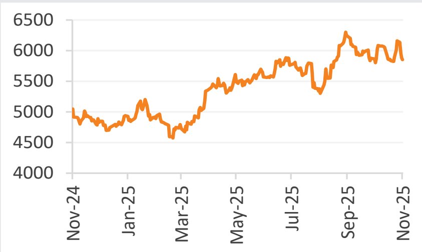
Company details

Market cap:	Rs. 1,40,912 cr
52-week high/low:	Rs. 6,337/4,507
NSE volume: (No of shares)	3.4 lakh
BSE code:	500825
NSE code:	BRITANNIA
Free float: (No of shares)	11.9 cr

Shareholding (%)

Promoters	50.6
FII	16.5
DII	19.4
Others	13.6

Price chart



Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	-0.2	8.8	6.7	15.9
Relative to Sensex	-2.8	3.9	2.6	7.2

Source: Mirae Asset Sharekhan Research, Bloomberg

Summary

- Britannia's revenues grew 3.7% y-o-y, while OPM rose 293 bps y-o-y to 19.7% (versus 17.4% expected), driving up PAT by 23% y-o-y (against 14% growth expected).
- GST rate cut covered ~85% of the company's portfolio with Q2 impact at 2-2.5% of revenues. Management eyes normalisation by mid-November (Q3 would not see any material negative impact).
- Company continues to focus on driving volume-led growth by strengthening its presence across different geographies with regional-consumer centric products, distribution strategies and price competitiveness, while leveraging its brand strength.
- Stock trades at 56x/48x/41x its FY26E/FY27E/FY28E EPS, respectively. We maintain a Buy with an unchanged price target (PT) of Rs. 6,862.

Britannia's Q2FY26 consolidated revenues grew by 3.7% y-o-y to Rs. 4,841 crore, versus expectation of Rs. 5,005 crore. Gross margin stood largely flat y-o-y at 41.7%, while OPM rose 293 bps y-o-y to 19.7%, driven by relatively stable commodity prices and sustained efforts to optimise costs across the value chain. OPM beat our expectation of 17.4%. Operating profit rose 21.8% y-o-y to Rs. 955 crore. In line with operating profit growth, adjusted PAT grew 23.2% y-o-y to Rs. 655 crore, ahead of our expectation of Rs. 610 crore. In H1FY26, revenue grew by 6.1% y-o-y to Rs. 9,463 crore, OPM rose by 85 bps y-o-y to 18.1% and adjusted PAT grew by 11.1% y-o-y to Rs. 1,183 crore.

Key positives

- Bakery segment continued double-digit growth momentum in Rusk, Wafers and Croissants for consecutive quarters, led by strong growth in e-Commerce channel.
- International operations scaled up with strong traction in Africa and growing momentum in Kenya JV.
- OPM rose by 293 bps y-o-y to 19.7%, beating our estimate of 17.4%.

Management Commentary

- Recent GST rate cut, covering ~85% of the portfolio, is expected to support volume growth over the medium term, although temporary trade and logistics disruptions hit near-term performance. The impact of this disruption was quantified to be 2-2.5% on revenues.
- GST impact to normalise by mid-November, therefore Q3 should not see any material negative impact.
- Pricing growth of 7-8% and revenue growth of ~4%, imply volume decline in low single digits.
- Rural markets continue to outpace urban markets. The company continues to focus on rural expansion and is implementing strategies to improve penetration in rural areas.
- Employee cost plunged 22% y-o-y due to lower stock appreciation rights (SAR) provisioning of Rs. 5 crore versus Rs. 50 crore in Q2FY25.
- Flour and Cocoa prices are up both on y-o-y and q-o-q basis. However, Palm Oil (-9% vs Q1FY26) and Milk (-3% vs Q1FY26) have seen prices decline q-o-q. Laminates and Sugar prices remain largely flat.

Revision in earnings estimates – We have raised earnings estimates for FY26 and FY27 to factor in better-than-expected margins in Q2. We have introduced FY28 estimates through this note.

Our Call

View – Maintain Buy with an unchanged PT of Rs. 6,862: Britannia has maintained its leadership position amid muted consumer demand with a focus on expanding in new markets. The management is striving for higher growth with an expected recovery in volume growth, while distribution expansion and RTM 2.0 will provide strong back-end support to overall growth in the coming years. Input cost inflation might put stress on margins in the near term. The management is confident of maintaining OPM at current levels on account of relevant pricing actions and cost efficiencies. The stock trades at 56x/48x/41x its FY26E/FY27E/FY28E EPS, respectively. Britannia's medium to long-term growth prospects are intact, considering its strong position in the snacking category. We maintain a Buy on the stock with an unchanged price target (PT) of Rs. 6,862.

Key Risks

Any sustained slowdown in key categories, higher competition from unorganised play, or spike in key input prices would act as a key risk to our earnings estimates in the coming years.

Valuation (Consolidated)

Rs cr

Particulars	FY24	FY25	FY26E	FY27E	FY28E
Revenue	16,769	17,943	19,597	21,901	24,462
OPM (%)	18.9	17.8	18.3	18.8	19.0
Adjusted PAT	2,140	2,213	2,538	2,955	3,406
% YoY growth	9.7	3.4	14.7	16.4	15.3
Adjusted EPS (Rs.)	88.8	91.9	105.4	122.7	141.4
P/E (x)	65.9	64.0	55.5	47.7	41.4
P/B (x)	35.8	32.4	27.7	22.6	18.0
EV/EBIDTA (x)	44.6	44.3	39.1	33.9	29.6
RoNW (%)	57.3	53.4	53.8	52.2	48.4
RoCE (%)	33.0	36.4	39.7	42.6	47.0

Source: Company; Mirae Asset Sharekhan estimates

Results (Consolidated) Rs cr

Particulars	Q2FY26	Q2FY25	y-o-y %	Q1FY26	q-o-q %
Net sales	**4,752.2**	**4,566.2**	**4.1**	**4,534.9**	**4.8**
Other operating income	88.5	101.3	-12.7	87.4	1.3
Total revenues	**4,840.6**	**4,667.6**	**3.7**	**4,622.2**	**4.7**
Raw material cost	2,822.9	2,729.4	3.4	2,759.1	2.3
Employee cost	181.1	232.3	-22.0	241.9	-25.1
Other expenses	882.1	922.4	-4.4	864.2	2.1
Total operating expenses	3,886.1	3,884.2	0.1	3,865.2	0.5
Operating Profit	**954.5**	**783.4**	**21.8**	**757.0**	**26.1**
Other income	52.1	46.0	13.3	57.0	-8.6
Interest expenses	34.7	34.6	0.1	26.2	32.6
Depreciation	85.1	76.1	11.8	82.0	3.7
Profit before tax	**886.9**	**718.7**	**23.4**	**705.9**	**25.6**
Tax charges	228.6	183.6	24.5	180.9	26.4
Adjusted PAT	658.3	535.1	23.0	525.0	25.4
Share of profit from associates	-3.3	-3.4	-3.5	-4.9	-32.4
Adjusted PAT	**655.1**	**531.7**	**23.2**	**520.1**	**25.9**
Exceptional item	0.0	-0.2	-	0.0	-
Reported PAT	**655.1**	**531.5**	**23.2**	**520.1**	**25.9**
EPS (Rs.)	27.3	22.2	23.0	21.8	25.4
			bps		bps
GPM (%)	41.7	41.5	16	40.3	138
OPM (%)	19.7	16.8	293	16.4	334
NPM (%)	13.6	11.5	214	11.4	224
Tax rate (%)	25.8	25.5	22	25.6	14

Source: Company; Mirae Asset Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Multiple factors to aid pick up in volumes and margins

Most consumer companies are expected to pass on GST rate cut benefits to consumers either through increased grammage or price reductions. In the near term, there may be some trade related challenges, however, these steps are structural changes that will boost consumption. Consumer demand is expected to improve from H2FY26 with reduction in tax on consumer goods, further supported by the festive season. Market share gains, distribution expansion, and new product launches should help volume growth to improve in the medium to long run. We expect margins to have bottomed out in Q1 and see margins rise from H2FY26 aided by easing raw material price inflation, new inventory coming in and better operating leverage through higher volumes. Focus on improving product mix, operating efficiencies and cost saving initiatives will help to improve OPM in the medium to long term.

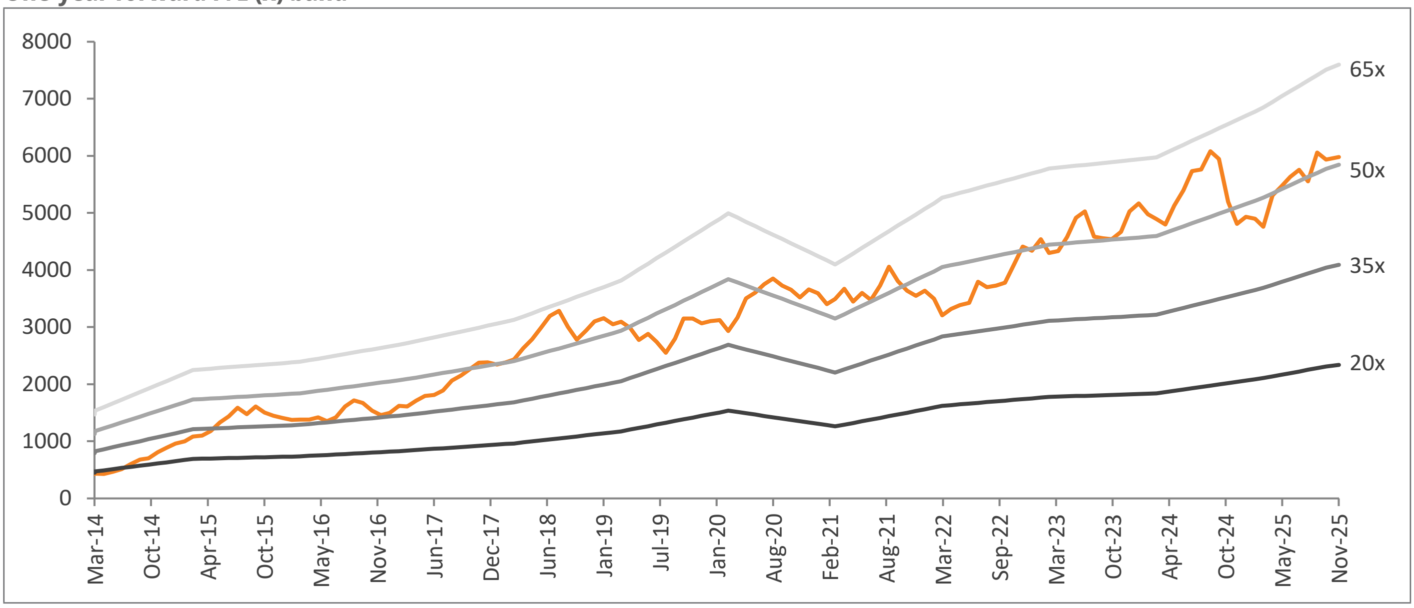
■ Company Outlook – Focus on achieving consistent volume growth in the long run

Britannia is focusing on achieving high single-digit to low double-digit volume growth in the medium term, through market share gains, distribution expansion, better penetration in the Hindi-speaking belt, and product launches. It has a strong product pipeline and will launch relevant products amid normal demand. Along with its focus on an improving mix, the company will stringently manage its discretionary costs and will continue to strengthen efficiencies at operational and distributional levels to reduce costs, which will help to achieve better OPM of high teens in the coming years.

■ Valuation – Maintain Buy with an unchanged PT of Rs. 6,862

Britannia has maintained its leadership position amid muted consumer demand with a focus on expanding in new markets. The management is striving for higher growth with an expected recovery in volume growth, while distribution expansion and RTM 2.0 will provide strong back-end support to overall growth in the coming years. Input cost inflation might put stress on margins in the near term. The management is confident of maintaining OPM at current levels on account of relevant pricing actions and cost efficiencies. The stock trades at 56x/48x/41x its FY26E/FY27E/FY28E EPS, respectively. Britannia's medium to long-term growth prospects are intact, considering its strong position in the snacking category. We maintain a Buy on the stock with an unchanged price target (PT) of Rs. 6,862.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY25	FY26E	FY27E	FY25	FY26E	FY27E	FY25	FY26E	FY27E
Hindustan Unilever	55.2	53.5	48.4	39.0	37.3	33.8	26.9	28.6	32.9
Nestle India	79.8	72.8	63.9	51.9	46.8	41.4	90.3	89.1	108.1
Britannia	64.0	55.5	47.7	44.3	39.1	33.9	36.4	39.7	42.6

Source: Company; Mirae Asset Sharekhan Research

About company

Britannia is one of India's leading packaged food companies with a 100-year legacy and annual revenue close to Rs. 18,000 crore. The company is among the most trusted food brands and manufactures well-known brands such as Good Day, Tiger, NutriChoice, Milk Bikis, and Marie Gold, which are household names in India. Britannia's product portfolio includes biscuits, bread, cakes, rusk, and dairy products, including cheese, beverages, milk, and yogurt. The company is the market leader in the biscuit category, with close to 34% market share in the domestic market.

Investment theme

Britannia is a strong brand with market leadership in the domestic biscuit market with a 40% share. Sustained new launches and entry into healthier and premium variants helped it gain market share and beat category growth. The company is also focusing on growing its adjacent categories such as dairy and bakery. Volume growth is expected to sustain in mid-single digits in the near term. Market share gains, expanding reach in rural India, and strong traction to innovation would help in improving the volume growth trajectory going ahead. Along with its focus on improving the mix, the company will stringently manage its discretionary cost and will continue to strengthen efficiencies at the operations and distribution level to reduce cost, which will help in achieving better OPM in high teens in the coming years.

Key Risks

- Any slowdown in key categories would lead to lower demand and impact revenue growth.
- Higher competition from unorganised play would put stress on volume growth.
- Any further spike in key input prices would hit margins and overall profitability.

Additional Data

Key management personnel

Name	Designation
Nusli N. Wadia	Chairman
N. Venkataraman	Executive Director, Chief Financial Officer and Interim Chief Executive Officer
T. V. Thulsidass	Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	6.57
2	Vanguard Group Inc.	2.08
3	ICICI Prudential AMC Ltd.	2.06
4	SBI Funds Management Ltd.	1.98
5	Blackrock Inc.	1.92
6	Quant Money Managers Ltd.	0.99
7	Kotak Mahindra AMC Ltd.	0.82
8	ICICI Prudential Life Insurance Co. Ltd.	0.77
9	HDFC AMC Ltd.	0.67
10	Norges Bank	0.47

Source: Bloomberg

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Understanding the Mirae Asset Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Mirae Asset Sharekhan Research

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