"Britannia Industries Limited Q1 FY20 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day. And welcome to the Britannia Industries Limited Q1 FY20 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. Yash Vardhan Bagri. Thank you and over to you, sir.

Yashwardhan Bagri: Thanks, Karuna. Hello, everyone. This is Yash from the Investor Relations team. I welcome you all to the Britannia Earnings call to discuss the Q1 2019-2020 financial results.

Joining us today in the Earnings Call is our Managing Director – Mr. Varun Berry; CFO – Mr. N. Venkataraman; VP (Sales and Dairy) – Mr. Gunjan Shah; VP (Supply Chain) – Mr. Vinay Singh Kushwaha; VP (Adjacency Bakery) – Mr. Jayant Kapre; VP (R&D and Quality) – Mr. Sudhir Nema; and VP (Human Resource) – Mr. Ritesh Rana.

We will start the call with remarks on performance by Mr. Varun Berry, subsequently; we will open up the call for questions. Before we get started with the presentation, I would like to draw your attention to the safe harbor statement included in the presentation.

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

Varun Berry: Hello, everybody. How are you? Welcome to the Britannia conference call. So, let me start by going to page 3, which shows the reflection of our performance in the last few quarters. So, if you look at it, our growth in quarter one has been 6%. Our 24 month growth is still at about 20%, which is at about the same average as we have seen in the last five quarters.

Moving on to the next page. This is the chart which shows our movement on market share. IN fact, between 2018-2019 and year-to-date 2019-2020 we have seen our largest growth on market share, which is the good news. The corollary to this is that the market is growing very slowly, and obviously, there is some impact of the slowing down of the economy, which is coming to FMCGs as well.

Moving on to the next chart, which says that our journey to become a total foods company has started and started pretty aggressively.

So, getting on to the next page which shows two of the categories that we have entered. The first one is wafers, which we have just completed a pan-India launch, and we have become the number #3 brand in less than a year of launch. And we are probably the widest distributed today. So, with the advertising money that we are going to put behind this, we are confident that we will be able to take this to a leadership position as well. The second category is milkshakes which we launched, again, about eight months ago. And again, in this category we have become the number #2 brand in less than a year of launch. And the good news is that our distribution is going strong and we are getting great response from consumers as well. And this is probably one of our best launches that we have done in a long, long time.

The next page shows some of the adjacent categories that we have gotten into. So, we have launched salty snacks, which has only been launched in the south. As you would remember, our strategy on salty is to make sure that we do not send our product to very long distances. So, we are looking at small lines, and we are going to have small lines which will coexist with our existing lines of other bakery products in various parts of the country. This line, happy to report, has given us great results in the South; and also, we are currently at about 75% capacity utilization. It will take us slightly over a year to make sure that we become a pan-India brand because the second line is going to come up in Ranjangaon and so on and so forth, and we are baking in all the learnings from the launches as we get to the next line and so on and so forth.

The fourth one is the Croissant, which is the joint venture that we have with a Greek company. We have a lot of hope on this product, but I must say that we did struggle in the beginning with our manufacturing. Our partner is completely working with us. We had some issues on flour, etc., which was imported initially, but now we have found a solution, we are looking at local flour and we are in a position of producing the best product and ramping up our capacities and getting to a national launch very, very quickly.

Now turning to biscuits, this is on page 8. We are redefining biscuits from a technology as well as from a R&D standpoint. So, we have launched the democratized centrefills, which is under the Treat Burst, and this is doing extremely well in the market. We launched Treat Stars, which is like an open sandwich kind of a biscuit with chocolate as well as vanilla cream on the front face. This is again ramping up and doing quite well. Deuce, which we had launched some time ago, has also given us great results. So, we are now the cutting-edge as far as biscuits is concerned. We are creating new niches within the biscuit category and taking biscuits into the premium range.

Moving on to our adjacent businesses. Dairy, we have seen double-digit growth which is coming basically from the milkshake launch that we have done. Bread has been doing very well, not just from a top-line but from a bottom-line perspective as well. And similarly, international, despite the slowdown in the Middle East, we have just commercialized our Nepal plant, and we are seeing very good results in Nepal. And as luck would have it, as we have launched our plant, the import duties into Nepal has gone up to 40%. So, that will have a major positive impact on our Nepal business. And in line with our promise to enter one new geography, we are looking at another Southeast Asian country, which we will be launching our product in, in the next two to three months.

All this is happening while there is clearly a slowdown in the economy. We are seeing a slowdown in GDP. We are also seeing liquidity prices with the NBFCs struggling. We have seen stress in the rural economy, and obviously, a reduced real income from agriculture. So, there is a stress, but we are absolutely sure that the government is going to address it, and hopefully within the next six months or so things will start to look much better for the economy and also for FMCG companies in terms of growth.

Moving on, our sustained execution continues. We continue to drive distribution. We have now gotten to a direct reach of 21.3 lakh outlets. We have got about 19,000 rural distributors. There is a steady increase in our numeric distribution as measured by Nielsen, and our growth in the Hindi belt, it's not happening as per our plan from a revenue growth perspective, but our market share growth continues. And I do think that even the growth will start to come back because there, it's not so much about what is the growth in the market, but it's all about market share growth.

Moving on to the next page. We have now a new employee-value proposition, which is about the four TINGS:

It's about InviTING, which is making sure that whoever comes to Britannia is welcomed and is provided all that's required to make his stay at Britannia comfortable. Second is about IgniTING, which is about fueling the hunger, making sure that the culture of innovation & young managers' council, etc., becomes a very essential part of what we do at Britannia. The third one is CreaTING which is about building enriching careers for people at Britannia, which is that whole credo of Britannia for Britannia’s that we have been embracing for a long time. And the last one is RespecTING, which is about doing the right thing, integrity and doing well for the community, etc. And the good news is that we were ranked amongst the top 15 Best Employers by Forbes-Aon Hewitt survey in 2019, and I think this is something that we at Britannia are very, very proud of.

Moving on to the next page. While we saw a slowdown in this quarter, in fact even in the previous quarter we had started to see signs of a slowdown, but we took a concerted call that in a situation like this it does not merit cutting back on our advertising and sales promotion expenses, because what is required by a market leader in a situation like this is to make sure that we excite the consumers about the category. So, we have continued to spend money as far as advertising is concerned. We had a very strong 'Britannia Khao World Cup Jao' promotion which happened during this quarter. Besides that, we had a lot of other activities which we are hoping that this will start to stir the market and get the category growths to go beyond what they are today.

Next page is about our cost-efficiency programs. So, while we have continued to spend money on advertising and sales promotion, we also understand that these are not normal circumstances, and hence it's very important for us to tighten our belt. So, we are looking at even more cost efficiency from what we were looking in the past. So, while our budget is Rs.

265 crores this year, we are looking at other savings as well, as we go forward. So, we are making sure that from a cost perspective, we really, really tighten our belt.

On to the next page, which is about commodity inflation. The commodity inflation for us is at a moderate 4%, and this is basically because we have taken some long positions on certain commodities like flour, which has helped us. So, the flour prices have gone up considerably, but for us it looks like inflation of 11%. Sugar is almost flat. There is a deflation as far as RPO is concerned, and there is an inflation of 10% on milk. This, again, if you look at the actual inflation will be much more than this, but for us that are the number because we did take some long positions as far as SMP and butter was concerned.

Moving on to the next page which gives our financial numbers. So, if you were to look at it now, just a caveat here, these numbers are without the exceptional item, which is about Rs. 16 crores, which we have given to a subsidiary for VRS program that we are doing in one of our not-so-efficient plants in West Bengal. We want to close that plant and want to make sure that we save some costs in the long run by getting the production to more efficient plants. So, these numbers are without that Rs. 16 crores, which is the exceptional item for this quarter.

But if you were to look at it, growth as far as profits is concerned, is a very modest 3%. But if you were to look at the 24-month growth, it is still at 23%. But I would say it's certainly lower than what we have seen even from a 24-month perspective, in the last four quarters. But it's all about the top-line, and we are hoping that we will get back to our top-line growth as the economic conditions in the country improve.

So, that is all from me. Well, there is one last slide which I am sure you must have gone through, which the key financial lines for the consolidated business, still is looking good.

So, that's all from me. We will open the house for questions now.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin the questions-and-answer session. The first question is from the line of Rajesh Kothari from AlfAccurate Advisors. Please go ahead

Rajesh Kothari: I have two questions. First is, with reference to the new businesses in which we are entering whether its wafers, milkshakes, dairy business and other two segments. How do you see return on capital employed on these segments over a period of next two, three, four, five years? Do you think it will meet the ROCE of biscuit business in which presently you are in? That's the first question. And once I get through, I will ask second question.

Varun Berry: So, all of the categories that we are entering into have gross margins which are accretive to our overall biscuit gross margins. So, that makes the payback reasonably good. So, we are looking at a payback of about four years for the capital that we are employing. And as I said, the gross margins now are fairly good for most of the products. And in fact, some of them are without capital at this point in time. So, for example, milkshakes there is no capital employed. Also, for the wafers there is no capital employed. So, we are looking at building this market and then making sure that once we get to a certain scale, then we start to put capital. But yes, even where we are putting capital, the paybacks are reasonably good.

Rajesh Kothari: No, so my question is from five years' perspective when you look at your current biscuit business and you look at the gross block you have invested in biscuit business, whereas the new businesses what you are doing particularly on the dairy side and others, don't you think that the required capital employed would be higher, while it will be higher gross margin but might be lesser return on capital employed?

Varun Berry: No. But that's what I am trying to tell you that on the dairy business for the milkshakes we have employed no capital at all. It's all third-party. Our manufacturing is done by a third-party. Similarly, for wafers we have started the business with a third-party, with in fact two third-parties who are making our products. But yes, even if we were to employ the capital today, which we are not doing, we will get a payback in four years. So, we have done the numbers, but we have still said that the times are tough, so in certain categories we should make sure that the capital is employed at the right time.

Rajesh Kothari: Okay. My second question is with reference to, in the fourth quarter there was a treasury which was given to the associate companies, would you like to give some more color on that? How is that number in first quarter? Was there any repayment from that entity? And what does that number currently stands?

Varun Berry: Yes. So, there has been repayment. We have got Rs. 185 crores back from one of the companies. So, it's down from Rs. 685 crores to under Rs. 500 crores now.

Rajesh Kothari: And any further plan to reduce that further?

Varun Berry: Yes. So, we have a payback plan, so we are working on that. And hopefully another Rs. 150 crores will come back in a year.

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

Sameer Gupta: Sir, just a follow-up on the inter-corporate deposits that was asked by the earlier participant, sir, do we as a company have a policy as to ICDs to group companies or related parties has to have a cap on these at any point of time?

Varun Berry: Yes. There is a cap. Venkat, would you like to comment?

N. Venkataraman: Yes. So, all these proposals go through the finance committee of the company and are in line with the treasury policy of the company. We mentioned it last time also that it is not likely to go beyond the numbers that currently are there. So, that is the policy, and we are progressively looking at bringing this down.

Sameer Gupta: Current numbers as in the Rs. 500 crore numbers?

N. Venkataraman: Yes.

Sameer Gupta: Okay. And this is as on date or during the year any time it cannot go beyond Rs. 500 crores?

N. Venkataraman: At any point in time during the year.

Sameer Gupta: Okay. Great, sir. And sir my next question is that, when I look at the subsidiary performance implied through when I do a consolidated minus standalone, I see a 70% decline in EBITDA this quarter. I understand there is some inflation in milk and that might have driven some of this, but any other factors that are impacting the performance of the subsidiaries?

N. Venkataraman: PAT for subsidiaries last year was about Rs. 12 crores, which is in this quarter Rs. 1 crore. So, that is the number that you are referring to.

Sameer Gupta: Correct.

N. Venkataraman: The drop of Rs. 11 crores has been on account of two entities. One, as you rightly said, the dairy business, with the milk price going up the impact has been about Rs. 5 crores for the quarter. The second one is the Britchip entity. It started operations only in this quarter, and the initial ramp-up costs have been booked, whereas the revenues are yet to come in. So, these are the two….

Sameer Gupta: Sorry sir?

N. Venkataraman: Britchip, the Croissant business, the joint venture that we have with the Greek company.

Sameer Gupta: Got it, sir. Sir, and the last question, all these new categories that we have gotten, let's say, the last three years, can we get a number to it as to how much did they contribute currently to our sales?

Varun Berry: So, between the four categories that I spoke about, it will be approximately be 2.5%.

Moderator: Thank you. The next question is from the line of Anusuya Lahiri from Stewart and Mackertich. Please go ahead

Anusuya Lahiri: My question is, what is the volume growth reported by the company during this quarter? And I would also like to know impact of the Andhra Pradesh warehouse fire on the financials of the company? That's it from me.

N. Venkataraman: So, the price versus volume is about half and half. And the warehouse fire is insured, so we are hoping that insurance will come in handy at this point in time. So, I don't think there is going to be any impact on the financials of the company.

Anusuya Lahiri: Sir, can you elaborate on the volume growth; I didn’t get, as in half and half?

N. Venkataraman: Of the 6% growth that has happened, between volume mix and price, it's been half and half.

Moderator: Thank you. The next question is from the line of Devansh Kapoor from Ambit Trade. Please go ahead

Devansh Kapoor: My question is on the margin that we have reported this quarter. Sir, if I see quarter-on-quarter there had been shrinkage in your gross margin by about 80 basis points. So, would you attribute this entire decline to inflation or have there been some other factors that have driven this slippage?

N. Venkataraman: So, this has been on account of two things. One, commodity prices has accounted for 50% of that. Second is that employee cost increase in terms of increments has accounted for the balance 50%, because between the increment that is done and the top-line growth, there has been a gap.

Devansh Kapoor: Sir, I was talking about the gross margin. So, gross margins, which would be basically your turnover minus material cost, so that has declined by about a percentage between quarters four and quarter one of this year. So, this is entirely attributable to inflation, which means you had more than 2% inflation sequentially, is it?

N. Venkataraman: So, this has moved from 59.5% cost to 60.1% cost during this quarter which is a 0.6% in terms of gross margin.

Devansh Kapoor: Okay. So, there has been no mismatch on account of this purchase of trade goods which we earlier used to book in other overheads, etc., right?

N. Venkataraman: No, no. That is not there at all.

Devansh Kapoor: And sir, also your financial cost for the quarter has shot up quite significantly from the levels of Rs. 30 lakhs-odd. This is around Rs. 8.5 crores to Rs. 8.3 crores for the current quarter. Is this on account of some IndAS adjustment that we have done in the quarter or any structural change in the debt equity pattern of the company?

N. Venkataraman: No, we borrowed about Rs. 500 crores in the month of April primarily to fund purchase of wheat. During this quarter, we have bought almost Rs. 700 crores worth of wheat, covering our requirements till almost the third quarter. So, therefore, you will see the finance cost coming in now.

Devansh Kapoor: Okay. And the employee benefit is concerned, is on account of promotion, increments?

N. Venkataraman: Increments. Yes, that is right.

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

Mohit Khanna: Sir, my question relates to the purchase of wheat that you just spoke about, which I believe is somewhere around 25% of the total costs, and you indicated that you have already purchased for the requirement of third quarter. So, what is the primary reason? Because the prices have been increasing, did you want to hedge this? And the second question is on competition, so I will ask again.

N. Venkataraman: Yes. This is primarily for hedging against increase that we are anticipating will happen in wheat price, and it has happened actually. So, we purchased it and actually the prices have gone up, so it's beneficial for us in the long run.

Mohit Khanna: Fair enough. Okay. Also, on the competition side we see many other players like especially Amul is also getting aggressive and we are seeing a couple of ads floating around. So, what is your take on this? And how do you see yourself better placed or what would your strategy would be to take on the competition, especially on the organized players like from the organized players like Amul?

Varun Berry: See, you can make biscuits with whatever raw materials you want, right? But in India, it's all about what price you sell the biscuit at. I can make a gold-plated biscuit which can sell for Rs. 10,000 for a biscuit, but the fact is that there has to be a certain threshold price that the product is sold at. So, I do think that our products bring the balance between quality as well as price, as far as consumers are concerned. And that's why we are and we continue to gain share even as a market leader. So, while it's always good to have premium products, we have also seen in the past that if you go past a certain threshold then it becomes very difficult to sell your product. But I am not pointing a finger at anyone, I think they've got their strategy; they want to go with that strategy because they are a milk company, and we will watch them. If we see that there is some traction there then for us to make that kind of a product is not difficult.

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

Dhaval Dama: Sir, just wanted to know that if you look at it, I think that would be great if you can give some color on what is happening in the industry in terms of trends? So, which category would be growing faster, whether health is growing faster? And how do you see it evolving over the next two to three years?

Varun Berry: Again, it's about segments and segments. So, what is happening today is very clear, you look at where the turmoil is, the turmoil is at the grassroots. The turmoil is in rural; the turmoil is related to agriculture. So, because of that, the issues are happening in the value segment. And obviously, it's affecting every segment, but the biggest issue is happening in the value segment because that's what sells in those markets. But if you look at what are the trends, there is a certain very small sliver of the population which is obviously looking at healthier products. So, we have to start to cater into those as well because today they might be a sliver of the population, but over a period of time they are going to grow. So, we are starting work to make sure that we look at working on product which are protein, which are gluten free, which are whole wheat, which are seeds and nuts, and, etc. So, that's something that we are looking at, and we will develop.

The second thing is that modern trade and e-commerce is outpacing the market and on modern trade and e-commerce, the products like I just mentioned, do sell a lot. So, if we have to keep pace with that as well, we will have to have these niche products which are sold on certain channels. So, a strategy is being developed to make sure that we do not leave any segment, any channel to chance, and we cater to every possible consumer within the industry that we operate in.

Dhaval Dama: And sir, my second question would be mainly on your dairy portion of the business. I think that where you were initially saying that the plant would be fully commissioned and operational by the end of FY20, and I think that migration on Winkin' has also been stepped up quite a lot. So, would like to know what is the sense on the business? How do you want to see it evolving over the next two to three years? And are we on track for FY 2020 thing in terms of plant?

Varun Berry: No. We never said FY 2020. It's probably going to take; I have always said that it's probably going to take 18 to 24 months. So, I think it's looking more like 2021, right, the last quarter of 2021 because our people are making sure that every possible due diligence is done on equipment, on process and all of that. So, we have got the team together. Now they are working on it. So, I think our own plant is looking more like 2021 and not 2020.

Moderator: Thank you. The next question is from the line of Naveen Trivedi from HDFC Securities. Please go ahead

Naveen Trivedi: Sir, considering new launches has done well for you, and we expect that the volume growth of biscuits were around flat this quarter, does that understand right? And if you can also share what is the industry growth rate for biscuits in the last six months?

Varun Berry: It's easy to calculate. We are one-third of the market and we have gained almost 1.3 share points, and we have grown only 6%. So, obviously, the market is growing slower than that. So, that's a little bit of a worry because even Rs. 5 product, if the consumer is thinking twice before buying then obviously there is some serious issue in the economy. But it's always easy to put everything on economy. The fact is that we are market leaders; we have to make sure that we get this issue out, and we figure out what is the way of growing this market.

So, I think the issue with most companies, including ourselves, is that while we have become very good at gaining share, we still haven't figured out the formula of showing growth in the category itself. But in this case because the issue is looking tough at this point in time of market growth, we will have to make sure that we take on that leadership position to get this market to grow again. And I am sure that other players like Parle and ITC are also looking at the same, and they will also do things to rejuvenate the market. And in the next six to eight months, we will start to see this coming back.

Naveen Trivedi: With respect to improvement within, let's say, April May and June months, and like now July also ends, so have you seen any improvement month-on-month basis?

Varun Berry: We can give a forward-looking outlook, but there is a slight improvement, but it's not like a dramatic change from what it was.

Naveen Trivedi: Okay. And with respect to your Hindi belt performance, you mentioned that there is certain lag because considering the rural is under distress, would you like to comment on like what is the deceleration that we have seen in the Hindi belt?

Varun Berry: The deceleration in Hindi belt?

Naveen Trivedi: Yes.

Varun Berry: Yes. So, what is happening really is that, earlier till about a year back what we were seeing was that the rural market was outpacing the urban market almost by 1.5. So, if urban was growing at 1, the rural market was growing at 1.5. What we have seen now is that the rural market has started to grow slower than the urban market, and the urban market itself has slowed down. So, I think also, if you just go back a year, we had some competitive issues from our competitor's standpoint, and we have taken full advantage of that because the competitor was inadequately available. We have taken full advantage of that. So, our base is also very high because of those reasons. The last quarter of last year, our base was quite high. So, we are hoping that as this comes off and we start to cycle the right base, things will start to become better. So, Hindi belt today, I think, is growing at a very small rate and exactly the same as what we are growing as a company, but we are already seeing signs of that coming back.

Naveen Trivedi: And can we assume that the urban, rural growth for you was similar this quarter?

Varun Berry: Yes.

Moderator: The next question is from the line of Alok Shah from Edelweiss Securities.

Alok Shah: I have two questions. One is with respect to this impairment cost in the standalone financial of Rs. 16 crores, that will be pertained to which subsidiary? And is there something follow-on that can happen in the next quarters? And secondly, would you like to call out specifically the ad spend? And if any IndAS 116 impact? Thank you.

N. Venkataraman: So, for the impairment is concerned, it relates to the factory in Calcutta. It is for the VRS that we have done there. So, the investment has happened in the form of capital infusion from Britannia, against which we have taken impairment in the standalone. So, we have covered most of the employees, there are still about 40 people for whom the VRS is still to happen. So, that was the first question. What was the second question that you had?

Alok Shah: Second was, what were specific ad spends this quarter, especially because we ran a very high promo with respect to world cup? And following with that was the IndAS 116 impact, because other expenses also are up and rent should typically go out. We understand that for you guys it would be of a limited impact, but just wanted to get a sense.

N. Venkataraman: Right. So, A&SP spend for the quarter has been about Rs. 130 crores, this is excluding sales promotion and trade spends, this is comparable versus last year spend of about Rs. 107 crores, so far A&SP is concerned.

Alok Shah: This is the advertising?

N. Venkataraman: Advertising. So, the advertising amount this quarter has been Rs. 130 crores versus last year, same quarter at Rs. 107 crores.

Varun Berry: And we have had no impact of IndAS.

Moderator: Thank you. The next question is from the line of Richard Liu from JM Financial. Please go ahead

Richard Liu: Varun, just want to know, for a company like yours which traditionally have been able to drive growth through your own internal initiatives, I mean, portfolio, gap bridging, geographical mix, looking at Hindi belt, etc., etc., and in the category as staple as biscuits. Why do you think the slowdown has hit you particularly hard this time?

Varun Berry: Yes. So, I will tell you, we have never seen this kind of a slowdown, first of all, in the category. We have been always saying that we would like to see a double-digit category growth, etc., etc., that never happened. In fact, this slowdown which has taken the category growth to almost 1% or 2%, has never happened before. So, while we are outpacing the market by a large number and probably the largest that we have seen till now. Previously, what used to happen was that market would grow 7%, and we would grow 10%, 11%. But this quarter what happened is that the market is growing at very, very low pace, and we are outpacing it by a mile, but still not able to get to a number which we aspire for.

So, that is, I would say, the issue. Now why the issue is the question, which I think, guys like you can answer much better than I can. But what I would think is that… I don't think the NBFCs and all of that affects sale of a Rs. 5 biscuit. What affects a sale of a Rs. 5 biscuit is what the consumer feels about where they are at. And if you look at investment vehicles, whether they are real estate, in India a lot of people have invested in real estate in small ways and large ways and big ways, all of that, whether it's real estate or it's the stock market or any other investment vehicle that you look at it, everything has been trending downwards. So, consumers have been feeling a little stressed about the fact that there used to worth a certain amount and that has come down fairly dramatically.

And as a result of that and that's my hypothesis by the way, as a result of that, they are going very easy with consumption. And I think till that feel-good factor comes back and investment vehicles start to power back, I do think that this slowdown is not going to go away. It might ease up a bit. It might not be as dark as we have seen it to be in the last two quarters. But I don't think it's going to completely go away in a hurry.

Richard Liu: Okay. And Venkat, if I look at consol minus standalone, I see a revenue decline of 12% for consol minus standalone. But Varun, I heard you say that both dairy and international have grown pretty well, so how does one reconcile this number?

N. Venkataraman: So, I will explain that. Dairy business is split under two legal entities. One under the BDPL, which is a subsidiary the fresh dairy, including the drinks that we have launched, is appearing as part of Britannia. Therefore, the disconnect there.

Varun Berry: So, the drinks, the milkshakes under Britannia, the yogurts are under Britannia, and so that's the bifurcation. So, all the growths from that are coming under Britannia.

N. Venkataraman: Similarly, on the international side, there is India export that happens out of India which is coming as part of Britannia numbers. And the one that happens from the Middle East comes under the subsidiary. So, because there is a switch in terms of manufacturing from out of India on account of a disruption that was from Middle East factories, the numbers on export is also happening out of India.

Varun Berry: So, let me explain this a little better. Basically, what happened was that we have a factory in Oman, in a town called Sohar, and that was getting to be a little inefficient for us. So, we decided that we will shut that down, and we will move that factory to Dubai because the cost, etc., were much better there. So, we planned to do that and we scaled down our production, and we'd started to send product from India, which obviously sits in our Britannia books, right? Then what happened was that the government started to talk to us and they gave us pretty good incentives which made it worthwhile, the Oman government, which made it worthwhile for us to stay there. But this is the period when that disruption happened. So, you will see a lot more of the international business coming into our Britannia numbers and not in our subsidiary numbers.

Richard Liu: Okay. And Varun, last one, if I may. I am just referring to chart 14 regarding cost efficiency targets. If I look at earlier period, we used to have a pretty steep jump in these numbers, from one year to another. And from FY18 onwards, I mean, FY18 and FY19 numbers are the same, I think 2019-2020 again is a very small jump compared to what it used to be earlier. I recall you used to say earlier that it is almost like an endless game, what has changed here?

Varun Berry: So, first of all, we had scaled it up pretty rapidly from 2013-2014 to 2017-2018. And what we have taken for ourselves is a target of 2% of revenue, and that's what we operate with every year. So, as a result of that, once you get to a certain level… so we have been ramping, up from last year it was I think Rs. 230 crores, we are now looking at Rs. 265 crores. So, if you look at the 4.5 or 4.7 that's written there, you will not see a big improvement. And you also got to remember that the meter starts on 1st of April and stops on 31st of March. This is all incremental savings that we bring to the table. So, whatever the savings are whatever hedge the savings for the previous year, they continue in our base business, and these are all additional savings that we bring to the table.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead

Harit Kapoor: Just two questions. First one is on the slow growth in the category. Just wanted to understand, over the last probably six years that you have been with Britannia, have you seen, I mean, not this level of slowdown, but how long does typically a slower period of growth take to recover? I know no two periods are the same, but just wanted to get your sense. So, if you introduce a partly discretionary category in terms of impulse, how long will this typically take to recover, one, two, three quarters, based on your experience?

Varun Berry: My own feeling is that we will see a slowdown for two or three quarters and the market will start to come back slowly. Our new products, our new ventures, our new categories that we have gotten into will also start to contribute to our overall business. So, I would say that maybe starting Diwali, it will probably be three or four quarters before we start to see the business coming back to levels that we were at before that.

Harit Kapoor: Right. So, the second thing was on the cost side, so you said that you have now bought some more wheat and we are covered for Q3. I was wanted to what your expectations for inflation which is about 4% in this quarter; do you see that going up as some of the older wheat covers and even on the other products tend to go away?

Varun Berry: Not really. See, it's not that we just do a certain cover; we obviously look at when the new crops is going to come into the market. So, we keep doing the strategic covers when the time is right. So, it's not like we take onetime cover. Whenever we find the right opportunity, we take the cover. And obviously, there is going to be some correction as we go forward as well because there are lots of mandates which are there in the market. Hopefully, those mandates will go away and some more sanity will prevail, and demand and supply will play the game of economics and not just controls, etc. So, I think things should become much better from a commodity standpoint as we go forward.

Harit Kapoor: So, lastly was on the price increases, I mean, the price increase impact was about 3% for the quarter. Has that had some cash inflow done in Q1, how do we see that?

Varun Berry: We did a very small number in Q1, but most of it is flow-through from a full year factor of last year.

Moderator: Thank you. The next question is from the line of Kuldeep Gangwar from ASK Investments. Please go ahead

Kuldeep Gangwar: This is regarding the Chipita JV, so as you mentioned there was [about] Rs. 5 crores costs related to the same. So, whether continue to expect the similar loss rate in coming quarters or how to expect about it?

Varun Berry: No, when you start-up a company there are some costs, because there was a team which was working on this for a long time, so the costs were diverted this quarter and some R&D work and all of that was happening. So, all those costs we think came into play this quarter, and there was no revenue, very little revenue. So, once our products start to be sold in the market and revenues start to grow, there will be, obviously, sanity in these P&L. But it's a new category; we will have to establish it. So, while the gross margins will become stable and good, there will be investments required to take this category forward.

Kuldeep Gangwar: Consolidation is done through equity method or its revenue also consolidated for this JV?

Varun Berry: So, revenue is consolidated. Loss, we take only 60% of.

Kuldeep Gangwar: Okay. And second bit, you mentioned you borrowed Rs. 500 crores for wheat. So, is it fair to assume like in coming quarters the debt will keep on coming down and this finance cost will also coming down in coming quarters?

N. Venkataraman: So, we have borrowed for a period of about nine months. So, by end December, it should be out of our balance sheet.

Kuldeep Gangwar: Okay. And last bit, like plant shutdown-related costs fully provided for? And what was the name of the subsidiary you mentioned for impairment of this income?

N. Venkataraman: So, this is a GVF.

Varun Berry: Ganges Valley Foods. Its a little distance away from Calcutta. It was an inefficient plant with the highest costs amongst our plants. And it was very small with very old lines, etc. And we had a fair number of workers there, who had been there for a very long time. So, it was best that we looked at a technologically superior plant which gives us product with the right costs and the right efficiencies.

Kuldeep Gangwar: So, cost is fully provided for, like whatever this one-off is there or it can come in the coming quarters as well?

N. Venkataraman: So, which is what I mentioned some time back. So, most of the employees, we have done the VRS, fully provided for. There are about 40-odd employees who are still there. So, the cost in the coming quarters, as and when it happens, we will provide.

Varun Berry: It's a very small number. It won't be as large as what we have done in this quarter. So, there might be a small number as we go forward.

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

Rajesh Kothari: I had two questions. One is on product mix; would you like to give some more detail on that? Because while your realization growth you said is 3% but is it more due to the product mix. And currently, in case, if you can give a little bit how is your product mix trend? That's question number one. And question number two is, I am sure this was probably one of the highest borrowing number in the recent years. So, from a treasury committee perspective, considering that our raw materials have such volatility and that makes you dependent, do you think that the treasury committee has, there should not be any investment into any company or any instrument whereby it's not liquid in nature, because on the one hand we have a debt and the other hand we have investment somewhere. So, in the future, is there kind of a stringent committee and stringent policy getting laid out?

N. Venkataraman: Yes. So, the working capital requirement, like I mentioned to you, is a short-term requirement. This is as and when we go and buy commodity, on a strategic basis. So, these get covered by a short-term borrowing, which is typically very competitive. So, there is...

Rajesh Kothari: No. I understand. I mean there's no doubt about it. Being Britannia, it will be competitive and the cost would probably be lowest on the street, I completely appreciate that. But I am saying the risk management policy, considering that raw material is volatile, I am saying from the governance and from treasury committee perspective, whether there is a thought that you should not make any investment which is probably not liquid or liquid, let's say, thing that you call whenever and whatever. I mean tomorrow if there is an acquisition opportunity, when you say Rs. 1,000 crores, but if you have investment in this, I think you have to borrow in the market. On net debt basis, you are right, but as a treasury committee, don't you think it would be better to have a right investment policies and work in place?

N. Venkataraman: We have a right balance of liquid and not so liquid investments. The reason is that, typically, the yields on funds were quite low. The yield on slightly long-term instruments are a little better. We will have to balance between need for liquidity and need for returns. That's the kind of fine balance the two**.** Investments are primarily for day-to-day operations, and these kinds of strategic covers that we go for, this is the decision of the committee also, that these are typically met out of working capital borrowing that we do for a short period of time at very, very competitive rates.

Rajesh Kothari: Okay. My only feedback would be, of course, I am sure even you would be aware that the market environments are becoming very, very challenging and demanding and the best of the companies like Infosys, they decide to put into 100% into liquid and kind of, let's say, instruments that gives lot a confidence, and lot of unnecessary rumors and can be avoided. And at times a low-yield market gives us significantly higher than the initial value and the corresponding yield. So, that's only my feedback. Of course, I am sure management is competent enough to pick that such costs if required.

Varun Berry: No, thank you for that. I think that's a very good advice. While we do that, we will make sure that we put more emphasis on that. Because you are absolutely right, times are challenging, and we have to make sure that we go with 0 risks at this point in time.

Rajesh Kothari: And second question is on product mix, would you like to comment on that?

Varun Berry: The product mix. So, basically, if you look at versus last year, so just one point. As I was telling you, last year one of our major competitors had a problem in terms of meeting the demand of one of their largest brands, and as a result of that our cookie business was growing in the first half of last year at about 70%, 70% is what our cookie business was growing at in the first half of 2018-2019. And that has become our base. So, what has happened is that we have seen a flat cookie business on a base which is that high, and obviously, these base starts to change as we go forward. So, basically, in that category which is the value category of cookies, we certainly are now at a growth rate which is reasonably small compared to what it was last year. So, that is one of the issues. And as a result of that the mix has changed more towards the premium categories that we sell today. But it's a matter of time. It was an opportunity last year which has come back to become our base this year. And we are hoping that as we move forward, this will all come back to use to be in previously.

Rajesh Kothari: So, currently, between mass, core and premium, I don't know how you define internally. Where do you see the product mix currently? I understood that last year there was one-off there, that's not a problem. I am saying from product mix perspective, where is this currently? And how do you see that over next three, four, five years?

Varun Berry: So, actually, the product mix is very good at this point in time. What we are seeing is a fair amount of momentum for our premium categories and a slowdown as far as our value categories are concerned. So, it only helps us from an overall mix standpoint. But it will normalize because the low unit price packs, which I was talking about, the low unit price packs for our cookies had a very high base. So, it will get normalized. But what we have been seeing for the last, even two or three years is that the value part of the portfolio is growing much slower than the premium part of the portfolio.

Rajesh Kothari: And it will continue, I mean do you expect that kind of thing to probably continue? So, your premium would be what, 35%, 40%? Or I mean any ballpark number which you would like to put as a mix?

Varun Berry: So, our premium part of the portfolio will be almost 65%, growing to 70%.

Rajesh Kothari: It is growing faster than value?

Varun Berry: Yes.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you.

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

Varun Berry: Thank you.

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