"Britannia Industries Limited Q3 FY16 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Britannia Industries Limited Q3 FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*'and then'0' on your touchtone telephone. 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 Inba. Hello everyone, this is Ram from the Investor Relations team in Bangalore. I welcome you all to the Britannia Earnings Call to discuss the Q3 Financial Results. Joining us today on this Earnings Call is our Managing Director – Mr. Varun Berry, Chief Financial Officer – Mr. Amlan Datta Majumdar, Mr. N. Venkataraman – CFO (Bakery Division), Mr. Vinay Singh Kushwaha – Head Supply Chain and Mr. Ali Harris – Head Marketing.

We will start the call with remarks on performance by Mr. Varun Berry followed by comments from members of the senior management team. Subsequently, we will open up the call for questions.

Before I pass it on to the management team, 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, everyone. Thank you for joining us on this call. We have had a good quarter with 10.3% revenue and a 57.2% operating profit growth on a consolidated basis. What I would like to really highlight is the consistency of our performance. It has been for the last 12 quarters great top-line growth, very good profitability and increase in market share, so we are pretty proud of the consistency that we have shown in our performance. Our management team has also shown the passion, the energy and the strategic intent to steer the business to this level and all this has been achieved in a quite difficult market demand scenario which was in this particular quarter aggravated by the floods in Tamil Nadu and a fairly dampened Diwali.

So with that, let me just take you through a presentation that I have which you probably do not have sight of, but I will quickly take you through the slides. Basically, if you were to look at our revenue growth for the year to date 2015-16, they are at 12% on a standalone basis and this is cycling a pretty good growth of 14% last year, so a good revenue growth. This has basically been achieved by execution focus which is primarily if I were to talk about what were the execution parameters that we were looking at, expanding distribution was clearly a very important thing for us.

So what have we done as far as distribution is concerned? In the first nine months of this year we have added almost 1.9 lakh outlets which is obviously giving us good returns. We had started a split route model of distribution where we had two salesmen going to the retailers and selling a split section of our portfolio, that has now moved to 105 towns and that is giving us pretty good returns in those towns. We have had a very good growth in our rural expansion, so our rural expansion now we have serviced villages over 5,000 population, we have got 8,000 rural distributors covering these villages, we have had a 35% growth in rural while what we hear from most FMCG companies that the rural demand has been stagnating because of the agriculture economy not prospering as we would have wanted it to. But because of our expansion, because of the distribution agenda that we have, we have seen a 35% growth in our rural sales.

We also had an agenda of weak states, we have the entire Hindi speaking belt where we have got fairly low shares and in the Hindi speaking belt we have seen a double-digit growth, in fact in most states more than 20% growth which is obviously not sky rocketing our market share but we have gained a reasonable share in these states. So it is a slow and steady model that we are looking at, it is a model which we want, it is sweat and blood model whereby we want to get the basics right and do not want to get our volumes up by discounting or through pricing. So it is a slow development of distribution which is helping us get to that. And if you were to talk about the states, basically Gujarat, MP, Rajasthan, UP, all four states we have seen pretty good movement in revenues as well as market share.

The second is from a marketing standpoint. From a marketing standpoint, we have tied up with some mega properties, Filmfare was one of them. Filmfare, this is a second year of tie-up and that has given us pretty good returns. We also have tied up with certain regional properties like there is a movie called Baahubali which we tied up for the title sponsorship when it was released on television and that gave us some mind boggling viewership. We also had a similar tie-up with brand Milk Bikis which was with a star called Surya in Tamil Nadu and we printed the movie and his pictures on our pack which gave us good returns.

Our innovation agenda continues.We obviously continue to do well with all the products that we have launched. The latest on the block is a brand called Pure Magic Deuce which is being test marketed in Bangalore. We want to make sure that every element of the product works. It is actually a very different product from anything that is available in the country, it is a chocolate slab which is stuck to a biscuit, so it gives a double benefit of chocolate as well as biscuit together and makes a pretty delightful product. So that has been test marketed in Bangalore and initial reactions have been very positive.

We also continue on our agenda of the Five Mega Brands. The Five Mega Brand agenda is pretty much getting us focused on making sure that we do not fritter away our resources on too many brands. In the last six months we have re-launched Good Day which is our biggest brand

and the re-launch has given us pretty good dividends, our growth from pre to post are up almost 40% versus the pre, so if we were growing at let's say 15% now we are growing at almost 23% - 24% with the brand. We are in the process of re-launching Tiger, Tiger used to be a brand which was predominantly glucose at one stage, then we have done creams as well, now we have made it a consolidated brand which has got glucose, it has got chocolate glucose, it has got cookies which were earlier under a different brand, now we have got cookies under Tiger and we have also got the cream biscuits. So we are re-launching Tiger and that hopefully is going to give us pretty good returns again in our weak market.

Also, our focus on driving efficiencies, we continue to make sure that our trade load remains low, trade load is basically the discounts that we give to the retailers, we have brought this down by 25% to 30% in the last three years and we continue to track and make sure that we keep it tight. Market returns which come again from the retailers and the distributors are down 30% again in the last three years and we continue to track this as well to get more efficiencies in how we deal with our supply chain. And we also track our product freshness which has been the main reason for us to get the market returns down and get some more efficiencies into our supply chain. We used to have write offs within our system which are down to almost zero and these used to be a pretty large number three years back.

Now all this is happening while the material prices have started to trend upwards. So if you were to think about a flour, sugar and cashew which constitutes approximately 45% of the commodity basket that we purchase, all three of these commodities have started to move upwards, cashew is something that has been going up right from '13-'14 but flour started go up from Q2 onwards and sugar started to go up from Q3 and continues to go upwards. So we have to keep that in mind, we have to make sure that we plan for the commodity prices as they start to tick up. So the way to do that is obviously dial down on our efficiency and productivity agenda, but also selectively start to look at pricing. If you were to see our revenue growths for the quarter versus our sales growth, our volume growths have been higher than our revenue growth for the quarter which means that we have given back to the consumers in terms of price and we will now have to start to think about how we deal with the next quarter if the commodity prices continue to go up. We do not see a big inflation number for next year, but we do see a 3% - 3.5% inflation which we have started to look at and started to deal with.

We have also got our entire supply chain system and we embarked on this journey of long-term capacity plan which we continue to track. We have commercialized our factory in Tamil Nadu in a small town called Perundurai, the factory is ready and it has started producing, it is a very nice looking factory and we want to make this into a truly futuristic plant for ourselves. So that factory is commercialized, we are in the process of finalizing our commercialization of our Bangalore plant which is about a month away. We have also got a state of the art R&D center in Bangalore which is ready, we are moving our equipment from Chennai and buying some new equipments, so I think in the next one month we will be ready and we would welcome you to come and visit us at our R&D center which is contiguous to our Bangalore factory as well.

We are also looking at developing certain other factories in continuing with our long-term capacity planning. And especially as our volume growths are looking pretty robust, so we are in the process, in fact we have finalized our plant in Chittoor in Andhra Pradesh, we are also in the process of finalizing a plant in Guwahati, we are also looking at putting up a factory in Kandla which is an export zone for our international business and evaluating putting up a factory in Maharashtra. So all that work is going on and that is going to give us obviously these larger plants are lot efficient, they have got modern equipment, they also have all that is required to get energy conservation and are much superior to what we have had in the past. So we are looking forward to those projects as well.

On our people agenda, we have got a senior leadership team which has got very diverse experiences. We have got larger roles for young and very dynamic managers, we have got today a leaner, more accountable and a motivated team, we also have the culture of action orientation and the competitive spirit which is required and the cross functional work is working very well. And as a result of all these efforts, obviously our profits and profit growths have been pretty good. So if you were to look at 2012-13 we had started, we had opened Q1 at 4.9% profit from operations and in the last three quarters it has been north of 13%, in fact in Q3 it has been 13.8% (on a standalone basis) so we feel good about that. And as I had said in the beginning, this is in the face of a sluggish market demand which is pretty evident from the sales results of other FMCG companies and obviously this quarter was a bad quarter because of the floods in Chennai, etc.

We have also had 1%, almost 100 basis points of growth which has gone away from our numbers which is because of the excise duty incentives which we had on our Uttarakhand plant which have gone away.

So that really is the story. We are confident that we would be able to exploit the significant opportunities that lie ahead of us and I think we will continue to execute on the priorities that we have set for ourselves. And we really want to be in the future, we really want to be a total foods company and our journey on that continues.

With that, let me just hand over to Amlan to take you through the key financials for the quarter.

Amlan Datta Majumdar: Thank you, Varun. And Good Morning Ladies and Gentlemen, pleasure to have you on board. As you have seen with the results that we have published, our net sales for the quarter grew double-digit, 11%. Profit from operations grew by 66%, profit before tax 67% and profit after tax 61% on a standalone basis. On a consolidated basis, net sales grew by 10%, profit from operations 57%, profit before tax by 60% and profit after tax by 51%.

Actually, the financial results that Varun said it all, this has been possible due to focus on multiple priorities that we have been able to handle well. In spite of a not so warm market, the consistency of operations & the cost focus, if you see the cost structure and how it has been moving over the last two years, we have been pretty consistent in making us cost efficient while keeping the market focus on. And in spite of continuous capital investment, our cost levels are at the same level and employee costs, while there has been lot of changes which were necessary during the last two years, but employee cost also remained to be very competitive compared to our peers. The cash flow is good as you can see continuously it is getting better. So both the cost and market focus are really working well.

On profit from operations which surely is a very good indicator, our profit from operations has now reached a stage where we are quite happy with that while we continue to see if we can improve on it. So basically most of the parameters are looking good and our company focus on the cost and the market will probably will be able to deliver results as expected by the stakeholders that we have.

Varun Berry: Okay. And just one more point, which is international business which is still a small part of our total business is also performing very well and is accretive to our overall performance.

So Inba, we can open up the call for questions now.

Moderator: Thank you very much, sir. Ladies and Gentlemen, we will now begin the question-and-answer session. Our first question is from the line of Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the volume growth, what is the impact of the Chennai flood? That is one. And second, sir rural 35% growth, which are these brands so if you could elaborate that part and when do you see the Tiger re-launch benefitting the rural growth, so does it accelerate further because 35% is a very good number, so what is the scenario when Tiger finally has impact, where do you see the growth levels in the rural segment?

Varun Berry: So basically, the weak states, Abneesh the biggest driver for our weak state growths is Good Day as of now, we have a Good Day product which is at Rs.5, albeit it is a lesser grammage compared to all the value players, but that has what has driven our growth there. However, having said that there is no doubt that the big daddy in those states is value and obviously Parle and ITC are both very strong in the value segment. So Tiger obviously is going to benefit us as we start to ramp it up. So Tiger we have done it in stages, so we re-launched the Glucose about four months back, we then launched Chocolate Glucose which was also about four months back, we then did the Cookies and we just recently we have done the Creams. So the entire portfolio's power will start to play up in the next month or so as the stocks hit the market, so hopefully that should definitely give us the right results in these markets and in other rural markets as well.

The Chennai floods, as you know that Tamil Nadu is a big market for us, so the floods obviously hit us more than anyone else in our competitive set. Very difficult to say what percentage was that, but during those two months we saw zero growth, in fact in one month we saw a decline in our overall revenues in Tamil Nadu. So I would think that it would have hit us to at least about 0.5% of our total revenues.

Abneesh Roy: Sir one follow-up, Glucose re-launch and Chocolate Glucose re-launch, four months have happened and in four months you will see repeat purchases also happening, so based on the repeat purchase how is the growth looking, is it matching up to your expectation?

Varun Berry: So yes, first of all we are seeing growth for the first time Abneesh, we have not seen growth in glucose for a very-very long time, so now we have started to see growth and while they are not growing 50% or anything but starting to grow and then building on it is what we are looking at. And as I have said in the past, we are not looking at getting to a very large share of the value segment, we are just looking at creeping up in the value segment, getting two, three share points in the next couple of years so we do not want to make that into a huge part of our portfolio.

Abneesh Roy: Sir my second and last question is on the innovations which you have done, so Chocolush, Chunky, Heavens, so could you talk about them because now sometime has gone since the launch. And second is, in creams you are number two so what is the status there, are you gaining market share in creams?

Varun Berry: Yes, we are now number one Abneesh, but again it is not like we have taken the lead by a mile, we are number one by a very wafer thin kind of a margin. But yes, we are number one but there is a lot of work to be done in creams, we do think that we still have to crack the sandwich cream segment which obviously we are working on. We do have products there but we just want to make sure that we are the best in the market and we are working on that. On our innovations, as you know that innovations are very difficult to track in a short period of time but I would say that we have seen a moderate to good success in most of the innovations that we have put in the market. There have been some feedbacks from consumers, there has been feedback on pricing of few products where the pricing was high, so we have looked at how do we bring in a pack which offers better value and takes out some of the frills which the consumers are not finding value in. So if you were to look at what we have done to Chunky and Heavens, Chunky and Heavens were both being sold for Rs.50, that was the only pack that we had, today we have Chunky at Rs.30, it is not individually wrapped but it is in a tray and that is great value for the consumers and we are getting that feedback from the market, so now it is made more affordable not just for the top end of consumers but for the mid-end consumers as well. And Heavens, now we are selling it again in a tray of, so five cookies in a tray for Rs.25. So we are listening to consumers and we are looking at bringing in the right elements for consumers to find our products attractive. Chocolush continues to do very well. While Dark

Fantasy is the big daddy in that segment, but we have taken the second position, we have overtaken Milano and some of the other players and we continue to challenge the biggest player in that segment in the key markets.

Moderator: Thank you. Our next question is from the line of Sanjay Singh of Axis Capital. Please go ahead.

Sanjay Singh: Firstly, you had outlined in a media interview that you are looking at a 20,000 crores kind of turnover in five years, I presume it is FY20. Now can you just give some more details on that in terms of how much from biscuits, you have already outlined some new categories which you want to do in the next six to 12 months, how much from new categories you are expecting? So a more granularity on that vision per say.

Varun Berry: First of all, these are benchmarks that we have to take to make sure that the vision is of getting some big numbers in. I do not think we are in a stage where we have broken this up by segment,, etc., but obviously there is going to be, the big part of this is going to be the existing categories where we are looking at continuing with great growths in biscuits, cake, rusk, international business and obviously dairy, dairy is currently a very small part of our portfolio but we want to make sure that we have the right strategy to take dairy to a very different plane. It would also mean that we would look at getting to adjacent categories in our endeavor to become a total foods company, so there will be a component of that as well, while those are slow burn areas and it takes a little bit of time to gain momentum there. But yes, it is a vision that we follow, it is something that we would like to get to and we are in the process of making sure that we get our strategic plans in place to get to that. When we have done that work we will definitely share it with you.

Sanjay Singh: So in a similar manner different question is, what in your view could be a biscuit category growth for the next five years given that inflation might be little lower than what it has been in the past?

Varun Berry: Well, you always extrapolate basis what you see for the past, so if you look at the past the last three years have been single-digit growth despite inflation being very-very low especially in this year. Before that, the growths were double-digit and in certain years even as much as 20%. So who can call the markets, I do not know, it is very difficult to call the market. Today, I think it is difficult to call the next month and you are asking me for the next five years, so I do not know, I will really have to develop a computer program.

Sanjay Singh: No, not in the sense what is going to happen in the short-term, in the sense that biscuits is a highly penetrated category, so in terms of how much increase is only going to come from usage and shift from maybe unorganized, so in that sense if you extrapolate that what is the usage currently, how are the consumers using it versus the national average and stuff like that, I guess you would come to some kind of an estimate.

Varun Berry: So while you see biscuits as a very large category, the fact is that if you compare it to other countries, the consumption of biscuits in kilos per person per year is still quite low. So there is quite a bit of headroom for this category to grow. So I do think that, I am a born optimist so I would certainly think that the category growths would certainly get back to double-digits. I have been saying that for some time that next six months, next six months and I have been proven wrong, so this time I am going to keep quiet about it and wait for it to unravel on it's own.

Sanjay Singh: And in your view how big is the whole bakery, especially in south it is a big model, the whole bakery plus unorganized segment in the northeast all put together, how big is this segment in terms of crores or in terms of the organized market as Nielsen puts it?

Varun Berry: Well, the unorganized market in the north, west and east is fairly large, I would think that it is almost larger than the organized market. So all the bakery, biscuits and the rest of it is fairly large and obviously there has been a move of consumers to move from open biscuits and open cookies to packaged biscuits and cookies and I think that will continue.

Sanjay Singh: And lastly in terms of gross margins, given the recent inflation to you think you will still be able to manage gross margins per say in the current range?

Varun Berry: Our endeavor will be to do so.

Sanjay Singh: And this is lastly from the last year's annual report, you had in your inter-corporate deposit told some of your parent group companies, so what is that number, it was around 300 crores or 240 crores around at March 2015, is it possible to state what is the current number there?

Amlan Datta Majumdar: See, these numbers normally we would not be so keen to share them during the year because this keeps changing. So if you get a figure which is low you will get an impression which is not okay, it is in the same range, some investments we have done. Basically we have to understand, these inter-corporate deposits are basically driven by our aspiration to get higher income out of the treasury. So long as we do not invest our treasury into specific projects, we want to earn the highest returns and we also make sure that our investments are secure. So it is in a same range, we have been sometimes adding and sometimes taking out but it is in the same range and we continue to earn good returns on that with a safe investment.

Sanjay Singh: And is it a call of the management or is it a call of the board?

Amlan Datta Majumdar: Any investment of this nature management decides but board approves.

Sanjay Singh: So the company has done very well and the market has awarded or rewarded the company very nicely in terms of valuation, etc., our experience on the past is 1 percentage points or 2 percentage points extra interest does not mater but market would like to see the cash either being given back or utilize the growth. So it is just a feedback, if you can take it because…

Varun Berry: So we are looking at projects to make the investments, actually if you look at this year and the next year, total investment is going to be north of 900 crores and if our dairy project is cleared by the Board which will probably happen in the next three to four months, that could make the investments even larger because the dairy business will require a lot more investment.

Sanjay Singh: No, I was saying from the term that inter-corporate deposits to group companies, if it can be reduced, taken off that would be probably be seen very-very positively by the market and vis-à-vis.

Amlan Datta Majumdar: So we hear what you say, but you have to also understand that for our stakeholders, which also includes you, we would like to see higher returns on any of the assets that we employ. Still we have specific projects to investment in which we are working on as Varun said in his comments. It is important for us to make sure two things, the returns are higher and the risk are lowest and so we are trying to do a risk return balance here and you can be sure that we are taking along with our board the wisest decision on this. If there is a need at some point to reduce it, of course we will look at that. We get your point, but you can be rest assured there is no such risk that could be in your mind.

Moderator: Thank you. Our next question is from the line of Sameer Gupta of IIFL. Please go ahead.

Percy Panthaki: Hi sir, this is Percy Panthaki here. Just wanted to know, I joined the call a little late, have you given our what is the volume growth for this quarter?

Varun Berry: So this quarter the volume growths are higher than the revenue growths, they are about 11%.

Percy Panthaki: And sir, going in to next year since there is a cost inflation and you would take price increases to mitigate that, do you think that would have an impact on your volume growth and are you confident that it would maintain in the double-digit kind of range?

Varun Berry: No, I was just telling that it is very difficult to call what the demand scenario is going to be, it just seems to be that everything that you do you seem to be hitting a wall as far as the demand scenario is concerned. It is very-very difficult to call where it goes, if I were to transport myself back in time and if someone wants to tell me that there is going to be deflation in all the commodities that you buy and this is how the scenario is going to be, I would have called on the volume growths and the revenue growths to be high double-digits, 20%, but it has not happened. So we are taking one step at a time. We obviously are pretty bullish about our agenda. We know that even if the category growths are not coming through we would make sure that we will follow our building block model and we will make sure that we continue to gain some momentum in all the areas which are opportunity areas for us. So that is all…

Percy Panthaki: Sir, my question was more on the inter-play between price and volume, so do you think that with a price increase the volume trajectory would be affected or it would stay constant assuming that the underlying demand scenario or the underlying consumption sort of environment remains unchanged?

Varun Berry: No, so that always happens. Basically if there is a price increase that happens then the revenue growth does not change too much, but yes, volume growths slowdown a bit. So I think that that will certainly happen but it is not going to be like rampant inflation, so we are looking at 3%, 3.5% inflation. So yes, you are right, if there is a 3% inflation and a 3% price increase or a 2.5% price increase then the component of growth will be 75% let us say through volumes and 25% through pricing.

Percy Panthaki: And would you say that with the upturn in commodity prices, even if you do take some product price increase, margins would have peaked out at the current levels, I mean at the gross margin level or would you still say that there is some more levy in the gross margin front?

Varun Berry: See, our agenda continues. So what is our agenda, agenda is to make sure that we have a much bigger play at the premium end, our agenda is to make sure that our supply chain becomes very-very efficient, we take costs out of our system at every stage and that agenda continues, there is still a lot of room for us to cover on that agenda. However, having said that, while we continue that agenda, we do not give any future forecasts, so I would not give you any numbers on the gross margins. But the endeavor will certainly be to improve our performance as we go forward.

Moderator: Thank you. We will take the next question from the line of Ajay Thakur of Anand Rathi. Please go ahead.

Ajay Thakur: I have a question on the gross margin, given that 240 basis points of gross margin expansion that we have seen in the current quarter, what could be the contribution of expansion in the gross margin because of premiumization and what would be the quantum of margin expansion because of the increasing food prices, if you can give just some breakup on that?

Amlan Datta Majumdar: So because of the commodity prices, in the first six months of this year we saw our margin expansion of about 250 basis points, now that is slowing down a bit. But clearly the big part of our gross margin growth has come out of the agenda that I was talking about which was premiumization which was taking costs out of the system and those were the two big elements from which we have got the gross margin increases.

Ajay Thakur: And second part, just wanted to get a sense on your dairy business plan, you had mentioned that it is going to be taking another three months for you to finalize on that, but any sense or any color which segments or which category we are targeting in that and what kind of investments could be lined up in the first year, what kind of remunerations we can get out of the business over the next one or two years, any details on that front could be pretty helpful to us.

Varun Berry: So just to elaborate on that, so basically if you look at our dairy business today, the total dairy business is 5%, so it is about 400 crores, we sell 400 crores of dairy products, a bulk of that is cheese. We also buy 300 crores of dairy products for our bakery business. So our first stop will always be at what we are doing and accelerating that growth through having a fully integrated supply chain for dairy. So Phase-I will be cheese, milk powder, maybe condensed milk, whey powder, some of the products that we sell and some of the products that we consume in the bakery business. So that is going to be Phase-I and then we will obviously do a lot of innovation within the cheese category, etc., then we will start to look at what the Phase-II could be, the Phase-II could be deserts, it could be drinks, it could be a whole lot of other stuff, but that I would say is some distance away.

Moderator: Thank you. Our next question is from the line of Ravi Naredi of Naredi Investments. Please go ahead.

Ravi Naredi: Sir, how much margin you expect from 13.8% in our or two years' time period, next time one to two years' time period?

Varun Berry: We do not give any future forecasts, but obviously we want to make our business more and more efficient as we go forward.

Ravi Naredi: And sir CAPEX plan for the next two years?

Varun Berry: So I was just talking about that, so between what we are investing now and what is going to be invested in the next year, it is almost looking like 850 crores to 900 crores without looking at the dairy investment which will only be possible to talk about once we have got a clearance. So as of now the current business is looking at about 850 crores to 900 crores of investment.

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

Rohit Joshi: My question is, what is the market share in the Hindi speaking belt currently?

Varun Berry: It will probably be about 10.5% - 11%.

Rohit Joshi: And what sort of growth you have seen in the urban areas, like you have said that 35% growth you have seen?

Varun Berry: So in the Hindi belt, overall our growths have been pretty good, so our growths in most of the states have been over 20% urban and rural.

Moderator: Thank you. Our next question is from the line of Gautam Duggar of Motilal Oswal Securities Ltd. Please go ahead.

Gautam Duggar: Just two questions, one is on the industry growth rates, so if you could just put some color on that because last two, three years I think the industry growth has been in low single to mid single digit, how is that currently and what sort of market share gains you would have seen so far?

Amlan Datta Majumdar: So the industry growths are still in single-digit, they are mid-single-digit about 6% - 6.5% kind of industry growth and you know our growths, so we have been obviously leading the industry. So we do not share our market share numbers, but all I can tell you is that we have become market leaders and we continue to gain share, we have continuously gained share in the last three years.

Gautam Duggar: You are saying the difference between you and the next player is not much right now in terms of market share?

Amlan Datta Majumdar: It is about 100 basis points.

Gautam Duggar: Secondly on pricing sir, have you started implementing any pricing changes or is it still in the pipeline? And the point is, in the last 12 or 18 months what kind of pricing changes would have happened, have you not taken any price hike on any of your portfolio or because on a weighted average basis even though it looks a 2% decline but are there any portfolio where you would have implemented pricing changes in the last 12 - 15 months? And secondly, basically currently what are you foreseeing as far as pricing changes are concerned, are they in the pipeline or we are still some time away from that?

Amlan Datta Majumdar: So last year or so we have actually only taken price cuts, either grammage increase at the same price or price cuts and that is because as market leaders we wanted to stir up the industry and we wanted consumption to be stirred up a bit. But as I was saying, some of the commodities that we buy have started to go up. So we expect about 3.5% of inflation in the next financial year. So we will have to take a price increase which will be about 3% let us say because our productivity efficiency agenda will continue, so let us say 2.5% to 3% will be the price increase. We will opportunistically take that price increase in products and packs where there has been no price increase for the last two years. So we are in the process of evaluating that and we will implement it in the next three months or so.

Gautam Duggar: And the past price cuts that you just talked about, were they direct MRP cuts or it is more in the form of promotions or consumer incentives?

Amlan Datta Majumdar: More in the form of grammage which were upped in our packs and also promotions, grammage promotions which is 25 grams, etc., 25%, etc., that kind of thing, but some price cuts as well.

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

Amnish Aggarwal: Sir, I have a couple of questions, my first question is regarding Patanjali Ayurved which has launched a whole range of biscuits with the positioning that it is made out of atta and not maida, even McVities is not having Marie biscuits under that proposition, so you as a market leader are you look at this opportunity of making some of the formulation changes or introducing some of the products and do you see any impact of Patanjali so far in terms of the demand in the distribution or otherwise?

Varun Berry: No, so Patanjali I think is a company that one must keep a watch out for, because obviously they have started and gotten to a certain level. While most of their progress is not into biscuit category, it is in other categories which do not impact us, but we will keep an eye out and keep checking how they are doing and what kind of progress they are making in the market. I do not think that while they advertise the products in a certain way and we will keep a watch out on them. I do not think it immediately calls for a formulation change for us because if you look at our nutria choice range it has all the health ingredients and all that is required from a healthy biscuit, our Marie as well, while we have two Marie biscuits, there is Vita Marie and Marie Gold and both of them are extremely good, very well liked from a formulations standpoint, we dominate the market, we have a major shareholding there. And we do look at launching variants from time to time and certainly we will keep the competitor set in mind as we are doing that for future innovations. But I would say no knee jerk, but yes keeping an eye out for what competition does.

Amnish Aggarwal: My second question is on the dairy business, the way we are talking about say first going in for say condensed milk, milk powder, cheese etc which we are consuming and even selling in the market, but when you are looking at the dairy footprint on the whole for you are you looking at a model where you will also be setting up a backend milk procurement or you will only be looking at increased sourcing or some sort of manufacturing footprint for you?

Varun Berry: No, so we will look at fully integrated supply chain as and when we get to that stage, so the objective really is to have a fully integrated supply chain right from sourcing milk to processing, selling and marketing.

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

Chirag Lodaya: Can you just help me understand the sensitivity to our gross margin vis-à-vis commodity prices, so some light on that would be helpful.

Varun Berry: Sensitivity, so basically if you were to think about it, obviously you know our gross margins, so if the commodity prices go up by a certain percentage it does impact our gross margins. So as I was saying, first six months of this year because the commodity price decreased we had a 250 basis points of margin increase. So I would say highly sensitive, so you got to keep a watch out and you got to make sure that you work at both ends, one is productivity and efficiency agenda and second is the pricing and pricing has to be changed when required.

Chirag Lodaya: So say for example, so for last 12 months' commodity prices were benign and we did extra grammage and promotion, so now say in the next six months if prices shoot up sharply, so what would be our reaction, is it easy to pull back that extra grammages or promotion or it will be through price hike only?

Varun Berry: See the point is that I do not think that there is going to be shooting increase in commodities, that is not what we are calling. There will be a slow increase in commodities which probably will lead to 3.5% inflation for the next year and we are well in position to take care of that kind of inflation through our productivity and efficiency agenda as well as the price increases which would mean either promotions which are being pulled back or grammages which are being reduced or prices which are being taken up.

Moderator: Thank you. We will take the next question from the line of Aashish Upganlawar of Elara Capital. Please go ahead.

Aashish Upganlawar: Sir, just wanted to understand on the fact that you are growing the double the rate of the market and quite some of bit of it is mostly due to the distribution aggression that you have in the rural as well as urban markets, so how long it is before we say that we have kind of plugged the low hanging fruits out of it and probably that contribution on the volume growth side comes off especially on the Hindi belt that you have been talking about.

Varun Berry: See, there still continues to be a very large distribution gap between the market leader and us, so we are at about 3.6 million outlets and the market is almost at 6.7 million outlets. So there continues to be huge potential. What we have done in the last three years, while we have really gone heavy on our direct distribution, our total impact on overall distribution has not been that large. So basically we have got extra outlets to our fold directly, so now our distributors whether it is urban areas or rural areas are selling more products directly to these outlets. Earlier, these guys were getting product, either going to the big town and buying some product because there was demand for Britannia or some wholesaler was once in a while going and selling our product, now we have made it an organized way of getting product in there which has really impacted the depth of our availability in those outlets. Our overall gap in outlets where we are not present still remains fairly large. So to give a short answer, the potential is immense.

Aashish Upganlawar: Sir I missed the number on Parle's distribution that you mentioned, is it some 6 million you said?

Varun Berry: 6 million is what their distribution is, the category is almost 6.7 million.

Aashish Upganlawar: And sir secondly, you said that the unorganized market in non-south is much bigger in bakery compared to the organized market, so apart from the branding that we do what else leads, is the product quality far better than the unorganized that organized players like you would have and that is the reason why there will be a continuous transition or is it a very difficult thing to get it transformed from unorganized to your organized players I mean?

Varun Berry: No, basically unorganized players are either operating on price or they are operating on some kind of local awareness about a certain bakery and hence products being available in that certain radius. What really is helping the organized players to get more business out of the unorganized bakery is the awareness. If you remember it happened to milk many years ago, milk used to be supplied through the dudhwala's at home, then the market moved and we saw pouch milk and now we are seeing tetra pack, etc. So it is happening in every category and I think in the south it has happened to a large degree, in the other parts of the market it is happening slowly and steadily and I do think that this trend will continue and only accelerate as time goes by.

Moderator: Thank you. Ladies and Gentlemen, we will be taking our last two questions now. Our next question is from the line ofLakshmi Narayanan of Catamaran. Please go ahead.

Lakshmi Narayanan: I have two questions, one is, you mentioned there are five mega brands for you, those brands I just wanted to understand how much they contribute to the revenues and what has been the volume growth in the last nine months? Second question is in terms of your total production, how much is actually outsourced and do you actually outsource your innovative new products Chunky? And the last is, in terms of the organizing structure you are structured by brands, I mean you take brand wise profitability or you actually are segregated by regions?

Varun Berry: No, so let me take the first question which is about mega brands, mega brands contribute to almost 85% of our total revenue and the biggest is Good Day and Good Day has been growing very-very aggressively, even the other brands have been growing pretty rapidly, so good progress on that.

Second is on the outsourced versus in-house, first, we do not outsource our innovation products, the outsourced versus in-house currently is 50:50, with all the plants that we are putting up it will probably move to a 60% and a 40% and at max to a 65:35, 65 being in-house and 35 CPs. So some of our CPs are very good and we will obviously stay by them and stay with them because it helps to have on track in certain areas and obviously if they are doing well there is no reason to look at setting up our own facility there. So that is your second question. The third question was on the organization structure – the organization is by brand.We have a typical organization structure, we do not have a structure, we used to have maybe 10 years back where we had a regional general manager structure, now we have moved away from that, we have a typical organization structure that any FMCG would have, which means brand managers reporting into the marketing department as well as all the other functional areas which any company would have.

Moderator: Thank you. We will take the last question from the line of Prashant Kutty of EmkayGlobal. Please go ahead.

Prashant Kutty: Just firstly one clarification, you said that during this particular quarter a large part of our gross margin improvement is actually a function of premiumization, first of all want to have that clarification first.

Varun Berry: No, it is not just premiumization, I said it is premiumization and efficiencies and productivities that we have brought to the business.

Prashant Kutty: In that line sir, obviously when we are talking about focusing a lot on the value share business as well obviously to target the Hindi heartland, is there a fear at a time when your commodity prices are actually increasing that maybe this premiumization growth story which you are talking about could actually be under threat from a near-term perspective?

Varun Berry: So let me just repeat what I said, our objective is not to become market leaders in the value segment, and first of all, the value segment is not all about bad margins, the glucose part of the value segment is bad margins, the cookies and the creams are not bad margins, yes they are not accretive but they are almost at par with the total margins that you make. So one is, you got to choose which segment that you want to focus on and how much expansion do you want to do. Second is, what these products do is that they become carriers for a whole basket of products getting to these outlets, while you get these products to the outlet you also carry Good Day, you also carry Marie, you also carry some of your other products in the market which is what we are focusing on, we are making sure that our revenue and profit margin management even in the distribution setup in these markets does not become dilutive to our business. So that is really the answer for you.

Prashant Kutty: And secondly sir, obviously we continue to see fairly strong containment as far as the other cost are concerned, do we still continue to say that there is enough amount of steam left as far as further cost cutting measures are there or probably cost management measures are there?

Varun Berry: Well, I would not say cost cutting measures, I would say productivity areas, there are lots of areas, we in fact now what we have started to do is that we start to work on our productivity agenda for the next year, seven eight months before the year starts. So we have already identified the projects that we are going to work on, we have already started the work so that we hit the ground running as we get to the next financial year.

Prashant Kutty: So in that sense we do have those productivity, which could still help the cost to maybe still measured itself?

Varun Berry: Yes.

Prashant Kutty: And lastly sir, just one bookkeeping side, anything specific to highlight as to why the typically we look at the consolidated and the differential of the consolidated and standalone business, the margins over there have actually come off a bit, anything specific to highlight over there? Also the growth also seems to have come off a bit over there.

Amlan Datta Majumdar: Yes, so our dairy business has not grown at the same pace as our bakery business, while our international business has grown very well, the dairy business has not grown at the same pace.

Moderator: Thank you. I would now like to hand the conference back to Mr. Ramamurthy for closing comments. Over to you, sir.

Ramamurthy Jayaraman: Thanks everyone for spending time with us on this call. We look forward to interacting with you again. And have a good day.

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