"Britannia Industries Limited Q4 and Full Year 2015-2016 Earnings Conference Call"

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Moderator: Ladies and Gentlemen, Good Day and Welcome to Britannia Industries Limited Q4 and Full Year 2015-2016 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*'and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ramamurthy. Thank you and over to you,sir.

Ramamurthy Jayaraman: Thanks, Inba. Hello everyone, this is Ram from the Investor Relations team in Bangalore. I welcome you all to the Britannia Earnings Call to discuss the Q4 and full year financial results. Joining us today on this earnings call is our Managing Director – Mr. Varun Berry, Chief Financial Officer – Mr. Amlan Datta Majumdar, Chief Financial Officer (Bakery Division) – Mr. N. Venkataraman, Head (Sales) – Mr. Gunjan Shah, Head (Marketing) – Mr. Ali Harris and Head (Supply Chain) – Mr. Vinay Singh Kushwaha.

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

Before I pass it on to the management team, I would like to remind you that anything which we say that refers to our outlook for the future is a forward-looking statement which must be read in conjunction with the risks and uncertainties that the company could face in the form of general economic conditions, commodities and currency fluctuations, competitive product and pricing pressures, industry relations and regulatory developments.

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

Varun Berry: Good afternoon, Good morning, depending on where you are. So what I am going to do, we have actually uploaded a presentation on our website, so if you have access to it then I can talk about the page number that I am at otherwise I will try and make sure that it's a coherent story which even if you do not have the presentation you can follow the bouncing ball.

First of all, I would like to tell you that I am happy with our volume growths, this has been fourth quarters of double-digit volume growths which is always very healthy and to my mind that is most important thing for sustainable growth for any company. If you were to get to page number one which gives us the kind of top-line growths that we have seen, so what we have seen really is from a revenue standpoint we have seen a growth of 8% for the quarter and 11% for the full year which has taken us to a revenue number Rs.2,190 crores for Q4. If you were to look at the line at the bottom which gives the 24-month growth which also is very important factor for sustainable growth for any business, you will see that all these 24 month growths are in the range between 20% and 30% which is a good number.

Moving on to the next page:

The page gives the volume growth numbers. If you were to follow this and if you were to go back to full year 2013-14 which it shows on the left hand side of this chart, in 2013-14 our volume growths were at 2% and a lot of our growths were coming out of the price increases and mix, in 2014-15 our volume growths were at 8% and in 2015-16 our volume growths were at 11%. And if you were to look at quarter-by-quarter this is the only year where we have had a double-digit volume growth for all of the fourth quarters and if you were to go to the bottom-line which shows the 24-month growth by quarter you will again see that most of the growths for the four quarters are close to 20% which shows the underlying strength of the business.

Now have we achieved that, getting to the next slide:

I think one of the biggest factors for our achieving the numbers that we have achieved has been our focus on our distribution. I have often spoken about this, the fact is that the total number of outlets that our category is available in is 7.6 million outlets out of this we were getting to almost just about 10% directly till about three years back, we have almost doubled this and we are now getting to 1.3 million outlets directly which gives us the ability to execute within that outlet make sure that merchandizing, the displays etc happen in those outlets through our salesman. Our overall availability has also improved, we are now available in 4.5 million outlets out of category availability of 7.6 million outlets which has helped us to narrow the gap with the company which is available most, our biggest competitor and the gap is now down to 1.2 million, it used to 1.6 million till three years back. So we are happy with our progress on distribution, we have also started to split routes to make sure that we build depth within our urban outlets which is moving quite well, we are now available now in almost 100 towns. After this we would like to consolidate and make sure that we do not expand very rapidly but make sure that we execute these 100 towns in a way that they become model towns for our operations.

The third is on driving our sales efficacy through handheld devices, through automation. This is an agenda which has again been very satisfactory in the way that we have executed it. We have got a 50% increase in the number of salesmen who operate with handhelds. The last point on this chart is about driving rural growth. As all of you are aware, the rural economy in India has been on a back burner, the rural economy has not been growing because of the agricultural economy being in a little bit of trouble. However, this has been a source of pretty good growth for us, we have been growing high double-digits almost 30% in the rural markets. This is through our hub and spoke model whereby we have appointed almost 8,000 distributors to service villages which are more than 5,000 in population. We still have some way to go, there are smaller villages which we will start to focus on in this financial year.

Moving on to the next page:

I have again often spoke about the weak states about the weak states that we are in, the Hindi belt effectively. Again, we have made very good progress in these states. If you were to look at it, Gujarat has grown 26%, just to remind you this is a state where we put up a plant about 2.5 years back and we have seen robust 26% growth. In Madhya Pradesh again we have seen robust growth of 15%, similarly in Rajasthan a growth of 19%. UP is the only market where we have seen single-digit growth and that is going to be a focus for us. However, our market shares have grown in all of these markets, UP is a little bit of up and down but we will hope to continue our momentum in all of these states as we get into the new financial year.

The next page is about the marketing properties that we associated with which were robust, which were large which gave us the salience that we required. We were associated with Asia Cup T20 which happened in Bangladesh, we obviously got the Britannia Filmfare Awards which has been a property that we have been associated with for two years now, we have had some celebrity associations and we have done a whole lot of other associations with films on regional networks and we will continue to do so.

If we move to the next page, you will see that we also have re-launched and successfully re-launched quite a few of our products. Good Day re-launch which happened in the last financial year is one of our biggest successes, we have re-launched the product with a new recipe which has worked really well with the consumers. Similarly, we re-launched Milk Bikis which is a very-very strong brand for us in the southern part of the country. We have also recently re-launched Tiger and 50-50, both of which are doing well, albeit we have seen a short window after the re-launch, but the trends are looking good on both those brands. As you will notice, while our revenue growths are 8% our volume growths are 10%, so we have passed on the benefits of the benign commodity prices to the consumers which is on the next page in the presentation which is why our revenue growths are slightly lower than our volume growths for the quarter.

All these measures, if you see on the next page, have helped us gain market leadership and continuously got us to grow faster than the market quarter-after-quarter which is something that we are very proud of and we would like to continue with the same trends as we move forward. However, having said that if you move to the next page, material prices have started to trend upwards and we have seen that happen in the last three months or so. The next page will show you the kind of upward trends that we have seen, all four commodities that are bulk of our consumption which is flour, sugar, RPO and crude oil which goes into a lot of manufacturing which constitutes the heart of baking which is energy has started to move up and that is now getting to a stage where we will have to initiate pricing actions, we expect the inflation to be about 5%, completely manageable, it is not a situation where it is going to be inflation which is going to be completely out of whack. So 5% inflation is what we expect and we will have to make sure that we initiate pricing action to get to the numbers that we think will be necessary for us to mitigate that inflation.

Moving on to the next page which is about our supply chain, clearly we have commercialized two very large factories, we commercialized our factory in Bangalore, it is in a place called Bidadi which is on the Mysore highway and a factory in Tamil Nadu which is in Perundurai, the pictures of these factories are there for you to see but you are welcome to come and visit our factories as well. The Bidadi factory also has a R&D center which is right adjacent to it, the next slide shows you how the R&D center looks. This is operationalized now we would like to welcome you and we would want you to come and have a look at our Bidadi factory and our R&D center.

We have also continued to maintain our focus on efficiencies in all aspects of the business, so if you were to go to the next page we have continued to get more extraction from trade spends in market returns as well as stock write-offs. You will see that all three are trending downwards and these are costs which are basically waste for any business. We have put a lot of focus on these and we have seen very good trends and we hope to see this continue as we move forward.

Also, the next page shows that our subsidiary business has contributed to overall profit growth as well. So while our standalone business has been growing, our consolidated numbers are also looking very good, so our subsidiaries have been accretive to our business. The dairy business, the top-line has not grown as we would have expected it to and we have been speaking about our restructuring of the dairy business in terms of what is our go forward, would we like to have a fully integrated dairy business or would we want to continue the way we have been doing for the last 17 to 18 years. We are in the process of working that out and I think we should be ready in the next three or four months with our plan to look at how the dairy business can be taken forward. However, in the meantime the bottom-line growth has been fairly robust for the dairy business, actually fully aided by the lower milk prices, so we will not take too much credit for that because this was primarily due to the milk prices. However, our international business has been very robust, our top-line and bottom-line growths have been high double-digits. We are now the number two player from being number four player in the UAE and our agenda on targeting countries with Indian Diaspora has been progressing well, we have been seeing robust growths in countries like the US, Australia and some of the other countries that we focused on for the Indian Diaspora.

Even our people agenda has been moving in the right direction. Today I am proud to say that a senior leadership team has got diverse experiences, they also are home grown, so as I have said in the past almost 80% - 85% of my direct reports are from within Britannia, they have got knowledge of the Company, they have also got experience which is very-very relevant for what we are doing today. We have got larger roles for a very young and dynamic team, we are a very lean organization, we are more accountable and we are highly passionate and motivated team. Our culture, we have put in the competitive spirit as one of the key ingredients in our Britannia culture today and I feel proud about the way we respond to competitive action and the way we think about how do we go forward. While a financial discipline is a very-very integral part of how we operate but we also think about being competitive in every way possible, and our cross functional team work is probably at its best.

So as a result of this, if you would get to the next slide, you will see that we have delivered solid operating profit growths as well. So if you were to look at the profit growths and you look at the profitability you will see that from Q1 of 2013-14 where we were at 7.7%, for the year now we are at 13%, just over 13%. And if you were to look at the profit growth which is at the bottom of that slide, you will see that we have grown profits while for the full year we have grown it at 55%, every quarter during this financial year has been a robust growth on profit and similarly on 24 months' growth on profit as well.

And this has been achieved in a sluggish demand scenario which I think is a challenge, I do think that a demand scenario situation if you were to look at the next slide you will see how the demand has slowed down. Now the demand in the last quarter is in very low single-digits which is something that we have built into our thinking. So it is very imp to work in a way that we do not try to overdo the demand situation. I do not think there is any company which can change the demand situation in a category, so it is very important to make it a part of how you operate and as I say, in this kind of a situation it becomes tight, there is less room for most companies to operate. So it is very important that each company understands that short-term measures are not going to take us very far, there is no point in throwing money to generate more demand, it is important to wait for the wave to come back and that is what we are doing. While we will try to generate demand as much as possible, but we will not try to change the world with what we are doing and we will make sure that we do not spend extra money in trying to outdo ourselves by growing that extra 2% or 3%. So we are going to cater this market, we do think that with the incentives that have been given by the Government in the last Budget which I would say I would like to qualify, our incentives which are not going to change the market in a quarter it is going to take time because all of those are long-term measures. So I do think that the demand will change, the demand scenario in the rural areas will change and once that happens we should be ready to ride that wave. And in the meantime we will do our best, we will make sure that we keep growing revenue, share, as well as profitability as we move through this challenging time of demand which is lower than what we had expected.

Now getting to the financials:

I think you must have studied them in detail and so I am not going to dwell on these for very long period of time. But if you were to look at the consolidated numbers for the year, net sales grown 11%, profit from operations up 55%, profit before tax up 52% and profit after tax is up 43%, so fairy robust results. And the next slide gives key performance indicator and the trends and you will see that profit, let's look at the consolidated for the time being. Profit from operations has gone up from 4.6% to 12.9% from 2011-12 to 2015-16. Similarly, PBT has gone up from 4.9% to 13.9% and all trends are similar, debt equity is not even worth talking about because we do not have too much debt. But if you were to look at it, all trends are looking very positive and we are in a space where we have time to think about how we will take this business forward.

So with that I would like to open the house for any questions that we have from you.

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

Percy Panthaki: Before I start my question I just want a clarification, when you said the inflation is going to be 5%, is that on your input cost basket or is that 5% inflation in the final product price?

Varun Berry: It is going to be on the input cost basket, so we will have to make sure that we cater to that as far as our output or revenues are concerned.

Percy Panthaki: I have two questions, first is on your margins first for Q4 and then the outlook. So just a little surprising that just when the commodity prices have started moving up your pricing has actually moved negative, so these two trends are actually going against each other, I would have thought that at least in this quarter we should see a start of pricing moving up. So just wanted to understand why is that happening at this point of time? And also in the last three, four years your margins have expanded because of a lot of good work you have done but also because of benign input cost. So now with the input cost situation reversing do you think there is a chance that your EBITDA margins might actually drop in FY17? That is my first question. My second question is, what do you see as the impact of Patanjali, in which segment do you think that they have a good offering or where they can really sort of make inroads and what measures, if any, are you taking to counter the same? Because they have made a statement saying that they will achieve a turnover of over Rs.1,000 crores in biscuits in FY17, so your thoughts on that. These are my two questions.

Varun Berry: So answering your first question, Q4 numbers were a little different from what we are seeing the commodity cost to be at this point in time. In Q4 we started the quarter with the commodity cost still being lower than what we had seen for the previous year. So it is actually in the last couple of months that the commodity cost has started to move up. So certainly we are catering to that and I do not think that we are going to be in a position where we will not incorporate the inflation and the commodity cost in our P&L. Does that answer your first question or was there a second part to that question as well?

Percy Panthaki: Yes, so basically what I wanted to understand is that for the first three quarters you did not have a negative pricing, so why in this quarter has your pricing gone negative?

Varun Berry: Well, there is a little bit of a complex equation there because it is not just pricing, it is also the mix. So there are three components to it, so nothing has changed really, it is just that the volume growths continue to be robust, double-digit and there was a 2% delta between our revenues and profit. And as the commodity prices started to change we started to think and we have already started to implement some other pricing change that we would like to do. Your second question is about Patanjali, I think Patanjali is a very interesting business I would say and a very interesting company. I do think that their right to succeed is in very traditional products, I am not saying that biscuits are not traditional but in even more traditional products is where their right to succeed at this point in time. However, having said that, I do not think that we are brushing them aside, I do think that we are taking them seriously, we are trying to understand their model, we are trying to see if there is anything that we can incorporate to make sure that we do not let them become as big as they have become in certain other traditional categories. I do think that we have a much stronger right to succeed in our categories because of two or three things, one, because of our brands; two, because of our distribution and I do think that Patanjali's distribution is going to be the thought stride for them. And if have to remember that biscuits is a category which is distributed in 7.6 million outlets, distributing it in thousands of outlets versus millions of outlets, there is a big difference. So I think those are the two really which are most important advantages over new entrants today.

Percy Panthaki: And relatively speaking, in which sub-segment do you think they can make a larger impact in the biscuit space?

Varun Berry: At this point in time I do not think that they have made inroads into any of the segments, because if you think about it, biscuits while they are traditional they are not traditional to an extent where they are based on Ayurveda, etc. but yes, we have got to watch them, if I had to answer your question I would say probably in the Marie segment.

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

Sanjay Singh: Just wanted to know, given that the volume growth is ahead of the industry, how would the FY16 value share look versus FY15 end?

Varun Berry: So we do not share the share numbers but we have gained almost 150 basis points in share.

Sanjay Singh: Any reason for not sharing the market share numbers because at the end they are pretty much public data in the sense that any of your competitors would have it, so…

Varun Berry: It is proprietary data, it is AC Nielsen, it has been a tradition because in my previous company we never used to share it, so when I came in Britannia never used to share, we have not gone through with the thought process on that, but that is what we have been continuing to do.

Sanjay Singh: So it is 150 bps increase?

Varun Berry: Yes.

Sanjay Singh: Value share?

Varun Berry: Yes.

Sanjay Singh: And secondly you mentioned in terms of distribution, I could not hear the number properly, you see your overall distribution is 4.6 million outlets?

Varun Berry: Yes, our overall distribution is up to 4.6 million outlets and you must be comparing it to what I have been saying for the previous so many quarters. The thing is that the Nielsen data base has changed, they have revalidated their data base and this is what has come out of it, we are now at 4.6 million outlets versus our largest competitor at 5.7 million. So the gap has narrowed by almost 400,000 outlets.

Sanjay Singh: And in terms of gross margin, while EBITDA margin is a function of how you grow top-line and other costs etc, but in terms of gross margin do you see FY17 similar to FY16 or a little lower given the bounce back in inflation?

Varun Berry: See, we just do not give any guidance on what is going to happen in next year, but I can tell you that our objective will be to make sure that we continue with the progress that we have made. Albeit, the gradient is not going to be as steep as what you have seen in the past.

Moderator: Thank you. Our next question is from the line of Abneesh Roy of Edelweiss. Please go ahead.

Abneesh Roy: My first question is on the distribution gap which you just discussed, so now the restaged Nielsen numbers are saying just 1.2 million gap versus the 2.2 million earlier, so does that limit the upside potential which you earlier had in mind because by closing this distribution gap you could have grown much faster, now the gaps are much lower. And the follow-on question on this, in UP if you could elaborate a bit more, rest of the three weak states are growing much faster than UP, not just this year but last year also. So do you need a special micro strategy in UP because it seems that you are clubbing UP along with the three other weak states, is that the reason why it is not working as of now?

Varun Berry: So the first question was on distribution gap, the distribution gap, the way to look at it Abneesh is to look at what the total category is in. So the total category is available in 7.6 million outlets, so the gap still is 3 million outlets. So we have got a long way to go as far as distribution is concerned, we feel good about the upside that we got on distribution but still a long long way to go. And our stop is not at our largest competitor in terms of distribution but our stop is at where the category is, so that is the first. The second was on UP, UP frankly Abneesh I am also disappointed with the way we have performed, while the growths have been reasonably robust considering the demand scenario in the UP belt, but we should not be worried about demand scenario in our small state because we are talking about share growth. So I must confess that UP while it is one state we have got to look at it almost like four or five states and that is what we are planning to do this year. So we have broken it into smaller territories and we are going to evaluate each one of those segments separately, and that is what is going to help us. So just to give you an idea, there are parts of UP where we have done much better than what we have done in the other Hindi speaking states, but there are parts of UP which are bringing us down and that is what is taking us to a 9% growth. So once we start to sub-segment the state I think our ability to grow that will be a lot better.

Abneesh Roy: A small follow-up here, Gujarat if you see has been the best performing out of the four in terms of growth, and you said setting up a factory there has also helped. So do you need to setup more factories in UP so that distribution cost can come down so that you can really fight with the lower price warriors there?

Varun Berry: Yes, so we already have a factory in Uttaranchal and we have just taken another co-packer in the same state which is what is going to give us the advantage of being closer to the market. So hopefully we will have different numbers to share with you as we go forward.

Abneesh Roy: Sir my second and last question is on many restaged brands in FY16, so if you could tell us brand wise Good Day, 50-50, Tiger Krunch, Duce, Milk Bikis and of course the bread portfolio, which has worked and which has not worked and which has been faster growth?

Varun Berry: So Good Day is the oldest re-launch that we have done and it is working like a dream, the others are too new to call but bread which is in a small limited territory is again about three months, four months old and it is starting to work for us. Tiger creams which were recently launched two or three months back have resurged and we have seen some very good growths there. And by the way, Tiger creams while it is in the value portfolio it is reasonable margins for us, so that is moving in the right direction, it is a very differentiated product, it looks very different from any other value cream product in the market and that is giving us pretty good upsides. 50-50, too early to call, just about a month and ago that we re-launched it, so we can share that with you once we have the next call.

Abneesh Roy: And Duce more markets you have taken?

Varun Berry: No, Duce we have not, Duce is a test market in Bangalore so we are making sure that we make all the changes to the product before we launch it across the country and as it is it is a chocolate based product so in this kind of summer where the temperatures are touching 50 it is impossible to do that. So we are targeting September, October as the time when this will be launched across the country.

Moderator: Thank you. Our next question is from the line of Dhruv Bhimrajka of Crescita Investments. Please go ahead.

Dhruv Bhimrajka: My question is regarding the CAPEX what we have planned for this FY17 and for three years if you could give a picture on that.

Varun Berry: So if you remember we had spoken about Rs.900 crores of CAPEX in FY15-16 and 2016-17 put together. In view of the demand situation we have decided to push back some of the CAPEX, we are not cancelling CAPEX but we are pushing it back to make sure that we do not create too much of capacity within the company. So I would think that it would probably be, so in the year 2016-17 we will probably invest about Rs.400 crores and in 2015-16 we have invested Rs.211 crores, so between the two years the CAPEX will be about Rs.611 crores.

Dhruv Bhimrajka: And this CAPEX will be mostly from internal accruals because we do not have any debts on our books right now?

Varun Berry: Yes.

Dhruv Bhimrajka: And what should be the working capital days as of now for this year?

Varun Berry: I will let Venkat answer that question. Venkat?

N. Venkataraman: So working capital has been healthy negative for quite some time now, it is almost in the band of R.450 crores to Rs.500 crores negative working capital, particularly our receivables are in the region of two days so an inventory of about five to six days. We have creditors which is largely it is more, it is roughly about 40 - 45 daystherefore they are net….

Dhruv Bhimrajka: And sir we also asked you about the dairy investment which you are going to do which was about to the tune of Rs.300 crores, so is that plan online or is that also been pushed back?

Varun Berry: So that is still not finalized, so once we finalize it, so it is not a part of this Rs.611 crores, so we will make sure that once we finalize it we talk about it in our next call or whenever we are ready.

Dhruv Bhimrajka: Any projections for this sales going forward?

Varun Berry: So as I said, I would not give any guidance but what I have been talking about is that the demand situation is not going to change in the next six months or so, so I would think that the revenue growths would be high single-digits rather than being double-digit that we have been talking about.

Moderator: Thank you. Our next question is from the line of Amit Sachdeva of HSBC. Please go ahead.

Amit Sachdeva: Sir, first question on the volume growth which obviously at 10% is very impressive in this environment, so can you please break it down for us that what is really coming from your distribution expansion and also consider the four weak states have done so well, what is the underlying picture if you were to negate these two impacts?

Varun Berry: It is very difficult to answer that question, I will need an analyst to work that out for you. But as I said, if you were to look at our delta versus the category, we are growing at almost two times the category in terms of volumes. So I would say that distribution is probably the biggest reason for our gain in share, distribution and our focus on our weak territories is probably the largest reason while innovation is also a big part of our agenda but innovation will always start with a small number and it is not going to change the mix dramatically in the first year. So while the mix change is also a part of that but I would say that distribution in weak state agenda is probably the largest.

Amit Sachdeva: So in terms of categories, so the trends are still same like cookies continue to be the fastest growing or value segment has now caught up because of your focus, so is there any trajectory that has changed at sort of cookies, cream and basically your value portfolio?

Varun Berry: No, so funnily enough while at one end the demand is going down but the premium products are showing a lot more resilience than the value products, the value growth continues to be negative to flat while the premium products are growing at a healthy clip. So whether it is our health products which is Nutri Choice or it is cookies, they are growing healthy double-digits while value is... for us value is fine because we are small and we are seeing a bit of a growth in value, but from a category standpoint value continues to be in a sluggish mode.

Amit Sachdeva: So just very quickly, second one, can you break your gross margin drop which is a sequentially bit of drop, is it mix lead or it is like price discounts, I am sure somebody has asked this question earlier but I am just trying to ask in a different maybe, or some commodity inflation is already reflected and you have not taken any pricing action as yet that you plan to and the A&P spend also I guess was up sequentially that lead to some margins. So what I am trying to get to is that when you look at FY17 what your sort of overall agenda is that keep margins stable with taken price increases, how do you really see these various factors moving, especially in the context of what has happened and what you think your plan is?

Management: If you look at the sequential numbers between Q3 and Q4, while material cost and few other elements have gone up a bit it will help us to get through efficiencies in conversion charges etc and have been largely been able to manage that in Q4. However, what is standing out is the A&SP spend and that is to do with two primary key properties that we have endorsed in Q4 which is T20 and Filmfare which is to do with the timing, phasing of the spend. So fundamentally if you see, the margins have been protected except for the A&SP spends that happened in Q4.

Amit Sachdeva: But as you frankly mentioned conversion charges and bit of discounts as well, considering where the little bit of move up has happened in crude and things, have you seen some sort of that cost reflected already in conversionespecially with the co-packers, have they started pushing you back on increasing prices for them where their freights are going up or likely to go up or in terms of transportation also are you seeing some push back in terms of renegotiating the contracts as you go along?

Management: No, the benefits that you see are on account of two things, one, structural cost reduction that has happened which is not win-lose for anybody it is win-win for both the parties concerned, we have improved efficiencies whether it is fuel usage or labor usage or anything. So that is not a win-lose at all, so there is not going to be a pressure coming on account of that. The second is also to do with the fuel rates which were better in quarter four, they are going up a little bit now but it has been quite subdued in quarter four. So far as cost increases that are happening now both in terms of material and fuel, we are looking at a price correction, as Varun mentioned sometime back.

Amit Sachdeva: So is it safe to say that at least there would not be obviously, you obviously look at cost savings and more operational efficiencies, but if I were to see your construct you would perhaps gun for more volume growth and even if it means margins at best are kept constant, is it a fair understanding of how you are thinking about category considering we want to be rationalized when you are throwing money behind, generating unnecessary demand which is counterproductive, is it a fair construct to think about?

Varun Berry: Well, certainly we would like to keep our volumes growing but we will not try to overdo it by getting an upper hand on competition, we want to do it through our execution rather than through our money in our pocket. Certainly do not want to over spend on getting volume growths, obviously our volume growths for us are very-very critical. So we will have to balance as we go forward, but certainly our agenda on distribution growths, our agenda on productivity, cost efficiencies is going to continue, we have already almost middle of last year we crafted out what are the tasks for us to accomplish and we have already started to execute on those. So those are going to be very important for us in this financial year.

Moderator: Thank you. Our next question is from the line of Manish Jain of Nomura. Please go ahead.

Manish Jain: I just had one question on the balance sheet front, I noticed in the consolidated balance sheet the cash has come down significantly from almost about Rs.226 crores to just about Rs.88 crores and at the same time your long-term loans and advances have risen by almost around Rs.200 crores almost like Rs.290 crores, can you shed some light on this? And also, how much of these loans and advances are to related parties? That is from me.

Amlan Datta Majumdar: On the loans and advances to related parties, see we have been as we told in the earlier calls also we have been investing in various areas not only through the related parties. The inter corporate deposit, I think you are coming to that specifically, let me answer that straight. See, we had inter corporate deposit of about Rs.300 crores to the related parties last year, it is not really related parties that, will be technically incorrect, these are group companies but not technically related parties, let us take that. These have increased by about Rs.50 crores but we have to also understand that lot of money has been paid back and we have reinvested. See we are looking for options, we have a large treasury, we can invest in other areas but the issue is that we need to have an earning on that treasury also because we are waiting for some of our CAPEXs to come through and we are holding the money and with current situation as Varun has rightly mentioned that we are pushing back a bit of it but then we cannot invest in long-term instruments where we will not get back easily and with lower return. So overall it remains almost the same and we have also invested in other companies not necessarily the group companies, we have invested in other companies. And to remove any concern that anybody would have, these investments are absolutely safe but we will look at, we understand where you are coming from and we are looking at that option that if we get a better option we will surely shift there as well.

Varun Berry: On your other question on the cash balance, last year we had some FDs as of March 2015, these have gone into other heads of mutual funds and ICDs and all of that and just to tell you that our treasury balances have gone up by almost Rs.400 crores between last year and this year, so that is not a concern at all.

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

Amnish Aggarwal: Sir I have a couple of questions, my first question is on the volume growth where we have said that all the four quarters of last year our volume growth has been in double-digits but on one hand we have given lot of promotions in terms of say 10% extra, 15% extra on various packs, so can you share with us what is the growth in the number of packs that you have sold?

Varun Berry: The growth in the number of packs? I would not have the number right now but I would think that it would probably be more than 10%, I would think that because we are selling lot more of the smaller packs so it will probably in the range of 12% to 13% or even higher.

Amnish Aggarwal: Because of the smaller packs?

Varun Berry: Yes.

Amnish Aggarwal: But sir now for example we were giving12% - 15% extra in various packs, now with the inflation in the commodities being there, particularly in two, three of them, now if we reduce these freebies to the consumers so don't you think our tonnage growth will suffer in the coming years? It is in context of the fact that now we are looking at taking price increases and we have also guided for say high single-digit of top-line growth.

Varun Berry: See, the thing is that we were last year in a situation where we saw commodity tailwinds, so the option was to reduce prices but there are some tax where you have fixed prices. So to give the consumer the benefit of the commodity tailwinds we obviously gave them more grammage in the pack. But that probably is the easiest way of taking a price increase by removing the promotion because these are not permanent promotions, these are two, three months at a time and everyone comes in and out of these promotions. So I think it becomes easier to get away from these promotions and get back to regular packs, so that is not an issue at all.

Amnish Aggarwal: But in terms of tonnage what sort of volume growths you are looking at in FY17?

Varun Berry: See, the way I look at it is that usually what happens is that whatever you lose out of volume you get out of revenue, so I think it evens out. So there might be 2% downside on volume but there will be a 2% or 3% upside on revenues, so that is how I look at it. And we would not give you a guidance but I would say that the demand situation is going to be challenged for the next two quarters or so, so we will have to make sure that we cater to that demand situation rather than trying to outdo ourselves by getting to big numbers on volume and revenue growths.

Amnish Aggarwal: Sir my next question is on margins, particularly in this quarter we have been able to held on to our gross margins year-over-year, more or less, but the bigger thing is that we have been able to control our overheads and costs very well. So given the fact that over the last two to three years we have been continuously cutting the cost, so any benchmark you have for the current year or where do you see the scope of cutting the cost further in the current area in particular?

Varun Berry: So frankly the unique selling proposition for Britannia today is a company with great people, a reasonably large top-line and very-very tight cost, so that USP we will not let go, it is very critical for us to make sure that we continue with that backbone because that is backbone of the Company, that gives us an advantage to compete with anyone. Because if you think about it, with the kind of gross margin that we make and the kind of conversions that we get to the net margin, I do not think any other company does it. So we see that as a big advantage, while we flesh the bone wherever necessary, for example, in the last year we made sure that we put in all the money that was necessary for R&D and some of the other functions, sales, while we cut a lot of cost three years back this year we have fleshed the bone with whatever was necessary for sales. Similarly, for new plants, new manufacturing sites we have brought in a lot more people. So we have fleshed it wherever is necessary but at the same time we look at the opportunities where we can cut out some cost and that is the DNA of our Company, that is how we think and we will continue to do so in the coming years as well.

Amnish Aggarwal: Finally, just one question on our subsidiaries, we have the subsidiaries in the Middle East, particularly a strategic force where last year our margins had gone close to double-digits. Now you have indicated that the subsidiaries have done well, particularly on the international one where top-line and bottom-line has been in high double-digits, so can you throw some more light on what sort of scale we have achieved, what is the margin and profitability now over there and where are we heading?

Varun Berry: So it is just about 7% of our total revenues, so while the numbers are looking good, the fact is that we still are a very small business and we have got a long way to go. So we are evaluating all opportunities to see how we can take that 7% to 15% in the next three years and there is now a very capable team which is working on all these initiatives when we are seeing tremendous tailwinds on that business. While the Middle East economy is slowing down a bit our business is not because we are again in a mode of gaining share and hopefully we will be able to continue with that momentum.

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

Tejas Shah: Sir, sorry I logged in a bit late, but while answering a question you said that there is some 5% price inflation which you are envisaging this year, so does it mean we are taking 5% price hike this year or is it just a promotion cut that we are envisaging?

Varun Berry: No, there are two sides of the same coin, so whether it is a promotion cut or it is a price increase, so it will be a promotion cut as far as the price packs are concerned, the Rs.5 and Rs.10 pack and it will be a price increase in some of the larger packs whichever we identify to be the packs where we have the ability to take the pricing. So it will be a mix of both.

Tejas Shah: So sir in that context how do you see volume growth elasticity playing out in current demand environment?

Varun Berry: So that is what I was answering to the last person that I was speaking to, basically my experience says that the volume and the price and the mix, all three of these add up to a certain growth number which is the revenue growth number. So while last year because of what we gave to the consumers we saw our volume growth and revenue growth to be equal for full year, this year probably it is going to be a mix of all three, so we are going to see a volume growth plus a mix change plus a price increase which will add up to the number that we will aim to grow our revenues by.

Tejas Shah: And sir are these pricing initiatives industry wide or we are taking the lead in this?

Varun Berry: See we are the market leaders, you have got to remember that, we have to signal it to the industry and then there are some players who follow. So that is how it works, so that is what we are going to do, but there are certain categories where others have taken lead where we will follow and that also is happening as we speak because everyone is feeling the pressure on the commodity price increase.

Tejas Shah: And sir lastly on the pricing action that we are planning to take. Is this accommodating current raw material pressure or there is some buffer also just in case if inflationary trend continues for the rest of the year?

Varun Berry: So we also have a cost efficiency program that we work on, last year we got almost Rs.120 crores out of the cost efficiency program, this year we plan to get a little more than that. So that really effectively is our buffer for any price hikes which we are not able to get.

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

Chirag Lodaya: My question is on the gross margins, so if you see our key raw material like flour, sugar, fats and oil, cashew, we are seeing high single-digit inflationary trend or double-digit inflationary trend in last three months, but at the same time we continue to maintain overall inflationary trend in our key raw material to be 5% - 5.5%, so are we anticipating these prices to come down in next six to nine months, so how we are looking at this?

Varun Berry: So a lot of these commodities are very seasonal, so depends on when the crop comes into the market, so we do a complete demand supply scenario basis which we build the commodity prices for the entire year. The exercise that we have done shows that overall inflation versus last year on the key commodities that we buy is going to be in the range of 5%.

Chirag Lodaya: And in terms of price hike, so already we have started or we are in the process of starting, and when we say this price hike, that price hike will be on overall across the product portfolio 5% - 5.5% or how it will be?

Varun Berry: So it will be overall portfolio 5% - 5.5% but it does not have to be on every SKU, so there could be a zero price hike on many SKUs and there could be 8% - 9% on a lot of other SKUs. So the process has already started, we will implement a part of it and we are in the process of implementing the rest of it as well.

Chirag Lodaya: And lastly on A&P, so our A&P as a percentage of sales has been 8.6% this year, so how do we look at this ratio, will we be maintaining this ratio as a percentage of sales or how it will be?

Varun Berry: So we will be maintaining the ratio as a percentage of sales.

Moderator: Thank you. Our next question is from the line of Prashant Kutty of Emkay Global. Please go ahead.

Prashant Kutty: My first question is with regard to the revenue growth, you just highlighted that the revenue growth number you are anticipating for the next year should be something like high single-digit growth number. Now we pretty much understand that you spoke about category growth have been decelerating for the last few months as well, but given the backdrop that you are expecting a likely rural pickup or given the measures being taken, aren't we expecting H2 to be much stronger in that sense and why the reason so maybe a high single-digit number will let's say continue in a double-digit volume growth or double-digit revenue number?

Varun Berry: You are right, I am not saying that it is going to be high single-digits forever, I was talking about the next couple of quarters and in the beginning of the call what I was saying was that the demand scenario is not going to change in the short-term, I do see another six months of subdued demand scenario. But as soon as the demand scenario starts to change, and frankly I have seen this in my past life as well, in my 30 years of experience I have seen hitting a wall and you could become desperate and say that no, no I have got to grow faster than that or you could say that okay it is going to take a little bit of time, let us do our best and let us be fit for the times when the wave comes back, I think we are taking that approach, we are saying that we are too small to change the economy and how the consumers are behaving at this point in time. So let us do our best, let us try and do our best to ignite some kind of magic with our categories but let us not get too stressed about growths till entire economy and the optimism in the economy starts to come back which I think with all the incentives and all the measures that the government has given in the budget I think will take at least six months to come back.

Prashant Kutty: And sir secondly, I am sorry if I just missed out this number if you had given it, if you could actually tell us what could be the mix lead growth in FY16 revenue number and how do you see this thing going forward especially when you have actually seen a bit of innovation happening in FY16 and more focus on the premium side, how do we see that going forward because on one side we have input cost going up, yes we are talking about some pricing inflation being taken but that apart, is it so that maybe premiumization is still maybe the strongest growth driver in terms of your pricing part of the portfolio?

Varun Berry: So mix lead growth to my mind will be approximately 2%, that is what we have seen when we do aggressive activity. So what is helping us right now is the trends in the market, while overall the demand scenario is not looking the way we would have expected it to but the consumers are preferring to consume premium products, albeit not always but even they are flirting with these premium is giving a very high growths to these premium products and we are hoping that that will continue and that will keep giving us the mix related upsides that we are looking at.

Prashant Kutty: And lastly, anything on the innovations front for the next year, anything that we are looking at?

Varun Berry: Yes, it is a chock-a-block innovation agenda that we have and you will see a lot of excitement from that standpoint. But as I was saying earlier, innovation while it brings in a lot of cheer and a lot of excitement but considering our base to be so large it does not change things dramatically, it starts to take effect in two, three years on a slow and steady basis. So it will change things but it will be a fraction of a point that we will see basis innovation. But you will see a lot of excitement from our innovation standpoint from Britannia.

Prashant Kutty: And lastly just one thing, if could just tell us what was the urban versus rural growth rate numbers for FY16?

Varun Berry: FY16, we grew rural almost 30%, the way we look at rural is where we have our hub and spoke model operating, and that was primarily distribution lead, the urban growths were single-digit.

Moderator: Thank you. Our next question is from the line of Jubil Jain of PhillipCapital. Please go ahead.

Jubil Jain: Can you give us some more flavor of the international markets, in the sense which are the brands you are targeting in the key geographies and how are the brands doing?

Varun Berry: So basically it is the same brands, we are not launching new brands, the bread and butter brands which get into international. And remember, what we are trying to do is not to create a different business but we are trying to cater to the Indian Diaspora who has probably grown in India and has grown up with our brands, so it is just a nostalgic feeling of consuming the brands that you have grown up with. So it is the same brands, if you think about it it's all the same suspect, so its Good Day, its Bourbon, all of these brands which people have grown up and are iconic and still in their minds, Marie, etc., which are getting into all of these stores and all of these countries and in from of the Indian Diaspora in the various countries, 72 - 73 countries across the world.

Jubil Jain: And sir my second question is on cost inflation, so if you look at the palm oil prices they have risen by around 15% - 20%, sugar prices by around 30% - 40%, so how will we arrive at this figure of 5%, is it because we have sizable inventory of palm oil and sugar, are there such raw materials or you expect other raw materials to compensate for such a high increase in the prices of these two specific materials?

Varun Berry: So we do cover some inventories, so we did cover part of what was required, etc. and also we have done a supply demand scenario building which gets the prices to come down during the season, each of the seasons. See, nobody can call what the market is going to be at but according to all working that we have done it is looking like a 5% overall inflation scenario, it will be higher in certain commodities and obviously there will be some upsides that we will get from lower prices and other commodities.

Jubil Jain: So sir are you building in lower prices for sugar and palm oil compared to what the prices are currently?

Varun Berry: No, so it is no one price that we build for the entire year, we build prices by quarter and yes while prices are going to be slightly higher, sugar prices will be slightly higher during the second quarter but with the season coming through they will probably come down, I am just giving you example. Our model shows that prices will come down in the third quarter and the fourth quarter because of the supply and demand situation and because of the trend lines that we see for so many years that we have been in this business. So that is how we do this and that is how we build scenarios.

Jubil Jain: Sir and last question, what will be the inventory for sugar and palm oil specifically in months?

Varun Berry: it depends, sometimes we go long, sometimes we don't, so we did go long in Q4 and we probably had three months' inventory on sugar, palm oil you cannot afford to keep that kind of inventory. So it is different for different commodities, so it is very difficult to explain that to you in this short time that we have, but it is a fairly scientific way that we work and we make sure that we do the right thing, obviously we never are able to take 100% right calls but I would say that most of the time we go okay.

Moderator: Thank you. We will take our last question from the line of Sanjay Singh of Axis Capital. Please go ahead.

Sanjay Singh: Sir I just wanted to know when you talk about the volume growth, is it biscuit volume growth or is it the standalone volume growth?

Varun Berry: This is total, the ones that we are speaking about in the presentation, these are total volumes for the Company.

Sanjay Singh: At the standalone level or at the consolidated level?

Varun Berry: Consolidated.

Sanjay Singh: And secondly, how are you seeing milk prices?

Varun Berry: The milk prices have also started to go up but from a very low base, obviously the situation in Maharashtra which is not helping it, but it is not like a big spike in prices. So slightly slowly moving up, high single-digit kind of growths in milk prices.

Sanjay Singh: So overall for FY17 we are not seeing more than a 5% inflation you are saying?

Varun Berry: That is what it seems at this point in time for our basket of commodities.

Sanjay Singh: And lastly, last two three quarters for the biscuit industry as well as when we try and see data from other companies, other sectors, other categories, things have worsened from December to March quarter, even September to December and now from December to March, do you see things getting worse possibly before monsoon improvement, etc., or do you think we can stabilize here?

Varun Berry: Worse in what way, are you talking about demand scenario?

Sanjay Singh: Demand, yes, from industry perspective, not for you.

Varun Berry: Most FMCGs have shown demand becoming lower and the growths becoming smaller over the last so many quarters, I do think that this scenario now we have gotten to a stage where we are almost at a flat demand scenario, I do not think it is going to go any worse than that, but yes it is going to be tight and we have to be ready for a situation where the demand scenario remains similar to what we have seen for the next two quarters or so.

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

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

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