"Britannia Industries Limited Q1 FY22 Earnings Conference Call"

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Moderator: Good morning ladies and gentlemen. Welcome to the Britannia Industries Limited Q1 FY22 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Yash Bagri from Britannia Industries Limited. Thank you and over to you, Sir.

Yash Bagri: Thanks Suzanne. Hi everyone. This is Yash from the Investor Relations team. First of all, apologies for a couple of minutes delayed start. I welcome you all to the Britannia earnings call to discuss the Quarter 1 2021-2022 Financial Results.

Joining us today on the Earnings Call is our Managing Director – Mr. Varun Berry, Executive Director & CFO – Mr. N. Venkataraman, VP (Procurement) – Mr. Manoj Balgi, VP (Marketing) – Mr. Vinay Subramanyam, and VP (Sales) – Mr. Vipin Kataria.

Before I pass it on to Mr. Varun Berry, I would like to draw your attention to the safe harbor statement present in the presentation. Over to Mr. Varun Berry on the remarks on the performance.

Varun Berry: Good morning, everybody. Sorry for the late start. Some technical glitches.

Starting with the presentation, if we get to Page #3, it has really been a tough quarter from resurgence of COVID standpoint, but we made sure that we got all of our employees vaccinated. We have covered 92% of our employees with one dose and now that the interval between the two doses is higher, I would think that in the next couple of months, we should be 100% with all our employees. We had also taken term insurances and hospitalization insurances which came in very-very handy during this time. It was a very vicious resurgence, and we are glad that we are out of that.

Moving onto the next page, which gives us the performance:

Now what we have tried to do is we have looked at it from three vectors. So, the year-on-year performance is flattish from a revenue perspective. Sequential growth versus Q4 of last year is 10% and the 24-month growth is 25%. On the operating profit front, the year-on-year growth is (-)25. Sequential growth is 12% and the 24-month growth is at 44%. So, I would say, yes, from a last year perspective because we had seen the peak last year in this quarter and we had all the efficiencies working for us, we were only producing three brands and all our lines were full belt out on those three brands, there was no variety that we were producing, so from that standpoint, yes, we are down. But overall, the performance, as I would look at it is very good. From a market share perspective again, our march continues. We have continued to gain share even in this quarter. So that is a good sign. If you look at it, all three parameters are fairly healthy and green.

Moving on to the next slide, which really talks about what really happened during this quarter.:

The COVID-19 second wave was very-very severe. We see the spike there which suddenly happened during this quarter. And this time it was the rural hinterland which was also hit pretty badly. During this time, we also saw crude oil prices go up and the prices of fuel in India go up fairly considerably. The palm oil prices also they were really-really very different from what we have seen in the last year. We have seen a sudden spike in oil fat prices during this quarter. So, in view of the pandemic and the hardship to the consumers we were cautious in our price increases. We have not gone completely all out on price increases. We have started to take some price increases which the task will get completed. But we were just a little cautious to make sure that there is no sudden impact to the consumers. But we were very aggressive on the cost efficiencies which has helped us. And which has helped us not just, obviously, keep the shape of our profitability but sequentially improve it as well. We have continued to make sure that all our initiatives on the cost efficiency programs are continuing at a pace which is much more brisk than what we have done in the past.

Now moving on, we continue to focus on our strategic planks. We have spoken about these. Innovation while I must say that because of the COVID-19 second wave this did take a little bit of a backseat because people could travel to factories and even trials were difficult, etc. Distribution and marketing again took a little bit of a tumble because we wanted our people to be safe, so we told them not to go out and work in the market. But I think it was the right thing to do because we are coming back on all of these parameters very strongly once the pandemic has receded.

Our cost focus, as I told you was very-very sharp during this quarter. Adjacent business, the products which were for home consumption did well. The on-the-go products they had suffered during this time. And we worked very hard on our sustainability agenda. So, from an innovation and renovation standpoint, the two big ones were the Good Day Choco Chip relaunch where we had a surprise pack and we had some celebrities, so it created a lot of excitement, and this product is doing well. The second one was the 50-50 Potazos which is a very-very interesting product which we have launched in the Northeast for the time being. But as we speak, we are looking at spreading it across the country. The response from the Northeast has been fairly good and this will be supported with a 360-degree campaign which includes everything that's there on that chart. Now, marketing activities during this quarter were definitely much more aggressive than what we have seen in the previous year first quarter. So, most of our big brands were back on air. We had the Milk Bikis out which is our very strong bastion. We also launched the rest of India Milk Bikis which is being promoted by Pankaj Tripathi. It's got a very strong proposition of Doodh Roti, which is something which is doing very well in the Hindi hinterland. We also had Good Day Cashew and all of these brands; I am not going to go through all of this here. But we were fairly back on air with our brands on biscuits as well as on our adjacency products like cake and rusk.

This was the report card for the last quarter. So, if you were to look at direct reach, in March we were at 23.7 lakh outlets. We did take a tumble in June, but as we speak, we are getting back to our base. Our rural distribution continued, no big progress here, but at least we kept it stable. The focus states, their growth kept outpacing the country's average. And the channels, the channel growth which had been tepid for the last couple of years were back in this quarter. So, we are hoping that the modern trade, the e-commerce as well as all of the other channels they will start to produce results for us as last year was quite bad on that front. We also continued our march on creating and sustaining an ecosystem of efficiencies and we have spoken about this in the last quarters call as well. So, from a process improvement standpoint, we had the S/4 HANA which had been implemented. Arteria which is our distribution system and dealer management system for distributors and Ariba which is the procurement and purchase system. These were very well stabilized. We are looking at making sure that this starts to support our entire business. We have also got the continuous replenishment system working now, and our sales for the month are fairly stable. We used to have a surge towards the end of the month earlier, but now we are trying to make sure that it's linear throughout the month. We had a better inventory management system whereby we were able to reduce inventories at the distributors by almost 25%, which helps them in times like this. And from a financial efficiency standpoint, we continued to do what we have done in the past which wastage reduction, market returns, as well as from the factory or whatever are there, we kept reducing those. And supply chain efficiencies while they were not exactly the same as last year same quarter, because last year was just with three brands, etc., but it continued to be very-very good in the factories as well as in the depots.

Adjacent business:

International, we had an export container availability issue, but we managed. We did see a little bit of a setback because of that. Sailings were delayed for our products. We have done a complete distribution system revamp in Middle East which is going to have a long-term positive impact on our business. Nepal continued to grow in double digits and Nepal has been a very good story for us. We continue to gain share as well as we continue to surge as far as revenues and profits are concerned. In the home consumption category that I said, we fared very well. While on-the-go was impacted. We launched flat wafers and the rolls plant which is going to get commercialized very soon. It is in our Tamil Nadu factory. So, we will start producing from that factory in the next couple of months. And our milk collection is above 50,000 a day now as we gear up for the backend for dairy.

On a sustainability front, we worked on the four factors which is people, growth, governance, and resources. And our EAC agenda is pretty much on stream. We will be publishing our EAC report in August this year. And our people, our team has been working very hard to make sure that we work on this to provide a very-very clear insight into whatever Britannia is doing on this front. So, I won't drain this chart, but the details are all there for you to see and you will soon see the EAC report as well.

Now coming to the financials:

This is our revenue chart. If you were to look at this, our revenues for Q1 were at 3,352 crores which was about a 1% lower than what they were in Q1 of the last year. But sequentially we were better than what we have been in the last two quarters Q3 and Q4. So, while we were flat on growth versus last year, the 24-month growth was 25%. On the cost and profitability front flour was fairly in control. In fact, there was a little bit of a deflation as far as flour prices were concerned. Sugar was flattish. Milk, there was inflation in all milk products during this quarter. But the biggest inflation came on fats where we saw almost a 50% inflation during this quarter. And that did take the overall basket of commodities towards inflationary trend which we haven't seen for some time.

Next slide. On operating profits:

We did sequentially better than what we did in Q4. From a 14.9% we went up to 15.1% this quarter. And even if you were to compare it with Q4 of 2019-2020 we were sequentially better. Obviously, the tall towers that you see in Q1 and Q2 were because of the surge that we saw in our topline as well as the efficiencies that we got during these quarters because of all of the stuff that we were doing by prioritizing our brands, etc. But if you look at it from a 24-month growth perspective, again a very solid 44% growth on operating profit as well.

So, these are the key financial lines. This is the consolidated report. So, net sales, there are these three numbers that I have been talking about, sequential growth, year-on-year growth, and 24month growth. They are all there for you to see. And if you were to look at the bottom table, profit from operations at 15.1%, profit before tax at 15.8% and profit after tax at 11.6%.

So, that really is our report card for the quarter. Very happy to answer any questions that you may have.

Moderator: Thank you. Ladies and gentlemen, we will now begin with the question-and-answer session. The first question is from the line of Abneesh Roy from Edelweiss.

Abneesh Roy: My first question is on that only. So, wanted to understand how much was the impact of SAP 4/HANA restocking, Q4 had suffered because of that. There is hardly any panic buying pantry loading, so what led to 10% growth which was happening for the past two quarters on a 24-month basis, that jumping to 25%. So, Parle also saw very good July. So, wanted to understand has your July month also been fairly similar kind of Q1 performance sustaining?

Varun Berry: So Abneesh, yes. We did see of a little bit of a resurgence as far as sales were concerned. It's not like what it was last year, but I think also the parameters that we operate with which is distribution that helped us. I think what really happens is that people migrate towards trusted brands and that's why we saw a resurgence and similarly maybe Parle saw a similar kind of resurgence. So, people do tend to lean on their most trusted brands. And luckily for us, or most of the brands which did well were the premium brands. Parle obviously gets their resurgence in their Parle-G which is the most trusted brand from their portfolio. Now, I think it's something which we had seen if you remember last year, we had seen a very resurgent first quarter, a reasonably resurgent second quarter, and then we had seen a little bit of a cool off that had happened. The cool off had happened because the economy, etc., it was a little bit of a sad kind of a situation with COVID happening and some businesses shutting down, etc. But I think this time the government hopefully is going to do all that's necessary to keep this going. The rural economy because it's suffered this time because of the COVID situation, I think government's measures will make a huge difference to how this pans out in the coming months and coming quarters.

Abneesh Roy: That's helpful. I had asked on July are you able to sustain the Q1 performance?

Varun Berry: We never give a future looking forecast, Abneesh. But yes, we are reasonably stable I would say.

Abneesh Roy: My last question is on Milk Bikis Atta. Last quarter you had mentioned this will see the heaviest advertising any FMCG brand has ever seen. I understand wave two of pandemic would have postponed it. So, want to understand two things. One is, now is the advertising going to actually happen. Second, how has the initial whatever steps you had put in because your focused states have done well, 1.33x of the average. So, has Milk Bikis also played a big role there? You said it has done well, but want to understand has it played a big role or is it just an initial…?

Varun Berry: No, it's done very well Abneesh. But I will let Vinay comment on it. Vinay Subramanyam who is our VP marketing, I will let him comment on it.

Vinay Subramanyam: First of all, we didn't cut back on any advertising on Milk Bikis in rest of India. This is one brand that has been advertised very-very regularly since we launched this in the month of April. We have already done two bursts. And you are right, we have seen very good sequential growth happening and Milk Bikis I can't disclose exact numbers, but it's been far higher than the Britannia growth that we have seen for this brand as such. And we are very-very bullish on this. And even now in July, we have started our third round of advertising as well.

Abneesh Roy: Last follow up, where is it taking share from, is it the initial publicity related burst, the inventory which gets put in or is it a share game which is happening from the competition?

Varun Berry: Abneesh, when you see a resurgence like this, it's obviously a share game that's happening. See, you got to remember the base of the pyramid is the entire sea of glucose that is sold. From that perspective, it will be a very small shift, but overall, yes, it's upgrading consumers from the value products to a product which has a very strong proposition for the Hindi belt. And the objective really is not to grow 60%-70%, but at some stage take this to a 150%-200% kind of growth in these states. So, that really is what we are looking at.

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

Aditya Soman: First question, in terms of your operations is, are all your salespeople back on the beat and even the rest of the operations, any interruption that you are still seeing? And the second question was on new launches. You talked about wafers, but can you just give us what else is in the pipeline say over the next 6 to 12 months?

Varun Berry: Yes, operations are fully onstream. This resurgence did not see any disruption to our supply chain. That was the good part. So, our supply chain, our factories, etc., have continued to perform the way they were performing. We did see a huge upset on our frontend because people couldn't go to the market and being a very-very intense distribution house with supervision with our distributor salesman, etc., being a very important part of what we do, it did upset that part of the business. But now that's coming back reasonably strongly. Now we hear that there's some amount of resurgence again in a few states. So, we are going to be very careful. We are not going to let our employees come in a harm's way as far as the COVID infection is concerned. But I would say we are 90% there as far as the front end is concerned now. So, now the thing is that during this time there were trials, etc., there were lots of products that we had plan to launch. There were lots of health and wellness products that we had plan to launch, and we were not able to take trials, etc., because our people couldn't travel to the factories. And it was becoming difficult to get the product to the T without our people being there. Remotely it was becoming a little difficult. But this quarter we have told you Potazos is one product which is a very interesting product. We are now looking at wafer sticks which will be launched soon. We have also got Milk Bikis Classics which is going back to what Milk Bikis used to look like and that's going into market now. And we have got some other Nutri Choice products which are also coming up in a few months.

Aditya Soman: And in terms of price points, again these would be spread across all your price points or are you targeting the specific price points? With Milk Bikis I am assuming it's probably towards the more affordable side, but overall?

Varun Berry: See, affordable price points can always be created. It's just how much grammage are you putting in it? And in a market like India, you will always need Rs. 10 or a Rs. 20 price point even for your premium products. So, we will continue to do that, but these products mostly are in the premium range. Even Milk Bikis Classics is a reasonably premium product.

Moderator: The next question is from the line of Vivek Maheshwari from Jefferies.

Vivek Maheshwari: Two questions. First on the margin, so when I look at your gross margins, these are like multi-quarter low. And if I look at your operating EBITDA margins, let's say, F18-19-20 you did about

15% to 16% at operating EBITDA margin level. Now this quarter is going back to historic levels. So, how do you think about margins in the medium term given that you are planning to take a product price hike, but I am guessing that A&P, staff costs will also move up. So, should we be looking at about 15%-16% what you have historically done?

Varun Berry: See, you have got to remember one thing that when inflation hits you suddenly, there's a little bit of a lag between, how you react to it because in normal times we would have reacted aggressively to inflationary trend and taken our prices up almost immediately. But because of the situation that existed on the ground, there was obviously a little bit of turmoil with consumers as well. So, we thought that it will be the right thing to take the pricing gradually, and that's what we are doing. And I would think that, yes, we would get back to our margins as they stood and beyond in the coming time. Because a price increase is something that we will have to, and we have planned it and it's all getting rolled out as we speak.

Vivek Maheshwari: The second thing is about your ambition of being total foods company, I am guessing that you lost a lot of ground in the last few quarters starting with first wave and then second wave. Can you just elaborate on what are the goalposts that you have, how are you going to get to a total food company ambition and guessing given the uncertainty or concern around third wave, you would still go slow, the croissant launches and all that, can you just elaborate on that part? Thank you.

Varun Berry: So that's a great question. You are right. So, what really has happened really is that if you look at the adjacency products, a lot of these adjacency products are on-the-go. And this was not the time to really go helter-skelter after the on-the-go products, because there was no one on-the-go. It was all home consumption. And that did disrupt us, not just from a sales and marketing perspective, but even from trials, etc. So, it's very difficult to explain the elaborate process that we follow to make sure that whatever products we launch, especially the new categories that we get them to a T. So, for example, let me take the example of croissant. We put croissant in test market about a year and a half back. And we still haven't been able to get it to exactly what the Indian consumers needs. So, feedback from the market is that today the product is a darn side better, appreciated a lot more by the Indian consumer than when we launched it. And that feedback is coming not just from consumers in our research, but even from friends and family. The issue is that we are still not happy with it. We still have to do some more trials and when we do trials, we have got trials that we do in factories in Greece which is where our partner is, and we also do some trials in India, and we finally research them through consumers. So, the cycle of this especially for new products is very elaborate. This probably will culminate in the next six months where we will have the final product and we will roll it out and that's what's happened. Because of disruption, not just in India but in Greece and everywhere else and even raw materials, cocoa, the specific cocoa that we wanted we couldn't get because of the supply chain issues coming into India etc. All that has disrupted it, but I would say that it's just a disruption. We will get back to speed. We will make sure, there's some very exciting thoughts that we have, which if they were to come through, it could be a very exciting journey for

Britannia, not just in the existing products that you've heard of, but it could mean that we could get into certain categories which could be even more exciting than what we have been talking about. So, I think it's just a disruption and we will come back to speed very quickly.

Moderator: The next question is from the line of Alok from Ambit Capital.

Alok: My question was also on the adjacent categories. Firstly, I wanted to check, would you be at some point in time looking to disclose the revenue proportion coming from adjacent categories and can we get a ballpark number at present? So, one would be biscuits, adjacent categories, and dairies, so dairy we know 5%, but the adjacent would be what proportion, if at all you can share?

Varun Berry: The adjacent categories would be at about 2,500 approximately including all of our products which are outside of biscuits and yes, diary is about 5% of the total mix.

Alok: This 2,500 of course covers the dairy bit also. Right? So, we will back calculate accordingly.

Varun Berry: Yes.

Alok: My second question was on the Ranjangaon plant. So, I believe that lot of efforts over the last two, three years, they have been put into the Ranjangaon operationalization. What percentage of the plant would be operational currently and by when can we see 100% operationalization for the same?

Varun Berry: It's been a process of continuous expansion. Currently, Venkat how many lines do we have operating?

N. Venkataraman: 8 lines doing roughly 10% of total production.

Varun Berry: 8 including the cross on and everything.

N. Venkataraman: Yes.

Varun Berry: So, we've got 8 lines which are fully operational in Ranjangaon, and we are putting up some more. For example, right now we are thinking of putting up a Rusk line there as well. We probably going to put up a few more Biscuit lines, but it gives us 10% of our total production from one factory. We are also in the process of putting up a dairy facility, which should be ready by next year. I would say second quarter next year, our dairy facilities should be ready and that's going to be facility to really see, the building is coming up as we speak. We would actually welcome you guys when once the COVID scenario gets over, we would like to welcome you and show you our plant. We are very proud of what we have been able to create.

Alok: That'd be really great. Just a follow-up to that, because you say Ranjangaon would also have dairy line, I am assuming the asset turn effect and overall would be not more than possibly 4 to 5 times in that plant?

Varun Berry: Venkat asset turns of 4 to 5 times, they ask very difficult questions, only a CFO can answer.

Alok: Basically, what I was trying to get at is that once the Ranjangaon is operationalized, what percent of revenues in the adjacent categories will come from Ranjangaon versus the biscuit?

N. Venkataraman: Adjacent category we will still have to work out. We have not thought about it on those lines currently, as we speak today, like Varun mentioned, this factory, the investment that we have done so far is about Rs. 650 crores and it's currently generating revenue of about Rs. 1200 crores. And, and some of the lines were not fully utilized currently, we have put up few lines very recently. There's a little hard slain that we have put out, which is yet to be fully used, etc. and some of the cake lines are also not being fully utilized currently. So, possibly once these get fully utilized you will have a turnover of about Rs. 1,500 to 1,600 crores on the current investments.

Varun Berry: Other thing to remember is that the Maharashtra Government has been kind enough to give us 110% incentive. So, 110% of our investment in that plant is coming back to us in terms of our tax benefits.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Capital.

Shirish Pardeshi: Indeed, I was very amazed that you have beaten my estimates. Anyway, to ask the question on slide 15, we have shown the growth Quarter 1 26%, Quarter 2 11%, Quarter 3 6%, Quarter 4 8% and now we are (-) 1. Would you talk about something, how do you see going forward and maybe if you can spend a minute on how the category is behaving, whether the premiumization or the lower end of the parameter is going faster or value for money is still ruling the market?

Varun Berry: So, Shirish in today's times nobody can focus what's going to happen tomorrow. Really, it's impossible. We do our plans. We redo our plans. We do strategic plans but, everything is dependent on how things pan out as we operate. So very difficult to say, but just to answer your question on the premiumization versus value etc. see, we don't have much value in our portfolio. We don't sell value products. Even if there's resurgence, it's a very small percentage of our portfolio. All our resurgence is coming in products which are premium products. I would think that on an overall market construct basis, there is a little bit of resurgence in value. Luckily for us, we are very small in that category and hence our resurgence is in our premium products only and actually the belly of the market, which is the Maries and all of that Milk Bikis, Marie that’s where we are seeing our resurgence. So, hopefully we'll keep it that way, because we don't plan to make a very big pitch for the value portfolio, because the margins there with the current inflation are, single digit. I don't know, I don't want to be, growing 30%, 40% in category which doesn't give me the kind of margins that I'm looking for.

Shirish Pardeshi: So, Varun, just follow up on that. When we say that minus 1% decline on the revenue, would you be able to help me with the volume what we have seen? Is it higher than minus 1% or positive?

Varun Berry: Yes, it is positive 1%. The volume is positive 1%. And the reason for that really is that last year we were only selling three brands and no value at all, because we didn't have capacity for value. This year, we've got a mix which also has a bit of value, hence while the volumes are positive the revenues are, actually both are reasonably flattish.

Shirish Pardeshi: My second question if you can spend a minute or two, you did mention in the beginning that Middle East you have done the entire revamp. What exactly we have done and if you can spend a minute on Nepal how it is setting and what is the number in terms of revenue, volume something you can give quantitative details on that business?

Varun Berry: Sorry, you are talking about Nepal?

Shirish Pardeshi: I am talking about international. You mentioned that we have done some revamp in Middle East in terms of distribution. So, what exactly we have done about Nepal?

Varun Berry: So, on the distributor front we have changed our distributor. We did a full pitch for our business there. It's a very solid business and we were not getting the kind of traction on distribution and in terms of execution with the earlier partner. So, we did a pitch. We got a new partner who is very solid, very good on execution and that changeover has happened. Obviously, there are some disruptions which happen when there is a change-over, because you have to take stock from the old distributor etc. So, all that wasn't processed during this quarter, but, as we go forward this is going to be a very-very positive move for our Middle East business. As far as Nepal is concerned, as I told you we'd become market leaders, but that's not our only ambition. Our ambition really is to make it into a fairly large and a dominant business. We are seeing a 26% increase in our revenues there, despite lockdowns and all of that. We are hoping that whatever we had envisioned for Nepal will come through as we go forward. Does that answer your question?

Shirish Pardeshi: Very much and all the best, thank you.

Moderator: The next question is from the line of Avi Mehta from Macquarie Group.

Avi Mehta: I just wanted to understand the medium-term margin better. Now this year we have moved, I mean, last year we had moved almost to 19%-20% odd levels, this year obviously near term I understand the pricing impact, which will you will leave you kind of take calibrated price increase, but from a medium term guidance should we look at a 19-20 as the new level that you will seek to achieve or is 16-17 that we have historically seen the level that is the right to look at, because there was one offs that happened in that 19%-20%? Thank you.

Varun Berry: We are in the process of continuous improvement, but not continuous improvement over last year's margins, because those were exceptional margins because of all the efficiencies etc. But yes, a continuous improvement over historical margins is what we would look to achieve.

Avi Mehta: The second bit was from a pricing element. You have taken lesser interventions in this quarter. Has that in any sense, reduced the gap between us and these other players or was that gap maintained?

Varun Berry: Gap in what sense, are you saying that others have taken price and we haven't?

Avi Mehta: Yes, sir.

Varun Berry: No, no. We, as the market leaders, we are always the first to take price increases. It's, the market leaders always has to initiate that, we are not ones who believe in price wars and taking advantage of a situation like this. We believe in, taking the price at the right time and that's what's got the entire industry to a situation where the entire industry is today making a lot more margin than what we've ever made in the past. So, the industry has gotten used to it. We've never taken advantage of anyone else's situation. We always initiate price increases, and we will continue to do so.

Avi Mehta: And bookkeeping if I may for the last. This Phantom Option, would that in any way change the employee cost outlook or is this more a restatement for the existing ESOP plan?

N. Venkataraman: If a scheme is being replaced by a Stock Appreciation Scheme and the terms are going to be similar, so therefore at the moment as we speak, on the options that are vesting and are likely to be exercised in this year, we don't see any implications on the P&L.

Moderator: The next question is from the line of Amnish Agarwal from Prabhudas Lilladher.

Amnish Agarwal: A couple of questions from my side, first being that, as you said that the inflation number has been pretty high. What has been the absolute inflation number during the quarter? And do you believe that this number we have almost gone through the peak of the same? And the second is can you guide us through that due to this pandemic now, any change in the CAPEX number, which has happened and thirdly, what is the total amount of ICDs which are currently present and that two group companies?

Varun Berry: The inflation is, north of 6, 7% as we stand versus last year. If you were to take the fuel prices, etc. which hits our supply chain that will be another 1 or 2%. It's a very high inflation number that we are currently sitting on. And, I think, in a situation like this, it just necessitates, cost efficiencies can never take care of this kind of inflation. 2, 3% we usually can take care of, but this necessitates price increase and that's why we've moved forward with that. What was your second question? Sorry.

Amnish Agarwal: Second question was on CAPEX and then on the ICDs.

Varun Berry: So, CAPEX, we know the projects that we are working on. We've got new plants, we've got the expansion of our Khurda plant, thereafter we've got a new plant in Tamil Nadu because we're running short on capacity in Tamil Nadu and in the north with the resurgence that we have in the Hindi belt, it necessitates a plant in UP. We've already bought the land in UP, which is in Barabanki, about 30 kms from Lucknow. We will start to execute on that plant as well. We've got a very good incentive from the UP government. So, those are the projects and of course our Ranjangaon expansion, which includes the dairy plant. So, at this point in time, we've got about 130 crores of CAPEX, but with all these projects coming through, it depends on how quickly we want to execute this and how the demand situation necessitates expansion. That's where we are at. On ICDs, we are much below what we've been in the past. So, we stand at about Rs. 470 crores currently.

Amnish Agarwal: This 470 crores is to group companies or overall?

Varun Berry: This is to the two group companies.

Amnish Agarwal: Any change since 31st of March?

Varun Berry: Yes. It's substantially below.

N. Venkataraman: As of March, it was 790 and as of 30th June, it is at 470.

Moderator: The next question is from the line of Chanchal Khandelwal from Aditya Birla Capital.

Chanchal Khandelwal: Firstly, congrats on a good set of numbers on a relative basis. Secondly, Varun one question on management bandwidth. As you are looking to scale the organization, in last six months we have seen a couple of guys leave the team, the good part is they have joined different companies as CEO which shows the management capability, but what are you going to retain the company when you are on the path to have a greater food company and have a greater food ambition? So, if you can touch up on this.

Varun Berry: See, if there is someone leaving to be the CEO of a large public company, it's always a privilege to have that to happen. But yes, we miss such people, but I would say that we probably have a fairly good talent pool. Even if you were to look at the people who we have currently, so Vinay Subramaniam who is sitting in front of me who is the VP Marketing and Vipin Kataria who is here as well, who is our Sales Head, who has replaced Gunjan who used to be Sales Head till about a year back, fairly good. I think we have got a pipeline of talent which can rise to the occasion. Having said that, the objective is to make sure that we create environment where, people want to stay for a long haul. One thing that I must tell you that there's something magical about Britannia, the number of returnees that we have to this company, I don't think in my career I've seen so many people coming back and joining a company that they have worked in the past. We continue to get people, coming back to us, after having moved out and then coming back to us. There's some magic to that, however, yes, you're right. We are looking at how we can make this more sticky and make sure that we can offer more job opportunities to our people to expand the pool even further.

Chanchal Khandelwal: The second question is on B2C, is the new buzz word in the town, people are talking about online platforms, launching various branch in the online platform, any calls on those lines. I heard when you said that you may look to enter a new category, which is a much bigger category. If you can touch upon both these because you have a bigger right to, I thought in online platform and the food platform both?

Varun Berry: Online platform having about own online platform is certainly an idea, but I do think that the objective really should be to work with partners. There are a lot of e-commerce players, and we are trying to, so if you look at our e-commerce trajectory, it's been really good. We used to be 0.4-0.5% of total sales coming out of e-commerce and that's moved north of 2%, however, it's only 2%. With our kind of products, I think that should be at least in the range of 5%. We are looking at all measures to see how we can take that up further. I think that really is the trick. The best thing to do is to work with people who are experts at that and creating a joint business which is worthwhile for them and us as well. This is not saying that we will not look at our own B2C at some stage. Of course, we will evaluate that, but at this point in time, I think we need to perfect it with our partners and that's what we are looking forward to.

Moderator: The next question is from the line of Kunal Vohra from BNP Paribas.

Kunal Vohra: Can you help us understand the price hikes and the impact better? Our check indicate a good amount of price hike, a grammage cut was taken in the value segment Rs. 4 to Rs. 5 pack of Parle G and Tiger almost a month back. So, what is the quantum of price hike you have taken, and you are looking to take? And would it be enough to offset the 7%-8% inflation which you talked about?

Varun Berry: Yes. Obviously over a period of time, we would want to offset, the entire inflation that we are seeing today. Whatever price hikes were taken earlier, have already been negated by inflation. So, as I told you, Parle had taken a price hike, we had taken a price hike in the value segment, but our gross margins are back to single digit again, because of what inflation that we've seen in the marketplace. So, two points here, one is price hike is necessitated and go through in the next three months or so from our standpoint, second is there is no substitute for price hike when the inflation is there, and we will have to look at it.

Kunal Vohra: Last question, any thoughts on the PLI benefits on food processing and what kind of benefits you would expect from it over the next few years and also if you can talk about the international expansion beyond Middle East and Nepal?

N. Venkataraman: PLI, we have applied for the incentive under PLI under the category of ready to eat, ready to cook category. The incentive that companies are eligible for is about 10% of the incremental sale. This however is kept by the total outlay that the government is going to have for this category year-on-year, is subject to the overall claims that are going to come in this category. It is difficult to make an estimate at this point in time, but we have applied for that. What was your second question?

Kunal Vohra: International expansion.

Varun Berry: As far as is international expansion is concerned, I think I spoke in the last meeting as well. We have commercialized a partner in Egypt who is starting to produce product for us. Just yesterday actually, we've got the clearance for a partner producing in Uganda as well. These are two markets in Africa which can give us access to a lot more countries. And we are looking forward to that. We are looking at, one or two other opportunities and hopefully in the next quarter or so we'll be able to frame those up as well.

Moderator: The last question that is from the line of Mr. Vishal Punmia from Nirmal Bang Institutes and Equities.

Vishal Punmia: Just one question, in terms of SKU mix, how should things pan out going forward? We have seen large packs being sold in a bigger way in the pandemic period. If you could just compare in the current times with FY20, how should the mix pan out, especially in the general trade channel where lower queues or where of a bigger mix compared to the modern trade channels. How should that mix pan out over the next few years?

Varun Berry: This quarter has not been very different from what we've seen historically. Last year we'd seen that, trend where we'd seen large packs being consumed a lot more because people were sitting at home, but this quarter was more on historical trends. So, every segment whether it's a family pack or LUPs etc. have been at the same rate of growth. So, let's see how it goes. I do think that evolving times we've got to watch out very carefully and modify our behavior according to what the consumer wants,

Vishal Punmia: With normalcy or modern trade do you expect this to improve at least in the next two, three quarters?

Varun Berry: Yes. If you just see what I had presented, in the presentation as well, we are seeing modern trade get back. So, the alternate channels modern trade, e-com, etc., we clubbed it together with and we were showing a 4% downside last year, which has now come to 12% upside versus standard.

So, hopefully this should come back to normal. Not just modern trade, but also transit clusters, institutions, as companies start to open, as Railways start to start their trains normally etc. airports etc. I think all those will come back. We are hoping that we'll get some upsides from there.

Vishal Punmia: Just last one question, in terms of the new product that you have launched Potazos, it's the second bridge product that you have introduced into your portfolio after Dews, what do you see in terms of pricing, in terms of distribution expansion, currently there is obviously a huge problem in terms of the other two players in the market, where their distribution is also limited to east. Can we basically, from a Britannia's perspective, scale that product to other markets, in a much faster way?

Varun Berry: No absolutely. So, there is, some technology which is required to produce this product and we've got that going only in our Northeast plant, but we are getting this ready in another three plants across the country. It should be ready in the next couple months. So, hopefully, in the next three or four months, we should be able to make this product pan India. And I do think that it's an exceptional product, which can create a lot of excitement with consumers. So, we are looking forward to that.

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

Yash Bagri: I thank everyone for spending time with us today. We look forward to interacting with you again.

Moderator: Thank you. Ladies and gentlemen, on behalf of Britannia Industries Limited that concludes this conference call. We thank you for joining us and you may now disconnect your lines. Thank you.