



## “Britannia Industries Limited Q3 FY-18 Earnings Conference Call”

**February 14, 2018**



### **MANAGEMENT FROM BRITANNIA INDUSTRIES LIMITED:**

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**(BREAD, CAKE, RUSK AND ADJACENCY BUSINESSES),**  
**MR. PIYUSH BHANDARI-INVESTOR RELATIONS TEAM**



**Moderator:** Ladies and gentlemen good day and welcome to the Britannia Industries Limited Q3 FY18 Earnings Conference Call. As a remainder, 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. Piyush Bhandari-Investor Relations team. Thank you and over to you Mr. Bhandari.

**Piyush Bhandari:** Thanks Karuna. Hello everyone, this is Piyush from Investor Relations team in Bangalore. I welcome you all to the Britannia Industries Limited earnings call to discuss the Q3 FY 18 financial results.

Joining us today on this earnings call is our Managing Director – Mr. Varun Berry, CFO – Mr. N. Venkataraman, Head (Marketing) – Mr. Ali Harris, Vice President - R&D and Quality – Mr. Sudhir Nema, Head (Procurement) – Mr. Manoj Balgi Vice President (HR) – Mr. Ritesh Rana, and Vice President (Bread, Cake, Rusk and Adjacency) – Mr. Jayant Kapre.

Before I pass on to Mr. Varun Berry I would like to remind you that anything which we say that refers to our outlook for the future is a forward-looking statement, which must be read in conjunction with risks and uncertainties that the company could face in the form of general economic conditions, commodities and currency fluctuations, competitive products and pricing pressures, industrial relations and regulatory developments.

We will start the call with remarks on performance by Mr. Varun Berry, subsequently; we will open up the call for questions. I would now like to pass it on to Mr. Varun Berry for his comments.

**Varun Berry:** Good afternoon everybody, happy to have you on the conference call today. So, let me jump in straight to the presentation. If you could move to page 2, one thing that we are really proud of is the consistency of performance over the years and that for the team here is the greatest source of motivation.

On the next page, it gives us a quick view on how the performance has been on the top line as well as on the profit front over the last 5 years and again something which motivates us to do better as we go forward. Now, getting to page 4, which I think a very simple statement, but for us it is very, very deep. What really makes us stick is the focus on the basic execution which we do, day after day which really is the real reason for our underlying growth. Now getting to what are the execution areas that we focus on, obviously, the core of it is to drive profitable growth but we do that through from a premiumization and innovation standpoint, increasing our distribution foot print including gaining more share and getting a stronger foot-hold in our weak markets, attaining the cost leadership which we strive for everyday and leveraging our fixed costs and making sure that we make our P&L, healthier and better every day.



Now moving to the first one, which is delightful innovation and activation of brands, the first and the most differentiated innovation that we did in Q3 was the Pure Magic Deuce product which has been in the market for now 1.5 to 2 months and the initial response from the consumers has been fantastic. So, we are very proud of that product and while we are trying to limit our distribution because it is a sensitive product and can melt so we are doing it to a small set of outlets but despite that, it is doing really well. We have also revamped our Good Day chocolate portfolio through chocolate chip as well as Choconut both of which are great products and doing well in the marketplace. We have also had activation of brands. We have had a very good campaign behind Bourbon, NutriChoice and one which is closest to my heart and it is a good day to talk about, it's Valentine's Day and this is Little Hearts our little brand which has done really well through some activation on the digital platform. So besides that, we have obviously done a lot on Good Day etc, but these are the new campaigns that I am talking of here.

Moving on to the next page – on our execution as far as sales and distribution is concerned we have moved our direct reach now to almost 1.75 million outlets which is 2.5 times what it was in the year 2013. Our rural surge also continues we are growing our rural thrust month after month and that is very clear from that graph that you have in front of you. We have almost got now 13,600 rural distributors who are helping us distribute these products to smaller villages and smaller outlets. Our weak states continue to grow faster, and the thing is that there were questions on UP and frankly while UP we have been growing faster than the market, but it wasn't up to what we were expecting as a team and now we have started to see U.P also get close to a 20% growth. In the last quarter we have seen almost 20% growth in U. P and the other states continue to do well. Rajasthan is top of the charts with almost 30% growth, MP, as well as Gujarat are doing well, and which is giving us the required shares in our weak areas.

The third one is about actually accelerated cost efficiency programs, happy to report that we will end this year with a total cost saving of about Rs. 230 crores which is 4.5 times what it used to be in 2013-2014 and the themes are pretty clear, it is at the bottom of the slide; reducing distance to the market, new and large factories this actually is turning out to be the efficiencies that we have been able to garner through our new factories, is giving us a lot of savings. We are deploying right technology, which is giving us cost leadership as far as those products are concerned. Reduction in wastage which we strive for everyday and wastage is not just about market returns, which in any case is moving in the right direction. It is we stage at every stage of our supply chain and as a team we have been able to do a great job as far as that is concerned and then projects on value engineering.

The next slide gives you what we're doing from a technologically superior factory stand points. So there are two green fields which are going to be commercialized soon in the next month or so. One is in Guwahati and the second is, in the SEZ, which is Mundra in Gujarat which is going to cater to our international business. And both are state of the art very good factories which we are looking forward to commercializing soon.

The next slide, which is slide 10 frankly, I feel that our simple dream of a 'total foods company' is very, very powerful and we can have a dream and not do too much about it. But I think we are

moving pretty rapidly to fulfill that dream as well. If you were to look at the next slide, the first of which is our partnership with Chipita where we are looking at launching filled croissants is moving in the right direction. We have started to get the machinery, we have started to do the civil work in our new food park in Ranjangaon and we hope that in about 8 to 9 months we would be in a position to commercialize and launch our product. Dairy we have been speaking about dairy now we have started to do a pilot on milk collection again in Maharashtra, near the Ranjangaon area and that is going quite well. If we get the right kind of scale and if we get the right kind of output that we desire, then we will move forward with our dairy project as well. The new geography Nepal while it is a small country I think there is tremendous potential and we are really looking forward to putting up our plant there. The land has been acquired, all government requirements have been fulfilled now we are looking for the environmental clearance to go ahead and construct our factory. Usually, in Nepal it takes about a year to get the environmental clearance, but we are hoping that we should be able to get that through in the next 3 months and move forward and start a country operation in Nepal.

The last but not the least is the whole macro snacking area where we are looking at very new and much differentiated offerings from our cake. These new technologies are going to, again, come up in our Ranjangaon facility and some new formats as well and we are in the process of evaluating our right to succeed in some new categories within macro snacking which we think are again moving in the right direction, but it will take a little bit of time before we are able to divulge where we are at there.

The next slide gives you just an idea of our Ranjangaon facility which is a very large facility about 150 acres and we are hoping that we will be able to not just make it our largest facility, but the highest technology the lowest human intervention kind of facility with product and capabilities which could be first to market we are certainly looking at Croissant which is going to be first very differentiated a new product for the Indian consumer. But even from our cake standpoint, there are going to be certain offerings which are going to be highly differentiated and first to the Indian consumer. We are also looking at putting up our dairy facility there which while we will do, we will start with what we are already doing through milk collection, which will be done by us through 25,000 farmers, but it will also have new capabilities which could be new to the market, new to the Indian consumer. But that is, as I said in the phase of validation from the milk collection standpoint. From our backward integration standpoint also, we are going to do, obviously, I just spoke about milk collection from 25,000 farmers we are also going to have a flour mill there and warehousing, raw material storage, etc.

Moving onto the next page, which is really saying that while we are expanding, and we are looking at a whole lot of new stuff and really fulfilling our dream of becoming a total foods company, our true strength really is our people and we are going to make sure that our people build capability and have the ability to build the kind of dream that we have. Three parts to that first is building design and capability to propel the organizational growth which I have already spoken about, so there are going to be new operational structures for the organization and it has to be catering to a certain growth that we are looking at, and also for the adjacency the new businesses that we are trying to create. We brought in Jayant who is now handling our bread,

cake, Chipita JV and Rusk business. Similarly, we are going to build a vertical, which is dairy we have recruited recently a very high-profile person for our dairy operations as well. So that is how we are building obviously our first choice is to look at internal people, but for some of these high-profile jobs where we don't have the talent, we are mixing a little bit of outside talent with our existing high-profile talent that we have in the company. From functional standpoint, we are building capabilities in R&D and manufacturing because R&D there is a lot happening in a very different and divergent directions, so we need to build that capability and also in manufacturing because now we are looking at a lot more plants, we are looking at different technologies, etc. So the last point that I have already spoken about which is about acquiring key skills from the market and providing opportunity the internal high-profile potential employees to create the future of Britannia. The second vertical is about building a large food parks and building International expansion agenda, etc., for that again we need skill development, we need obviously internal talent to rise up to the occasion and so we're doing that, diversified skill sets we are building for the new geographies that we get into, functional capabilities, focused development, etc. And this is very exciting for our people. In fact, for Nepal we've already got one of our current managers to become the country manager who has started to work on that project and it is a very exciting thing because we were an India centric company and now we have got opportunities for people who can handle the business end to end in these countries and get there, roll up their sleeves and really understand what real business is. And the third is about sustaining and propelling the culture for our new business objectives. So, we are building a lot of excitement and collaborative practices across functions to support new vision and expansion by way of making sure that we create an appreciation culture. So, we have got these awards now where we get our Board to attend the award functions, these award functions they sort of start with functional awards which happen every quarter and then they roll out to a yearly award where the entire Board is there to felicitate these winners, these high performers. Vision and core values, dissemination and also our leaders connect calendar whereby we get our leaders to connect with cross functional managers wherever they travel to, etc.

Getting onto Page #15, this is something which is again very close to our heart. If you look at the status in India, the National Family Health Survey, which is a body of the Ministry of Health and Family Welfare, they do a study which shows that anemia among children and women is very high in India and similarly malnutrition is a real problem as far as India is concerned. So we have been working on this but we are now starting to accelerate this work. So what are we doing? We have developed specific biscuits; we are in the process of developing them and fine tuning them. The anemia part is already done, but now we are also looking at high energy and fortified biscuits which provide the right quality of proteins and vitamins and minerals which are required for these severely malnourished children. And if you were to look at the table on the right, you will see that there is a large percentage of children who are malnourished so there is about 38% of children in India who are malnourished and there are 21% they are wasted and there are about 8% who are severely malnourished. So, this really is an issue and in our small way we will try and see how we deal with this as we go forward. But we are putting muscle behind it not just gets us to do something that is close to our heart, but it also gets a lot of energy into our people for them to contribute towards this agenda. We are also working on a program



to reduce sugar, fat and sat fats in our products to make sure that we keep with the theme of getting healthier products to our consumers.

From our CSR program standpoint, we have served fortified biscuits to 43,000 children across 2685 anganwadis in north Karnataka. The Industries Minister, Honorable Mr. Deshpande is also great proponent of that and we have partnered with the Karnataka Government to do this. Also, in our factories we have started to do nutrition counseling for mothers and we have also looked at nutrition and hygiene counseling for adolescents in some of our plants. So we are trying to see how we can make a difference and genuinely make a difference. And we also contribute obviously to the Wadia Hospital. There are two Wadia Hospitals in Mumbai one is a maternity hospital which is a 300-bed hospital, they treat hundred thousand people under the poverty line every year and we have helped the group upgrade that hospital. And also, there is a children's hospital which treats almost 65,000 under nourished children every year and also we have created the world's largest neonatal ICU for the under privileged in that hospital. So, we are now looking at how do we ratchet this up and do something which is close to our heart.

Moving on to Page #18, the quarter we have seen the growths which are pretty good and we are hoping that the growths will stay. Obviously if we are growing at this rate we hope that the category we haven't seen the category number yet, but we are hoping that the category growths are also robust. So if you were to look at it, there is 13% revenue growth in this quarter and if you look at the progression we have been growing throughout and which is something that to feel good about. And if you were to go to Q3 of last year, which was the quarter where there was a demonetization but we even in that quarter had grown by 6%, while a lot of companies were flat or declining in that quarter. So, this performance is over that 6% growth that we saw last year.

Moving on to the next slide, which talks about inflation, so inflation has been almost flat, this quarter. So, flour there has been a deflation, sugar there is very slight inflation, RPO there is a slight inflation and milk there is a deflation. On the balance the commodities that we buy have been fairly stable and as a result of that, if you were to go to page 22, our bottom-line performance on operating profit has been reasonably good. So, we are talking about Rs. 366 crores of consolidated operating profit, which is 14.3% of our revenue and the progress that we started 5 years back has continued to be there in the business.

On the last slide, if you were to look at the dashboard, so net sales has gone up by 13%, profit from operations has gone up by 29%, profit before tax has gone up by 25%, the drop, thereby is only because of the treasury yields and profit after tax has gone up by 20%. Again, there is a drop there because of the investment allowance that we had till 2016-2017 which was 15% allowance on investments made in plants and machinery and also, we had put up a large R&D facility where we had got a weighted deduction on tax for that investment, which was 200% of investment in R&D. So, if you were to look at the table at the bottom profits from operations as I said on last slide is 14.3%, profit before tax is 15.6% and profit after tax is again a double digit at 10.3%.



So that is all that I have, happy to open the call to questions.

**Moderator:** Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. The first question is from the line of Latika Chopra from JP Morgan. Please go ahead.

**Latika Chopra:** I actually got cut off few minutes ago. I'm not sure if you have talked about this, but if you could comment on the category growth rates over the past quarter for biscuits and how have your market shares behaved? And also, what if any specific change that you have seen in our product mix?

**Varun Berry:** So category growth rates we haven't got it for the full quarter they will take a little bit of time. But yes, whatever we have seen, there is certainly a ramp up as far as category growths are concerned. I would say, still category growths are in single digits are not moving to the double digits number, but I think there is a uptick as far as that is concerned. As far as our portfolio is concerned, we have certainly seen momentum in the premium business, so the entire premium business has been growing reasonably well and that is where our growths are coming from. But we have also seen a growth in the glucose segment, which is certainly not in the premium category. But there is some growths there and I think, this is all hypotheses, but my own feeling is that in categories where you have organized operators there is growth. But in the value cookies and value cream segment where we had a group of small players who are probably not playing by the rules, etc., there, there is no growth because obviously as a result of GST. There is some shift happening from players who were not playing by the rules and players like Parle and ITC and us and Oreo, who were playing by the rules, so I think that is also playing up. But for us primarily the growths are in the premium segment.

**Latika Chopra:** Secondly, one of you mentioned in the media interview earlier this morning about you plan to launch 50 new products over the next year or so. Could you elaborate a bit more on this? How much of this going to be within the existing portfolio and are you talking about 12-18 months' timeframe here?

**Varun Berry:** Yes. We are talking about the entire financial year. So we do this meeting where we have everything laid out and we discuss what we are going to do this year. So, I can tell you that the R&D and the marketing teams are really going to be busy. So, watch out for this space, we are going to be churning out a lot of very innovative and very exciting products this year.

**Latika Chopra:** And does that mean it would imply higher brand investments from your side and does that in any way influence the margin outlook?

**Varun Berry:** No, I don't think so. These are not completely new categories or anything like that. These are products that some of them sit within the categories that we operate in there are few which are outside the category. But no there will not be any implications on the margins.

**Moderator:** Thank you. The next question is from the line of Amnish Agarwal from Prabhudas Liladher. Please go ahead.

- Amnish Agarwal:** I have a couple of questions from my side. My first question is regarding the backward integration on that slide you have shown actually a few things like your flour, dairy for bakery, milk collection, warehousing, etc., so can you throw a little bit more light on this backward integration program into these things?
- Varun Berry:** So backward integration means that for dairy we don't have a back end. Whatever products we sell in the market they are all done through contract packers. This is the first time we are looking at doing the back end ourselves so that is the dairy part. Flour, we have never had a flour mill in our facility but because the facility is so large we are looking at starting from wheat and grinding our own flour which also gives us the ability to have different types of flour. For example, the croissant business we need a different type of flour and for our biscuit business and Rusk and cake and bread they are all different types of flour. So if we have this facility in house we will be able to experiment, we will be able to obviously cater to the requirements of the plant but also be able to experiment and see how we can do different types of flour and how we can sort of take our products as we get into newer categories to a different level. So that is as far as flour is concerned. Warehousing and raw material storage we do everywhere, so that is not a big one. But because it is such a large facility it is going to be a very large raw material store and a very large warehouse.
- Amnish Agarwal:** Sir you also talked about say the efficiency gains which are targeted at around Rs. 230 crores in the current year. So do you have any target for FY 19 for the same?
- Varun Berry:** We are in the process of formulating that but certainly it will be higher than what we have done this year.
- Amnish Agarwal:** And sir finally just one question, you have also stated about the growth rates in some of the states where our share is less like U.P, Rajasthan, etc. Now these are the 4 large states where we have grown much ahead of what our growth is. So excluding these 4-5 states what could be the growth rate for Britannia?
- Varun Berry:** It is not a big difference we have a very small share in these states. It doesn't make so much of a difference to our overall growth.
- Amnish Agarwal:** But sir how much these states could be as a part of the total industry size for biscuits in India?
- Varun Berry:** Industry size will be large, but our size will be small.
- Moderator:** Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.
- Sameer Gupta:** My question is on the relative market shares post-GST. Earlier you had mentioned that GST could be an opportunity to take market share from small and unorganized players. Now it's been six months after the implementation so just wanted your sort of revised views or outlooks on what you think about this issue now?



- Varun Berry:** It is still too early to comment on that. But I do think that there is some shift happening, not just for us but for other organized players as well, one is that. But second is, as far as our market share is concerned we have been moving in the right direction. So that keeps us satisfied with what we are doing.
- Sameer Gupta:** And your market share growth is coming mainly at the cost of the number 2 or number 3 players or is it coming more at the cost of the smaller players?
- Varun Berry:** No it is coming from both.
- Sameer Gupta:** Sir, second question is on input costs and margins overall. You said that input costs have been stable so in this scenario just wanted to understand, given that there is of course some amount of pricing power and normal price increases that you will take vis-a-vis the input costs and your innovation pipeline all put together, you mentioned to a previous question that there will not be any pressure on the margins. But investors and analysts are used to seeing continuously expanding margins for Britannia so can we see that trend continuing or are you guiding towards stable margins on a year-on-year basis for FY 19?
- Varun Berry:** No, I would say that first of all we don't give any outlook, but the fact is that when they don't have input costs related inflation then we don't take pricing as well. Because it is not just us, it is the industry which responds to a certain stimulus which is there in the market and obviously with the GST happening, there has been no price increase at all in this duration and I don't see that happening unless it is necessary at least in the next 3 months or so.
- Sameer Gupta:** Right and the implications on the overall margins of this moving part sir?
- Varun Berry:** You are seeing the implications in our financial results.
- Sameer Gupta:** And one last one if I might squeeze in sir, what is the outlook on the overall sort of demand scenario especially in rural last 2-3 years each time not only you, but I mean all the company, the investors, analysts everyone has been hopeful of a pickup. But every year has sort of disappointed and sometimes even deteriorated versus the previous year. Do you really see signs of pickup in the next 2-3 quarters, or at this point of time it is a statement of hope only?
- Varun Berry:** No I hope that we see a pickup in next few quarters.
- Moderator:** Thank you. The next question is from the line of Alok Shah from Edelweiss Securities. Please go ahead.
- Abneesh Roy:** Hi sir this is Abneesh here. We got disconnected so I don't know if I'm repeating any question. First question sir is on Parle, we are seeing a very aggressive advertising by Parle they have announced a doubling of sales in the next 5 years, which means 15% CAGR and sir Platina they are again, very aggressively doing the overall visibility. So on the premium and specially an overall are you seeing more pressure from Parle? I know last one year, you have gained market share but going ahead how is the scene with respect to Parle?



**Varun Berry:** Parle is a great company I have great respect for that company and they have been doing well, I would say. They have been getting things right slowly, steadily. Actually, but the biggest thing which has helped them this year probably is the growth in the Glucose segment I don't think there is much movement in the premium segment, while they have done a lot, the whole creation of the Platina and all of that has come into the markets but there is no pressure from that. Their growths are coming from a segment that we are very small in and I don't think there is too much of pressure as far as the premium end is concerned.

**Abneesh Roy:** And sir, one follow-up here. You have done well in the weak states and where Parle is very strong. So when Glucose comes back does it mean that going ahead, there could be some issue in these 4 states? You have done well, I'm not questioning your current performance, but why is Glucose coming back? Is it because of down trading and doesn't mean that these 4 states the growth could come under pressure?

**Varun Berry:** We are not using Glucose to be the driver of our growth there. We are using some of our premium brands in the Rs. 5 and Rs. 10 portfolio to be the driver of our growth. Glucose also contributes I am not saying that Glucose doesn't contribute. But that is not the sole driver of the growth. And I just answered that question about why I see Glucose coming back. I think my hypothesis is that because Parle owns that market with a 75% share, and they are organized players who play by the rules of the country. They obviously are benefiting from some of the other non-organized players who don't play by the rules in the value cookies and value cream segment. So there is some migration of those consumers happening to the Glucose segment. That is my hypothesis we haven't done any research on this. So I don't know, but we will know soon enough because we are looking at conducting some kind of research on this as well.

**Abneesh Roy:** But does it mean you will re-evaluate your Glucose strategy you are doing the study and definitely GST will help?

**Varun Berry:** I think we should meet and discuss because on this call it might be very difficult to answer all the questions. So, yes, but we are very clear we have our core strategy outlined while Glucose will play a role in our portfolio we are not looking to be market leaders in that segment.

**Abneesh Roy:** Last question Nepal you already would have some presence there, right? Because it is a very adjacent market so what is the current standing there and where do you see next 3 years in terms of say market share?

**Varun Berry:** We have about 18% share there and we hope to see that share go to a much larger number as we go forward.

**Abneesh Roy:** And number 1 will be Parle again there?

**Varun Berry:** Yes.

**Abneesh Roy:** And we will be number 2 currently?



- Varun Berry:** Yes.
- Moderator:** Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Securities. Please go ahead.
- Pulkit Singhal:** Two questions, firstly on the dairy part we have been reading one of the news article which talks about this Rs. 400 crores business going to Rs. 1500 crores in 5 years and potential to be as big as biscuits, etc., because our perception is that it is a very low margin, mediocre ROC kind of business so your opinion firstly on that. And secondly, it also talks about you are looking for some kind of joint-venture partners? If you can just highlight your strategies there?
- Varun Berry:** So first of all, we are in the experiment to do the milk collection and understand that business and dirty our hands and figure out what needs to be done in which way, etc. Once that is done, obviously there is a lot of home work that has been done on which way to take this business. We are not looking at, if you look at the current dairy business I think the bulk of that business sits in liquid milk and we are not going that way. We are looking at only value-added products which even in the Indian context are decent margin products and obviously the health connotations of the dairy segment are fairly good. So I think we can create a very exciting portfolio of premium products with innovation and with reasonable margins and we are looking forward to creating that. But I think we are a little distance away from that. Now as far as joint ventures are concerned we haven't finalized anything yet, but certain segments where we don't have the know-how and if we think that it is going to take us time to get to the know-how and there is a global company which is in a position to partner with us and take us where we want to go then we will be very happy to do a partnership with them.
- Pulkit Singhal:** Sir and secondly on the raw material side, so this quarter would it have been an overall deflation, or still an inflation or flattish on an overall basis?
- Varun Berry:** Flat.
- Pulkit Singhal:** When you mentioned about the dynamics that you don't tend to take price increases but if the industry dynamics is such that if there is a deflation there is no price cut as well while when there is an inflation there is price increase.
- Varun Berry:** So you saw that 2 years back when there was a deflation there was some price cuts. So it is not a hard and fast rule. But this year has been peculiar because of the GST implementation. First of all, there was no inflation second GST was being implemented. So I think it was not fair to take any price increase, and I think most of the FMCG companies complied with that. And certain companies which got benefits, they even cut the prices. So I think that is how it should be in a situation where the FMCG growths this has not been what they used to be 5 years back and we are hoping that with all that the FMCG industry is done. Hopefully, as we go forward, we are seeing a little bit of a trailer of that in this quarter where the growths looking good we are hoping that we will be able to continue with these category growths and hence everyone will live happily ever after.



- Pulkit Singh:** Just one last data point, sir the 50 new launches, whatever we talked about, to put that in context, how many would have been this year?
- Varun Berry:** All of them will be this year.
- Pulkit Singh:** No I mean in FY 18, how many would you have kind of done?
- Varun Berry:** That will be about 15 or 16.
- Moderator:** Thank you. The next question is from the line of Nandan Vartak from Wealth Management. Please go ahead.
- Nandan Vartak:** I just wanted to know the sales mix between premium segment biscuits and value segment?
- Varun Berry:** So for us it 75 premium and 25 value. But industry is 55 and 45.
- Nandan Vartak:** And the second question was regarding SKUs so what number of SKUs, we offer currently, and what would be our number 3 years back?
- Varun Berry:** In the bakery segment alone, almost 300 SKUs now we are at about 180.
- Moderator:** Thank you. The next question is from the line of Bhavesh Shah from CLSA. Please go ahead.
- Bhavesh Shah:** Sir can you just give a broad split of biscuits in terms of plain, cookies, creams, etc., from the industry perspective as well as Britannia perspective?
- Varun Berry:** I just gave it. So industry is 45% of the total biscuit category is value and for us, it is less than 25%.
- Bhavesh Shah:** And in terms of cookies and cream if you see in terms of say....
- Varun Berry:** Value is everything. So you are seeing cookies and cream where value or premium?
- Bhavesh Shah:** In premium.
- Varun Berry:** In value it will be 1/3<sup>rd</sup>, 1/3<sup>rd</sup>, 1/3<sup>rd</sup> almost. So, cookies, cream and glucose will be 1/3<sup>rd</sup>, 1/3<sup>rd</sup>, 1/3<sup>rd</sup>.
- Bhavesh Shah:** And secondly sir, it looks like now in dairy you are clearly moving ahead with your plan with was lack of full-fledged foray into the dairy sector. So any revision in the CAPEX guidance sir, any thoughts on that?
- Varun Berry:** Once we are completely ready with it with all our experimentation over we will discuss that, and we will tell you how much we are investing. I would say this experimentation should get over in the next 2 to 3 months and after that we will finalize all the numbers and discuss.



- Moderator:** Thank you. The next question is from the line of Jiten Doshi from Enam Asset Management. Please go ahead.
- Jiten Doshi:** My question pertains to the treasury management, what is the cash and cash equivalence that the holders of 31st of December?
- N. Venkataraman:** It is roughly about Rs. 1800 crores.
- Jiten Doshi:** And of how much of that has gone for ICD to group companies?
- N. Venkataraman:** Group Company ICD as of December is Rs. 410 crores.
- Jiten Doshi:** And what is the yield on that?
- N. Venkataraman:** March was Rs. 450 crores that has come down to Rs. 410 crores.
- Jiten Doshi:** So what is the yield roughly of that investment?
- N. Venkataraman:** Yield is a little over 10%.
- Jiten Doshi:** So what would be your post tax yield out there?
- N. Venkataraman:** Post tax would be about 30% of that.
- Jiten Doshi:** So it is between 6.5 to 7%?
- Varun Berry:** That is right.
- Jiten Doshi:** And secondly, what would be your total CAPEX between 2019 and 2020, the next 2 years since you all are putting up so many plants?
- N. Venkataraman:** Current year CAPEX is likely to be about Rs. 400 crores. This is the year that goes on 2017-2018.
- Jiten Doshi:** So in 2017-2018 you would be doing a cash CAPEX of Rs. 400 crores, right. And one last question is, I think you are completing a landmark 100 year this year. With so much of cash you would be looking at any extra payout or something this year?
- Varun Berry:** I will not be able to comment on that. That is the prerogative of the Board so once the Board decides we will let you know.
- Jiten Doshi:** But how much is the real cash do we need on the balance sheets? Would you say about Rs. 500- Rs. 700 crores at best?
- Varun Berry:** If you look at our Ranjangaon facility, we are committed to investing Rs. 1000 crores.



- Jiten Doshi:** Over what time?
- Varun Berry:** Over the next 2.5 years or so, which includes all our facilities and everything that we do, including dairy. That is going to be the big part of our CAPEX in the 2-2.5 years.
- Jiten Doshi:** And you are generating roughly about Rs. 1000 crores a year?
- Varun Berry:** No we are not generating 1000. We are generating about Rs. 400-Rs.500 crores.
- Jiten Doshi:** You are subtracting the dividend payout?
- N. Venkataraman:** If you minus the dividend payout, it will be even less.
- Jiten Doshi:** No because you are doing a PAT of Rs. 1000 crores about Rs. 850 crores or so.
- N. Venkataraman:** With a CAPEX and then there is a dividend.
- Jiten Doshi:** So you are saying minus CAPEX and minus dividend, no I was just referring to the whole thing as without the dividends or the CAPEX so that is the free cash less CAPEX and dividend. So roughly your needs of the year are always taken care for by your cash flow, right?
- Varun Berry:** Yes.
- Jiten Doshi:** And do you have any acquisition plans on card with this extra cash that you are holding?
- Varun Berry:** So we are looking at possibilities, but it is not like we have got anything which is ready right now.
- Jiten Doshi:** And it would be all in the snacking area?
- Varun Berry:** If something good comes we are open to that. But the valuation in India is sky high. So we are going to do anything which is kneejerk.
- Jiten Doshi:** So I would say that biscuits and dairy is going to have an organic growth issue and rest of it you can go in for acquisitions right?
- Varun Berry:** Right.
- Moderator:** Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.
- Amish Kanani:** Sir. Of late, the government has been talking quite a bit on value addition of agro processing and stuff like that, and the food park policies are also being announced. In that context, I was wondering whether the CAPEX that we're doing, are we benefiting through any of these initiatives and/or are there any fiscal benefits and/or are we putting up in these food parks? That

is question number one. And also, this MSP for Kharif crop being announced, which might result in some food inflation in the second half of next year, are our products anyway getting impacted because of that, are we seeing any inflation because of that on our raw material basket?

**N. Venkataraman:** On the incentives question, for the Ranjangaon facility, we have already applied for a fiscal incentive from the State government. In the final stage where hoping that it gets closed in the next 1 or 2 months' time. It is in various stages of discussion so that is one. And second from the Central Government incentive point also we have filed our application.

**Varun Berry:** But the big benefit is going to be from the State government and hopefully we will get the benefit is that they give for mega projects and so we are looking forward to that. And on your commodity and MSP question, I have got Manoj here. Manoj is the head of procurement. So I will let him answer that.

**Manoj Balgi:** So the MSP, there is a little bit of confusion of which method for calculating MSP would be used. So once that is clear, we will be able to comment on the impact of that going forward.

**Amish Kanani:** And sir is it possible to give some color of what kind of these megaprojects benefits are in general being discussed maybe we may not be able to discuss our plan specific and stuff like that which has not been finalized, but generally what kind of benefits that are coming sir?

**N. Venkataraman:** No, these are custom made. Megaprojects are custom made.

**Amish Kanani:** So maybe once we are finalizing....

**Moderator:** Thank you. The next question is a follow-up from the line of Alok Shah from Edelweiss Securities. Please go ahead.

**Abneesh Roy:** Sir, most of the questions has been answered. Recently there was news flow that on the Kids Channel the snacks ad may be stopped. Although, as of now, it doesn't seem to be happening supposing it happens is there some likely impact on your products? Will your products also be classified in the junk category?

**Varun Berry:** No. As of now we are not in that category at all we are baked products and we are certainly healthier than all the snack products that are available. So for starters we will not be in that category for sure.

**Abneesh Roy:** And sir on your recent new innovation Pure Magic Deuce, you mentioned something on the melting issue. So, are you restricting this largely to the inside of the shop and maybe they are even refrigerated? Is that the requirement in terms of distribution?

**Varun Berry:** We are making sure that we don't get to a situation where the salespeople are distributing it to every possible outlet. So we have restricted the number of outlets that are let's say air conditioned or have some refrigeration capability, etc., and obviously this is the first time that we are doing a product like this. The chocolate companies have been doing it for donkey's years



and if you study what they do, they bring their distribution down during the summer and again ramp it up. We don't want to do it. We just want to make sure that we contain it, we keep the distribution in a certain number of outlets and go through the year and see what are the results. And thereafter take a call on how we're going to follow the chocolate distribution formula.

**Abneesh Roy:** But in terms of product technology without using Trans fats that is not possible right?

**Sudhir Nema:** So we do not use any trans-fats in any of the products that we manufacture, so this is a very specific chocolate what we are using in this product Deuce.

**Abneesh Roy:** I know you don't use trans-fat, my question is in terms of product technology, you cannot do much right? That was my question; I know you don't use trans-fat. You can't make it to more shops on a regular basis right?

**Varun Berry:** Well, it is a fine balance between having the right kind of chocolate and having a melting property of the chocolate activated. So you can put stuff which will make the chocolate not melt but then you will not get that same organoleptic effect because even when you take a bite of the chocolate in your mouth, even in your mouth which is let's say 36 to 37°C the chocolate will not melt and you will not get that feeling of a melting of chocolate in your mouth. So it is a very fine balance and we have to make sure that we do that. So our R&D team has done a fantastic job of balancing it in the right way.

**Abneesh Roy:** Last question, how has bread done? Last quarter it was double-digit.

**Varun Berry:** It continues at double-digit.

**Moderator:** Thank you. Ladies and gentlemen, that was our last question for today; I now like to hand over the floor back to Mr. Piyush Bhandari for his closing comments, over to you sir.

**Piyush Bhandari:** First of all, we apologize for the inconvenience caused due to the line getting disconnected. Anyways, thanks everyone for spending time with us on the call. We look forward to interacting with you again.

**Moderator:** Thank you very much sir. Ladies and gentlemen, on behalf of Britannia Industries Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.