



“Britannia Industries Limited Q2FY 2016-2017
Earnings Conference Call”

November 09, 2016



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Moderator: Good day ladies and gentlemen and welcome to the Q2 FY 2016-2017 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 would like to hand the conference over to Mr. Ramamurthy. Thank you and over to you, sir!

Ramamurthy Jayaraman: Thanks, Margret. Hello, everyone, this is Ram from the Investor Relations team in Bangalore. I welcome you all to the Britannia Earnings Call for discussing the Q2 Results. Joining us today on this earnings call is our Managing Director -- Mr. Varun Berry; Head - Sales -- Mr. Gunjan Shah; Head Supply Chain -- Mr. Vinay Singh Kushwaha; and Head - 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 and 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: Good afternoon, everybody. So, I am going to take you through the presentation. I am sure; you have got the document in front you.

So, getting to the first page; the good news is that the biscuit market which had gone into negative territory is now I would say mid-single-digit kind of growth territory which is good, it is always good to be in a category which is growing. So, we feel good about it. And I think, some of the measures that the government had taken in the annual budget started to sort of show signs of consumption coming back.

So, on that positive note, if you get to the next page, our growth also after three quarters of single-digit growth has gone back to double-digit territory and if you were to look at our 24-month growth which we track very closely it is in a very healthy 24% number, which is backed by very solid volume growth as well. So, if you were to look at the volume growth, we have been in double-digit territory for some time and the last two quarters have been single-digit but



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still considering that we have taken pricing after a long time. In Q2 a 7% volume growth for the entire business and a 20% volume growth on a 24-month basis is something that we feel that we have the momentum with us.

Moving on to the next page, that gives you the volume growth on our base business. Our base business is still growing at double-digit. So, we are seeing a 10% volume growth, which is on a 24-month growth basis is a 22% number, again very solid. We are being dragged down as far as volume growth is concerned by bread which is at a double-digit decline in terms of volume and international business which is the Middle East and Africa region where we are seeing a slight decline in volumes and that is getting our overall number to 7%.

Getting to the next side, we are deploying our energies on the right layers and this is a consistent story that we have been talking about for a long-long time, expansion and our distribution has been the key theme for us for a long time and in this quarter, we have added 80,000 outlets which are the direct distribution that we do and we have taken a direct distribution to 1.4 million outlets. We have also narrowed the gap with the nearest competitors by almost 0.5 million outlets which is great. But still, there is still a gap of almost 1.03 million - 1.04 million outlets that we have with our nearest competitor.

Moving on, our rural growth continued to be very aggressive and very good. We have now got more than 9,000 rural distributors and we added almost 1,000 distributors since we spoke last. Our weak markets are also moving in the right direction; you will see the numbers in the third quadrant on the bottom left. So, Gujarat is growing very aggressively. Similarly, Rajasthan, M. P. and U. P. at a lower growth rate but moving in the right direction as far as growth is concerned. Technology is becoming an essential part of our growth as well. We are looking at significant increase in penetration of handheld devices, which helps the frontline to obviously evaluate their own performance and also helps us get the right information for us to take the right decisions.

Getting to the next page, again, on brands and innovation; there are a lot of exciting things that we have done so, there is this bridge product that we launched this quarter which was under the 50-50 brand name, I hope some of you have tried it. It is a biscuit which it taste like a Mathri which is very north Indian product but a great product, very-very authentic and is doing really well in the market place. We also did a Good DayChocochipRe-stage, it was not the focused product for us; but there are competitors who have a significant and a large share in the Cookie segment. So, we have launched this and we have seen some dramatic increases on this front from us. Even in the smaller businesses like Bread we have launched Kulchas which is helping us to do really well in that segment.



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We have done some good pieces of advertising as well. I do not know if you see the “Smiles Campaign” that we did on Good Day, it is getting very good reviews from the market. Similarly, we have done a Goodday Chocochip campaign with a South Indian Star Tamanna and we have rolled out our Milkbikis TVC which is also very interesting, well received in the market. All these measures have helped us gain and sustain our market leadership. So, we continue to focus on and obviously, we have gotten hit by a lot of inflation this year it is almost 12% and I will come to that in a bit and to counter that we have continued to focus on efficiencies and wastage reduction in every aspect of the business.

So, getting to the next graph which shows progress on reduction of trade loads, reduction of returns and write-offs carries on. So, some of these we have gotten them to a stage where the next steps are going to be tougher. So, trade loads we have gotten it with a bracket that we would like to be. Even on returns we have gotten it, we are way better than any other player in the same space in the market and even within macro snacks because of my background; I know what some of the other macro snacks get to in terms of trade returns. So, we are way better than anyone in the industry. But we are still not satisfied and we will try to bring this even down further. And on write-offs, we have got them to a stage for the business of our size it is a very-very low number.

Now, getting to what I had alluded to you earlier, which is the inflation that we have faced. So, we have seen the material prices firm up significantly in this quarter. If you were to look at the graphs; so, flour, we have seen inflation of 15% in Q2. Sugar there has been an inflation of 46% even on palm oil there has been a inflation of 19% and cashew which is already at a very high cost there has been a inflation of 5%.

So, overall our input cost inflation has been in the range of 12%, which obviously, we had not anticipated as we got into the quarter. So, what have we done, we have first of all, I think that we need to congratulate the government to be a very-very nimble footed on them, on these issues. So, they reduced import duties on wheat which helped sort of stabilize the flour prices to an extent and they put stocking norms on sugar traders which also helped steady the sugar prices. None of these measures went to reduce the prices but at least they stabilize the prices thereof. And internally, what we have done as we have initiated a combination of pricing because finally with that kind of inflation pricing becomes a necessity. So, we have initiated pricing on our brands and we have also intensified our cost efficiency measures to address the impact of inflation.

However, what we have kept as a very important principle for ourselves is that we need to be competitive which has helped us in gaining market share and which is probably the most important priority that we have as a business.



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Now, just a quick update on our subsidiary business: so, going to the dairy business: the top-line growth has been strong. Bottom-line there has been an impact because of the higher milk prices and we are now out of the MAT and we are paying a normal tax. So, those two have impacted our bottom-line delivery on this business but the supply chain integration plan is currently under review, we have had many meetings but we have not come to a final decision. So, we will discuss it with you when we get to the final decision.

On the international business, there are two components to the business. First, is the India exports which is taking product from India as well as from the Middle East to all parts of the globe and here the top-line and the bottom-line have been growing very-very strongly, high double-digits and because of that we are putting up a dedicated factory in Mundra which will be ready by the end of next year. We have already done the deal; we have got the land and we have started to put up the project.

The second part of the international business is the Middle East business where we have got manufacturing operations in Oman and Dubai and this handles not just Middle East but also handles Africa. So, we are seeing in the Middle East and Africa region, we are seeing a little bit of stress because top-line growths have been impacted some of the countries have completely shut down so, for example in Libya, Syria, Yemen, we had a business which is almost coming to a zero and then there are certain markets where there is a foreign currency crisis in Africa and in the Middle East where also we suffered in terms of getting our business going. Now this has impacted our top-line, our profitability remains very solid in that region. But it has impacted our top-line, we have looked at other ways of growth and I am happy to say that we are certainly not facing the kind of declines that other businesses are facing in that region.

And our agenda really is on targeting countries with Indian Diaspora and making sure that we progress very well there and we are also in the process of evaluating if there are other countries where we need to get serious and put a stake in the ground.

Now getting to the bottom-line; our bottom-line performance has been fairly robust considering the hyper-inflationary environment that is currently prevailing. So, if you were to get to that graph, you will see that our Q2 profit is at Rs. 310 crores which is a 4% growth versus the last year Q2 however, if we look at the 24-month growth number it had a very healthy 62%. So, while there has been a little bit of dilution as far as margin is concerned we are confident that it is because of the fact that inflation sort of got to us without our realizing that it will get to us so quickly.

So, moving on, we are confident of keeping our momentum going by working on multiple opportunity areas as we progress on our journey...!



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So, if you get to that next slide, it just sets out what our priorities are. So, market share and revenue growth is obviously a very-very important priority for us. There are three things that we need to do, one is our rural market share is only two-thirds of our urban market share, it has moved up slightly but still below where we are at in urban markets. So, rural is going to continue to be a very important theme for us. Weak states, we are only one-fifth of the market leader despite the fact that for the last seven quarters or eight quarters we have been seeing very good growth, we still are very small compared to the market leader there and one of the reasons for that is that in the value segment we have a very low share. So, those are the three priorities which we have got to keep looking at.

The second is the future potential for revenue. We certainly know that we are still 60% as far as reach is concerned. The total number of retail outlets are 7.07 million so, we have got some distance to go there. Our bridge portfolio there is some gaps that we have identified. So, for example in Good Day we categorize it into categories; one is the base portfolio of Good Day; the second is the middle portfolio, which is the kind of products that UNIBIC has so to say; and the third is the premium end where we have Chunkies. So, in the mid-range we are just not present so, we have evaluated gaps like that and we are putting in measures to make sure that we get to those segments and we get share as well as revenues and profitability out of those segments.

And then the focus on our adjacencies I think cake and rusk are two businesses which have been doing well for us, we would want to accelerate it, we have scanned the globe and we have looked at what are the world class products which are available in other countries and we are moving ahead to bring value added products which require some more innovation, some more technology, so we are working on that and we want that growth to continue and to accelerate as we go forward. Dairy we have already spoken about, when we are ready we will chat about what our future plans on dairy are and macro snacking is something that we are looking at seriously which I think we will be clear about in the next three months to six months.

And finally, on profitability cost efficiency programs remains a very-very critical component of what we do, we have accelerated it over the last four years and we would like to make sure that we get this to even a higher level. Automation I think Vinay is here and we are working very seriously on automating our factories and also making sure that we have technologically superior factories which can give us better efficiencies and we get the right mix between producing in our own factories and outsourcing products. And finally, I have already spoken about that basically getting the best efficiencies from our supply chain as well as from our procurement.

Next slide, what do we plan to do? Frankly, we would like to see one new category launch every year. till now, what we have been doing is there was a lot of catch-up that we had to do so, we



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have been doing catch-up as far as products are concerned, categories are concerned and I do not think we are completely there, there still are segments that we have to catch-up on and I just spoke about one of those segments.

But now, I think, we are fairly advanced as far as our base categories are concerned. So, we would like to do one new category every year and we are in the process of making sure that we get into the categories where we have a serious right to succeed and just to assure you with the new R&D center we have got a lot more capability to do a lot more work and there is a lot of work happening, as we speak.

The second is differentiated products by leveraging new technologies and we are not capital shy. We are looking at technologies whenever it is required. And third is from the international standpoint entering new countries - geographies and increasing our international play in a way that we win from it and not just a top-line growth but we build a business which gives us the sustainability of profits as well.

With that moving to financials, I am sure you must have gone through it in detail; but just going through it one more time. So, for the quarter net sales growth of 11%; profit from operations going up by 4%; profit before-tax going up by 6% and similarly, profit after-tax.

So, that is what we have, we also have a slidewhich shows the difference between GAAP and IndAS but there is hardly any gap, it is a very small gap both on the top-line and as well as on the bottom-line.

So, with that, we would like to open this to questions.

Moderator: Thank you very much. Ladies and gentlemen, 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: My first question is on your non-biscuits business mainly the cake, rusk and bread leaving dairy aside for a moment. If you could just give some idea on the overall sort of category size landscape, competitive dynamics, organized versus unorganized, how big are you versus the size of the industry, etc. etc. and even within breads if you could sort of split it up between brown bread, white bread where your strengths are, etc? I mean, we generally do not talk about these categories of my understanding of this is pretty low.

Varun Berry: Yes, okay. No, I would not be able to give you all the details Percy. But let us just give you some details. The bread business it is about Rs. 4,000 crores in the country and it is not a organized business so, there are a lots of small players who play regional territories. We are



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definitely the market leader; we are the only player who has got a pan India kind of presence. Second would be Modern which used to be HUL and now has moved to private equity. So, it is business which is very regional, it is a business which has got low gross margins and our objective on bread is to make sure that we make it profitable, growth is not such a important objective for us profitability is more important objective as well as bread is concerned. And I am happy to report that we have changed the trajectory as far as profit is concerted on that business. The cake and rusk business put together is about Rs. 1,800 crores, a lot of it is unorganized again. We are obviously the largest player in both of these categories but there is competition which is emerging in different parts of the country. If you look at our products while the consumers like our products a lot but I think personally that we have not evolved as far as technology and innovation is concerned. And I keep talking about getting to the next stage, in terms of the getting to the future products of cake and rusks. So, there is a lot of work that has happened. Internally we have done a lot of work, we have looked at various technologies and I would say that in the next six months to eight months, we are going to see a very different face of cake and rusk from Britannia. So, I think that broadly answers your question. No, I am not getting into segments because that is going to be a big answer.

Percy Panthaki:

Right, sir. just a follow-up on this I mean given the size of our country and relative to biscuits these market sizes themselves at 4,000 and 1,800 seem to be really-really small, so do you think I mean that these segments over the long-term like really explode and may be 10 year - 15 years down the line come very close in terms of market size to that of biscuits, I mean why they be really so small at these levels? What are the growth drivers that you see and what is the growth that you think can come through on a long-term basis?

Varun Berry:

Yes, so, the point is that when I am talking about the sizes I am talking about package, right. There is a lot of unpackaged cake, there is a lot of unpackaged rusk, unpackaged cakes which are available in the South Iyenger Bakeries and in the north and different cake shops so, there is a lot of that and there is a movement that we have seen from unorganized to organized which gives us great hope in terms of growths in these categories. Specially if the products are organoleptically as good as the products that consumers are used to or better than those, right. So, what we have been seeing as far as cake and rusk is concerned, we have seen very-very solid growth and that segment, I cannot say the same about the bread unfortunately but in the cake and rusk segment we have been seeing very-very solid growth.

Percy Panthaki:

Right, sir. Secondly, just wanted to understand on a slightly medium-term three year to four years' kind of perspective. Just want to understand what is your margin trajectory assuming that your commodity cost remains more or less just a nominal inflation in line with CPI type of number through cost efficiencies or through premiumization, etc. How many percentage points of margin accretion do you see at the operating profit level?



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Varun Berry: So, you know that we give forecast so, I would not comment on that. Obviously, our endeavor will be to keep trajectory going, the trajectory that we have taken, we keep that going.

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

Aditya Soman: My first question is just a bit to understand what was the total pricing increase that you took effectively in the quarter what it reflected in your top-line? And how much pricing should we expect to see sort of in the coming two quarters given where raw materials are at present?

Varun Berry: Yes, so, basically what we have done if you see what we have got in the delta between the volume and the price it is about 4% but exit it is about 6%. So, we have exited the quarter with a 6% price increase, I think we have made a little more than so, we are identifying areas which can give us some more advantage on the pricing so, that is where we are at certain categories there has been a higher price increase bread we have taken a fairly high price increase and the key biscuit areas we have taken an exit of 6%.

Aditya Soman: Understood. So, just to follow-up here. Firstly, on that exit price increase of 6% when we talk about 4% price effectively in this quarter there will be some change in the mix as well right may be an improvement to the mix. So, could you give us a number of how much pricing actually you went through in the quarter so, your exit was 6% and would it be fair to assume may be it was 2% or 3% effective pricing in the quarter?

Varun Berry: So, this quarter there was no change in mix really, so, it is effectively pricing. So, it is a 4% pricing which is the delta between the revenue and the volume.

Aditya Soman: Understand. And despite a 4% pricing you still saw a double-digit growth for the base business?

Varun Berry: Yes.

Aditya Soman: Right. And second question is on the bread category, I think you mentioned that the growth was quite in the category on the volume size was this because of the price increase that you took in the quarter and you mentioned sort of improvement in margins there as well or was it because the issue with Potassium Bromide and some of the others issues you saw?

Varun Berry: It is a combination of both. So, the industry has not recovered from that controversy which hit the industry few months ago but the pricing obviously has also put a little bit of a pressure as far as volume growths are concerned.



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- Aditya Soman:** Understand, sir. You would expect the volume growth to normalize over a sort of medium-term assuming that we do not have to take up pricing for that.
- Varun Berry:** No, so we do expect that at least the revenue growth will come into positive territory even the volumes will certainly change from where they stand today. But as I had said our objective there is profitability. We never dive that business for growth.
- Moderator:** Thank you. The next question is from the line of Arnav Mitra from Credit Suisse. Please go ahead.
- Arnav Mitra:** Just a couple of questions, one is that, in this category despite putting in pricing you are being able to hold some decent volume growth while in many other categories we have seen a lot of pressure on volumes and when prices are being taken up in this kind of an environment. So, is it that the competition has behaved pretty rationally and that is allowing pricing to grow up or any other reason why volume growths are holding up pretty steady in this environment?
- Varun Berry:** See, first of all we have taken pricing in areas where we feel comfortable and we know that we are strong in those areas and we have got strong brands, etc., so, we evaluated it very clearly and then went after the pricing so, that is one. Second, I think whatever is hitting is also hitting competition so, inflationary trends are true for competition as much as they are for us so, while there will be the market leader who will have the onus of doing that first, but obviously competition feels the same pressure and in most cases competition also does what we do.
- Arnav Mitra:** Sure. And your comment in the press release about seeing a recovery in the past few months in the industry. So, are you referring specifically to biscuits and is it more volume or overall value growth because the pricing is also starting to come through now?
- Varun Berry:** So, in this quarter it was more volume because you know the pricing was towards the second-half of the quarter. So, it is more volume but Yes, the numbers that we talk about which is I was talking about the mid single-digit kind of growth was revenue number.
- Arnav Mitra:** Sure. And just one last question on GST, there has been this view that some of the FMCG products will be at 18% rate foods could be slightly lower so, any sense or view you have on how where biscuits might fall and for you what is the kind of rate which is neutral for the business and at what rates do you start benefitting or losing in terms of change?
- Varun Berry:** So, Ram, would you like to answer this?
- Ramamurthy Jayaraman:** Yes, the final rates actually have not yet come out so, its all being contemplated where the category would essentially fall under so, I think it will be better to wait for some more time



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before we get a clear direction on where the category falls and then what is the impact accordingly.

Varun Berry: I think while I would say that the government has done a fantastic job of taking GST into the level that is at today, getting the slabs worked out, etc., but I would say that it is best to wait and not speculate about which slot we are going to come in and I think it is just a matter of time but as it seems the government is being very sensitive to ensure that any industry does not get hit by this kind of initiative. So, if that was to happen, if we were to get a revenue neutral rate then it is going to be a huge positive for the entire industry.

Arnav Mitra: And what would be the current excise plus VAT for the company level now?

Varun Berry: So, it depends, different states has different VAT numbers but it could range anywhere from 15% to 18%. But there are certain products there is hardly any tax. So, weighted average would be a little lower but for the core categories that is where it would stand.

Moderator: Thank you. The next question is from the line of Dhaval Dama from Equirus Securities. Please go ahead.

Dhaval Dama: Sir, just wanted to ask you like say from a longer-term horizon of about three years' horizon where do you see your core categories biscuits headed, do you see more consumption moving towards cookies because I think it has been the general trend over the last 10 years also. So, I would like to get some views from you on that.

Varun Berry: Yes, so, what we have seen in the last four years to five years is movement towards more premium products and I think that will certainly continue. I do think that this is category where consumption is right up to the smallest village. So, where you have category which is consumed by almost every Indian and almost every Indian knows about biscuits, I think once the upgrade happens this category could become very-very attractive.

Dhaval Dama: Sir, another thing I wanted to ask you like say what percentage of our sales today would be coming from modern trade at a broader level?

Varun Berry: Just about 10%.

Dhaval Dama: And sir, how do you think that should move up over the next three years to five years?

Varun Berry: I think it will continue to move up but I do not see this getting to the kind of levels that countries around us are at. So, for example, China is probably 70%-80% and even a country like let us say closer home let us country like Thailand would be at a 50% modern trade, but I



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do not think we are going to get to those kind of levels. But I do think it is I the next five years it will probably move to 18% to 20%.

Dhaval Dama: Okay, sure, sir. And sir, one more thing like say there was a news article where it was mentioned that we might be even looking at importing wheat so, any color on that front?

Varun Berry: No, so, we have imported wheat because this government has slashed the duties from 25% to 10% so, it was a window of opportunity for us to import and use and that has given us a little bit advantage over other players.

Moderator: Thank you. The next question is from the line of Rohit Joshi from Dion Global Solutions. Please go ahead.

Rohit Joshi: My question is what amount referring till now on your CAPEX have said in the last concall it would be around Rs. 350 crores to Rs. 400 crores in this fiscal.

Varun Berry: Ram, would you like to answer that?

Ramamurthy Jayaraman: Yes, so, we have spent roughly around Rs. 150 crores till date and the year is looking roughly at around Rs. 300 crores.

Rohit Joshi: And can you give me the break-up of how much on innovation, how much on facilities like that?

Ramamurthy Jayaraman: So, this majorly is on the new facilities which has come up in the recent past in our factories of Perundurai, and Bidadi so, these are mostly around that.

Varun Berry: There is a little bit of innovation, we have put up a technologically superior line which no one else has in India in Bidadi. So, I would say 20% innovation and 80% base facility.

Rohit Joshi: And do you expect that the rural demand would improve going forward like was normal monsoon there as well good harvest is there. So, do expect it to increase going forward?

Varun Berry: I certainly think so.

Rohit Joshi: And sir, last my book keeping question is effective tax rate would be on the similar range as the last year?

Varun Berry: Yes, it should be at the similar level because we run over the changes happened from the last year.



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- Moderator:** Thank you. The next question is from the line of Chirag Lodiya from Value Quest Research. Please go ahead.
- Chirag Lodiya:** Sir, on full year basis what kind of commodity inflation we are envisaging?
- Varun Berry:** I would say about 10%.
- Chirag Lodiya:** And for that what kind of price increase we are expecting in second-half?
- Varun Berry:** So, I think we will have to do at least 6.5% - 7% pricing on top of where we are at but overall at least the 7% price so that with that our cost efficiency measures we can get to the numbers that we want,
- Chirag Lodiya:** So, at this quarter end, we are already at 6% so, only 1% - 1.5% kind of price increase we need to take on overall portfolio basis, that is correct?
- Varun Berry:** Yes.
- Chirag Lodiya:** Okay. And in terms of cost savings so, what kind of cost savings we are envisaging on a full year basis?
- Varun Berry:** So, we are looking at almost Rs. 170 crores of cost savings. And what we do is we do not take the cost savings of last year into account. So, these are all fresh cost savings that we do, so, we are looking at almost Rs. 170 crores of cost savings this year.
- Chirag Lodiya:** Okay. And sir, lastly, if you can just break it up this subsidiary numbers into dairy, Indian export and Middle East operation to just give a sense what exactly is the quantum of impact in all of these businesses if I see your console minus standalone your sales are flat.
- Varun Berry:** Yes, so our dairy business is about 5% of our total mix and our international business is 7% of our mix.
- Chirag Lodiya:** And Indian exports?
- Varun Berry:** Indian exports is within that 7%.
- Moderator:** Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead.



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Kunal Bhatia: Sir, did mention about getting into one new category every year. Could you elaborate a bit more on that and also you mentioned that we are not shy of capital expenditure. So, on a two year to three years' period what kind of number we could look on that front?

Varun Berry: So, categories, the earliest move would be in the macro snacking category and I would say that we will make the announcement when we are ready with it completely, the pipeline though is looking very-very exciting so, feel very good about the work that has been done by our supply chain R&D and commercial teams so, feel good about where are at and we will talk about this when we are completely ready.

Kunal Bhatia: Sir, on the you mentioned that we are CAPEX shy... just wanted to know next two years to three period what kind of CAPEX are we looking at?

Varun Berry: So, I would think that it will continue at the same rate as we stand at today because next year we are will be looking at new factories again, so, we are looking at a factory into the north east. We are looking at a factory in Mundra, we are looking at a factory in Maharashtra so, there is a lot coming up and basically it is the volume growth which necessitates new lines so, we are looking at putting up more capacity and we are also looking at innovation so, I would think it will continue at the same rate.

Kunal Bhatia: Okay. Sir, and about this macro snacking which we are looking at, have we tried and tested it already in some state?

Varun Berry: No, we have not really taken it to market but we are trying and testing it with consumers separately.

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

Kaustubh Pawaskar: Sir, my question is again on the price increases which you are planning to take or you have already taken so, you have motioned that 6% has already been taken and another 1% - 1.5% would be you are planning to take. So, for past two quarters we have been seeing that your volume growth has been in the range of 7% to 8% which has come down from about 10%. So, this price increase which is going to come into the market do, you see it to have any pressure on the volume I mean your trajectory will further drop or you see that since things are improving monsoon has been good so, that effect will mitigate any further pressure on the sales volume?

Varun Berry: Just going back to what I said earlier so, most of the prices that have been taken are in the base business and the base business volumes are double-digit still. The impact really is coming in



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two areas, one is bread and that is because of certainly because of price increase but more so because of the controversy that the entire category got into about six months back and second is Middle East and Africa. So, those are the two which are bringing our volume growths down. Having said that, pricing always has an impact on volumes. Now to what extent it is very difficult to say but it certainly will have a slight impact as far as volume growths are concerned. But it also depends on how fast or how slowly the category is growing. So, it is very difficult to say what kind of impact there will be.

Kaustubh Pawaskar: Okay, got your point, sir. And sir, my second question is on your value segment, since it is 45% of the total market and you are very small in that space so, can you throw some light what exactly is your plans and how the Tiger brand which you have recently re-launch how that particular brand is doing in the market?

Varun Berry: So, the plan really is to make that the carrier product for us so, the Tiger brand becomes the carrier product for us in all the new markets that we get whether they are rural markets or the Hindi belt that we talk about. But when we load all our other brands onto that and make sure that we have a full portfolio in those outlets that we get to. Now to get to how Tiger is doing, Tiger Glucose has been doing very well. We have recently launched Tiger Creams which is doing very well. Tiger Cookies has been I would say average so, we really have to figure out what to do there. But when I am talking about very well, it means relative to the market and the market is fairly stagnant or declining as far as value is concerned. So, it is not growing faster than the other parts of our portfolio.

Moderator: Thank you. The next question is from the line of Gabor Sitanyi from Charlemagne Capital. Please go ahead.

Gabor Sitanyi: Just quickly wanted to ask on biscuits, you mentioned that the price increase you took was in the later part of the quarter. Specifically, in October did you have any sort of volume impact from that price increase specifically in this case did you see a slow-down in volume growth? Thank you.

Varun Berry: So, October is actually a difficult month to talk about because it had all the festivals possible. So there we were a lot of days off in that month and in any case I cannot talk about the next quarter. But the short answer really is that no, we have not seen a big impact of that as far as our volumes are concerned.

Gabor Sitanyi: And historically, what is your kind of experience in elasticity in the past when in particular in this case when you trying to push price increases what would be let us say for a 5% price increase what would be the equivalent reaction in volume terms historically?



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- Varun Berry:** I am not talking just about my experience in biscuits but I am talking about other consumer products are well, usually what happens is that volumes do suffer and I would say if there is a 3% to 4% price increase the revenue goes up 3% to 4% and the volume comes up by either the same amount or slightly less than that. But we have not seen that and we are keeping our fingers are crossed and one of the reasons for that is also the category growth moving in the right direction. So, we are hoping that the category growths continue to be robust which will help us mitigate the impact of the price increase.
- Moderator:** Thank you. The next question is from the line of Sanjay Singh from Axis Capital. Please go ahead.
- Sanjay Singh:** Just wanted to know in the loan funds, it has increased from Rs. 450 odd crores to Rs. 600 crores. Has there been increase in the related party transactions?
- Varun Berry:** No, there has not been any increase.
- Sanjay Singh:** Okay. And any thoughts on we have now seen three CFOs resignation in four years - five years, any thoughts on that I mean not really common you will see such a frequent resignation. So, any thought that you would share on this?
- Varun Berry:** I cannot count three or four but Yes, the danger of our company like ours which is completely an Indian company with operations only in India is that sometimes there are aspirations which are beyond being a CFO of a Indian company and those aspirations will always remain in people's mind; but the good thing about where we are at is that all of these you know attrition cases that we are having, we are filling these people who have been Britannia for a long time. So Venkat is not here today because is with his family. But Venkat has been with us for about 9 years to 10 years he has been with us and he has been doing a fantastic job, he has done commercial job in every part of the function. So, he knows the subject, he knows the company, he knows the priorities as they exists for us, so, while it will always be a loss to lose to Amlan but I do think that we have got equally capable person to replace him.
- Sanjay Singh:** Okay. And lastly, the price increase that you have taken is it more in terms of grammage changes or is it because absolute prices increases I understand different states has different prices we have not caught much in terms absolute price increases. We do have got some grammage changes. So, maybe I have miss it is not possible to catch so much but have we dome grammage or move price?
- Varun Berry:** It is mix of both we have taken price increases as well. So, some of the family packs we have taken price increase and some of the low unit packs we have taken some grammage reductions so, it is a mix of both.



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- Sanjay Singh:** So, on a full year basis at the consol level in terms of margins, EBITDA margins do you think you will be able to manage the fine art between balancing growth and the margins?
- Varun Berry:** No, for sure, the objective will be to make sure that we manage that as best as we can and frankly, in the FMCG industry and I have been all my life in FMCG, the most difficult thing to manage is a spurt in inflation and this is what we saw this quarter. If you are aware of what is going to happen or if you feel that it is going to be a gentle increase and that is what we thought it is going to be this year but suddenly we are were taken by surprise and so that is the most difficult thing. But I would say that even that we have managed quite well. So, the endeavor will be to manage it as we go forward.
- Sanjay Singh:** And anything on how much A&P has reduced this quarter, why do we have separate A&P line any more I mean apart from any I do not think there is a regulation which stops at....
- Ramamurthy Jayaraman:** Yes, but there is no requirement also to give it as, it falls below the threshold of 10% of the top-line so, that is the reason it gets clubbed with the other expenses but we will be anyway disclosing it at the year end.
- Sanjay Singh:** Yes, so, it is not a competitive issue anyway it comes to the yearend so, is there any harm when giving it quarterly I mean it is not a competitive issue it will come in the annual report. So, what are we trying to say here?
- Varun Berry:** No, have we been giving it in the past?
- Ramamurthy Jayaraman:** We were giving it, once the reclassification happens from the trade discounts and all moved up to NSV it actually fell below the threshold and that is the reason we moved it to other expenses.
- Varun Berry:** So, it is the IndAS which is...
- Sanjay Singh:** But still 7% - 8% whatever number it is, it is not meaningless number and the A&P is important part of the way we look at number, so, if you can just relook at this and probably give it a thought again?
- Varun Berry:** No, but you know what the A&P that we used to report had a component of trade loads in it and that trade load component has now moved above the line. So, it has moved above NSV so, it has much smaller number and that is why it has been clubbed. But Yes, we take your point.
- Sanjay Singh:** Even company with 3% to 4% A&P I mean Titan has a 1% A&P, reports 1% A&P so, it is not like a not unknown here. Can we just have thought about it I am just trying to say.



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- Varun Berry:** Sure.
- Moderator:** Thank you. The next question is from the line of Chitragda Kapoor from Samiksha Capital. Chitragda Kapoor, please go ahead.
- Chitragda Kapoor:** Mr. Berry, my question is more broad based, I wanted to have your view on the recent development on illegalizing 500 - 1,000 denominator currency notes. Popular opinion is that it will resolve in a liquidity crunch in the short-term to medium-term especially for the one of the pyramid market. So, considering our focus on the rural, and considering biscuits are largely discretionary therefore, do you envisage it will result in a slight speed bump to our plans or it is largely no event for us.
- Varun Berry:** No, so what I will do is I will ask Gunjan to comment on this because it will certainly have an impact on our payments from the retailers. So, Gunjan is our Head of Sales and I will ask him to respond to that.
- Gunjan Shah:** Hi, now this development is actually developing as we speak. Since, it has come in last night itself. So, whatever we managed to get is the first responses on this as well as you are right in a way that there is going to be some amount of short-term disturbance that will happen in terms of liquidity crunch. We are hopeful and we have seen some amount of well-preparation from the government side in terms of anticipating some of these things and hopefully trying to dissolve them pretty fast. If things work out as per plan, I think the broader community in the trade, etc., is hopeful that within a fortnight at least the currency note issue should get resolved. There is a larger question of the unaccounted money and what role that it plays in the economy and I think we will have to wait and watch how it plays in the economy.
- Chitragda Kapoor:** No, that is all quite noble of the government Gunjan, I understand all that. What I am trying to understand is not from Britannia's perspective as such. If you can just comment on the industry say FMCG industry which are in rural right now since you have very rightly mentioned that there would be some impact on the receivable so, do we build in a higher receivable days now because obviously this is cash transaction and a lot of small kirana stores do not have a card swipers on their shops. So, I am just trying to understand your view I know it is too short. But how do we see this and what is your view on it? It is just that I am trying to understand.
- Varun Berry:** No, I think short-term we will see a little bit of impact because ours is total cash business so, we collect the money on the same day when we deliver the products so, it is being a cash business it is going to have some impact because the circulation of money, etc., all that is going to come but it will get sorted out I am sure people will not close their shops, they will find ways of dealing with this I think it is the right measure.



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Chitragda Kapoor: No, Mr. Berry, from a six to seven days of receivables that we have currently, is it safe to assume that for the full I know it is a short-term thing probably maximum a quarter not more than that but still from a six receivable days to seven receivable days, is it fine to assume that you know probably for a short-term or receivable days may increase to say with say 15 days or 20 days, is it fair?

Varun Berry: No, I do not think is going to happen because most of our receivables from the modern trade players. So, that is going to continue. Our business is going to continue to be a cash business and if it means that there is a little bit of loss on sale in short-term it does not mean that we are going to give credit to the small players in rural areas. So, no, it will not increase.

Chitragda Kapoor: So, how much loss of sale are we looking at right now?

Varun Berry: We have no idea, you know today is the first day, I am hoping that zero but Gunjan is looking at me with angry eyes, let us see how it pans out.

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

Amnish Aggarwal: Sir, I have a couple of questions first, from where the earlier participant left on this Rs. 500 note and Rs. 1,000 note. I understand that all the FMCG companies as such they sell everything by cheque or by say account payments but when it comes to the wholesale trades and the fact that in rural areas and in small town there would be very small shop keeps who would be going to the town picking up stuff of Rs. 1,000 - Rs. 2,000 in a week then selling that and going back again. So, in general, what is your perception that is it like to be is there likely to be a disruption in the overall environment say which would result in a significant impact say in the Q3 at least if not in Q4?

Varun Berry: I am hoping not Amnish, I genuinely hope that it does not happen, I hope that solutions are found, government has been fairly proactive so, have the banks. So, I am hoping that it has minimal impact, there will be impact but I hope that it is a minimal impact. But if you ask me this question after a week I will be able to give you a better answer.

Amnish Aggarwal: Okay. Sir, my second question is that we have given on consolidated volume growth and one base volume growth does the base volume growth is a standalone volume growth of is it only for the biscuit business?

Varun Berry: It is the biscuit, cake and rusk business.

Amnish Aggarwal: Okay. But if you look at the standalone number where would be that number because earlier we use to give that number only.



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- Varun Berry:** The standalone number is the biscuit, cake and rusk plus bread number. So, the bread will bring it down a bit, although bread is only 5% of our mix but there the volume declines are about 15%.
- Amnish Aggarwal:** Okay. So, to that extent it will come down.
- Varun Berry:** Yes.
- Amnish Aggarwal:** Okay. And sir, my final question, just a small bit that we have seen as you said around 10% inflation in the raw material...
- Varun Berry:** 12% in this quarter.
- Amnish Aggarwal:** Yes. Some of the raw materials like your palm oil or sugar they have been continuously rising they have not yet may be stabilized fully. Have we seen the peak impact, of this inflation in raw material in terms of gross margin impact and all or the worst is yet to come?
- Varun Berry:** So, I will request Manoj to answer this question. Manoj handles procurement thus the question, could you just quickly repeat the question may be...
- Amnish Aggarwal:** We have seen inflation in the raw material say your wheat prices particularly in the last month they have again short up. Similarly, your sugar prices they are stable say from last couple of months but Y-o-Y they are significantly up, similarly palm oil prices are there, even your milk power prices are going up and so are the butter prices. So, once the entire basket is moving up, okay some commodity may be sooner or some may be later but have we seen the worst in terms of say the impact of this material price inflation or gross margin or the worst is yet to come?
- Manoj Balgi:** I would not say the worst is yet to come, the prices are already at a very high level and there are certain actions taken by the government to control inflation and we hope they will pan out in the right direction.
- Amnish Aggarwal:** Okay. Sir, can you elaborate a little bit on this price actions and what impact they had on the input cost?
- Manoj Balgi:** The government came out with stock limit in sugars, the sugar stock limit was imposed on traders as well as the mills that helped the prices to calm down a bit. The government has reduced import duty on palm oil by 5% and on wheat by about 15%. So, all these three actions put together have resulted in some amount of stability in the market.



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Moderator: Thank you. Ladies and gentlemen, due to time constraints that was the last question. I would now hand the floor over to Mr. Ramamurthy for closing comments.

Ramamurthy Jayaraman: Thanks everyone for spending time with us; and we look forward to interacting with you soon again.

Varun Berry: Thank you.

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.