"Britannia Industries Limited Q1FY 2016-2017 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to the Britannia Industries Limited Q1 FY2016-2017 Earnings Conference Call. 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over toMr. Ramamurthy.

Ramamurthy: Thanks, Inba.Helloeveryone,thisisRamfromtheInvestorRelationsteaminBangalore.I welcome you all to the Britannia Earnings Call to discuss the Q1 Financial Results. Joining us today on this earnings call is our Managing Director -- Mr. Varun Berry; Chief Financial Officer for the Bakery division is Mr. N. Venkataraman; Head, Sales -- Mr. Gunjan Shah; Head, Marketing -- Mr. Ali Harris Shere,

We will start the call with remarks and performance by Mr. Varun Berry, and subsequently we will open the call for questions.

Before I pass it 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 the risks and uncertainties that the company could face in the form of general economic conditions, commodities and currency fluctuations, competitive product and pricing pressures, industry relations and regulatory developments.

I would now like to pass it on to Mr. Varun Berry for his comments.

Varun Berry: Thank you, Ram and thank you all for joining us to this call. I am pleased to report that this financial year is off to a good start with the strong operating results in the first quarter. In the face of a slow market growth, we delivered 8% volume growth while lapping 10% volume growth from Q1 of last year. Our revenue growth was also 8% led by high double-digit growth in our weak Hindi speaking markets of the West and North of India and clearly driven by our focus on the front end.

I think it will be best if I take you through the 'Presentation'. I will get to the first slide which shows what our revenue growth have been. So, clearly shows that revenue growth have been moving in the right direction, 8% for Q1.

Moving on to the next slide which is about volumes. This revenue growth is backed by solid volume growth and if you notice the volume growth have been fairly solid from Q1 of '14-15 onwards while there has been a slight dip from where we were at in terms of volume growth in the last year, we are still very solid at 8%.

Moving on to the next slide: If you look at what we have achieved, I think the base of that is the unrelenting execution focus. I might be sounding like a broken record on this but believe me it is the building blocks of this company which are taking us in the right direction. So if you look at the first bullet point there, it is about expanding our distribution. In this quarterwe have added 60,000 outlets to our direct distribution which used to be 1.26 million, is now at 1.32 million outlets. Even if you look at our total distribution we are now at 4.5 million outlets and our gap with our largest distributed competitor is down to 1.2 million outlets, it used to be in 2013 1.7 million outlets. So we have made considerable progress; however, there is still a lot of ground to cover because the total number of outlets that Biscuits are available in the country are 7.7 million. So there is some more distance for us to go.

The second bullet point is about the split route model that we have tested which is giving us very good results. This is not about getting to more outlets but this is about getting more brands and more SKUs into outlets that we are available in by making sure that we have every brand and every pack available in every outlet and well displayed. So this is giving us very good results.

The third point is about making sure that we have hand-held with every salesman that we have in the market and this is also moving in the right direction.

The last one is about rural penetration. As you all know and you heard it from me many times, our rural distribution and share is behind our urban distribution and share. The endeavor is to jump start this and make sure that we take this up considerably and I am happy to report that we have now 8,300 rural distributors and we are in this set of rural markets that we cover through our rural distributors, our growth is 33% for the quarter.

Moving on to the next page which shows the progress that we have made in our weak states. So Gujarat, a very solid 26%, even Madhya Pradesh looking very good, Rajasthan, we have seen a little bit of slowdown in our growth from 19% to 11% but it is a timing thing. The only market that we really need to get behind is Uttar Pradesh where we are getting good growth but our expectation is a lot more and we are putting people as well as systems behind this market to make sure that we take it in the same direction as the other states.

Moving on to the next slide: We have had some very high impact associations during this quarter. So we had our association with IPL where we were sponsoring or we were with two teams – Kings XI Punjab as well as Royal Challengers Bangalore – that gave us very good returns, it was not a full sponsorship, it was a small sponsorship but it gave us very-very good returns for two of our brands –one was Good Day and the other one was 50:50. We also had a tie up with Masterchef Australia when they visited Bangalore during the last quarter, that gave us very good return as well. Then we had the Filmfare South Event which was held in Hyderabad which was also a fairly high impact event for us.

What I would like to say really is that we have accelerated our innovation agenda over the last couple of years with a clear focus that there are two points that we really are focusing on as far as innovation is concerned – one is making innovation stick and not just being in and out but making sure that our innovation comes in and it sticks and it continues to deliver year-after-year and second is making innovation incremental. We make sure that whatever we get out of these innovation products is over and above what we are getting as organic growth from other products. We have identified and will be filling up our portfolio gaps. There are obviously some portfolio gaps as we stand. So we will be filling them with newer offerings as we move forward as well.

But during this quarter, we did the 3-in-1 Nuts Cookie under Good Day which is giving us tremendous results. We also did the NutriChoice Oats Cookies which were in two flavors, again very good response from the market. The third was NutriChoice Zero which was basically no added sugar and no maida in it which we have just launched a month and a half back and we are starting to see some good results. The Cake Biscotti which is a very different product in the bakery category but different from biscuits and different from cakes, very interesting product has some really good results in the first couple of months of launch. Vegetarian Cake which is doing quite well. Finally, the Milk Rusk which we recently launched and is doing well.

With this we have further consolidated our position and it has helped us gain and sustain our market leadership during this quarter.

Moving on to the next page: While all this is happening there has been a changed atmosphere as far as the commodity markets are concerned. We have seen overall inflation of 6%, from that 6% about 2.7% has been offset by cost saving initiatives. But where is this coming from? The biggest inflation that we have seen is in Sugar where there is 23% inflation, Flour, where there is a 9% inflation, small inflation of 5% in the Palm Oil that we use and Crude is fine, but there is one more commodity which is not on this page which is Cashew Nuts. We have seen a huge inflation on Cashew Nuts even last year and that continues to sore even this year; there is a 18% inflation in Cashew Nuts. So that is the scenario. So it is overall scenario of 6% partially mitigated by our cost saving initiatives which frankly are off to a great start. We had a target of 2% cost savings of revenue during this year, but with the commodity situation we are looking at initiatives to ratchet it up to 2.6% to 2.7% for the year.

Moving on to the next page: We continue to focus on efficiencies as we have always done. If you were to look at what we are targeting, frankly, we have brought down all of these three things that you see on the slide, trade loads we brought downconsiderably by 30% and we want to keep it at that low level during this year, we have also done market returns which are down by 40% from ‘12-13, ‘13-14 and we want to bring them down even further this year and similarly write-offs, any business has write-offs, but we almost made sure that we bring it down to a level where they are inconsequential.

Now, moving on to the next slide which is about our subsidiary businesses: There are two subsidiaries frankly have not done as well as we would have wanted them to. So I will take them one-by-one. The first one is the Dairy business where we have seen a decent top line growth but the bottom line is impacted due to two reasons – one is the milk prices have started to go up and go up fairly steeply and the second is till last year because of accumulated losses in this company, we were paying the Minimum Alternate Tax and now we are back to a normal tax which is payable for any business. We are evaluating the supply chain integration of our Dairy business. As of now, it is looking positive but again we are still some months away from pressing the button on this.

The International business has two components: As you know that we have a manufacturing operation in Middle East and we have seen some stress in the Middle East markets, there are some markets which have shut down because of the various political as well as terrorist activities that have been happening. So Syria, Libya, Yemen are some of the markets which have completely shut down and there are certain markets where there is a huge fluctuation in the currency. So because of that, in the Middle East business there has been a downside on the top line, there is no change in our profitability percentage but because of the top line reduction we have seen a little bit of a downside on our profits. India Export is doing really well. This through India we export to almost 72 countries and we have been increasing the number of countries as well as increasing our footprint in these countries and that is doing really well and growing in high double-digits. We are hopeful that the India Export ramp up will somehow mitigate the downside that we are getting from the turmoil in the Middle East and Africa.

Moving on to the next which is our People Agenda: Frankly, there is a lot that we have done in the last one year from the perspective of building great leaders and we have really had great amount of stability in our leadership team as well. So, all of you are aware, we have done a lot of leadership development programs including 360 deg. Feedback, Team Effectiveness Programs, etc., and we have also done Succession Planning Initiatives, Capability Building, a lot of work on cross functional team work. But the biggest news is that we are very close to launching long-term incentive plan for our top-20 managers. This has been agreed to by the board. Now, we are in the final stages of making sure that all the KPIs are tuned up and we launch this program in the next month or so.

As a result of these efforts, if you were to go to the next slide, which gives our profitability, there has been a pretty good number for Q1. You can see that on the page. So the Q1 profitability consolidated is at 13.3% and this has been the 13^{th} quarter if I am not mistaken of double digit bottom line growth and we obviously hope to keep it that way.

Now, just getting to the Market Environment. All this has been achieved in I would say a sluggish demand scenario and which leads to a challenging environment that most of the FMCGs face. So the next slide will giveyou the growth in the Biscuit market. As you would see that Q1 is absolutely flat, so the growth which were double digit growth still about a year and a half, two years ago are flat, but I do think this is a result of two years of bad monsoon, now that we are having good monsoon this year along with the Seventh Pay Commission coming in, I do think that the demand scenario will improve as we go. I do not think it will happen overnight but I do think that in the next couple of quarters we will start to see the numbers are going up. I feel that in a country that is having a GDP growth of 7.5% there is no reason why essential FMCG category should not grow double-digits. I do think that it is a matter of time before we start to get close to double-digit category growth.

What are the opportunity areas for us? I think I have spoken about most of these, but I will just quickly go through these with you; we reach only 60% of the retail outlets in India which is 7.7 million, I spoke about that. Our rural market share is smaller than what our urban market share is. So there is weakness there which we have to fulfill. In the weak Hindi speaking states, we have only share which is one-fifth of the market leader. In the Value segment, our share is only one-fifth of the market leader. We are in no hurry to take this up but slowly and steadily this will keep going up.

Portfolio Gaps: Like for example, Premium Creams, we have opportunity there. So those kind of portfolio gaps have been identified. Good Day, the UNIBICkind of biscuits, that is a portfolio gap which we have not focused on which are wire-cutwhich is in the mid segment. So those are the kind of portfolio gaps that we have identified and we are working on fulfilling those. Similarly, Cake Rusk, Dairy and Macro Snacking are certainly opportunities for us which we will look to fulfill as we move forward. Opportunities to enhance profitability, cost efficiencies programs as I said we are now looking at moving from 2% of revenue to 2.7% considering the commodity inflation that we see. We might not get to 2.7% but certainly we will get beyond 2% in this year. How much more? It is yet to be seen but I would think that it would be at least half way through 2% and 2.7%.

Focusing on automation and outsourcing, there is a lot of work that is happening in that area with the salary going up and also from a quality standpoint it is important that we start to look at automation in a big way. We are building large factories which have been automated but there are still some smaller old factories which need some attention. Third is about extracting operating efficiencies from everything that we do. So these are the things that we look at as opportunity and we are hopeful that we will be able to keep going the way we have been in the last three years.

Now, getting to the key financial lines in the next slide: This gives us the net sales growing at 8% and if you were to look at the table at the bottom which gives you the journey of our profit from operations, PBT and PAT, right from 2011 to 2016-17, so it has been a great journey on all three of these.

Now, getting to the last slide which is we have started to now report Ind AS versus earlier which was GAAP. The change has not been very large. So on the top line there has been a little bit of reduction because what is happening really is trade loads is going above the net revenue line and excise duty is now getting reclassified to material cost but they are almost offsetting each other. The profit after tax, there is also a very small change basically because of two reasons – the big one really is the fair valuation of the investments and the ESOPs which is very small at this point in time. So that really what it is.

With that, I would like to open the house for Questions.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the Question-and-Answer Session. First question is from the line of Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the Dairy business. Sir,FY'16 saw sluggish sales while this time the sales have been quite strong. So my question is what has changed because clearly Nestle has been quite aggressive in terms of new launches and pricing. Also, you had said 3-4-months you will give the plan on Dairy. So what is the status – is there any delay and if delay what is the reason?

Varun Berry: Dairy last year we saw a little sluggish industry as well as our volumes were little sluggish. This year we have started off well because we really started to focus on the value added parts of our portfolio, so Cheese is doing well and so are some of the other value added products that we have within Dairy. I think the cyclical Dairy situation always comes into fore because the business is largely dependent on milk. I do think that for us to really become long-term player in Dairy it will be very important for us to get a business into play where our dependence on third-parties is reduced considerably. As you know that currently we are just buying our products from third-parties and selling. So we are basically traders as far as Dairy is concerned. Now, getting to the second part of your question which was about our strategy, Abneesh, frankly, it has taken us far longer than we had imagined in the beginning to really get to the operating model, the nuts and bolts, and the details on how we will do it. We are still in the process of doing it. We have done three rounds but we are still not satisfied with the output. Now, the deadline for us is that if we can get it by end of this calendar year, we would be happy lot. So I would say it has taken us time but this time will only be good for us because it is giving us so much of read into that business and we are doing it deliberately slowly so that we miss out no detail.

Abneesh Roy: Two follow-ups here; you said you focused on cheese. So is it now available in more outlets or you have become more affordable? Second, you said by year end you will be happy if Dairy plans get frozen. So you are still committed to your Dairy dreams. Any change in that?

Varun Berry: No, Abneesh, we are committed, but it has to make business sense. If it does not make business sense in the end, after going through all the details, then that commitment is not worth anything. So we are going in with the commitment, but at the end of the year when we have everything in place, it has to show us the way that this is the right paths to take, right. So as far as Cheese is concerned, the gaps with the market leader in terms of premium still remains and the reason for that is exactly what we just spoke about because we are traders, obviously there are lots of heads to feed. If we have a strategy which gets us to be a fully integrated Dairy business then things could change considerably.

Abneesh Roy: On Tiger relaunch in weak states, Rajasthan has slipped this quarter from 19% growth last quarter to 11% and U.P. which was a drag has slipped further. So how has Tiger relaunched done in these markets? Parle is saying that the growth has come off. So even they are not doing well. So what is the issue in Rajasthan and more specifically U.P.?

Varun Berry: I think U.P., it is a affordability issue, it is a sentiment issue, and I do think that U.P. has been struggling from most category standpoint. So very difficult to give you answer, but we do not care about market growth because we are so small in those states. There is no reason that we should not be growing faster than what growth rate I have shown you. So our endeavor will always be to make sure that we stop worrying about growth rates especially in markets where we are so small and we just worry about making sure that our execution is good, we get to more outlets and our growth rates are much higher than this.

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

Percy Panthaki: My first question is your consumption cost at the COGS level which you charged out in your P&L in Q1, is that close to the spot prices of those commodities currently?

N. Venkataraman: It has moved up from 58% to about 59.6% over the last year Q1. Your question is if 59.6% is closer to the spot rate. It is very close to the spot rate, it is not exactly there, because we had some forwards which were there in Q1, the benefits of which we got in Q1. We have some distance to cover but then we are going to cover that through a combination of cost-efficiency program and judicious price increase.

Percy Panthaki: If I just ask this in a different way, supposing in Q1 of FY'17 your charge-out rate in the P&L for Sugar was let us say 100, is the current rate close to Rs.100 or is it higher or lower and same thing for other?

Varun Berry: Higher, so every quarter is turning out to be higher because the base table is going up. So Q2 will be higher than Q1 and I think Q3 will be higher than Q2 as per our estimates today.

Percy Panthaki: So the kind of gross margin that you have right now, do you think that is defendable gross margin, so what we have seen in Q1 or do you think that there is a downside risk to that gross margin number?

Varun Berry: Cannot give you any outlook at this point in time, Percy, but obviously when you are in a situation like this where the commodity table is going up, you only have two things to do – one is taking pricing and the second is making sure that you save more cost. That is exactly what we are doing.

Percy Panthaki: Is the competitive environment conducive to whatever price increase needs to be taken?

Varun Berry: Percy, that is a good question. It is not about competitive environment, it is about the first mover advantage and being market leaders, we have taken the first mover advantage in every price increase that has happened in the last quarter. I will tell you one more thing that in a situation like this where the growth are not happening, there will be some amount of friction that will happen between competition but we have stayed completely away from getting provoked by competition on any front, and frankly despite that we have been beating the market growth. So we are happy with that. But It is a matter of bringing maturity to the entire category and that is what we are trying to do and I do think that once the growth starts to come back, the friction and the heat that is being created will be a lot better than what it is today because today there is inflation as well as the market growth are almost zero.

Percy Panthaki: My second question is on indirect tax rates. In your P&L if I look at your annual reports, basically your excise duty as a percentage of gross sale is about 2-2.5%. So could you give me an idea how much this 2.5% would have been had you not had any backward area incentives or any such similar incentives on any of your factories, none of them were there, then just based the tariff and your product mix, what would the excise duty rate have been?

N. Venkataraman: So far as excise is concerned, we do not have any exemption currently, so the current financials do not have any exemption.

Percy Panthaki: What would be your VAT rate on a national average basis?

N. Venkataraman: Roughly about 14-14.5%.

Moderator: Thank you. The next question is from the line of Jubil Jain of PhillipCapital. Please go ahead.

Jubil Jain: Taking forward Mr. Panthaki's question on competitive intensity, can you comment qualitatively as well as quantitatively on two categories – Cookies and Bourbon**.** We are seeing that ITC isgiving around 50% extra grammage on both these products. So are you seeing any slowdown in the growth rates in these two products compared to previous year?

Varun Berry: We are not seeing a slowdown, but you are right about the fact, the fact is that there still are some promotions happening in the market. Surprisingly, these two are the fastest growing categories for us as well, but yes, if competition keeps coming with such promotions for ever… promotions are not meant to be a long-term plan, right, you do not run a promotion for a year, you run a promotion for a month and then you exited, and you get back to regular products and that is what we have seen in the past and that is what we think will happen with these promotions as well.

Jubil Jain: My second question ison the other operating income. We see that other operating income YoY has increased from Rs.16 crores to almost Rs.34 crores. So what should we build in for FY'17 and what is the reason for such a highincrease – is it a one -off or is there some structural increase in other operating income?

N. Venkataraman: Other operating income has two-three components of scrap sale. So exports incentives is something that has gone up with growth in the India exports significantly by almost 40-50% of the growth is attributable.

Jubil Jain: So will this continue going forward and for how many years?

N. Venkataraman: This has been there for a long time now as you know and there is no indication that these incentives are likely to be phased out currently.

Jubil Jain: Basically can we assume that each quarter the other operating income will actually increase because of export incentives by around Rs.15-20 crores?

Varun Berry: There is also a component of scrap sale. Whatever scrap we generate, we sell it and we have got a good contract on that. So that is also a part of it which will be a one-time thing, right, there is some VAT refund that we got from two factories that we have in Bihar and Odisha, which is also a part of it, which is also a one-time.So basically if you remove those, the rest will continue.

Jubil Jain: Can you comment on the ad spends because this time you have not given the breakup for ad spends, what is the growth rate and what kind of intensity are you seeing in ad spends?

Varun Berry: So at this point in time the intensity seems to be more in trade loads and grammage promotions.While we have done some in the last quarter we did some very high velocity programs.So what we did was we did the programs that we just spoke to you about.But despite that our ad spends have been flat versus last year.So total spend during the quarter was flat versus last year which in percentage of NSV terms was slightly lower than what it was last year.

Moderator: Thank you. Our next question is from the line of Nitin Gosar of Invesco. Please go ahead.

Nitin Gosar: Would it be possible to create an innovation index for us to monitor on an annual basis so that we can at least keep a tab on the innovation launches or the recent launches how they are fairing up?

Varun Berry: I donot think we will be able to publish those numbers, but I can tell you that innovation revenue is 3.5% currently, and that is what we look at year-on-year innovation should deliver and we have got very clearly defined innovation parameters, so innovation means something that is done in the last 24-months as the product gets to the age of 2-years then that comes out of innovation, then we donot track that as additional volume coming through innovation.So there are lots of parameters that we set up, and with those parameters we look at about 3.5% of net revenue as innovation.

Nitin Gosar: Sir one clarification, I heard number around 33% with regard to rural commentary.Was it more to do with the distribution reach which has gone up by 33% or was it more to do with the rural growth which has gone up?

Varun Berry: The rural growth in the markets which are serviced by these 8,300 rural distributors, so in the focus markets we have seen a growth of 33%.

Moderator: Thank you. The next question is from the line of Chirag Lodaya of Value Quest. Please go ahead.

Chirag Lodaya: Sir, my first question is on overall price hike.So we have mentioned we have taken selective price hike.So if you can just help us understand what has been the price hike till now on overall basket and some qualitative comments on pricing versus promotion?

Varun Berry: We have initiated price hike which we have seen very little out of that in the first quarter, but we are making sure that we get the price hike in the subsequent quarters because the inflation is very clear… the commodity prices and everything else is clearly written on the wall, but if you were to look at the standalone results, you would see that our revenue has grown by 9.1%, our volumes have grown by 8.3%.So earlier if you were to go to last year our volume growth were higher than our revenue growth. They have started to even out and now revenues have started to move up.So there is about 1% increment because of price in first quarter.

Chirag Lodaya: So what kind of overall price hike from FY-'17 full year point of view we are looking for… any ballpark number?

Varun Berry: About 5.5%.

Chirag Lodaya: When we say 2.7% cost saving, do we mean 2.7% as a percentage of sales?

Varun Berry: Yes.

Chirag Lodaya: So roughly incremental Rs.220-240 crores of cost savings we are expecting this year?

Varun Berry: No, I am talking about only the domestic standalone revenues.

Chirag Lodaya: So again so numbers would be like more than Rs.140-150 crores?

Varun Berry: Yes exactly.

Chirag Lodaya: Can you give us some qualitative comments on other expense part, so what has been the driver for improvement in other expense if you see inflation in other expense has been around 5%?

N. Venkataraman: It has been primarily reduction in the manufacturing cost driven by fuel cost being lower and efficiency is in transportation in absolutedistance.

Chirag Lodaya: Can you give the YoY number for this conversion and other related chargeswhat we used to classify earlier?

N. Venkataraman: On a standalone basis it has been flat versus the last year.

Chirag Lodaya: Just update on your new product launch Deucelast year, are we planning to roll out on pan India basis?

Varun Berry: What we are doing is we have taken the feedback from the market and now we are incorporating that, we are making sure that we get everything right before we launch it.The other complication there is that you cannot launch it in the summer because the product starts to melt, so we will have to do it when the weather changes.So it just gives us some time.So it will probably be towards the back half of this year.

Moderator: Thank you. Our next question is from the line of Amnish Aggarwal of Prabhudas Lilladhar. Please go ahead.

Amnish Aggarwal: A couple of questions:One being that if you look at say the recent month or so despite commodity prices going up, we have increased our promotions significantly, for example, currently we are giving Rs.10 pack of Britannia Marie is like buy 4 get 1 free and even in the recent Rs.10 pack of Good Day we are giving 33% extra.So does it indicate that there is too much of pressure in the market for demand and despite commodity prices going up, we have stepped up our promotions significantly?

Varun Berry: You are talking about two different things.So let me explain that to you. The first is about a modern trade promotion, these modern trade promotions happen always especially they have these two big days; they have a big day on the 26th of January and then they have a big day on the 15th of August.So I am assuming that this is a big day promotion that you are talking about.Now getting to the Good Day promotion that you are talking about, the way we are balancing it out is that obviously there is a part of the portfolio where prices have been taken up.So if you were to look at what we have done with Good Day Cashew you will see that we have taken a price up in the family pack as well as in the Rs.10 pack.So those are the prices that we have taken up.If there is some pressure as someone else was saying that ITC is running a promotion and someone else is running a promotion,if we see a promotion, we selectively do this promotion for a short period of time so that we can balance the two book ends -- the price increase as well as making sure that we donot become uncompetitive. So that is the tight rope walk that you have to do all the time because you donot want to lose competitiveness, at the same time you want to make sure that you get your pricing in.

Amnish Aggarwal: Sir my one maintenance type of a question that you havenot given the volume growth in the standalone business.So can you share that number with us?The tax rate because on Y-o-Y basis in this quarter tax rate is down, but it is on the same line as well as the full year.So what sort of tax rate we should presume for FY-’17?

Varun Berry: Volume growth is 8.3% for standalone.

N. Venkataraman: The effective tax rate for Q1 has been about 32.8%.

Amnish Aggarwal: Sir, what is the guidance for full year?

N. Venkataraman: For consolidated and standalone number it should be on similar lines only, standalone would not be very different.

Amnish Aggarwal: If we look at some of the innovations you have done in the past few years, whether it is your Good Day which is having Choco-chipsin it or some of the other premium segments in NutriChoice,etc.,So these are I would say futuristic products because they are where your Good Day and Bourbon used to be 10-years back in terms of affordability.So these you are developing for the longer-term, but as of now what sort of traction you are witnessing in some of these products and if you can share that how some of these products which today are say pricing anywhere between Rs.15 to 25 or upwards of that per 100 gram, so what sort of say growth is there and how much they are as a percentage of our sales?

Varun Berry: Basically if you look at the high priced very premium products, we were not expecting very big volumes and very big revenues from them.You are absolutely right we want to seed them in so that we are ready for the future. The big volume gains from innovation are coming from products like the 3-in-1 Nut Cookie in Good Day and similarly recently we have launched a 50/50 Mathri product.Now those are very interesting products, it is a biscuit which tastes exactly like a Mathriand it has got that lime pickle taste, etc., So the big volume and big revenue gains that we get and even profit gains are coming from these products which are mainline but highly differentiated, right.So that is where we are getting them and we will continue to do a dual strategy on this, continue to build premium products for the future and continue to launch highly differentiated and delightful products which are in the affordable range and which will keep giving us the higher revenue and the volume that we are looking for.

Amnish Aggarwal: Sir, what my question was that in terms of the products which are priced at say upwards of Rs.150 a kg in terms of our Cookies and some of the Premium Biscuits what could be our growth rate in that if you can share?

Varun Berry: Rs.150 is very good,Rs.150 is more than what our growth rate for the company is and it is only the very premium products which are Rs.350 plus where also the growth rates are good, but the volume and the revenue is very small as of now.

Amnish Aggarwal: So these are actually growing at a much faster pace?

Varun Berry: Yes.

Moderator: Thank you. The next question is from the line of Amit Sachdeva of HSBC. Please go ahead.

Amit Sachdeva: Sir, just coming back on bit for price increases and some commentary you made.So if I hear clearly that you plan to take full year about 5% price increase for FY-'17.Would this be effective price over the previous year, is that the correct understanding?

Varun Berry: Yes, this is the correct understanding.

Amit Sachdeva: So 5% if I read some press reports recently there were a couple of articles that you have already taken about 5% portfolio hike in the Biscuit side?

Varun Berry: So we have already taken price hikes in our portfolio, they have not been effective.

Amit Sachdeva: They have not been effective as yet.So last quarter has zero impact?

Varun Berry: Like for example we havenot seen the whole of the first quarter with price increases.

Amit Sachdeva: When exactly was some part of it started coming in if you could get some understanding that price increases in this quarter?

Varun Berry: Towards the last month of the Q1.

Amit Sachdeva: So in that sense once this price which has already been taken, so maybe there is only little question for taking additional price increase, you are essentially saying that bulk of the price increase actually has already been taken with your guidance of 5%?

Varun Berry: Yes.

Amit Sachdeva: When you are looking at margins and trajectory for this year given the competitive scenario you described, would this saving of 2.5 to 2.7%, is it designed to sort of come back only the input price inflation so that your pricing has to be minimum or is it something that you are looking at with mix and some price cut this margin actually should expand, how are you thinking about your overall volume versus margin picture as we go into the year?

Varun Berry: So the cost savings are across, these are not just related to pricing and commodities, these are across our entire operation in any function in the company.

Amit Sachdeva: No, my point is that, it is being squeezed because you said that since the input prices firmed up, you are anyway doing this cost sort of control and things like that but only to sort of combat this input price inflation and things like that and increase efficiencies there.The message I want from you is that is it to structurally improve margins and operations of the business or is it to make sure that the commodity environment which is firming up is managed well and competition is also maintained in some sense that competitiveness of pricing also maintained?

Varun Berry: No, it is to improve the margin of the business and it is just that because of the commodity situation that exists we have really pushed ourselves to maximize this number this year.

Amit Sachdeva: In terms of when you say 1% pricing this quarter, I assume that pricing was very little.So is there any mix playing out as well for you in favor or mix is almost negligible now?

Varun Berry: Mix is very small; it is probably 0.2%, so out of that 1%,0.2 comes from mix and 0.8 is coming from pricing.

Moderator: Thank you. The next question is from the line of Ajay Thakur of Anand Rathi Securities. Please go ahead.

Ajay Thakur: I had one question on your current capacity utilization on the Biscuit front.What it would be currently?Can you also share the mix of your in-house and outsource as it stands today?

Varun Berry: Our capacity utilization always is (+95%), we do not build capacity which is in excess of what we require.So it is always a tight rope walk because idle assets for us are complete no-no in the spirit of the cost savings that we keep doing.So we are always utilizing more than 95%, now there might be a slight up here and a slight down there, but overall capacity is always 95%. This year we started the year at about 50:50 between us and contract packers, this will move up as we go through the year because we have recently put up two new plants -- one is in Bangalore and other one is in Erode in Tamil Nadu.So as these plants come into full function, we will probably end up closer to being 60% in-house and 40% contract.

Moderator: Thank you. The next question is from the line of Sameer Gupta of India Infoline. Please go ahead.

Sameer Gupta: Sir, if I look at your depreciation for the quarter, quarter-on-quarter there has been a 10% decline.So was there any one-off in the previous quarter or subsequently this depreciation will move up to that level, what are we supposed to assume for the full year?

N. Venkataraman: No, there has been no one-off in Q4 if that is your question. If some assets have become zero during the quarter, then you have a reduction in the charge on depreciation.

Sameer Gupta: So going forward also this number as a guideline?

N. Venkataraman: Yes.

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

Tejas Shah: Sir wanted to know if you can throw some light on the composition of U.P.'s Biscuit market in terms of Mass and Premium products, are the growth rate between the Mass end and the Premium products similar or is there a premiumization happening at a faster pace there?

Varun Berry: I would not be able to off the cuff give you so much detail on the state, but what I can tell you is U.P. is almost 85% Mass and 15% Premium while it will be exactly the opposite for us in this state.So we still sell bulk of our products are Premium. The way we do it is that while we use our Mass products which is Tiger Glucose, Tiger Cookies and Tiger Creams to get into the outlet, but we also then place all our other products along with it.

Tejas Shah: So that market is volume growth or dwarfing a value growth or vice versa just to understand the premiumization trend?

Varun Berry: Even in UP the trend is the same, the higher price products are growing faster than the value products, but the overall growths are negative for Q1.

Tejas Shah: Our other income for the quarter grew by 65% YoY to Rs.39 crores.If you can help us some ballpark figure to understand how much we should pencil in for the annual number?

N. Venkataraman: So the impact has been primarily on account of fair valuation of investments.What happened in Q1 is the first time impact that would have come in there.So very difficult to say what it is likely to be in coming quarters, but it shouldnot be as high as it was in Q1?

Tejas Shah: Sir CAPEX plan for FY-'17 and '18?

Varun Berry: We will continue to invest, there are three other locations where we are looking at putting up new plants, bulk of our investment will come in new manufacturing facilities, second will be innovation because we are looking at bringing in new products and new types of Bakery products into the country, which will also require some kind of investment, ballpark about Rs.350 to 400 crores.

Moderator: Thank you. The next question is from the line of Sridhar Nishtala of T Rowe Price. Please go ahead.

Sridhar Nishtala: So the question I had was just on your capacity expansion as well?Also what is your desired objective in a medium-term of insourcing versus outsourcing?What is the benefit that accrues to you from doing more insourcing versus outsourcing either from a cost perspective or quality or whatever?

Varun Berry: The objective really is to get to about 65:35 kind of a breakup between in-house and contract packing. It is very important to have a contract pack as a part of our strategy because that gives us the flexibility, that also gives us the closeness to the market.So we do want to make sure that we keep with that.What we are trying to do is we are trying to scale up our plants to be large, we are looking at a better technology, we are looking at fuels consumption and how we can reduce that.We are looking at mechanization, we are looking at automation.So all of that comes with scale and all of that is only possible if you are building a large factory.So that really is the reason for us to go this way.Over a period of time if there is a partner who is willing to build a similar plant and do contract manufacturing for us that will be a great way for us to move forward as well. So, we certainly will keep contract packing as essential part of our system, but we will scale up both in-house as well as contract packing plants to a certain size, get all the requisites that are required from making these genuinely modern and smart plants.

N. Venkataraman: To your second question, most of the new factories that we are setting up,are significantly automated compared to the existing factories.So we have benefits of labor, we also have benefits of fuel usage and alternate fuel being used there.So there are definitely benefits in our own factories.

Varun Berry: We are looking at qualifications of all these plants by American Institute of Baking.So qualitatively also we will obviously be graduating to a very different kind of quality product what consumers are used to.

Sridhar Nishtala: If I look at the difference between consolidated and standalone EBITs for instance, it seems like the differential has fallen by half during this quarter versus the previous quarter, is there anything that we should be aware of in the base quarter or in this quarter?

Varun Berry: No, so I spoke about that, if you were to just go back to my presentation, where there is one slide on update on our subsidiary businesses, it is very clear there, so one is the Dairy business got good top line growth,as well as the Middle East operations. So these are the two areas where we have seen a little bit of downside from a profitability standpoint,Dairy is high milk prices and the MAT which has gone away to being regular tax.So those are the two reasons.International is basically Middle East where some of the markets have become very sluggish and there are some currency crashes in parts of Africa and Middle East.

Sridhar Nishtala: It is all operational essentially.There is no unusual items there?

Varun Berry: There is no unusual.

Moderator: Thank you. We will take our last question from the line of Gabor Sitanyi of Charlemagne Capital. Please go ahead.

Gabor Sitanyi: Just wanted to follow up on the price increase question.Since you increased the prices late in the previous quarter, have you seen any impact on borrowings or has it been maintained round about 8% volume growth, and as a result the overall top line growth for the year should we see sort of 13-14% overall top line growth?

Varun Berry: So we usually donot give a forward-looking outlook, but because this is a question which is going to be answered that many people would be wanting, frankly, no slow down from a revenue standpoint, and my experience from the past is that unless you become extremely uncompetitive and you stop executing the way we have been in the past, the revenue numbers do not change, it is always the volume which will change a little bit volume will come down and overall revenue will go up. I am hoping that the industry growths will also pickup in a couple of quarters and that should also take care of us getting over the double-digit number, because I think in a country where the GDP is growing 7.5%, FMCG is not growing double-digit is not on.So our target has always been to be at double-digit numbers.

Gabor Sitanyi: Secondly on the 2.5% cost savings, should we view that the primarily just the measure of counterbalancing the raw material price increases which yet to be coming through the next few quarters or to what extent that 2.5% we should see as a sustainable margin improvement?

Varun Berry: Actually I have been getting 1.5 to 2% for the last 3 or 4-years, this year specifically we doubled up, because we wanted to mitigate some of the commodity increases that we were seeing, but I would say long-term basis we would certainly target 2%.

Gabor Sitanyi: 2% cost cutting as a percentage of sales?

Varun Berry: Yes.

Moderator: Ladies and Gentlemen, that was the last question. I now hand the floor back to Mr. Ramamurthyfor closing comments.

Ramamurthy: Thanks everyone for spending time with us on this call.We look forward to interacting with you again soon.

Moderator: Thank you. Ladies and Gentlemen, on behalf of Britannia Industries Limited that concludes this conference.Thank you for joining us and you may now disconnect your lines.