



“Britannia Industries Limited Q1 FY’21 Earnings  
Conference Call”

**July 17, 2020**



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**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Britannia Industries Limited Q1 FY '21 Earnings Conference Call. As a reminder, all participants' 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 phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Yashwardhan Bagri. Thank you and over to you, Sir.

**Yashwardhan Bagri:** Thank you, Janice. Hello everyone, this is Yash from the Investor Relations team, hope you all are keeping safe and well. I welcome you all to the Britannia earnings call to discuss the Quarter-1 FY 20-21 financial results. Joining us on the call today is our Managing Director – Mr. Varun Berry; CFO – Mr. N. Venkataraman; Chief Commercial Officer – Mr. Gunjan Shah; Chief Supply Chain Officer – Mr. Vinay Singh Kushwaha; Chief Development and Quality Officer – Mr. Sudhir Nema; and VP Procurement – Mr. Manoj Balgi.

We will start the call with remarks on performance by Mr. Varun Berry, subsequently we will open up the call for questions. Before 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 pass it on to Mr. Varun Berry for his comments.

**Varun Berry:** Good Afternoon everyone, Welcome to the Britannia conference call. Let me just jump into the presentation straight away. As all of you are aware, this quarter started with a lot of uncertainty and significant challenges, moving on to Page #4, and clearly there was some spectacular work done by a lot of people in the country not just in our country, but across the world, so special thanks to the health workers, our employees as well who did some exemplary work and I will come to some of that. Our business partners, our vendors, and our customers, so a big hand for all of them who really helped us navigate through these times. These times were very, very tough especially for some of the migrant workers who were stranded in cities and were not able to go home, so the team came together and we offered them help and this was in different ways, there were hot meals, there were grocery kits, and there were bakery packs which was done personally by the Britannia and the Group Company teams, so a big thank you to all of them who made that possible as well.

Moving onto Page #6, the most important thing for us during this time was safety of our employees and hence the entire bit of protocol in our offices as well as in our manufacturing units were put in place and we just made sure that none of these were bypassed, so we were very, very clear that even if you were take a backseat as far as production was concerned, the protocol would stand. And frankly if you think about it, the way Britannians made these, converted these challenges into opportunities through their sheer grit I would say and coming to the next page, which is Page #8, some of the things that were done during this period, so from a sales and marketing standpoint, rural reach obviously we understood that urban was getting more impacted



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than rural, so we started to get after rural and started to make sure that we were able to expand reach and we were able to do that, direct reach obviously took a tumble for the first two months, but we were back much better than where we were in February. We did a lot of direct telesales, SMS blasts, distributor point pickups. We did retailer surveys sitting in our homes. We focused on digital campaigns to make sure that we were reaching the consumers wherever they were.

From a manufacturing standpoint, we were able to start factories much before anyone else in the industry, we were able to ramp up our volumes. We got production prioritization very clearly put in place. We slowly but steadily improved our productivity within our plants. People worked around the clock to make sure that everything was working very, very well. We added new capacities where required through contract packers. Even from a distribution standpoint, we made sure that there was no hockey stick towards the end of the month, so complete linearity in billing through the month, calls every day we were all connected, we all knew what was happening, what were the areas that we need to focus on. We serviced, the entire requirement with very, very low inventory and we started to do direct sales from our factories to make sure that the transit time etc. was reduced and even the costs were reduced. From procurement standpoint, it was not easy as well. Obviously we buy a lot of raw materials and getting all of them in the right measure to the right factory was critical and it was very difficult as well during those times, but our procurement teams just did fantastically well to get the availability going, and obviously the support function did really well to make sure that everything was being monitored and supported through this period.

The next page, it was pure passion that was seen during this period from all of the Britannia employees, some of my favorite stories are on this page. Area Sales Manager, Finance Manager, HR Manager, Purchase, Factory, Customer Service all of them just getting together and doing some exceptional work to make things work and to make sure that the business moved in the right direction. The results of what we were able to achieve are on the next page, which is Page #10. So our revenue grew by 26.5%, our operating profit grew by 91%, and our profit after tax grew by 117%, so operating profit was 19.8% went up by 670 basis points and PAT was 16.1% going up by 675 basis points. We also focused on our strategic planks to whatever extent we could. You have seen the strategic planks, distribution marketing, innovation, cost focus, and developing adjacent businesses and obviously striving for profitability. Just a few indicators on that from a distribution front as I had said, we had dropped from 21 lakh outlets direct distribution to under 20 in March, but slowly and steadily we moved that in the right direction and in June we are back to 21.5 lakh outlets. Rural distribution again, it had come down from March to April, but in June we are back to 22,000 rural distributors, so that has moved up as well. If you look at our marketing efforts, we were optimizing our marketing efforts because we did not have enough products to be put into the market, so we did where we had the right product as well as the inventories with us.

Marie Gold which was ongoing promotion, it has done really, really well for us. Marie Gold is today I would think, it has become, this property we own for the last three years. It is about



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supporting the women entrepreneur in fulfilling her dreams of starting a business and here we had partnered with some Government agencies as well, so we went through with that and with great results there were 10 winners of Rs. 10 lakhs each. Rs. 10 lakhs were invested in their businesses for their dreams to come true, so this has become a property that we are going to support on an ongoing basis. Besides that, not in the first two months, but in May and June when we started to get some product in for Nutrigo, Good Day, and for some of our cream products, we started to support them from an A&SP standpoint and that started to give us good results. The next page, innovation results frankly are not bad at all, we pretty much did our innovation numbers for this quarter despite the fact that innovation was not a priority and we did de-prioritize some of the products which required smaller runs, but despite that, our innovation numbers were reasonable and we were able to even launch two new products. We have launched lassi in two flavors, this is not pan India right now, it is just going pan India as we speak. We started with East, moved to the North, and then we move to West and South. We also did Layer cake Rs. 5, which again started from the East because East is the biggest trade market and we are spreading this as well across the country. Both of these products have had very good response despite the circumstances, people not going out, we have seen a very good response to both of these products.

Finally, from a cost control standpoint, there were quite a few things that we focused on and clearly there were some cost increases that had happened due to the overall environment, so safety requirement etc. was an additional cost, shortage of manpower was creating a situation where we had to give incentives to the manpower which is coming and running our factories, and vehicle availability was an issue and hence there was a premium that we had to pay to transport our products from our factories to the depots to the distributors etc., so there was some additional cost, but there were areas which we optimized on. One was the mix, we used the 80:20 rule and 20% of our brands and SKUs which give us 80% of our total revenue was focused on and that gave us not just better productivity and better manufacturing capacities, but it also gave us a lot of efficiencies in terms of the factories and the distance travelled by the product etc., so that was the first thing that we did. Now, we are back, we brought in variety once again, but during the first two to two-and-a-half months we had to prioritize, so the priority went to the premium segment which was Good Day and our cream products, Milk Bikis, Marie, and the Digestive - Nutrigo, so those were the ones that we prioritized. These were all high throughput varieties. From an efficiency standpoint, we did linear billing through the month as I had already spoken about. Distributor stock reduction to almost half of what it used to be. Low distributor attrition because obviously the distributors were at this point in time with lower investments making better returns, so we hardly had any distributor attrition during this time. We reduced our market returns and in fact they were almost zero during this period, also we reduced advertising and sales promotion spends because we did not have enough products to feed the market fully, so till the time we started to get full products, we optimized on that as well.



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From a backend standpoint, we had zero stock write-off which is impossible to have in any business. We reduced the distance to market by, in the first month it dropped considerably from 370 to almost 320 kilometers. It is again slowly going up as we start to make variety, but it was just something which helped us optimize our business at that point in time. Direct sales from factories also gave us efficiencies, depot space we reduced wherever necessary because our inventories were low and there was a lot of product which was going directly from the factories to the distributors and then all of the wastage reduction throughout the system was at an all-time low. From a cost reduction standpoint, our working capital had come down considerably because of reduced inventories, reduction in debtors. We leveraged our overheads and our factory cost and our employee cost during this period because the top line growth and we avoided discretionary spends and renegotiated contracts wherever we could, so that was what we did from a cost standpoint.

The next page talks about our adjacencies businesses as well, this was one quarter where every business fired, so international also grew at a fairly good pace, Middle East came back to growth albeit single digit and the rest of international grew very strong double digits. In the bakery adjacencies, bread and rusk grew very aggressively even faster than biscuits, even faster than our overall growth, and dairy, within dairy cheese growths were fantastic. The ones which are on-the-go did take a little bit of a hit, any impulse product took a hit and as a result of that Winkin' Cow did take a little bit of a back seat during this period, but cheese was just fantastic during this period. So, with that and we also had this new campaign on cheese with Saif Ali Khan which gave us good momentum. So as a result of this, if you would go to Page #18 that shows how our revenues grew, so if you were to look at the average of FY 17-18, we grew our revenues 10%, in FY 18-19 of 12%, in the year FY 19-20, our revenue growths were very low at 4% and then in this quarter, we have a 26% revenue growth, so we are delighted that on reasonably large base, we have been able to grow our revenues at that rate.

On commodity side, which is Page #19, the overall inflation was low at about 3%, on flour and on milk we had a deflation while there was gentle inflation on sugar and a steep inflation on RPO, but towards the end of the quarter, we saw that also softening a bit. The forecast on the monsoon seems to be good and the harvest seems to be pretty good, so we are positive that the gentle commodity inflation would continue and not change into anything else, so that leads us to our profitability chart, which is Page #20, which is we grew at consolidated operating profit grew at 91% to 669 crores during this quarter. The things that I am very proud of is the continuous progress that we made, so if you look at our profitability, it has gone up from 13.8% to 14.3% in FY 18-19 to 14.5% in FY 19-20 and this quarter is obviously out of the park at 19.8%. Going to the next slide which talks about the total numbers for the quarter, so net sales grew 26.4%, operating profit grew 91%, profit before tax went up by 88% and profit after tax went up by 117%. The ratio is at the bottom profit from operations is at a all-time high of 19.8% from 14.5%, profit before tax from 16.1% went up to 21.8% and profit after tax went up from 12.3% to 16.1%.



Now, to the last slide, I think these are very, very uncertain times, so it is very important that we keep our bearing, we keep a very close watch on how things are panning out. Consumer behaviors are changing every day, distribution models are being tweaked every day, so keeping an eye on that is very, very critical. Adapting quickly to the dynamic environment that exist today whether it be from a manufacturing standpoint or from a front-end standpoint also is very, very critical. So we are making sure that we stay connected, not just internally but externally as well to figure out where this is all going, so that we can remain on top of that. We are creating a culture where we do not go by whatever we hear or whatever we feel, we have to start challenging the status quo and each one of us in Britannia is doing that all the time. Knowledge sharing is very critical and obviously building and maintaining the nimble culture that we seen so beautifully pan out during this quarter, so that is where we are at. There are lot of other things that we are doing to make sure that the support which is necessary to take this very uncertain circumstances through, so we are in the process of implementing S4 HANA, and we are building a new distribution system as you know in terms of the IT systems for our distribution, so a whole lot is happening to make sure that we become digitally very, very strong in this year and we keep the pace that we got in the first quarter. In these circumstances, we do not seem to be changing in a hurry. That is what I have, very happy to open the house for questions.

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

**Abneesh Roy:** Sir, my first question is on the adjacencies, so first is on cheese, you had lost market share five quarters back and then you had said that you will reduce the price differential between you and Amul, I still see very big price differential between you and Amul. Now, milk prices have crashed and you have done reasonably well in cheese, so could you clarify how is the market share in the last five quarters and still why there is a big price differential, so do you get the benefit of the milk prices with the lag because of Amul direct sourcing, they get the benefit much earlier?

**Varun Berry:** Well, that is true, there is a little bit of lag because of our contract packing mechanism, but having said that I think this period was all about availability, because even Amul was not able to make their products available throughout the country and I think availability played a big part. Our premium over Amul has not changed very much, we do have the same kind of premium that we have always had and that will change once we start to get our plant going which will be in another 18 to 20 months, work has started there and that will create a flat playing field, so that is where we are at but I think overall at this point in time it was all about making sure that you got your product in the right place because people were sitting and consuming this product at home and availability for most companies was not great.

**Abneesh Roy:** One follow-up here, Rusk and Bread has grown faster than biscuits. So some sense you can give in two years how is the movement of bread plus rusk as a percentage of sales and what could be



the reason, is it because Bread is more of a daily consumption as in it can replace a meal, so that is why higher optics and what was the reason for Rusk if any?

**Varun Berry:** It is basically I think, it is the percentage of home consumption for each one of these categories, I think home consumption for bread is almost 100%, home consumption for rusk will be slightly higher than what it is for biscuits and more than that it was also our ability, you also go to remember that in Rusks, the number of small players in local areas is a lot more than what it is for biscuits, so those players were definitely impacted during this period because of cash flow issues etc. and due to the sheer great and hard work of our team, availability was way better than anyone else and during times like this what happens is that consumers usually gravitate towards the most favorite brand, so I think all of those factors added up to Bread and Rusk doing really well for us.

**Abneesh Roy:** Varun, my second and last question is on the overall business, so last seven days other FMCG companies are saying that things have really become quite tough because lockdown has come back in most of the states, in your case lockdown has an adverse impact on other companies, so are you again seeing a pickup in say Bihar, Bangalore, or Bengal etc. wherever lockdown has come, are you seeing a pickup or the trend is now sustaining which was there earlier?

**Varun Berry:** It is more or less sustaining, Abneesh, it is a sustaining trend. I do not think it is accelerating any further, but the uncertainty continues to an extent this is going to linger through.

**Moderator:** Thank you. We take the next question from the line of Percy Panthaki from IIFL. Please go ahead.

**Percy Panthaki:** Varun, I know the syndicate data right now is all over the place, but to the best of your ability if you could give me an estimate out of this 25%-26% growth you have done, how much is on account of industry growth and how much is on account of market share gain?

**Varun Berry:** Very difficult to answer that, but from our understanding of what is happening in different States and different companies, it does seem that we are certainly ahead of the market in terms of growth in most categories that we operate in and that is because of our brand, it is because of the hard work put in by the team in terms of producing, manufacturing the right products and then distributing them in the market. So I think we had executional edge which has certainly got a share during this period.

**Percy Panthaki:** Do you think this share gain is sticky or will it sort of revert once these other players also are able to ensure availability?

**Varun Berry:** I would think a bit of both, there will be some 'B players' with some kind of a cash issue at this point in time who could face issues in the long term and obviously execution and support at this point in time goes very well with our distributors and our retailers because they remember that



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when they were in trouble, there was one company and one brand which was still supplying product to them, so there is some amount of loyalty that definitely sticks, so I would think that there will be lingering effect of this as well.

**Percy Panthaki:** Secondly, obviously the industry itself has benefited because of change in habits on account of people staying at home, so just wanted to get your view I mean once the lockdown starts opening and it has opened in many places at least to a large extent, do you see that trend reverting and I mean let us say three-four quarters down the line supposing the virus is almost completely gone, do you think that this kind of performance that you have done will sort of present a very high base and it is difficult to grow on that base from then on?

**Varun Berry:** We are in a situation where we do not know what is going to happen tomorrow, so it is a very, very uncertain circumstance that we are going through, but what we have seen in the past is that once you have built a base then you find ways of growing beyond that, so we might not see similar growth as we go forward, but obviously we will strive to grow over the base we would have created.

**Percy Panthaki:** But as of now since the lockdown has opened, you have not seen a deceleration in your growth rate as of let us say the last 15 days or anything like that?

**Varun Berry:** It is too short a period to really talk about, you have seen in the numbers for the three months we had told you that the first two months of the quarter were at about 24% and we ended up at about 25%-26% actually more than that for the third month as well, so very, very difficult to say really, but I would say that we are not seeing a significant downtrend in growth numbers over this period.

**Percy Panthaki:** Lastly, one bookkeeping question, your other expenses have seen a YOY sort of contraction of 450 basis points of sales, how much of this is attributable to lower A&P spends?

**Varun Berry:** We spent less on A&SP which would probably be about 200 basis points or so, but the rest is all leveraging fixed cost etc. because of the top line growth.

**Moderator:** Thank you. We take the next question from the line of Shirish Pardesi from Centrum Broking. Please go ahead.

**Shirish Pardesi:** I have two questions, the first question is broadly on the category, would you be able to give a sense I am sure June number may not be out, but in April and May what is the category growth and the reason why I am asking is if I go by your Quarter-4 commentary, you said the category growth is sub 2%-3%, so what is the category growth would have happened in April and May?

**Varun Berry:** Impossible to say at this point in time, but I would think that it would be a double digit growth for sure.





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**Shirish Pardesi:** In your past experience, do you think this category growth will prevail at least for next two-three quarters?

**Varun Berry:** The situation is such that it does not seem to be going away, so yes, I would think so.

**Shirish Pardesi:** My second question is on the ICD, would you be able to give some color what has happened in June ending, I mean the quarter ending what is the status on ICD, outstanding?

**N. Venkataraman:** The group ICDs are within the limits approved by the Board and is in the same range of the total investments.

**Varun Berry:** I think GoAir has repaid.

**Shirish Pardesi:** This is as of June you are saying?

**Varun Berry:** Yes.

**Shirish Pardesi:** My last question is on the raw material, we saw that RPOs going higher, but do you think this trend what we have seen in margin expansion I mean broadly it is because of ad spends and assume that ad spend will come back, but do you think the rest of quarters we still have a story because we have revisited all the cost and there is a cost containment which we have already said about and you are going to rejig the distribution, so is there any one-off item which will come in next two-three quarters because of distribution rejig?

**Varun Berry:** Well, there certainly are opportunities that have emerged because of the situation, as you know we have been getting almost 2% of our net revenue as savings or efficiencies every year and every quarter I get this question from all of you that how long do you think this is going to continue and my answer always has been that we see that this is going to continue for a long time. What has emerged during this time are opportunities and clearly these were unearthed by our team and now we are trying to see how we can make them as a permanent fixture within the way we operate, so some of them obviously will be one-time, but there will be opportunities which we will take forward and try to see how we can make it as an integral part of our P&L of our business.

**Moderator:** Thank you. The next question is from the line of Manoj Menon from ICICI Securities. Please go ahead.

**Manoj Menon:** First of all congratulations for an extremely good execution that you guys and the team have demonstrated over the last three-four months and I say this with all seriousness actually because it is one thing to put a business on autopilot and second thing is actually come out of autopilot and actually say that you want to actually pilot it, I genuinely mean it because we cover about 25 stocks and we find Britannia to be one of the top on execution. The question is beyond



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biscuits, actually on the new ventures which you have outside of biscuits, the reason I am asking is because we have looked at closely about or we have listened to the management talks to us about ramping up Dairy and Snacking, Croissants and lot of other businesses, Biscuits will have its own trajectory, but the question here is it anything which is changing to your medium-term outlook how each of those sub segments whether it is Dairy, Croissants, so each of those actually, there were five of them actually, so just want to listen to your talks on this?

**Varun Berry:**

First of all this was a period where it was not about variety, so there were some which were completely de-prioritized because we were short on manufacturing manpower, we were short on distribution manpower, we were short on all sorts of things, there were plants which were shut and all of that, so it was about getting the top three or four brands out of the door, but that was a short-term thing. Now, coming to long-term Dairy for sure is a big priority for us, we have started to implement our project and we are in a process where I think in about 20 months or so we should be in a position to start to do commercial production on our dairy projects and we are betting big on that. I think there is tremendous potential there because it is such a large market. Croissant we are because first-to-market product, we just want to make sure that we fine tune it extremely tightly and I must say that during this period any kind of market research was a no-no. There was no way that consumers were either going to come to a central point to try out products or would let anyone come into their house to get them to try a product, so we have not been able to move very much on our research, so there has been a little bit of a setback maybe two months or so, but we are confident that by the third quarter of this financial year, we should be in a very good place to have had a fantastic product with exactly the right marketing mix to be in the market and I still maintain that it is a product which has got legs and it is going to do extremely well in the Indian market, so that is the second. Wafers have been doing well for us, again during this period it did take a little bit of a back seat in the first two months, but it is coming back and we also are investing in Wafers to make sure that we have all the right manufacturing platforms to get all the right formats as far as Wafers are concerned, so we will be investing in a wafer line in our plant in Perundurai and thereafter in Ranjangaon, so that is a good business which we are looking forward to growing as we move forward. Salty Snacks, again we are in a situation where we are test marketing it and fine tuning it and research again has taken a backseat, so it will take a little more time but I think we will be again with the right marketing mix out in the next three, four, six months as well as soon as things get a little better. Dairy drinks has been again a category which has been extremely good for us. We launched Winkin Cow and it has done very well for us. We first launched the Milkshakes and recently one-and-a-half months back we launched Lassi in two flavors and both of those are doing well albeit it is a on-the-go product, so it is not growing as we would have expected it to, but that it is true for all drinking product in the market, so that is where we are at. I would not say that we have hit the ball out of the park, but I would certainly say that we are on the right track as far as adjacency businesses are concerned.

**Manoj Menon:**

Understood, thank you, that is an extremely comprehensive response. Only follow up if I may on the same question, how are you looking at the next 12-18 months given the context of



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economy, given the context of the unorganized competition or the relative competition in general in conjunction with the opportunity for large players like you probably buy properties relatively cheaper, how are you looking at ramping up some of those or all of those with newer opportunities beyond the opportunities which we have gotten discussed from the last results?

**Varun Berry:** So, we will discuss that in detail, that is a very big question with very big answers, so Manoj I will have to sit one-on-one on that with you, but certainly we are looking in that direction.

**Moderator:** Thank you. We take the next question from the line of Aditya Soman from Goldman Sachs. Please go ahead.

**Aditya Soman:** Couple of questions from my end, so firstly in terms of CAPEX any sort of guidance on what the CAPEX is likely to be especially in the context of this big dairy plan that you have over the next couple of years?

**Varun Berry:** The point, Aditya is that, one, obviously the dairy investments that we are looking at, but beyond that what really is coming through now is that even the manufacturing capacities that we have today are falling inadequate for our requirement, we operate very tight, we operate with a maximum headspace of 10% and this has been way beyond that, so growing 26% is way beyond what we had expected, so there will be obviously the dairy CAPEX, but beyond that we are looking at five more facilities, so there will be augmentation of manufacturing capacity in our Orissa plant, we are looking at putting up a new plant in Bihar, a new plant in Tamil Nadu, a new plant in UP, UP by the way is emerging as the second largest market for us now and we do not have any facility in UP, we have only got a factory in Uttaranchal, so Orissa, then Bihar, Tamil Nadu, and UP and we will require a few more lines in our Ranjangaon facility which is also very large facility, so that is what we are looking at, which could in the next two years or so which could mean an additional CAPEX of approximately Rs. 700 crores just for our bakery products and beyond that CAPEX for dairy as well, so we will require CAPEX to take this momentum forward.

**Aditya Soman:** You said you will have your normal CAPEX and in addition you will have an additional CAPEX of Rs. 700 crores of bakery?

**Varun Berry:** Yes.

**Aditya Soman:** Two to three years?

**Varun Berry:** Yeah.

**Aditya Soman:** Just second question following up on the earlier one, one is you mentioned markets like UP which is now emerging as your second largest market, has there been any change in the market



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itself over the last couple of years or is it continued strategy that you have driven sort of distribution and penetration in that entire Hindi belt?

**Varun Berry:** It has been like the biggest change possible and we are coping with that, I would say that every day is a new day in the current circumstances, so we have got to just make sure that we deal with the ambiguities on a day-to-day basis and deal with them in a nimble footed way.

**Aditya Soman:** You think this is just a function of more people going back who are earlier in cities and then consuming some of those product in those states or is that the something else?

**Varun Berry:** No, I do not think that is making a difference, I think it is about the two things that I have always spoken about, basically it is own consumption and it is strong brand which is obviously becoming magnet for most consumers.

**Moderator:** Thank you. We take the next question from the line of Latika Chopra from J.P. Morgan. Please go ahead.

**Latika Chopra:** My question was more on distribution reach, what scope do you see to enhance the direct reach further and also if you could comment on how the rural revenue share is now panning out for you and how is the share of modern trade and e-commerce panning out for you now?

**Varun Berry:** That is a very interesting question. Our share has been going up in most channels, but if you were to look at the three channels, you will see that if you were to look at traditional trade, our growths have been just fantastic this quarter, so our growths have almost been 30% higher than our overall growths in for the total company and the reason for that is that we have made some significant progress as far as our rural agenda is concerned and we have added some distributors, added towns and villages to where we reach etc., so I think that is one. Second is from a modern trade perspective, modern trade has been hit very clearly from an overall category growth's perspective and also from our growth's perspective, so modern trade has two or three components to it, one is the stores that you have the modern trade stores and a lot of these stores have been shut because they had malls and they are in big towns etc., so there has been some amount of down side on the growths of that channel and one of the modern trade operators has been under stress, so that has also impacted the modern trade growth. E-commerce has been on a very, very different trajectory up 300%, they were also struggling in the beginning but they caught up pretty quickly and they have really ramped up the business that they do. The alternate channels which is the institutional business, which is railways etc., airlines and institutional canteens etc. that has taken a big hit because you know everyone is working from home, so that is where it stands, so I think as we go forward our focus will remain on rural and traditional trade and we will try to build back our modern trade growth as well as the growths of that category and that channel grow, we would like to build that as well and e-commerce I think will continue because people have now gotten into that habit of shopping online, so I think that is a channel although it is still only 1% of our total business, but it will continue to grow pretty aggressively.



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- Latika Chopra:** Where would rural revenue share, rural contribution stand in your overall revenues now?
- Varun Berry:** It is very difficult, Latika, because how do you define rural, do you define it like Nielsen defines it or we have got a different way of doing it, but the way we do it, it is about 37% of our total revenues.
- Latika Chopra:** Just lastly, for the quarter what was your underlying volume growth, what was the component of pricing if any and the mix contribution to the growth rate?
- Varun Berry:** I would say that 26.5% was our total growth out of which about 21.5% was volume and the balance 5% was half and half between mix and price.
- Moderator:** Thank you. We take the next question from the line of Krishnan Sambamoorthy from Motilal Oswal Securities. Please go ahead.
- Krishnan Sambamoorthy:** Your annual report indicates that about 2% of sales came from new category, this is interesting because most of this categories are fairly new in your presence, since Salty Snacks as well as Croissants are in test marketing phase, therefore, a lot of this contribution as I understand comes from the Winkin' Cow as well as cream wafers, am I right in understanding that?
- Varun Berry:** Yes.
- Krishnan Sambamoorthy:** That is really remarkable, so what has driven particularly I think cream wafers itself is a smallish market, I think a large part of the contribution may have come from Winkin Cow, any highlight on what has been?
- Varun Berry:** No, it is a small market as of now, but I think we have got reasonable business going there.
- N Venkataraman:** Wafers category is growing at about 40%.
- Gunjan Shah:** As a category, it is expanding pretty fast and as I think Varun talked about, I am talking on wafers right now and the other thing is that it is also exploring new formats and that is something that we are working on also parallelly while we have made some inroads in the start of the business, but I think there is a lot of potential and worldwide the wafer segment is a pretty large segment and has decent comparison to even biscuit as a segment, so there is potential, I think the Indian market is slowly getting used to it and we being one of the largest national players playing in it, will hopefully aid that entire journey or that segment, so we see good promise on that. On milkshake which is the other one, I think you rightly said that both of them have led the charge as far as the last year goes, and hopefully, going forward, but milkshake has been a good entry and that I think you saw in the presentation, lassi has been the addition in the last quarter.



**Krishnan Sambamoorthy:** The other question is regarding ICDs, just a clarification, at the end of the March quarter the group ICDs were about Rs. 600 crores, Varun mentioned that GoAir has repaid, is that entirely repaid and if so what is the group ICDs at the end of this quarter?

**Varun Berry:** The group ICDs are about the same level, but there is no longer any ICD to GoAir.

**Krishnan Sambamoorthy:** Last year, there was also a Rs. 50 crore exposure to Sterling and Wilson Solar, which was repaid by the end of this year, has there been any fresh exposure to Sterling and Wilson?

**N. Venkataraman:** No.

**Moderator:** Thank you. We take the next question from the line of Richard Liu from JM Financial. Please go ahead.

**Richard Liu:** Varun, can you help us visualize your gross margin bridge that was there during the quarter, the expansion is quite a bit when compared to what we saw in the March quarter, so my question really is that how much of the gross margin expansion was contributed from a mix perspective since you are selling only a few select SKUs and while on this can you also explain the divergent trend in its standalone gross margin and consol one, the subsidiaries margin expansion seems to have been totally out of the park and is there some intra segment movement that is involved in this?

**N. Venkataraman:** The top line of subsidiaries has been about 60 plus percentage growth. This has been led largely by dairy that Varun was talking about, within that the growth was largely led by Cheese, that explains both the top line growth and the profitability. The second part is also what Varun talked about, rest of International grew by a very, very healthy lead, so it grew faster than overall business of Britannia grew, so these two are highly profitable, dairy within the cheese and international and this grew by over 60% in this quarter.

**Richard Liu:** At the gross margin from mix?

**N. Venkataraman:** Mix would not have made too much of a difference, yes it was there, but the impact of mix would have been roughly about 1% to 1.5% at best.

**Richard Liu:** What I was asking is that if I look at your March quarter gross margin it was in the ballpark of 38% and 39%, which has now become 41%, so this 2.5 % point expansion that we saw between March and the June quarter, you are saying 1.5 % out of this is because of mix?

**N. Venkataraman:** Correct, balance is on account of deflation, April, May, and June is the season for wheat, so typically we see that and also RPO which was highly priced has come down in Quarter-1 of this year. Dairy also saw a reduction in price and so did cashew, so actually it is these four commodities; flour, RPO, dairy, and cashew.



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**Richard Liu:** Now that you are back to the full range and the full variety, and no longer selling only those select SKUs and I guess would have been the most profitable, do you expect margin to come off sequentially or will the deflation part make up for it?

**N. Venkataraman:** Varun explained that in his presentation, he spoke about many other back-end efficiencies, he was talking about factory efficiency of labor, power, and fuel. Actually, we saw an efficiency improvement of 5% to 10% in the factories, we saw direct dispatches which meant really reduction in transportation cost. We could reduce the space of the depot by almost 10% in this period. There was working capital extraction that happened which helped improve our Treasury balance. There was zero stock write-off that happened in this quarter, so many of these that he spoke of we are in the process of trying to see how we can manage and sustain.

**Varun Berry:** We want to monetize these opportunities in the future, but your question is that how much of your gains are going to be sustainable, obviously there will be A&SP which is not coming in the gross margin, but below that which probably is not sustainable, we will have to start spending what we were spending earlier as we start to get full product, but we are trying to make sure that we study every possible gain that we have had and see if we can scratch out anything out of it and we have made this into a large project for us. The entire team is involved in this and we are going to in the next month or so get this ready so that we are able to get maximum out of this as we move forward.

**Richard Liu:** Varun, one more question if I may, I saw you are working with various permutations and combinations at this stage in terms of what could happen to the markets, to lockdowns, lifting of lockdowns etc., so my question really is that what is the circumstance and the combination of circumstances that you see based on which you think that these supernormal growth delta will start coming off or you think they are here to stay?

**Varun Berry:** Are you talking about the top line growth?

**Richard Liu:** Yes, the top line growth given that, the economic environment that we are living in is not all that rosy after all?

**Varun Berry:** Absolutely right, the economy is not great obviously because of all that is happening during this period, so all that might come to roost at some stage, but what we have seen is that you have got to look at how you make your business grow at a pace which is and we are seeing circumstances which could support our business, so we are going to take all advantage of that to make sure that we continue with a certain momentum as we go through the year.

**Moderator:** Thank you. We take the next question from the line of Harit Kapoor from Investec. Please go ahead.



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- Harit Kapoor:** Just had two questions, firstly on the price and mix that you spoke of, you said that 2.5% of the business was price, sales growth was price and 2.5% was mix, is this fresh pricing or is this carry forward from an earlier time?
- Varun Berry:** It is a carry forward from earlier time.
- Harit Kapoor:** Which would anniversarize by when in your thing?
- Varun Berry:** It would probably towards the third quarter or fourth quarter of this year.
- Harit Kapoor:** On the mix side, now that you have you are able to get your entire range in the market and you spoke of that in June as well that you are trying to get your whole range in the market, would we also assume that the significant kind of mix also normalizes as we go forward now?
- Varun Berry:** Even today if you think about it, we still do not have enough capacity so that we can feed all our products to the market, so what we are doing is the value segment has taken a backseat and that is a segment which is not a very large segment for us. At some stage, we would want that to be back, but it will be a slow build, so that situation will remain for a little more time and it is not going to be a visible change as we go forward because slowly and steadily we have been building variety, we have been bringing in products etc., so it would just melt into the overall monthly number as we move forward.
- Harit Kapoor:** The second question was on the inventory pipeline which you spoke of, so what would be the current situation, would it still be extremely dry versus what it was in pre-COVID levels, what were those levels earlier and what are they now, if you could just help us understand?
- Varun Berry:** We used to have about 11 days of stock which was approximately let us say 40,000 tons in our system. Today, it is not more than two or three days, three days stock is what we carry, so it is a very, very tight inventory and a very tight replenishment system that we are running at this point in time.
- Harit Kapoor:** This is as of July, you are running that right now as well?
- Varun Berry:** Yeah, about a three-day stock position.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Yashwardhan Bagri for his closing comments.
- Yashwardhan Bagri:** I thank everyone for spending time with us on this call, we look forward to interacting with you again. Thank you.
- Moderator:** Thank you. On behalf of Britannia Industries Limited, that concludes this conference. Thank you all for joining and you may now disconnect your lines.