“Britannia Industries Limited Q3 FY20 Earnings Conference Call”

February 10, 2020

Management:  

Mr. Varun Berry – Managing Director  
Mr. N. Venkatraman – Chief Financial Officer  
Mr. Mr. Yashwardhan Bagri – Investor Relations  
Mr. Gunjan Shah – VP, Sales & Dairy  
Mr. Ritesh Rana – VP, Human Resources  
Mr. Vinay Subramanyam – Head Marketing,  
Mr. Sudhir Nema – VP, R&D
Moderator: Good day, ladies and gentlemen. And welcome to the Q3 FY20 Earnings Conference Call of Britannia Industries Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ and then ‘0’ on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yashwardhan Bagri, Investor Relations Team, Britannia Industries Limited. Thank you and over to you, sir.

Yashwardhan Bagri: Thanks, Margreth. Hello, everyone. This is Yash from the Investor Relations team. I welcome you all to the Britannia Earnings Call to discuss the Q3 2019-2020 Financial Results.

Joining us today in the earnings call is our Managing Director – Mr. Varun Berry; CFO – Mr. N. Venkataraman; VP Sales and Dairy – Mr. Gunjan Shah; VP R&D – Mr. Sudhir Nema; VP HR – Mr. Ritesh Rana; and Head Marketing – Mr. Vinay Subramanyam. We will start the call with remarks on performance by Mr. Varun Berry. Subsequently, we will open up the call for questions.

Before we get started with the presentation, I would like to draw your attention to the Safe Harbor statement included in the presentation. I would now pass it on to Mr. Varun Berry for his comments.

Varun Berry: Good afternoon, everyone. We are back with the conference call. So I am just going to take you through the presentation. So if you were to get to Page 3, which shows what we have done in this quarter.

So you know, it’s a four quadrant chart. The first one is on revenues. You know, it's a 4% revenue growth, 3.8% in fact. Our market share, we haven't seen a larger market share increase than what we are seeing this year. Operating profits are the ever highest and they moved up by 100 basis points. And PAT is plus 24% at 12.7%. So that is results at a glance.

Moving on to the next page, all of you are aware of the economic slowdown that we are facing in the country. So, we thought that it might be a good idea to take advantage of it and just make sure that we do not just keep pushing volumes, because there is a limit to how much elasticity the system has at this point in time. So, we focused our energies, obviously, we are driving top-line as much as we can, but we are not dumping at all, and we focused our energies on making sure that we set up the right systems and processes for the future.

So, we worked on a continuous replenishment system for our inventories which is completely pull based, and we are moving in the right direction with that. We have improved our distributor health, that is the lifeline of our company. And as the economy slows down, they also feel their own stresses and strains. So it's important that we focus on improving their
health as well. We have reduced wastages in the system even further. We have tightened our fixed costs. We have looked at every possible method of capacity extraction, so that we can postpone capital investments in capacity, if we can get more from what we have. And we are implementing S/4 HANA with huge process improvements in the system as a result of that.

On the innovation, what we are doing is, there were a few projects which were in test market. So for example, Croissants and Salty Snacks is in test market. So we haven't moved beyond that, because these are not probably the times to take these projects nationally, we are trying to fine tune those. And we have also prioritized some of the future innovation projects, because in times like this when the economy is a little slow, consumers tend to go back to their favorite brand, that gives them more comfort, and they are not as experimental as they would be in good times.

Moving on to Page 5, our strategic plans you are all aware of, to be a total foods company, continue to be cost leaders in everything that we do, distribution and marketing, basically, expanding our distribution to make sure that we get to the rural areas with the same share that we have in urban areas, and a cutting edge marketing strategy on all our mega brands. And the fourth is getting to adjacent businesses. Obviously, the underlying in all of these is striving for profitable growth.

Moving to the next stage, our journey to be a total foods company has begun. We have got wafers and milk shakes, which are available across the country. We have salted snacks and Croissants which are in test markets, and we continue to fine tune those mixes as we plan to take them across the country.

The next page is about cost efficiency programs. We do zero based budgeting and even for this year we should be very close to our target as far as cost efficiencies were concerned. So we will get about 2.1% of our revenue from cost efficiency programs. And as we speak, we are in the process of planning for next year so that we can hit the ground running as we get to 1st of April 2020. We are looking at improving productivities, reducing waste and reducing distance that our biscuit travels to get to the consumer. And sustaining all this is very, very critical for us. And the last five years have proved that we have been able to do it and we are hopeful that we will continue to do this as we go forward as well.

Next page is about our commodities. We have taken a position on commodities which has really helped us, as a result of which, our inflation was very moderate in this quarter. But this is only because of the positions that we have taken otherwise the inflation would have been higher. Mark to market gains year-to-date this year have been about Rs. 125 crores.

Moving to the next, which is distribution drive. We have seen really good results from a distribution standpoint. We continue to ratchet up our distribution month-after-month. Every month we are looking at our distribution reach going higher. And we have bridged the gap to a
large extent by the largest distributed competitor that we have. We have also got direct reach, which is today at 21.7 lakh outlets. This year, obviously, the gains are not as much as they have been in the last two or three years. But it's important that we don't overdo this in a year like this where the economy is not looking good.

As far as our rural distribution is concerned, again, the number of rural distributors has gone up from March of 18,000 distributors and in December we have 21,000 rural distributors, which has taken our market shares in all of the rural states, the Hindi Belt states up considerably. In fact, the kind of share gains that we have seen this year are unprecedented, albeit the growth are not what we have seen in the past, but the share growth are much more than what we have seen in the past.

On the marketing activities, we have had most of our key brands on air. And we have also had some promotions which are giving us the right kind of fillip with the consumers.

On the next page which is Page 12 is about the adjacent businesses. Bread, we continue to drive profitability as far as bread is concerned. Dairy has been a very tough year. The milk prices, there has been a huge upsurge in milk prices. But we have been able to maintain our profitability fairly well in these tough times. International, while Middle East continues to be very, very challenging. Our startup in Nepal is growing high double-digits, and we are market leaders in that country.

Moving to the next section, which is about growing responsibility. We have a credo here which we are following. So what are the four planks that we are working on? We want to make a difference with reducing plastic in the environment, enhancing the good in the product that we sell, utilizing renewable energy and reducing fuel usage and conserving water. And forth, better human lives through nutrition. So I will go through all of these planks one by one.

So first is on reducing plastic. The work done so far is that we have reduced almost 12% laminate by weight per tonne of laminate that we use. So that is the first move that we made. Second 20% of the plastic that we create will be recycled in the year 2019-2020. What is our promise? Our promises that we want to remove all the plastic trays in our products by 2022. We want usage of recyclable laminate by 2024. And we want to focus on plastic recycling. And we are looking at doing a fairly large project on this as we go through the years.

The second plank was about enhancing the good in our product. So, what is the work done so far? We have got all our products 100% transfat free. 46% of our portfolio is fortified with essential micronutrients. We have increased whole grains and dietary fiber by serving by almost 10%. And our promise, as we go forward, is to reduce 5% sugar and sodium in our bakery products by 2021.
Third plank is about utilizing renewable energy, reducing fuel and conserving water. What is the work that we have done so far? We have got 28% usage of renewable power in our units. We have had 30% reduction in fuel usage since the year 2013-2014, and this is per tonne of usage. We use treated water for our green zone in our plants. We do rainwater harvesting in all our plants and our promise is that 50% of the usage of renewable power in our own units, so we want to make sure that it goes up from 28% to 50% exit 2021.

Better human lives. So what have we done till now? We have nutrition programs running in four states. We provide fortified biscuits to 36,000 children. We do employ activities as well. We educated people on the importance of water conservation. And we have done plastic waste collection drives across six locations. And this will intensify as we go forward.

Moving on to the Page 16, which is about recognitions. So, we have been the Number #1 Food Product Category brand in 2019. And the Number #4 brand overall, in Brand Equity. We have also got the Aon Hewitt Best Employer for 2019. We are a Food Company of the Year at the Food Safety Summit this year. So quite a few awards that we have won. And we want to make sure that we live up to these awards, and not just feel good about what we have got.

Getting to the financials, Page 18. So as you will see, we have had a slowing down of the top-line. So last year Q1 we were at a 14% growth, it came down to 13%, 11%, 10%. And this year first two quarters were at 6%, and we have come to a 4% growth. Even our 24 month growth is at a low of 15%. So, I would say, at this point in time the growth are low. But in India, things will never remain as we see them today, and we are hopeful that as we go forward this will improve.

As far as our profitability is concerned, and this is our consolidated operating profit. This has been the highest ever profit for the last two quarters. So, what we were at Rs. 447 crores with a 14.8% operating profit in Q2, and this has gone to 15.5% with Rs. 455 crores in Q3. So, the profitability story is looking fairly solid.

On the last slide, so this is the algorithm. So, net sales grew by 4% or 3.8%, operating profit by 11%, profit before tax at 7% and profit after tax by 24%. And as you see in the table below, you will see the trajectory of our operating profit, PBT as well as PAT. So, from a 5.7% on operating profit we move to 15.5% from 2012-2013 to 2019-2020. From a PAT of 5.8%, we move to 16.9%. And what we are really proud of is the consistency of our performance. And on PAT we moved from 4.2% to 12.7% in Q3.

So, this in a nutshell is the performance of our quarter. I will now open the forum for questions.

**Moderator:** Thank you very much. We will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.
Sir, in the standalone business, so India business, last four quarter there used to be difference of 400 bps to 500 bps in terms of the volume growth and sales growth, this time there is no difference. So, what I am surprised is this quarter, quarter-on-quarter if you see, there is inflation in milk, RPO and sugar, quarter-on-quarter, but your gross margins have expanded 50 bps. So I don't understand, gross margins expanded in an inflationary scenario. But price hikes have come off from 4%, 5% to the zero percent this time.

Not zero percent, the delta between volume and revenue is about 1%. But what had happened was that last year we had taken some price increases, right, which is helping us at this point in time. The other thing really is that it's been a quarter where our mix has been fairly favorable. So I think it's the two combined, which is giving us the right upside on profitability.

But do we need to take a price hike or reduce promotion in the near-term? You manage inventory quite well, but is it no enough for the next six months in terms of pricing?

No, I think what has happened is that while we did some strategic buying, which helped us maintain our inflation levels. Inflation, as we see today, is moving up. We just have to make sure that we take a balanced view, basis the slowdown and the top-line and the inflation in the market. And we make the right kind of price increases on the right products, so that this top-line doesn't slow down further. So we are in the process of working that out and we will take a very balanced view on that.

My second question is on Croissant. So last quarter you said the product seems to have stabilized and next three, four months we will take it pan-India. This time you have said ongoing pressure test you are evaluating and learning from this. So, what has changed, I don't understand? Is the product still having some issue of breakage etc.?

No, not really. So, what really we are testing in the two centers where we launched is, we are trying to fine tune the flavors completely right. So, for example, some of the things which have come out of our research are that, the Indian consumer prefers a slightly milkier, sweeter chocolate note, while we have a slightly European chocolate note. So, those are the kinds of things which are coming out. I am just giving you example. So in normal circumstances we probably would have taken it national by now. But, as I was saying during my presentation, in times like this people stick to the comfort of what they have been consuming thus far and experimentation is not on their heads. So, we thought that it might be a good idea to take this to absolute finality and then launch it. So that we are able to fine tune it completely.

So, pan-India as of now, any timeline?

Probably in the next three to four months.
Abneesh Roy: And finally, Varun, on the wafers. In biscuits you have a 35% by 40% market share. Obviously, your distribution is far, far higher than the leader in wafers. So you are offering a free gift also. So my question is, in wafers what is the long-term market share you are aiming? Will it reflect the biscuit market share which you have?

Varun Berry: Well, hopefully, for sure. We have become the Number #3 player already as far as wafers is concerned. See, the wafers market is a little different because most organized players were not operating in that market. So, it was a market which was high discounts and that kind of stuff, very high priced, but very high trade discounts etc. What we are trying to do is we are trying to operate differently and not focus so much on trade discounts, but to create a brand which has the pull in the long-term. And hence, in lieu of giving a trade discount, we are giving a pen inside a jar. So, those are the kind of promotions that we are doing. But hopefully this will, as we go forward, we will taper that off as well. But yes, the objective will be to try and see how we can get to our biscuit market share in the long-term.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Hi Sir, Good afternoon. My question is also on the interplay between the price and the margins. So on a Y-o-Y basis you are saying the price growth is about 1 percentage point. And in the presentation you have also mentioned that there is almost 4 percentage points inflation in the input costs basket. So then your gross margin should have dipped much more than it has, arithmetically speaking, shouldn't it?

Varun Berry: Yes, so our cost efficiency programs have come in very handy. So, as I was saying, we have got about 2.1% from cost efficiency programs that we run. And it is not 4% actually, it's about just over 3%.

Percy Panthaki: Okay, understood. And going ahead, since your benefit of low cost inventory goes away, just assuming that the current spot prices continue, just assuming that the current spot prices continue, this 3% inflation in the input costs basket will turn out to be how much in the future?

Varun Berry: It would be in the range of 4% to 5%, maybe 5%.

Percy Panthaki: Okay. And in this kind of an environment where consumption is subdued, do you think that it would be possible to pass on that extra sort of burden to the consumer or do you think that you would really have to take a hit on your margins to some extent?

Varun Berry: No, we will we will pass that on, but we will do it selectively, we will not do it across our portfolio. As I was saying earlier, we will do it very selectively. And I don't think it's going to make a huge difference, because it does impact your volume growth, but it doesn't impact your revenue growth. So that's fine. We are happy to make that arbitrage.
Percy Panthaki: Right. And what are the lead indicators you would look for to sort of call out recovery in underlying demand trends?

Varun Berry: I think, overall, first of all, the fact is that as the base correct growth will start to come back. If you look at it, this quarter was the quarter when we had started to see the revenues to come down last year. And we haven't seen a growth this quarter. But I am hopeful that as the full impact of the last year base starts to come in, because as you see, in the first two quarters we grow only 6%. As that starts to come in, I think things will obviously change. But more than that, all the rural schemes, etc., the infrastructure projects that the government has unfolded, hopefully that will help. And I think when the Indian consumer is extremely resilient, at some stage she's going to say that enough is enough, let me live my life. And that's the time that things will start to fall back into place.

Moderator: Thank you. The next question is from the line of Richard Liu from JM financial. Please go ahead.

Richard Liu: Hi Varun, you as someone who's always been focusing on this 24 months growth number. And I recall you mentioning in H1 that that growth are where they are, because there were some benefit that you got in the base H1, because some competitors had some product issue, and because of which Goodday grow 30% plus. With that high base now over, your growth still decelerated. I would be grateful for your comment on this. I know you spoke about slowdown, but then if there's something more than that? And also, if you can dovetail into this response, how did operating other income suddenly bump up to such a big number this quarter? Thanks.

Varun Berry: So, the first question, yes, the growths have decelerated, but we haven't seen this kind of share gain ever before in any year. So, it's just overall phenomena of where the consumer is today. And we are not looking at pushing volumes at this stage, because it will bounce back on us at some stage. So, it's better to look at process changes, keep the house tidy, rather than do a hectic activity of push. It's best to be on a pull model and that's what we are trying to do.

Your second question is on other income. So, there it's the fiscal benefits that we are getting from some of our factories. So there are two factories which have come up. One is the Guwahati factory, and the second is Ranjangaon. So we are getting fiscal benefits from those two factories, and this is going to continue, it's not just one quarter phenomena, it's something which is going to continue as we go forward as well.

Richard Liu: Okay. Thanks Varun. And second question is, if I get what you said right, I think volume growth for this quarter is somewhere to the tune of about 2% versus 3% in Q2. Two related questions on this. One is, the pricing growth that was in the ballpark of about 3.5% to 4% in first half, I think that that has suddenly taken a dip to 2% in an inflationary environment. I heard you speaking something about mix being positive. So, if you can help understand this.
And second, to your point about raw material costs having being hedged. Despite that, if we look at the growth in COGS, which was 6.7% in Q2 and 6.5% this quarter, with a with a lower volume growth your growth in cogs is exactly the same as what it was in Q2. How did the hedge exactly help in this regard there? Thank you.

**Varun Berry:** So, I wouldn't be able to give you so many details. But all I can tell you, our mark-to-market gains versus what the market stood at, were at about Rs. 125 crores. And the overall inflation was much more than what we saw. So we saw between 3% to 4%, but overall inflation in the market was much larger. There are a lot of things at play, there is mix, there is a whole lot of other things, so I wouldn't be able to decipher it for you on a call on what exactly were the reasons for the cogs growing 6.4%.

**Richard Liu:** What about the pricing part? The fall from 3.5%...

**Varun Berry:** Pricing part is basically we have taken the last quarter, we had Q3 of last year, we had seen a pricing gain. So that's what is creating the gap between volume and revenue.

**Moderator:** Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

**Arnab Mitra:** In this slowdown environment, how are you seeing competitive intensity overall, both on product pricing and on trade promotions playing out?

**Varun Berry:** So, we are seeing competitors flaying a bit. Obviously, when you face a wall you tend to, so there are different ways that different competitors are taking this slow down. So most of them are trying to push as much as possible. But I don't think that's the right strategy because there is no point in increasing inventories with distributors or with trade, because the consumers are not consuming as they were, there has been a slowdown. So, as long as your product is available, so we have taken a very different approach to this. We have not taken a approach of pushing hard. So, I would say that most of our competitors would have a very high skew of sales towards the end of the month, because if you have to prove that you are growing then you will just go and push distributor, which leads to serious attrition as far as distributors are concerned, which leads to unfresh stocks lying at the distributors, and also stocks that get to the market are not as fresh as you would want them to. Which also leads to market returns which are much higher. So, we don't want to go down that path. From a promotional standpoint as well, we have seen a fairly aggressive approach from competitors and we are matching it wherever we think that it's something which can impact us. So we are being absolutely competitive, standing toe to toe where it's necessary, and standing off where we think it's not necessary. So that's the approach that we are taking.

**Arnab Mitra:** Show. Thanks, that helps. And my second, last question is on other expenses, there is a cost reduction on that line item. So besides the cost saving programs, has there been any reduction
in advertising spends? And second, is there any impact to IndAS 116 in the other expenses, how it's reported now?

**Varun Berry:** Not really, it's the cost efficiency programs, which feature there, which is bringing down the cost to an extent. And also, advertising, I would say has been flattish. So it's not grown at the rate of our top-line growth, it's flattish.

**Arnab Mitra:** And no impact of IndAS 116 on the other expenses?

**Varun Berry:** No, no.

**Moderator:** Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.

**Aditya Soman:** Hi, Good Afternoon. First question, in terms of your growth and now contribution from modern trade and e-commerce, how has that fared?

**Varun Berry:** It's been reasonable, I would say. So, modern trade, again, so as a result of the tightening of the economy, what we had seen in the last two or three quarters was that, again, from a competitive standpoint there was a lot of dump happening into modern trade. So we have resisted from that, we have made sure that we don't overdo this volume game scenario. So we have resisted from that, we have also tried to make sure that modern trade doesn't become dilutive to our overall business. But yes, we have been growing double-digits as far as modern trade and e-commerce is concerned. And it's very important because there's tailwind on the modern trade and ecommerce business. It's very important that we keep this to be not accretive but at least at the same level as our overall business in terms of profitability. And that's what we are focusing on.

**Aditya Soman:** And in terms of contribution, what would be the contribution now?

**Varun Berry:** It's at about 10 11%, it's not a very large part of our business, but growing faster than traditional trade. So, it will continue to increase as we go forward.

**Aditya Soman:** And that's both together, modern trade and ecommerce?

**Varun Berry:** Yes.

**Aditya Soman:** And just following up on that. You recently filed a case against Future Consumer regarding one of their products. Is that more of a threat that you are seeing that some of these retailers have their own private label?

**Varun Berry:** No, they are free to do what they need to. And that case has been solved amicably. So there's no issue.
Moderator: Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.

Harit Kapoor: Hi. Two questions from my end. The first was on the distributor health that you spoke of. Is it that you have reduced the inventory in the pipeline, or that you have increased credit days or a bit of both to improve the ROI?

Varun Berry: No. So we have definitely reduced inventories. So we have this program called Zero Day Inventory for certain cities, which are the more expensive cities to operate in for the distributors. And even in the regular distributors, we have made sure that we give them as much inventory as is required. We have got this system called the Continuous Replenishment System, which looks at what does the distributor require and absolutely provides only what is required to the distributor rather than dumping extra stocks there. So we are following that continuous replenishment system to the T. Credit days, we haven't increased. And that's something that we don't believe in. It's not about throwing credit because that, again, becomes a volume game. Whatever we can do to help the distributors remain healthy, whatever support they need, giving them the right products, the right advertising material, and making sure that our people guide them in the market and our people understand their terrain and what is required for the future success and the ROI of the distributor is what we provide.

Harit Kapoor: Got it. Second question was on a biscuit industry growth. Have you seen the industry growth from quarter one to quarter to quarter three now, slow down? And if you could give a sense on, which segments are which region this is more pronounced?

Varun Berry: So, it's predominantly the rural part of the country, which is growing much slower than what it was last year. It's not that the slowdown is not hitting large cities and urban areas, but the largest slowdown is in the rural areas. And as I was saying earlier, while we have grown share very aggressively in the rural areas because of our programs, but growth have not been comparable to what they used to be three, four quarters back. But we are hoping that things will stabilize at some stage as the base comes back in our favor as well as the government programs start to operate, and the Indian consumer starts to move back with normal life. I do think it's not going to be immediate, but I would think that in a quarter or two, we will start to see the uptick as far as growth are concerned.

Moderator: Thank you. The next question is from the line of Abneesh Agarwal from Prabhudas Lilladher. Please go ahead.

Abneesh Agarwal: Sir, I have a couple of questions. My first question is on other operating income, whereby we have seen a Q-o-Q jump of around Rs. 20 crores. Now as you stated, it is due to two new facilities. So I believe it is due to the VAT and some of these types of gains. So, the optimum level of your production, can this number be significantly higher from what we have seen in the current quarter?
Varun Berry: Well, I would say that it will remain about at this level. There could be certain upsides, but I would not budget for those as we go forward. I would think that about the same level as what we see this quarter.

Abneesh Agarwal: And sir, this is likely to continue for, say, next five years?

Varun Berry: Even more than that.

Abneesh Agarwal: Sir, my second question is on your inter-corporate deposits. So any update on that?

Varun Berry: So it's in the same ballpark. It's within the limitations of what the Board has sanctioned. So no major movements there.

Moderator: Thank you. The next question is from the line of Anand Shah from Axis Capital. Please go ahead.

Anand Shah: Sir, just a couple of questions. Firstly, if I look at the subsidiary financials, as in consol minus standalone, for the last four quarters growth was negative now it's turned to positive. So is it the same shift that you were exporting from India and now shifted back to Middle East or so?

Varun Berry: Yes, that's right.

Anand Shah: Okay. So that production shift has now happened. So the standalone number ideally would have gone down a bit and we better look at consol to that extent?

Varun Berry: Yes, absolutely.

Anand Shah: Okay, perfect. And secondly, you also highlighted, you may look at Rs. 800 crores kind of raising of debt from time to time, I mean, so, what is the purpose for that?

Varun Berry: The purpose for that is, this is the wheat season as we speak. And in the last two years we have gained a lot from strategic buying. So we are using that and today the money is available at a very low rate. So it's best to make sure that we use that for most of our strategic buys.

Anand Shah: Okay. So the Rs. 500 crores that you had sort of taken let's say nine or 12 months back, that was supposed to expire, right? So that that is that is over?

N. Venkatraman: Yes. That was repaid.

Anand Shah: That was already repaid, so that amount of Rs. 500 crores debt is gone and then from time to time for the same purpose you may look to as and when the opportunity is available?

Varun Berry: Yes, absolutely.
Anand Shah: Okay, perfect. And just lastly on this in terms of covers, now you are hedging or the covers are completely expired for the various commodities or you are still covered for a bit more for the next three to six months?

Varun Berry: No, we cover it till the season is there for the commodity. So, wheat will be a short cover because wheat season is going to start, the harvesting is going to start soon. So, it's like that, there will be some sugar which is covered, so we do it from season to season.

Moderator: Thank you. The next question is from the line of Mohit Khanna from Future Generali. Please go ahead.

Mohit Khanna: My question is regarding the hedging of commodities, last year you disclosed that you had hedged wheat. Is there any other hedge currently underway? And second on the distribution side, what is the target that you have to have number of distributors in the rural and urban centers? Thank you.

N. Venkatraman: So, on commodity Varun just explained. Depending on the crop season, which is different for different commodities that we have, so it is March-April for wheat, it is October-November for sugar and so on.

Mohit Khanna: So, right now you are hedged for wheat?

N. Venkatraman: Hedged for wheat, not for very long, till the new season will start, which is going to be the March-April.

Mohit Khanna: Okay. And then as the season goes, you generally hedge yourself, that is the standard practice?

N. Venkatraman: Depending on the inventory of the commodity in India, the world commodity market, etc.

Varun Berry: So there is a lot of work that we do in terms of understanding what the situation on the commodity is. But the general principle is that during the season the prices come down. So, there is no point in holding commodities beyond a certain period of time which ends, let's say, just before the season comes in.

Mohit Khanna: Fair enough. And in terms of distribution, do you have any internet targets or where to reach or what kind of direct reach the company plans or targets to have?

Varun Berry: So we would certainly want to be the largest distributed company within our category. Today, while we are the largest in terms of market share, but in terms of distribution we are still below our largest competitor. So our objective is to at least get to their level in terms of overall distribution. So our current distribution is at about 5.5 million outlets. And 8 lakhs is the gap. So we would certainly want to, in the next three years or so, cross the 6 million mark.
Moderator: Thank you. The next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.

Prasad Deshmukh: So two questions, sir. One, in terms of wholesale performance separately in urban and rural, could you give some sense as to what is happening in the channel?

Varun Berry: So our rural shares, while they moved up much more than what our urban shares have moved up. But still are lower than our… Gunjan, would you like to comment? So Gunjan is our Vice President Sales.

Gunjan Shah: So your question was, I guess, specifically on wholesale?

Prasad Deshmukh: Wholesale, separately rural, separately urban, how are they performing?

Gunjan Shah: Sure. So wholesale, both urban and rural, is the one that's the most muted in this slowdown that Varun just talked about to you, over a period of time not only the last quarter has taken the bulk of the toll. And we have been relatively a little better off in this entire matter because our dependency on wholesale as well the direct reach expansion that Varun talked about, which has been agenda over multiple quarters has given us competitive gains. But yes, wholesale has been relatively more muted for us.

Prasad Deshmukh: Both urban rural have been relatively limited?

Gunjan Shah: Yes, absolutely. Rural maybe less because we have been penetrating, but I mean, from a category point of view, yes.

Prasad Deshmukh: Okay. And sequentially, there is no improvement in the last year?

Gunjan Shah: No, nothing noticeable.

Prasad Deshmukh: Okay. And second question is on the new products, could you give some details on the run rate that these four categories are running at now? Wafers, salted snacks, milk shakes and croissants?

Gunjan Shah: New categories run rate. So we are seeing, basically, I will not be able to share exact details, but broadly what we are seeing is about 1% to 1.5% of our growth coming from these categories. We are obviously aspiring and wanting much more, but that's the current status.

Varun Berry: So, currently, if you look at our growth, which is let's say about 4%, almost half of that is from our base business. 1% is from innovation, and 1% is from new categories.

Moderator: Thank you. The next question is from the line of Latika Chopra from JPMorgan. Please go ahead.
Latika Chopra: Hi Varun, just a very broad question on your new product forays. Is there any shift or change in your thought process around expansion into salted snack? Is there any other challenge besides the subdued demand that you have postponed it? And if you could throw some light on when you think you will go back behind these segments with full force?

Varun Berry: So, what we are doing currently, Latika, is we are not expanding it from the test markets that we have. And I would think that, so a challenge is, there are a few challenges in every category that you get into. And that’s what helps us, the test market really helps us to fine tune those till we get to a national launch. So I would say that no red flags at this point in time. There are minor challenges here and there which we are resolving as we go forward. So I would say between Croissant and Salty Snacks going all out, maybe Croissants will be the next three to four months and the Salted Snacks would probably be in the next six months.

Latika Chopra: All right. And could you share the CAPEX plans for FY20 and FY21? Initially remark that you would like to utilize more of existing capacities.

Varun Berry: So, this year we will have a CAPEX number of about Rs. 190 crores, versus in the previous year Rs. 250 crores for 3 quarters. And predominantly, if you look at it, this year our CAPEX is going into our Ranjangaon factory, which is turning out to be a really beautiful food park for us. So that's where most of our CAPEX is going, besides minor CAPEXs and then some CAPEX into our IT systems, etc.

Latika Chopra: And just the clarification, 2.1% of revenue is the cost savings you are targeting for FY20. Any thoughts on what these could potentially be targeted for the next fiscal? Would it been a similar ballpark?

Varun Berry: Yes, will be in the similar ballpark.

Moderator: Thank you. The next question is from the line of Shiresh Pardesi from Centrum Broking. Please go ahead.

Shiresh Pardesi: Hi, I have two questions. One is an international business. Varun, you mentioned that Nepal is doing well. Could you quantify how’s the business, what are the scope, what is the run rate?

Varun Berry: So, just to give you an idea, we used to do about 300-odd tonnes a month. And our exit in the previous month is about at about 600 tonnes, 650 tonnes a month. So it’s more than doubled after we have set up the factory. And as it as would turn out to be, the import duties in that country have gone up during this period as well. So that has given us some benefits. So that’s the ballpark for you to understand where we are going with that. And our total capacity that we have in that factory as of now is 600. But with a little more investment we can take that up to 1,200 tonnes a month. So we have headspace when required to scale up that country even further.
Shiresh Pardesi: So, just expanding on that. So, we have three international businesses gone through a lot of issues in FY20. And now you will say that the growth is back. So is it safe to assume that Middle East will get resolved and we can see double digit growth?

Varun Berry: Well, see the Middle East problem, obviously, there are two problems. One is the problem of the gentleman growth potential in that in that belt, because a lot of countries have shut down and even the countries which are operating, the big part of the business for us is UAE, where there is clearly a slowdown. But more than that, the second issue there is that because we were shutting down our plant in Oman last year, we had built inventories with our distributors, which we had to wind down this year after we restarted that factory, after in dialogue with the government and getting some good deals from them. So we restarted it, and we had to wind down our inventories with our distributor as well. So that's why the business has been a little slow this year from a primary standpoint. From a secondary standpoint, it's a little better, but I wouldn't say dramatically better than what you see.

Shiresh Pardesi: My last question is on biscuits category. You have been saying that the biscuits category is under pressure, would you be able to quantify where is the problem? Is the basic biscuit which is glucose is saying the trade up or is declining and the value add segment is really showing the resilience?

Varun Berry: Well, I think it's the belly of the category which is growing. It's not the base. The base has been stagnant for many years now. So the glucose, etc., have been stagnant. Even the Value cookies and Value creams have not been growing very fast. I would say the medium premium products which are growing. So, the premium cream products, the Premium cookie products have been growing for the last three, four years. And the Marie and Milk Bikis, etc. That's where the growth is. It's not the top end, it's not at the complete top end, but it's almost at the premium level where the growth are coming.

Shiresh Pardesi: Any comments on non-biscuit portfolio for us?

Varun Berry: The non-biscuit portfolio for us has been at about the same level. This has not been a great year for us on the non-biscuit portfolio as well. It's not growing faster and which we had expected, because it's a much smaller portfolio and we thought that consumption of these products will improve as we go forward. But that's not happened. And I would say that it's probably because of the downtrend in the economy. And hopefully as we go forward, things will start to unwind and you know that that portfolio will start to grow much faster.

Moderator: Thank you. The next question is from the line of Tejas Shah from Spark Capital. Please go ahead.

Tejas Shah: First question pertains to, when the current RM forward expires, and the current steeper RM price hit the P&L, are we planning to take any pricing interventions?
Varun Berry: Yes, I think we will have to take selective price increases. While we understand and fully internalize the fact that there is already a slowdown, so we don't want to impact that further by taking a price increase in the segments which already have taken a price increase in the last 12 months or so. But wherever we haven't taken a price increase for the last 24 months, are the categories and the brands where we are going to take some price increase. So it's going to be a selective game of price increase without really upsetting the applecart.

Tejas Shah: But sir, our competition would not have the cover that we had. So have they taken any price increases already, which gives us some room to do that?

Varun Berry: Well, we are the market leaders. There have been some price increases that certain competitors have taken, and we are very quick to follow wherever that happens. But we are the market leaders, there are some categories where competition is assessing us out and looking at whether we will take the price increase. So, we have never ever gone against the grain as far as pricing is concerned, because it's a zero sum game. We would want to follow competition and not take advantage of competition being at a higher price, that's not the way we operate. And I think that's how rationality comes into the category.

Tejas Shah: Lastly if I may squeeze in one more. Sir, usually food inflation also means more money in the hand of rural consumer. So if you have to share your reading from the past, how does this food inflation versus rural uptake or potential uptick plays out for a category like biscuits?

Varun Berry: So you are right, it's money that the consumer has in her hand. And she first has to think about ‘roti, kapda aur makaan’, and then think about the other categories. We are almost in that category of ‘roti, kapda and makaan’, we are almost essential for the housewife. But yes, we are still, I would say, at the periphery. So it does impact, and I think that's what's been happening, it's just the sentiment as well as the inflation which has been keeping the consumer away from getting back to normal consumption. And we are hoping that things will, obviously, for a period of time there will be inflation, but things will fall into place as we move through the year.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now have the conference over to Mr. Yashwardhan Bagri for closing comments.

Yashwardhan Bagri: I thank everyone for spending time with us on call today. We look forward to interacting with you again. Thank you.

Moderator: Thank you. On behalf of Britannia Industries Limited, that concludes this call. Thank you for joining us. And you may now disconnect your lines.