"Britannia Industries Ltd. Q3 FY17 Earnings Conference Call"

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MANAGEMENT: **MR. VARUN BERRY – BRITANNIA INDUSTRIES LIMITED**
MR. RAMAMURTHY JAYARAMAN -- INVESTOR RELATIONS TEAM, BRITANNIA INDUSTRIES LIMITED

Moderator: Good day, Ladies and Gentlemen and Welcome to the Q3 FY 2016-17 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 the 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. Ramamurthy. Thank you and over to you, sir.

Ramamurthy Jayaraman: Thanks, Margaret. Hello, Everyone!This is Ram from the InvestorRelations TeaminBangalore.I Welcome you all to the Britannia Earnings Call to discuss the Q3Financial Results. 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 product 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 Morning, everybody, and thank you for joining us for this conference call. I would you like to start by saying that this has been a fairly tough quarter, not just for us but for most companies and frankly I am quite delighted with how the team has rallied behind what our task was and quite delighted with the results.

So without further ado, let me just go down to the "Presentation." So if you were to get to Page #2 which says exactly what I have just said; it was a tough quarter and what we have seen in the second quarter was that we started to get the market growth back but demonetization happened and we started to see the impact of that.

The next page is what it's done to various companies and various industries. It did set back quite a few companies and quite a few businesses in the country and similarly we also saw the impact of demonetization.

Next Page: Our revenue growth also got significantly impacted with the sequential decline of anywhere between 10% to 15% in the month of November. But what I was saying earlier, we rallied behind that and we took requisite measures to tide over the situation to whatever extent possible.

Getting on to the next page which talks about the actions that we took to address the situation: Firstly, our market working and our sales efficiencies were critical for us. One, because it was very important that the channel partners especially the wholesalers and the rural markets were suffering, so we had to put that additional amount of effort to make sure that our direct sales started to move even faster. Selective credit had to be given to some of our distributors because cash was obviously in short supply and we were almost on a daily basis looking at our sales and revising our production plans to make sure that we did not overproduce and hence suffer on freshness.

Moving on to the next page: We had seen growth in our direct reach and hence lower dependency on the wholesale channel compared to all our peers in the FMCG segment…I would say today we are probably the lowest dependence on wholesale which did help us, as you see our direct reach has more than doubled; we are almost at 1.5 million outlets directly. So that helped us and kept us in good stead. As a result of that, we were able to recoup our revenues in the month of December. But still were much lower than what we would have expected to be at that stage.

Next Page gives how our revenues have grown. So if you were to look at '13-14, our revenues grew 11%, '14-15 at 14%, '15-16 at 10% and year-to-date December we are at 9%, but if you look at Q3 we are at 6% revenue growth. So, if you look at the Q1, Q2, Q3, Q1 was slow, Q4 of last year and Q1 was slow and then we started to see a pick up, actually towards the last month of Q2 we saw a fairly handsome growth, but again, Q3 still remains a growth which is I think we stand tall amongst most FMCG with the growth but it came down substantially and we were hoping to better the 11% that we had seen in Q2. So that is what really happened from top line perspective.

On the next page, this was backed by also low single digit volume growth. I think our volume digit growth was about 2% in the base domestic business. We also strengthened our market share in this difficult phase. So that was very heartening because it was very tough situation and I will come to why it became so tough.

If you go to the next page, it shows what was happening to the material prices. The material prices were just continuously moving in one direction. So on wheat, and on flour, there was 12% inflation in Q3, sugar there was 40% inflation. This is despite the fact that we were buying at the right prices. On power while there was 20% inflation and similarly on milk there was 20% inflation. So all of our raw material prices were sort of going through the roof. Managing to get the right price increases, and managing to get all the cost efficiencies and also dealing with the effects of demonetization it was quite a difficult task which I would say we accomplished reasonably well.

On the next page, our pricing action was limited because of all that we have spoken about; however, we significantly accelerated our cost efficiency programs which have helped us mitigate the inflation to some extent. So we were not able to take prices in accordance with the inflation that we were seeing and hence it was getting to be a tough situation and specially when the market is not growing there is no one interested in taking prices up, it just seems that it is the wrong thing to do because consumers are not consuming and we would want the consumption to go up, the sales to go up rather than prices to be increased. So that limited our ability to take pricing, but also because there was no cash in the hands of the consumers, we rationalized our advertising and sales promotion spends to make sure that we do not spend at a time where the effect of the advertising or the promotion is going to be limited. So we did that and I think that sort of at least mitigated some of our issues to a certain extent.

Moving on to the Next Page, Update on our Subsidiary Businesses: Dairy top line was again impacted due to demonetization; however, I must say that within the dairy portfolio, we did see growth in the right part of the portfolio. So the profitable part of the portfolio was continuing to grow. Cheese and Dairy Whitener were growing and the other parts of the portfolio which include ghee, which are commoditized and commodity businesses where we do not make profits at all, we are seeing downtrends. So we were not terribly unhappy with that situation. Our bottom line was impacted because of two reasons – one was obviously the high milk prices which I just showed you was at 20% inflation and the second was that till last year we were on MAT because of our accumulated losses in the past in this entity, we were taking the benefits of that which had gone away this year. So there was about Rs.3 crores impact because of that.

The International business again was in a tough situation. India exports remained strong but it was not at the double digit growth that we have been seeing. It was touching double digits, but till last year we were seeing very high growth in that area. So that was getting to a stage where obviously we were not growing at 20, 30% but growing at nominal double digits. The Middle East business started to show serious downtrend. That is because of the situation which is certain countries, Syria, Libya, Yemen, countries like that completely shut out and then there was the currency crisis in certain countries in Africa which was impacting us. Even in the core Middle East which is UAE and Saudi, we were seeing a slowdown in the economy and most companies have been seeing that. So we saw that although we are still growing in these core markets of Middle East because of all that was happening in Africa and in countries around the core, we saw a little bit of downtrend there as well which impacted us.

Overall, our bottom line performance has been fairly robust considering all the environmental factors which is demonetization, hyperinflationary environment and the economic situation that we are operating in. But I think we still been able to achieve a sort of result which we are proud of in the current circumstances. So if you look at our operating profit consolidated, we were flat with 6% growth on the top line, but if you were to look at the 24-months growth number, it was still robust at 51%.

As we progress on our journey, we are confident of keeping our momentum going by working on multiple opportunity areas which I am just going to talk about. So what are the areas that we are working on? We continue to work on Cake and Rusk. What we have done currently is that we have got in-house manufacturing line for us, we were always doing Rusk through contract packers, recently in Tamil Nadu we put up a Rusk line and we are looking at putting up a facility which is going to give us value added Rusk. We also looking at working on new, indulgent and differentiated formats of both cakes and Rusk which is going to be now in the next year, we have already started to work on that project.

Dairy, the supply chain integration plan is still under review. We are focusing on the current business for the time being. We are also evaluating potential partnership opportunities. It is taking a little longer than we thought but we want to be very deliberate about this and we want to do everything right. So there is no crying hurry on this. We just want to make sure that we go through the details and make sure that we do it the right way.

International: Focusing on countries which have a large Indian dispora I think is very important. We are also looking at other countries which give us opportunity to create a business which is large enough and threshold base for a company like ours. Nepal is getting there, Nepal, we have got a reasonable business and it makes sense for us to now start to set up operations there. So we are looking at that. This will be the year when we will start to put steel in the ground. But beyond that, we have also started to look at certain African countries which give us access not just to that country but also because of the trade agreements to larger number of countries, so there is some work which is going on there. So I think that we will have to accelerate that process. In the next two years, I am going to see us do a lot of work in the area of international.

On new products, we are actively working on a completely new category and we have already evaluated potential partnership which I cannot talk about right now but it is almost through, it is another a month or so before we sign the doc and in fact I have seen a couple of international operations that company runs and they are fabulous value added products with great gross margins. So we are looking forward to that. We are also evaluating a large manufacturing hub to be set up in Maharashtra which will house lot of our innovation and new product lines and it could also serve as the hub for dairy as well in the future. We are also looking at setting up state-of-the-art distribution center there which would be in line with when GST comes in I think that is going to give us the benefit for that as well. So that is where we are at.

Moving on to Financials: If you look at table on top, 6% top line and profit after tax growth of 5% and if you were to look at the table at the bottom that shows how our profit from operations, PBT and PAT have progressed over the quarters and over the years. So we have made great progress. There has been a little bit of setback; profit after tax has dropped from

9.6% to 9.4%, but the situation was such, the economic conditions and the demonetization, but I would say considering these circumstances, these are great results.

Moving on to the next page which is basically reconciliation IND AS and GAAP. There is hardly any difference. So top line, almost the same and bottom line almost the same. So nothing much to talk about here in this quarter.

So with that would like to open the house 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 Avneesh Roy from Edelweiss. Please go ahead.

Avneesh Roy: Sir, my question is on the new category and the Maharashtra hub. So, this partnership which you are saying, this is not Dairy, right… Dairy are you rolling out?

Varun Berry: That is not Dairy, Avneesh. What I am talking about is closer home to our bakery business but completely new category that we are looking at. So sorry for creating the suspense but I just want to make sure that everything is done before we start to talk about it. Very exciting category, fairly large in economies like ours and a great product from perspective of the young population that we have here in India.

Avneesh Roy: Sir, this partnership will be for technology because you already have the distribution and a new R&D center?

Varun Berry: Abneesh, when you get into new categories, we cannot be experts in everything, so it is our technology, it is about recipes, it is about years of experience in that category which has got them to a stage where they have perfected the art of making it and creating innovations, etc., So it is going to be a joint venture and obviously what the partners going to bring is the technology as well as the R&D part which obviously will be tailor-made for Indian circumstances whereas our R&D center will come in very handy. That is what they will bring and obviously we have the knowledge of the Indian consumer, the distribution, the marketing, everything will be done by us.

Avneesh Roy: A follow up question was, hub in Maharashtra, so you say innovation and you also say a new product line. So, will there be a small R&D center here also and is this center also going to help you in the GST, so better planning or inventory, etc., is that one reason?

Varun Berry: It is going to be a center which is going to have possibly all the kind of products that we do and frankly in Maharashtra while it is a very large state for us and we have got a fairly substantial share, we lead competition by a fair margin especially in Mumbai but we do not have a factory of our own. So we are going to put up a large factory which is not just going to be a factory, we are also going to have distribution center which is going to be very large. We are also evaluating whenever we get to dairy, if dairy could be on the same location. There would not be a R&D center, but yes, there will be a state-of-the-art distribution center which will help us serve that state with all our products and give us efficiencies and economies of scale.

Avneesh Roy: My second question is on the Dairy business. You said in Ghee, you do not make any profit at all and Patanjali has become such a large player, in fact, with premium pricing than most other players. So why continuing Ghee at all? Second part is with normal tax rate coming in Dairy business, it is out of MAT and Dairy prices now at almost peak level, and structurally all the reasons why Dairy prices have come down, those have all been reversed. So is it too late for you to now ramp up Dairy, so there was a sweet time available, but because of the wait and watch approach that has gone. So I want to understand are you saying that it is now difficult to ramp up in Dairy because of the current context?

Varun Berry: No, it is not difficult, if there is a market and if you got the right products and the right know-how, then it is never too late, and I do not think the value added part of Dairy in India is developed to an extent where it is difficult for a new player or existing player to make a solid entry. So I do think that the value added part of Dairy is going to grow. It is just that we would like to make sure that what we do because this is going to be a reasonable sized investment. So we just want to make sure and we want to drum on the fact that we are moving the right direction, tested with consumers, make sure that we have the best technology, make sure we will have future innovation pipeline, etc., So that is why we are taking our time. I think we will not do anything in a hurry as far as Dairy is concerned. That one decision we have made very clearly that only if we are 100% sure that this is a perfected path to trade will we move on Dairy, otherwise we will make sure that we keep running our business the way we are. You are right, as far as Ghee is concerned, it is certainly not the right category for a player like us. We have been in that category and we get reasonable part of our revenues from that. So now the decision that we have taken is that we will not be in any business which does not give us the requisite amount of profits. As a result of that, we have hiked our prices which is getting our top line to start to decline which we are okay with as long as the profitable part of our business keeps growing.

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

Percy Panthaki: Wanted some more details on the cost inflation. Things like sugar, etc., have now been inflating for a few months. So do you expect the base effects to catch up soon unless the trajectory still goes upwards and what about the other commodities also like wheat, etc., you have seen a recent sort of inflation? Second is if you think that base effects are not going to catch up very soon, then do you have further sort of effective price hikes either as MRP increase or withdrawal of promotions planned or would you just take the hit now on your margins given that you have already taken too many price increases?

Varun Berry: No, we have not taken too many price increases. So if you were to think about it, we have just taken about 5.5% price increase while the inflation has been 10-11%. What is the future as far as the commodity prices are concerned? I do not think there is respite that we see in the next six months or so. The reason for that really is flour duties have been removed by the government. So we have seen some relief in the south because of the imports that are coming in of wheat. Sugar situation seems to be that it will continue to be a weak crop, last year's crop has they remeasured what the production was, it was very low I think; it was 21.5 mt versus the peak which was three years back about 28 mt. So it has been a huge downside on sugar production. You got to remember that the sugar crop is an 18-month crop. While the new crop is going to be of the year when the monsoon was not bad, but it will take some time to get to the market. So I would think that sugar prices are going to be on a boil for some more time. Milk, even in the flush season, we have not seen a respite on milk prices. Sugar is the only thing that the government can do is reduce the duties, sugar has a duty of about 40%, so exactly what they did in wheat if they were to do in sugar, that could sort of get the sugar prices to be at a reasonable level. Milk, again, is that five year cycle of milk where suddenly last two years back the prices were so low that the farmers were culling their cows and now there are less cows and hence less milk. So it is going to take its time to get to a stage where there is enough milk in the market and hence the prices come down. So I do think that commodity prices are going to continue to be firm and we have already worked out what our back up plan will be because we will have to take prices up. We do not want to take the prices up while the demonetization effect is still in the market, but I think in the next two or three months we will start to take prices up in the right SKUs. So we work that out and we will start to execute that as we move forward.

Percy Panthaki: Sir, the demon effect, is it still showing up or it is all done in the December quarter and Q4 will be a normal sort of quarter or is that sort of not correct assumption?

Varun Berry: The effect is still showing up. So what happened is that from November to let us say February, the impact has been reducing but it certainly not gone away. So it is not just about money in the hands now, it is also there are certain businesses which have gone belly up. So all that is starting to show in the consumption of products like ours. While it is much better than what it was in November, but I do not think the businesses and consumption is back to where it was in the month of September and October. So I would say it would take at least another three to six months for this to completely go away.

Percy Panthaki: Just wanted to understand, have you sort of seen because of demonetization any additional benefit in terms of sort of market shares or is it just the same amount of market share gain that you anyways do every quarter, I am not talking about Nielsen figures here, because they can sometimes be accurate, but what is your feel on the ground?

Varun Berry: I do think that companies like ours will benefit from that because there will be smaller businesses which will be obviously at a disadvantage if they start to do business the way it should be done. We have seen some kind of lift because certainly our growths are much more than the category growth. So we certainly have seen a lift in our shares and we are hoping that we will be able to maintain that momentum as we go forward.

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

Aditya Soman: A couple of questions from my end: Firstly, you talked about the new facility in Maharashtra. Can you throw some light on how much CAPEX which you would be looking at for the next year? A related question is how do you sort of weigh on the growth opportunity in terms of putting up new CAPEX versus sort of increasing the dividend payout?

Varun Berry: I do think that growths are going to come back, it is a matter of time. So, if I was to bet on anything, I would say that the country will be back to its growth days in let us say next three to six months. I do think that the budget was a fairly good budget and certainly that is going to give the impetus to the right sectors, namely rural, there are lots of measures to make sure that the rural sector starts to grow faster and during the demonetization we had seen that the rural was the biggest laggard. So I am betting on the fact that growth will be fairly good after three to six months. Now, having said that, we will be looking at because we are in a business where if volume growth start to come back then we do need to put steel in the ground. So we are looking at anywhere from Rs.350-400 crores of CAPEX in the next 18-months or so which would include the plant that we are putting up in Maharashtra, that would include other plants that we are looking at. So there will be substantial investment that will go in that and we will continue to make sure that we keep investing for growth and not take a pessimistic view on what is going to happen to the businesses in India.

Aditya Soman: Just a follow-up; this Rs.350-400 crores is excluding anything that you sort of decide to invest in Dairy, right?

Varun Berry: Yes, that is excluding that.

Moderator: Thank you. The next question is from the line of Latika Chopra from J.P. Morgan. Please go ahead.

Latika Chopra: My first question was regarding your product mix. If you could share your thoughts on how the mix trends have behaved in the recent months?

Varun Berry: The mix trends have been fairly stable, Latika, I do not think there has been much of a change. What we have been seeing is that the premium part of the portfolio has been growing faster. I think it continues to go that way. The only difference I would say is that even some of our products which are bottom of the pyramid but profitable products like our Value Creams have started to move in the right direction as well, we have launched our new Tiger Cream portfolio and that is giving us some tailwind as far as our Hindi beltand some of our weak markets are concerned. So I think it is fairly stable and while it is at a lower rate than what we had seen in the past quarters, the mix is fairly stable.

Latika Chopra: Second, you have mentioned you will be taking more price increases in another two to three months. Do you think that will suffice to sort of keep the gross margin profile stable at what you sort of delivered in Q2, Q3 or do you see further downside risk to gross margins from current levels?

Varun Berry: What we have done in the last three months is also a result of top line which is not growing at the rate that we had expected it to, obviously, the fixed costs have been built to a certain growth on the top line which did not happen. But you are right, as we go forward, one, between our price increases and second, all our cost efficiency programs, between these two, we will make sure that we cover up the inflation hit that we are getting. You got to remember that as a manufacturing company, we are not very old, right. For a very-very long time, we were doing all our manufacturing through our third-party contract packers and we got on to that manufacturing journey. So as we got on to that journey, we have started to do it more efficiently but as we go year-to-year we realize that there are sufficient opportunities for cost savings and that is what we have been unearthing for the last four years and we will continue to do so, in fact, our plans for next year are already ready and we are looking at a substantial jump in our cost efficiency programs and we have already started to execute on next year's programs right from beginning of this month. So, between that and the price increases and we have also identified which are the SKUs, which are the territories, which are the brands where we can take a price increase and why without becoming uncompetitive. So I think it is going to be a tough task, I am not saying it is going be an easy task, but I do think that we will be able to accomplish it.

Latika Chopra: On A&P spends, any sense that you can share on how much they were down or as a percentage of sales and how do you view this metric going forward?

Varun Berry: We try to bring them to very low level in November, unfortunately, we could not because the cancellations were just not possible, the television channels obviously we are going through, their own blues on demonetization, so we were not able to do that, but we brought them substantially down in the month of December. Overall it was about 10% down versus what it was earlier.

Latika Chopra: You will gradually pace it up as you see recovery coming back?

Varun Berry: Absolutely.

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

Ashit Desai: I have a couple of questions: If I remember correctly you earlier also had a joint venture for Dairy which did not work out so well. What is the difference that you are looking at from a joint venture partner this time?

Varun Berry: If you were to go back in time, the first joint venture was with the company which only was doing fresh dairy and the other part of their portfolio was biscuits which they sold off. So it just became fresh dairy in a vast country like India is a tough act to sort of fulfill. We have actually had two joint ventures in Dairy. The second joint venture was with the company which was basically in commodities with no real brand. So that also I think was not thought through as well as it should have been. So I think the important thing is that we should be in a joint venture with the company which has got a profile like us it has got brands, it has got value added dairy products, it has got consumer angle to it rather than industrial angle to it. So we analyzed all that we have done in the past, we have looked at what went right, what went wrong and we are making sure that we incorporate all those learnings into whatever we do in the future.

Ashit Desai: Do you think the partner should have brands rather than sourcing capabilities or something like that?

Varun Berry: Sourcing will have to be done in India. Sourcing capabilities will be required but that will be a guidance that we need, it will not be the key capabilities that we require, that will be done by us by building capability within our team. The big thing really will be to make sure that they have brands, they have the right products, the right recipes which are in the space of value added dairy which in India is very-very small today which I think is going to boom in the next 10-years or so.

Ashit Desai: This will be an equal joint venture?

Varun Berry: I have no details on this. So it is not like we have got the joint venture partner ready and we are ready to sign. We are just in a phase of prospecting. So it will be impossible for me to answer that question.

Ashit Desai: If you could guide as to what will be your distribution expansion target next year? Since you also talked about your cost saving programs, if I remember this year you were targeting around

250 bps cost saving from your previous cost saving programs, what is it that you are looking at for next year?

Varun Berry: So this year we will end up at about Rs.150 crores of cost saving, next year we are looking at least 40% more than that. We are looking at direct distribution expansion of at least 200,000 outlets every year.

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

Kaustubh Pawaskar: Sir, in your earlier presentations, there were slides on regional performance and the cost saving measures whatever you have taken, the effectiveness of those measures, in this Q3 presentation we have not seen those slides. So can you just throw some light on how the regional performance was and whatever the cost saving measures you have taken in the past, how they have helped you, some specifics on that?

Varun Berry: In the belt performance, I would say, has continued to remain good. The only thing is because of demonetization there were some poor states because of the impact on the rural population, we saw impact. So for example, UP growth were still more than what a national growth were, but not as aggressive as we would have expected them to be, but Rajasthan, Gujarat, continue to be really good growth. So I think I am satisfied with what we got. I thought it would not really make sense in a quarter like this to give you those numbers because this was an extraordinary quarter. But I would say good progress as far as the Hindi belt is concerned and I have also told you that some of the new products which are also profitable, namely Tiger Creams which were launched are doing well. So that also helped us in the Hindi belt.

Kaustubh Pawaskar: Just to take this question forward, any distribution strategy differentiated to expand your base into the rural belt because obviously rural is something which most of the companies are considering whatever insight is given in the budget?

Varun Berry: We got the hub-and-spoke model that we use for the rural distribution. So we create a hub which is basically the CNFA, it is a small CNFA that we create and then there are spokes which distributors which do about 20 to 40 outlets everyday, thereby we increase our availability in the rural areas. So that is the model that we are expanding and we have almost reached 10,000 rural distributors across the country. We are looking at expanding that, but what we are doing is we are not doing the shot gun approach, now we are looking at each and every district, evaluating the potential and going after the really potential districts in each state so that we are able to get the best bang for the buck. That exercise is being done as a part of our annual plan. We have done fairly well till now but as you go higher the task becomes tougher, so we are working that much harder to make sure that our progress continues.

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

Gabor Sitanyi: If you can look at the SG&A excluding the A&P, obviously it looks based on the numbers that have been falling of 10-12% YoY.Where do you see the SG&A stabilizing as a percentage of sales?

Varun Berry: Our endeavor would actually be to now stabilize it at the level that we have achieved. So there is a lot of leverage on the fixed cost that has already been taken benefit of. So our endeavor going forward will be to sustain the level that we have reached in terms of percentage to the NSV.

Moderator: Thank you. The next question is from the line of Chitrangda Kapur from Sameeksha Capital. Please go ahead.

Chitrangda Kapur: I just need one clarification; you mentioned the CAPEX guidance of about Rs.300-400 crores. It is very consistent to our earlier guidance on the CAPEX; however, Nepal and Maharashtra are the two new ventures that you have mentioned. So was they always a part of the plan for Rs.300 crores CAPEX?

Varun Berry: Basically, Nepal was a part of the plan, Maharashtra not specific to the geography, but the investments that we are making were a part of the plan. Now, we have decided on what is the location of that CAPEX because that was the critical part. So that is where we stand.

Chitrangda Kapur: Pertains to your opening comments, you mentioned that this quarter was significantly difficult for you but you manage to rally at -- thanks to some cost saving undertaken. So could you just highlight very briefly or exactly what cost saving have you undertaken?

Varun Berry: We continue down the same path. As I was telling you just 10-minutes back that we are a fairly new company from a manufacturing standpoint, right, most companies would have manufacturing experience which goes back 100-years and stuff like that. We can only go back 12-13-years. Now, as we are embarking on that journey, we are finding a lot of opportunities and those opportunities are the biggest part of our cost saving, but it is not just that, we are finding opportunities everywhere; we are finding opportunities in material that we use, we are finding opportunities in packaging. The biggest thing really if you ask me also has been the reduction of the distance traveled by the biscuits, come down from 676 Kms down to 400 Kms, that gives us a lot of cost saving. Similarly, all the wastages in the system, still has not got into zero but we are trying to do that. The market return that we get from our distributors, etc., we are trying to minimize that by impacting the freshness of the product, making sure that we give fresh product in the market, etc., So all of that adds up to substantial number and we look at it very seriously. We make sure that each department puts in its best effort and it gets coordinated by the office of the CFO. That I think is a program which is unparalleled and is giving us very good benefits… it is a culture now in the organization, it is not just a program.

Chitrangda Kapur: So it is basically operational cost savings rather than we have not got any distributor margins or anything like that we have not done it?

Varun Berry: Yes.

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

Tejas Shah: Sir, it has been almost 1.5-years or more than that since we used that in the rural belt strategy. Just wanted to know how is that market responding to our distribution and premiumization initiative? Are we gaining market share in this belt?

Varun Berry: Yes, in fact, we are gaining very handsomely in that belt. There obviously will be some very good performances and some reasonably good performances. So we do see that. The two really spectacular performances happened in the west which is basically Rajasthan, Gujarat, MP and Chhattisgarh and UP are I would say middling it right now. So those are opportunities for us as we go forward to the next year.

Tejas Shah: Sir, in last quarter concall you briefly touched upon snacking opportunity as a potential adjacency. So if you can say some view on the same?

Varun Berry: We are evaluating every opportunity in the food area, we have done some very good work and hypothesis has to get down to consumer validation and that should be done soon and thereafter we will be able to talk to you about it.

Moderator: Thank you. The next question is from the line of Dimple Kotak from SKS Capital. Please go ahead.

Dimple Kotak: Sir, wanted to know what was the kind of volume growth you are targeting for the next quarter and the year ahead?

Varun Berry: I would say next quarter is going to be tough, so I would say similar growth to what we have seen in this quarter but year ahead certainly much more than that. Once the demonetization effect goes away, we should be at least getting a mid single digit kind of volume growth.

Dimple Kotak: Sir, just on SG&A, if you can just quantify what percentage are you going to maintain?

Varun Berry: We have made sure that our overhead cost and SG&A we leverage it, so our top line growth is always more than what our SG&A growth is. So we will continue to go down that path.

Ramamurthy Jayaraman: So basically if you look at the results, the other expenses is basically standing at roughly around 19.8%, right, which includes obviously the A&SP and certain manufacturing costs. So we would like to maintain it around that level going forward as well.

Moderator: Thank you. The next question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead.

Rajesh Kothari: By when do you think economy will become normalize from the consumption perspective?

Varun Berry: I would say three to six months.

Rajesh Kothari: So the positive effect of good agri growth and Seventh Pay Recommendation which to be implemented more I would say from 1st April onwards, you do not think that will make the process faster?

Varun Berry: It will make it faster, but as I am looking at what is happening, I think the remnants of demonetization still remain and as I was saying sometime earlier that there are certain wholesalers, there are certain small businessmen who have gone belly up, as a result of that certain portion of the population which is in a little bit of distress, it will take some time for them to get back on their feet. I would say certainly three to six months to get back absolutely to normal, obviously every month will be better than the previous month, but absolute normalcy will take some time.

Rajesh Kothari: In terms of competition, and with the GST coming in, what is the current unorganized market or maybe the regional market share which you think can reduce further over a period of time?

Varun Berry: Currently, there is about 35% of the total biscuits which is not unorganized but I would say the B-brand players operate at about 35% of the total biscuit market and it is even larger for cake, rusk and dairy. So with GST I think it will benefit the organized players and we are hoping that July deadline does not shift and GST comes in and we also get other benefits of GST… the other efficiencies which are going to come in. So I do think that we will benefit from that.

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

Gaurav Jogani: Sir, my first question is the book-keeping question. The tax rate for this particular quarter has been 31.5%-odd something. So what is the guidance for the tax rate for this year and going ahead?

Ramamurthy Jayaraman: In this quarter if you see actually the effective tax rate has slightly come down, that is basically on account of certain weighted deductions that we have been able to get for our R&D centre. So that has primarily caused the decrease. So this is likely to sustain for a year or so till it becomes the base and then it will come back to normalcy.

Gaurav Jogani: So sir, any particular number that you would like to hazard like tax rate that we can take away with?

Ramamurthy Jayaraman: It should be effectively the same as the current quarter.

Gaurav Jogani: Sir, with the inflation that we are seeing in the raw material going ahead, so do we have a target in mind in terms of volumes that we are looking for or a particular EBITDA margin that we are working for going ahead?

Ramamurthy Jayaraman: It is a forward-looking statement honestly, but our endeavor would be to sustain the margins, so inflation we will make all attempts to cover it through price and our cost efficiency measure.

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

Rohit Joshi: We have seen that the overall sales growth was around 6% and you said in your initial commentary that volume growth was 2%. So it was a 4% price hike in this quarter?

Varun Berry: No, so if you look at the consolidated, our volume was flat. I was talking about the 2% in the domestic market.

Rohit Joshi: So you have taken any price hike because in the earlier concall you said that you plan to increase price by 2-2.5% in remaining part of FY'17?

Varun Berry: We have taken effectively a price hike of about 5.5-6% through the year.

Rohit Joshi: Effectively in this quarter any 1% like that, can you tell that?

Varun Berry: Small, I would not say too much but probably about 1.5-2%.

Rohit Joshi: Biscuit category growth, can you tell about that?

Varun Berry: These are extraordinary circumstances, but obviously the biscuit category growth has suffered because of demonetization, but it had started to move in the right direction, in fact, in Q2 we have seen a month or two of double digit revenue growth as well. So we are hoping that we will get back to that as we move through the year.

Rohit Joshi: How many outlets you have added? Your overall distribution network is 1.5 million.

Varun Berry: Our overall distribution network is 4.5 million, direct distribution is about 1.46 million now and we have added I would say about 250,000 outlets.

Rohit Joshi: In this quarter, how many outlets?

Varun Berry: In this quarter, we probably would have added about 50,000 outlets, we front load our distribution plan, just to make sure that we can get the benefit of the entire year.

Rohit Joshi: In the rural markets, you have added how many distributors since March '16?

Varun Berry: We were at about 7,500 distributors, we have taken it to almost 10,000 now from March '16.

Moderator: Thank you. The next question is from the line of Chinmay Gandre from Future Generali Life Insurance. Please go ahead.

Chinmay Gandre: Just one clarification sir; did you mention that next year you expect mid single digit kind of volume growth because like historically we have been growing in high single digit or say double digit and we would also have a lower base for the H2 of next year?

Varun Berry: I say this because there is going to be substantial pricing. So mid single kind of volume growth and revenue growth which is obviously much larger.

Chinmay Gandre: Sir, we have taken like around 6% kind of price hike. So to offset that, do we need to take a price hike of in the range of say 8%-odd in the next year?

Varun Berry: Next year we will have to take another 6-7% price hike. It is very difficult to call what is going to happen. Whenever I would go and talk to someone, they would say, the deflationary environment has not changed, etc., and here I was trying to tell them that "No, inflation has started to bite us." I think in today's circumstances, very difficult to say how much inflation there is going to be but I would say at least 6-7% price hike will be necessary.

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

Ramamurthy Jayaraman: Thanks, everyone for spending time with us on this call. We look forward to interacting with you again. Thank you so much.

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.