



“Britannia Industries Ltd. Q1 FY 17-18 Results Conference
Call”

August 09, 2017



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Moderator: Good Day, ladies and gentlemen and welcome to the Q1 FY '17-18 Earnings Conference Call of Britannia Industries Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. 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, sir.

Piyush Bhandari: Thanks, Margaret. Hello, everyone. This is Piyush Bhandari from the Investor Relations Team in Bangalore. I welcome you all to the Britannia Earnings Call to discuss the Q1 '17-18 Financial Results. Joining us today on this earnings call is our Managing Director -- Mr. Varun Berry; CFO -- Mr. N. Venkataraman; Head of Sales -- Mr. Gunjan Shah; Head, Marketing -- Mr. Ali Harris and Head of Procurement -- Mr. Manoj Balgi.

We will start the call with Remarks on Performance by Mr. Varun Berry, subsequently, we will open up 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 products and pricing pressures, industrial relations and regulatory developments.

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

Varun Berry: Good Afternoon, everyone. Happy to be on the call with you and welcome. Thank you for being here with us.

So let me start with the "Presentation." Getting on to the first page, what it says really is what we have faced during this quarter. So it has been a highly challenging environment for the last three quarters. So considering that the destocking that happened because of GST etc., I think it has been a very good quarter for us.

Next page talks about what we think is our philosophy. So we really think that delivering consistent results is something that we keep very close to our heart. What we really want to do is, it is about doing everything consistently. So the principle that we follow, it is not what we do once in a while that shapes our business, but what we do consistently.

The next page gives you the "Six Strategic Focus Areas" that we have imbibed within the organization.



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So the First one is about “Driving Premiumization through Innovation and Remaining Extremely Competitive in the Marketplace.”

Second, “Increasing our Distribution Footprint” which we have been doing regularly now for the last five years and growing rural and obviously winning share from local players wherever we operate especially in areas where we are weak.

Three, “Attaining Cost Leadership through Efficiencies and Waste Reduction.

Four, “Focus on People Development.” That is a very-very critical to our business model and also I think that helped us a lot in the last five years.

Five, “Entering One New Geography Every Year from International Perspective.

Six, “Entering New Product Categories to be a Total Foods Company over the Coming Years.”

The first one which is about “Driving Premiumization through Innovation and being Competitive.” So what we continuously do is now we have got that R&D center in Bangalore and that is working really well for us. The team is in place and we have been churning out some very-very good products -- Good Day Wonderfulls which is doing very well in the marketplace. Just recently, we have launched Treat, which is Chocolate shell with Vanilla and Chocolate Cream, two variants, and both of these products are doing very well. So these are just examples of the innovation that we have done. Similarly, from pricing or promotion perspective, we make sure that we are not very far away from where competition is so that we are not just focusing on distribution, but we are also focusing on value that we provide to the consumers.

The second one that I spoke about was “Increasing Distribution Footprint” which frankly I think has been a great run for us. Direct reach today is at 1.6 million outlets which is 2.2x what it was four years back. So that we are very proud of. Also, our total reach now is 4.7 million outlets. So we have been continuously expanding our direct reach which is really our focus, but as a result of that, we have also been expanding our total reach.

Our rural growth continue to be double-digits. That is one area as all of you know weaker than we are overall. So that is something that we are focusing on and we are getting good traction there as well.

Now with GST being implemented, it has become a level-playing field. One from taxes paid standpoint, and second from the tax rate standpoint as well. So in this scenario, we are looking at all the regional areas where we have a lot of the smaller ‘B’ brands who sell at lower prices as well as give heavy discounts, so we are targeting those areas to see if we can take advantage and



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get share in those areas... and I can say that in the last quarter, we have got some very good results in that area.

Moving on to the next page, it is about "Cost Leadership." We have always been talking about efficiency improvements. We have reduced our distance to market. We are now down to under 400 Kms which is very good and we have got two new Greenfields coming up this year -- One is in the SEZ in Gujarat which should be ready by end of this financial year; Second one is in Guwahati which should be also ready by the end of this financial year; and the Third one that we are in the process of building plans for and I have already bought the land is in Ranjangaon near Pune which is going to be a "Mega Food Park" for us. We have applied to the Maharashtra government to get the incentives for this, and once that is through, we will build this food park very-very quickly.

Why do we call it a "Food Park?" We call it a Food Park because it is going to house not just what we do ourselves, but some of the joint venture companies as well. So the joint venture company which is going to produce a long shelf life croissants is also going to be housed in Ranjangaon plant, and similarly if we have other joint ventures in the future, those could also be housed in this plant.

On "Wastage Reduction," we continuously work on this, and we have been able to reduce this dramatically in a lot of areas. So whether it is market returns or write-offs or the trade loads that we spend, everything has been moving in the right direction, and we have been reducing it and leveraging it continuously over the years.

Third one is about "Cost Efficiency Programs." As I had said even during the last conference call, we are targeting a very aggressive and a very-very ambitious number on cost-saving this year. So that is going to be a number which is 60% higher than previous year. I am happy to report that in Q1, we were in line with our target.

Moving on to the fourth which is focused on "People." So one thing that we always been stressing on is the slogan of "Britannia for Britannians." 80% of my team which is the current senior leadership team is from within Britannia and they are doing a fantastic job and they are the reason for the good results that we are producing and we hope to keep it that way. We want to give opportunities first to Britannia managers before we take a mandate out of Britannia.

The second, we have always had good people policy, but we have strengthened that area quite a bit. We have launched a lot of new policies which help people maintain their work/life balance.

The third one is about "Young Managers." We thought about three years back that it is very important that we start to look at what the youth of India is looking for. So we created this group



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of young managers who are under 30 within Britannia to act as filters for whatever we do in terms of product launches, in terms of distribution efforts. All of that is filtered by these people and they tell us whether the youth in India will like or dislike what we are doing. Even advertising, we filter it through these guys. So this group as we call it the "Young Managers Group" is working really well for us and especially as we start to look at new categories, it will be very important for us to start to cater to the youth of India which is 60% of the population is under 30 in India.

Moving on to the next page which is about the "International Foray." As I said in the beginning, we would like to enter one new country every year. So our entry for next year is going to be Nepal. Nepal is the country where we have been exporting products and we have set up a base. Now, we are looking at putting up a plant there and setting up operations there. So hopefully, that will give us very good dividends as we move in there. We have already done the basics, we have registered the company, we have done all that is necessary. Now, we are waiting for the environmental clearance. As soon as this happens, then we will be putting up our plant and running the operation there. We are also actively working on what the next geography for us could be. The alternatives would obviously be in and around India, Africa and other countries where we have right to succeed.

The Sixth one is about being "Total Foods Company." The first step that we have taken is to have a joint venture with Chipita and I had said that in the last conference call as well, this is a very exciting product which is really in the right space.

So how is it in the right space? One, it is a delightful product. Second, it is filling. Third, it can be consumed on the go. Fourth, it is any time of the day snack.

So from a young population standpoint, it ticks a lot of boxes and we are hoping that this should be a big one for us. The plant should be ready by middle of next calendar year and hopefully we should be in the market by July or August.

The Dairy project which we have been talking about for some time, I am sorry that it has taken time but I think I am glad that it has taken time, now in its final stages of finalization. I think in another month or so, we should be able to give you a very clear view on where we are going with this, and the home for this, whenever that happens is going to be Ranjangaon which happens to be in the middle of the districts that produce the highest amount of cow milk not just in Maharashtra but all across India.

The other adjacency is "Cake and Rusk." There are lots of new innovations that we are looking at. There are new technologies that we will be looking at to produce these innovative products,



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and over the years, we are going to start to bring in these technologies, and we are also evaluating other adjacent opportunities which sit in the macro snacking area.

Now getting to the "Results", we have delivered a high single digit value growth in Q1 on a standalone basis. So on a standalone basis which is for India, it was 7.4% revenue growth. The adjacent businesses, bread has started to do well not just from a top line perspective, but also from a bottom line perspective, although it is not accretive, but the profitability is moving in the right direction.

International continues to be a little sluggish. Basically, the reason for that is the geo-political situation that exists in Middle East and the currency situation in some of the countries in Africa.

Dairy: Beginning of this year when we were writing our strategic plan, we decided that we will be focusing on the profitable part of Dairy. There were many components of Dairy which were giving us nothing to the bottom line and we decided that we will slowly yet steadily move away from those commodity segments. As a result of that while the profitable segments are growing double-digit, overall our Dairy business has been on a slight decline because of deemphasizing the commodity areas of Dairy.

Moving on to the next page which shows our "Revenues over the Quarters." So our revenue for Q1 of this year was Rs.2,301 crores, this was on a consolidated basis, we have grown 6.4%, and if you look at it, is a slowdown from where we used to be, but there are obvious reasons for that, and we are hoping that now with GST done in a quarter or so we should be in a position to get back to our heady days of double-digit growth.

The other positive which to my mind is a very-very big positive is that we have grown market share in this difficult phase. This has been with some months where we were extremely disadvantaged on pricing as well for a few product categories here and there. Now, we are back and competitive once again. But despite that we have grown share fairly handsomely.

While all this is happening, there is still inflation as far as commodities are concerned except for wheat and flour therefore which is in low single digits. There is double digit inflation on the other commodities. So if you were to look at for Q1, flour was at 3% inflation, sugar at 17%, palm oil at 11% and milk was a hefty 24% inflation. Q2 last year, as you remember was a fairly large inflation versus the previous year. So as we get to Q2 and Q3, the inflationary trends versus last year will start to check a bit. As a result of that, our bottom line performance has been I would say consistent. This is due to our limited pricing action. It was not possible to take too much pricing during this quarter, because no one was clear about the GST rates in the beginning of the quarter and we accelerated our cost efficiency program. We did get some pricing, but that was more the partial year factor pricing done in the far end of last year. But we really worked hard



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on accelerating our cost efficiency programs which have given us very good results and we have leveraged our fixed cost as well. In times like this, when you see a little bit of turbulence, it is always good to tighten your seat belt and that is what we did. We did not just tighten our seat belt but we also tightened our belt on costs and that is what gotten us to the numbers that I will show on the next page. So if you look at it, our Q1 profit was at Rs.295 crores which was better than what we have done in the last two quarters sequentially but was a little lower in terms of percentage from what we did in Q1 of last year.

Now, getting to the final slide which is on the “Key Financial Lines for the Consolidated Business.” Our net sales grew by 6.4%, our profit from operations grew 2%, our profit before tax grew 1%, but profit after tax was at (-1%), and if you were to look at the profit from operations over the years and for this quarter, our profit from operations for Q1 was better than what we did in 2016-17 as a full year, and similarly, on profit before tax, the profit after tax was lower because of higher tax rate and we can answer that, I am sure, a lot of people would ask that question, so we will take that in the question.

So that is all from me. We will now open the call for “Questions.”

Moderator:

Thank you very much. We will now begin with the Question-and-Answer Session. The first question is from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki:

A couple of questions from me. Firstly, if you could quantify the amount of down stocking you have seen in this quarter, on the distributor side, I am sure you have an exact idea, and on the wholesaler, retailer, if you can give me your best estimate, that would be question #1. The second question is in terms of the market share gains that you have spoken about. Just help me understand here, I think in this category, most of the inputs are agri inputs. So it is quite possible for a manufacturer to remain completely out of the chain of GST, unlike other FMCG categories where you do not have agri as the main input. So from that point of view, why is it that the unorganized business cannot manage this changed reality of tax compliance because he does not really need to stay in the GST chain at all? Sub-question to this is, since you are saying there is a market share gain, could you sort of give an idea as to whom you are gaining -- are you gaining from the national players or is it from the small regional players or is it completely from the unorganized kind of players?

Varun Berry:

The first question was on what kind of destocking that we have seen. So very difficult to pinpoint a real number, but I would say in the month of June, it was to the extent of about 10%, right. But I think there was a little bit of confusion after demonetization and then the expectation on the GST, etc., So I would think if I were to look at it, it was about 5% for the total quarter. So that was the kind of destocking that we saw.



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- Percy Panthaki:** So in other words, if the destocking had not happened, your sales growth would have been about 12% on the standalone?
- Varun Berry:** That is the inference. So that was your first question. Your second question is because it is agri-based why would the unorganized players would get to any players that any different players from where there were earlier. I would let Venkat answer that question.
- N. Venkataraman:** I think it is about two parts -- While the input item is in agri products; the finished product is liable to tax both under excise and under VAT. So possibly if somebody was not fully compliant there, that is one area. The second is under GST, unlike under VAT, it was not ready for just the operator to be completely prepared. It is for the entire ecosystem to be ready which means that if vendors were to be ready, distributors also had to be ready and the government also has to be ready.
- Varun Berry:** No, no, he is talking about how does it get traced that someone is not compliant on tax.
- Percy Panthaki:** Can I not stay out of the GST chain completely? There is no way someone will come out if I refuse to pay a tax right ab initio in the entire value chain can stay out of the GST sort of..
- N. Venkataraman:** That can happen, but what is unlikely is some of the critical ingredients and machinery that will need to be used in a biscuit factory, even laminate in flavours.
- Varun Berry:** There are lots of other things. So if there is anything in the chain which attracts tax, there is obviously that much amount of visibility on to what a player is doing. So we are not experts in this, but I would say that it makes it a lot more difficult than what it was earlier. Your last question was about share. So frankly, we gained share from national players as well as from smaller players during this quarter, but we are hoping that as we move forward, we will be able to get more share from the 'B' brands.
- Percy Panthaki:** Because of the new sort of increased compliance requirement?
- Varun Berry:** That is right.
- Moderator:** Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.
- Latika Chopra:** My first question was on pricing. Have you taken any pricing actions post GST?
- Varun Berry:** We have taken some prices downwards, so there are certain categories where we increased the grammage in our packs and that was there were certain product categories where we had a little bit of a benefit of GST, so we have passed that down to the consumers. There are certain categories where we have also been hit by the GST rates which is in the value portfolio. We have



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not taken any upward pricing right now but yes, in the next three to four months, we will be doing that as well.

Latika Chopra: If I heard you correctly you would expect revenue growth to revert back to double-digit levels post a quarter or so?

Varun Berry: I would hope so because once things start to fall into place and GST blues are out of the way, I would think that we could get to the same kind of resurgence that we have been waiting for some time now.

Latika Chopra: If you could share some thoughts on margin progression. So one should start anticipating margins to improve over the course of rest of the year because the raw material inflation if anything is going to be lower versus where it is today?

Varun Berry: While the inflation will be lower, from a table standpoint, it is not that the prices are going down. So none of the commodities are trending downwards except for milk possibly. While we do not give any future guidance but I would say that the joker in the pack really is the top line at this point in time. We have to really make sure that top line starts to get to a very good number as we go forward, and if that were to happen, then we will be in a good place.

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

Sameer Gupta: Sir, first question on Chipita, when can we expect the launch and what kind of price points are we looking at for this product?

Varun Berry: We have not decided that, but it is going to be a very affordable price point. So we are still in the process of finalizing that, how many grams, what price, etc., but one thing we are very clear that it has to be affordable and it has to be affordable by everyone in the street. The launch probably is going to be in the month of August next year. So we are just waiting for the Maharashtra government to give us clearance so that we can start to put up our plant in Ranjangaon. Earlier, it was supposed to be in Perundurai but because of the incentives, we are now looking at putting this up in Ranjangaon.

Sameer Gupta: Sir, what would be a likely road map for the international business kind of sense on how do you see this panning out in the next 3-4 years as a percentage of your India sales or total sales, is there a target?

Varun Berry: Yes, we have a target, but what we are saying, we do not have a very aggressive target at this point in time. We are also looking at bringing in some resources to help us do aggressive plan as well. So right now as it seems in the next two years, if we get from 7%-10% of our total revenue



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through international, that would be good. But on the back of that, we will also have aggressive plan with some aggressive targets so that we can start to look at how we can grow this even faster.

Sameer Gupta: Sir, any clarity on the Dairy business, what is the final plan on that, we have been hearing for some time now that the final plan is still work in progress.

Varun Berry: I do not blame you for that because I know we have taken a long time for that, but as I was saying, I think we are a lot clearer today than we were even six months back, but it is still not signed on the dotted line. But what I can tell you is that we are fairly positive on the Dairy business -- One, it is the largest food category in India; Two, obviously, every mother thinks that it is the right product for the child; Three, also from ecosystem standpoint, it does a lot of good for the entire ecosystem which covers the farmer's family, etc., and obviously, the products are great products if you do them the right way. So I would say today as a company and as a board, we are leaning towards being positive on this, but I would say just give us a little more time, and we will be back with our total plans.

Sameer Gupta: Any colour on the income tax rate in this quarter and in FY'18 what can we expect?

N. Venkataraman: Income tax rate, we do not see any change from what we are reporting for Q1, because till last year we had this investment allowance benefit which is no longer there from 1st of April. So the tax rate is likely to be what we have reported in Q1 of this year.

Sameer Gupta: That would be around 34%?

N. Venkataraman: Yes, correct.

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

Tejas Shah Sir, my question pertains to "Strategy Expansion Plan." For last two years, you are saying that there is a huge opportunity for us on Hindi heartland and we are also focusing on lot of go-to-market strategy, but whereas our expansion is largely coming into west and south India. Even in last year, out of eight lines that we expanded, except one all were in south India. So just wanted to understand the disconnect between the two?

Varun Berry: You should not consider everything from what we done in this year because this is a subdued year, right? So our long-term capacity plan has made basis what kind of capacities we have in different places, and hence what is required. So we did put up the Northeast the Guwahati plant which is going to be a large plant. But you are right, this year the requirements were where they were and basis that we put up capacities. But North, there are two things which have happened -



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- One is that the Northeast line has come up; Second, the SEZ plant which we are putting up is freeing up capacities in the North which will be used for our North business.

Tejas Shah: In this quarter's presentation, the mention of Hindi Heartland states which was supposed to be the most potential growth states is missing. So just wanted some commentary on those states.

Varun Berry: No, while growths are lower than what they were, we have not really presented at this time but we continue to make the same kind of gains that we were making in those states. In fact, some of those states have become even better... MP was not looking as good as Gujarat and Rajasthan earlier, but now, MP has also started to look very good for us, the growth has doubled in MP as well, while Rajasthan and Gujarat continue, even in UP which is a large state, our growth there is about 1.3x what it is in for a national level. We are not happy with that, we would want it to be 2x what it is in the national level, but we are putting in all the infrastructure, all the requirements that are going to get us to that level the national growth. So hopefully we will get there.

Tejas Shah: At a stage that we have reached now, would it be possible for you to give us some guidance on what will be the expected margin or capital efficiency profile that you are targeting versus the current business and Dairy business?

Varun Berry: We still have not got all the details. So I would not be able to comment on that. But obviously the objective will be to one, become more competitive because of owning our backend and two, make our margins better than what they are today.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.

Kaustubh Pawaskar: Sir, my question is on your Value portfolio. Post the launch of Tiger, how this portfolio is shaping up and your target was to inch up market share in this particular space. So can you throw some comment on it?

Varun Berry: It has been a mixed bag. I would not say that it has been a spectacular success. But there are parts of the portfolio where we are doing very well, but there are certain parts where we are not doing well. If you were to average it out, we may be gained a little bit of share but not too much. But what it is certainly doing is it is helping us piggyback our other products. So our distribution has improved and with this we have been able to piggyback our other products like Good Day and Marie and all of those into the outlets in the value states which is the Hindi belt, we have been able to get better distribution as a result of that.



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Kaustubh Pawaskar: In 'Presentation', you mentioned that rural is growing extremely well for you. So with better monsoon this time this is the second consecutive year, what are your expectation from the rural market...do you expect the contribution of rural to expand in your overall domestic business?

Varun Berry: I would think so, because the agriculture economy last year was also good monsoon and before that for two years because of the drought the rural economies were subdued, so I would think that the rural economy should be a lot better this year than what it has been in the last three-four years.

Kaustubh Pawaskar: What are your CAPEX plan for FY'2018 and '19 if you could just tell us?

Varun Berry: We know what our plan is for this year and I think it will continue. Last year we spent about Rs.300 crores on CAPEX, this year probably be about Rs.400 crores. I would say it will remain in that area for our regular requirements. If there is a big project which comes up which will be on top of that.

Kaustubh Pawaskar: With these investments in building up of the capacities, when do you see your in-house manufacturing to reach the levels of 60%...can we expect it to happen by FY2019, is it what the target at the company level is?

Varun Berry: It will probably get to about 65% by the end of 2019.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.

Kunal Bhatia: Just one clarification; in terms of the CAPEX which you mentioned, would it include the expansion which we are doing in Dairy as well or that would be excluding?

Varun Berry: No, that excludes that.

Kunal Bhatia: Secondly, if I got it correct, you mentioned that the cost efficiency program this time is 60% additional to the last year. So if you could just quantify how much was it last year and what are we looking for going forward?

Varun Berry: It was about Rs.145 crores last year and we are targeting Rs.250 crores this year.

Moderator: Thank you. The next question is from the line of Rahul Maheshwari from IDBI Mutual Fund. Please go ahead.

Rahul Maheshwari: My first question is as we are finding your two brands which are big brands like Marie and Good Day. Which is the other brand which you are expecting as big as this and how is the NutriChoice



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which is on the line of health and wellness, that brand is performing at least in the urban and metros?

Varun Berry: Let me get Ali to speak to you about this.

Ali Harris Shere: Like you said that Good Day and Marie Gold are two largest brands, we have huge focus coming up on two other categories and that is something you can see right away which is the premium segment of Premium Cookies which is Good Day, we have just launched a new brand under Good Day called Good Day Wonderfulls. The other category that you are going to see a lot of action is in the Premium Creams. We have a brand called Treat in Premium Creams and we have just relaunched Treat, Varun mentioned that in his address. It is two new products which is Chocolate and Vanilla with Chocolate Cream and we really think that we can make big business out of it.

Varun Berry: NutriChoice is a big brand for us. There is a lot of focus on that brand as well. So last year we launched NutriChoice Oats Cookies which are doing extremely well.

Rahul Maheshwari: Is it growing in strong double-digit growth rates?

Varun Berry: Yes, it is growing in strong double digits.

Rahul Maheshwari: Just in terms of competitive intensity, according to you in the market, ITC is becoming a very aggressive, which products do you think are going right according to whether it is ITC Parle, etc., which you think that those can be a tough competition across region-specific or product price points kind of thing?

Varun Berry: It would not be possible to give you a complete detail on that, but I can tell you that both Parle as well as ITC are great competitors, they are very good companies, they do the home work, they launched products which are absolutely right for the market, so it is great to compete with such players who are very good at their field. So we are always on our toes on whatever they launch, it is not just about one product or the other, we absolutely keep on our toes on every potential launch from competition.

Rahul Maheshwari: It was good to listen that you have doubled your direct distribution within four years. So within next four years, can we expect this direct distribution to double from 1.55 to at least 2.5 or 3 in the range?

Varun Berry: We are looking at 200,000 to 250,000 outlets being added every year. So you can do the math on where we will be after three years. Probably would not be double but it will be substantially higher than where we are today.



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Rahul Maheshwari: Out of majority of the growth which you are expecting at least double-digit growth rate going forward once the macros get improved, so major part would be driven by your premiumization portfolio which is nothing but Treat, NutriChoice or through the distribution expansion which is nothing but direct reach which is going on?

Varun Berry: It is going to be a combination of both.

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

Aditya Somani: First question is on efficiency benefits from GST. Would you still require the same number of factories or facilities or at least the distribution of facilities or would it be easier to supply from a single large facility and this is one of the reasons why I think you are building your big facility in Maharashtra?

Varun Berry: No, it does not change our manufacturing footprint. You got to remember the value to volume ratio that we have for our products, we have got low value and high volume. So one of the things that makes a big difference to our profitability is the proximity to the demand center. So while we are not proliferating our manufacturing the way we used to earlier, so earlier we used to have 80 factories all over the place, small factories, etc., what we have done now is we have got about 14 factories which are in-house at the end of the year which will do about 55% of the total production. So frankly our dependence on lower number of factories but in different parts of the country is the way that we are going. But it is not that we are going to be able to consolidate any more. Yes, there might be a little bit of consolidation on very small plants who do contract packing for us, but for our own plants, I do not think there is going to be any more consolidation as a part of GST because it matters what distance this can travel makes a big difference to our profitability.

Aditya Somani: Secondly, in terms of tax benefits of the new plant, what would be the benefits in terms of both on indirect and direct taxes?

Varun Berry: There are certain states which gives us incentives. But we do not base our judgment on those incentives. So like for example, in the last three or four years, the plants that we put up, there are some plants where we got no incentives, but we needed to have a plant, for example, Perundurai, we did not get an incentive from the Tamil Nadu government, in Karnataka, we got an incentive from the Karnataka government. But it is more based on where the requirement is rather than where the incentives are.

Aditya Soman: In terms of the Maharashtra plant that you are setting up in Ranjangaon, would there be any specific benefits that would be meaningful from a company level?



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Varun Berry: Yes, we are looking at applying for a mega project status and whatever is the industry policy there, according to that we will be given the incentive.

Moderator: Thank you. The next question is from the line of Pulkit Singhal from Motilal Oswal Asset Management. Please go ahead.

Pulkit Singhal: A couple of questions; first is related to your strategic focus area of being a total foods company over the years. So just two questions on that; one is what would be the pace of say a new category would be -- once a year or once in two years? Secondly, when I look at the packaged food and beverage space for the last three years, I notice only two sub-segments that is Dairy and Snacking categories who have actually grown whereas all the other categories have been low to mid-single digit. So while Dairy is something that you are targeting, what is your view on entering the Snacking space, why would you not consider it if you can talk about that?

Varun Berry: The Snacking space is obviously exciting space. There are two or three things that we have got to look at. The first one really is that it is a fairly competitive category with a lot of big players as well as lot of small players who operate in regional areas who are there. So if we get into that, we have to define what is our right to succeed, from a product standpoint, from a pricing standpoint. Obviously, we know our advantages on distribution and our ability to compete in the marketplace, but those are the two things that we got to look at. How are we being differentiated from the others in the market and how are we going to compete with the local players who operate in very small areas but at very low prices. So that is one. Second is how does our brand match up to the category itself. We are a certain kind of brand. Does the brand straightaway fit into that category or do we need to look at bringing in something else? So all those things have to be worked out. So it certainly is one of the big categories within macro snacking. We are evaluating it. But we will not do anything in a hurry. We will make sure that we identify the path for ourselves before we move into any category.

Pulkit Singhal: My second question is more on just trying to understand the unorganized players. So while in Snacking, my understanding is the unorganized players is a lot bigger, I am given to understand it is relatively smaller in the Biscuits category. If you could just provide a sense of how big is the Biscuit industry and what percentage would be unorganized? Have you seen post-GST, that is in the month of July, that particular unorganized players feeling the heat?

Varun Berry: I do not know what you mean by unorganized, but let us say the 'B' brand which is package branded by local players, that space is about 35% of the total category. Then if you were to look at the unorganized bakeries which sell biscuits which are not in packaged form, that obviously is very large, that will be almost 50% of the total biscuits category. So what we have seen not just from GST standpoint but even from a demonetization standpoint, what we have seen is that there is a little bit of pressure on the 'B' players... 'B' players when I say these are branded but



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low priced, regional players, and we have started to see momentum in the last six months in the areas where these 'B' players operate and we have defined sort of a framework for us to get more share in those areas, and luckily for us these areas are same North and East, North where we have a low share, so hopefully we will be able to get more momentum going in the weak areas with this.

- Pulkit Singhal:** So 35% of the category and the category size would be how much broadly?
- Varun Berry:** About Rs.26,000-27,000 crores.
- Pulkit Singhal:** Therefore, there is additional Rs.13,000 crores which is in that Bakery segment as well is what you mean?
- Varun Berry:** Yes, that completely unorganized, unpackaged open biscuits.
- Moderator:** Thank you. The next question is from the line of Anubhav Sahu from MC Research. Please go ahead.
- Anubhav Sahu:** Sir, you mentioned 2019 target of in-house production would be 65%. So what would be the present figure now?
- Varun Berry:** It is about 55% is ours and 45% is contract bakers.
- Anubhav Sahu:** Can you provide some color on the capacity addition from the new plants for this year both in Gujarat and Guwahati?
- Varun Berry:** Gujarat will be catering to the international markets.
- N. Venkataraman:** This is roughly about 60,000 tons of capacity between the unit in Mundra and the unit in Northeast, so 60,000 is roughly on a total is about 10 lakhs.
- Varun Berry:** 6% of our total capacity.
- Anubhav Sahu:** 6% of the total capacity would be added by the end of this year?
- Varun Berry:** Yes.
- Anubhav Sahu:** What are our expectations for the new food park in terms of capacity?
- Varun Berry:** The total capacity that we are going to create in Maharashtra will be about 1.1 lakh tons, which is about 10% of what we will have at that point in time. That is in the first stage. There will be



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three or four stages to the advancement of capacity and there will be other categories as well. But in the Bakery business, that is the kind of capacity that we are looking at for the first stage.

Anubhav Sahu: Though it seems a quite early stage, but any expectation for the first stage completion for Ranjangaon plant?

Varun Berry: We usually take from start to finish about 12-14-months, I would say next year sometime.

Moderator: Thank you. The next question is from the line of Ashit Desai from SBI CAP Securities. Please go ahead.

Ashit Desai: My question is on your comments on inflation. Last quarter you had mentioned inflation being in excess of 10% and this quarter it is around 6%. If I look at your gross margin trend, sequentially there does not seem to be much of an improvement. So is there more discounting in this quarter or any price cut, some color you can give on that?

Varun Berry: We have not been able to take pricing in this quarter. So while there has been a 6% inflation, the pricing is only what we have taken in the previous year which is flowing into this year. So it is the delta between the inflation and the pricing that we have taken.

Ashit Desai: Your pricing has remained more or less constant, right, so inflation being lower should move your gross margins higher?

Varun Berry: I think also the inflation that you are looking at it is versus last year, it is not versus the sequential previous quarter. So we always track inflation versus last year same quarter.

Ashit Desai: If you could give a trend on your ad spends and what is the absolute amount you have spent this quarter?

Varun Berry: We have pulled back a little bit on advertising and the reason for that we did not want to spend money when the overall environment was not conducive to doing the right things from our execution standpoint. There was demonetization and then there was the destocking started to happen with GST coming in. So we did pull back but we spent I think about Rs.80 crores or so in this quarter.

Ashit Desai: What would be the decline and what would be your guidance for the remaining part of the year?

Varun Berry: No, it will come back to normal. This was probably about Rs.15 crores or so lower than what it was last year same quarter. But now with things starting to move in the right direction, it will start to come back.



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Moderator: Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to Mr. Piyush Bhandari for closing comments.

Piyush Bhandari: Thanks, everyone for spending time with us on this call. We look forward to interacting with you again.

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