"Britannia Industries Limited Q4 FY 2017 - FY 2018 Earnings Conference Call"

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Moderator: Good Day, Ladies and Gentlemen, and Welcome to the Britannia Industries Limited Q4 2017 - FY 2018 Earnings Conference Call of Britannia Industries Limited. 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Piyush Bhandari -- Investor Relations Team. Thank you and over to you, Sir!

Piyush Bhandari: Thanks, Margret. Hello everyone. This is Piyush from the Investor Relations Team in Bengaluru (Bangalore). I welcome you all to the Britannia Earnings Call to discuss the Q4 2017 - 2018 Financial Results.

Joining us today on this earnings call is our Managing Director -- Mr. Varun Berry; Chief Financial Officer -- Mr. N. Venkataraman; VP Sales -- Mr. Gunjan Shah; VP (Marketing) -- Mr. Ali Harris; GM Procurement -- Mr. Manoj Balgi; Vice President Dairy Business Mr. Venkat Shankar and VP Adjacent Bakery -- Mr. Jayant Kapre.

We will start the call with Remarks on Performance by Mr. Varun Berry, subsequently; we will open up the call for Questions.

Before I pass it on to Mr. Varun Berry, 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 products and pricing pressures, industrial relations and regulatory developments.

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

Varun Berry: Hello, Everybody. Good Afternoon. So, let me just move to the Presentation.

So if you get to page #03. It started off to be a fairly tough year for us. But in the end, I think we have gotten to a stage where we feel that the momentum is again back in the categories that we operate in. Again, a bit of repetition but something that we are really proud of is the consistency of our results and that really keeps the entire team fairly motivated.

So if you go to page #05 you will see that from 2012 - 2013 onwards our CAGR on top-line has been 11% and our CAGR as far as the profit after tax is concerned has been 31%. And that is consistently been showing up every year. So very happy with the way things are turning out.

And just there is something that which most of you might not be aware of the fact is that in March of this year we have completed 100 years as a corporate. While as a business it is longer but this company which is Britannia Industries came into being exactly 100 years back. And as we celebrate 100 years we have reached a few milestones. Total income of Rs. 10,000-plus crores, profit before tax of Rs. 1,500 crores and profit after tax of Rs. 1,000 crores. So a lot of zeros out there, so feels good about that. We are looking forward to celebrating 100 years towards August and all of you will certainly be a part of that celebration.

Now moving on to the next page, which talks about the execution parameters that we have been focusing on and truly what we have achieved is the result of the execution focus that the team has. So premiumization and innovation as we stated earlier as well is certainly one of the key parameters as far as we are concerned. And this I think has been working very well for us. But let me tell you this year, the financial year that we are in is going to be a benchmark year for us as far as innovation and premiumization is concerned because the pipeline is the widest compared to any other year that we have had in the past. So watch out for this space. Second is distribution footprint, we made great progress on distribution and frankly, this was the first year where every month we gained numeric distribution versus the previous month. So a month on month on month we kept gaining numeric distribution and also our direct distribution. So we are getting close to about 19 lakh direct outlets that we get to. Cost leadership, it is become a part of our DNA to make sure that we keep our costs low and keep finding opportunities to reduce costs and also leveraging our fixed cost we certainly want our fixed cost to grow at a low rate than our top-line.

Just going to the five that I would outlined. So delightful innovations clearly we have recently launched the Milk Bikis Good Morning which is doing quite well. We have also launched the NutriChoice Oats Chocolate & Almond which is also doing very well. In the Cracker area, we have launched 50-50 Jeera which initially is giving us very good results. And we are revamping our value - Tiger Cookie portfolio which also in the first three months of launch is looking good.

The second is on distribution. I have already spoken about direct distribution getting close to 19 lakh outlets. Rural continues to be high double-digits and it is growing month-on-month for us. This is giving us very good dividends and also fulfilling a weakness that we had as far as our portfolio was concerned, as far as our geographical spread was concerned. We certainly have rural now moving closer to urban distribution and share. We still have a distance to cover. We are still only about 75% of what our share and distribution is in urban areas. So we still have a distance to cover but at least the gap is not widening but narrowing. The weak state growths again looking good. Rajasthan continues to grow at 27%; M. P. at 15%. U. P. has tracked up from the 9-odd percent to 15%; and Gujarat continues to grow at 16%. Even in the other smaller states, we have seen very good growth. So Uttaranchal is growing at almost 30%; Haryana is growing at 17% - 18%; Bihar over 20% and so on and so forth. So the entire Hindi belt is growing at a faster pace than some of the other territories that we have and this is our weakness as far as share in distribution is concerned.

Third is about cost leadership and cost efficiency programs that we run. As I had spoken last time as well, we aimed for the sky and we did reach very close to that. So in 2017 -2018 our total cost efficiency was 4.5x what it was in 2013 - 2014 and that was about Rs. 225 crores. And this year we are looking at exceeding that and going much beyond that from a cost efficiency standpoint.

Also, our journey on technologically superior factories continues. We have got two Greenfield which have been commercialized, so we have got a second factory in Guwahati which has been commercialized and now is producing product for us. And the second one is in the SEZ which is in Mundra which has also been commercialized and again, it is a state-of-the-art factory which will give us great efficiencies and great cost savings from our supply to the international business. And as we do this, we continue to dream, and our dream really is to take Britannia to be a total foods company and I do think that dream is very-very powerful, because there is no other brand like Britannia which can own a lot of spaces within macro-snacking and within foods. So we are actively working on new categories and geographies, croissant is underway, the project is underway. We are putting up the manufacturing facility in Ranjangaon. We should be ready by October with the launch in November.

Our diary milk collection scale up is happening as we speak. We will start to put the project together for milk processing again at Ranjangaon. So that is something again which we think is a fairly large move from our side.

There are other categories within macro-snacking where we would like to either strengthen our position or to enter as a strong player. So you will see some very-very exciting cake innovations. We have got some technologies which are going to give us extremely differentiated products as far as cake is concerned. Also, towards the end of the year some very exciting Rusk products. But the trick will be to move beyond that to other macro-snacking categories. I can not divulge too much at this time till we have finalized our projects. But again, I would say that we are very excited with what we have in the pipeline.

The new geography agenda, the fourth country of operations is going to be Nepal and as we speak we are looking at other countries as well, in and around India as well as in the Middle East and Africa where we can start up our operations starting in 2020.

So that is where we are at and as we think of this dream of becoming a total foods company we do think that we need the right people in the right place to help us build these businesses. So recognizing the realities on the ground is very, -very critical and what are the realities on the ground? So there is a very interesting BCG report which I read and I just want to quote from that. So what it says is that it says large brands are losing share to small and extra-small brands, right? Scale distribution, big media, big brands is not the only differentiator or is not the only ingredient for success. Obviously, E-commerce is disrupting all of that and more. Precision marketing is very important, and it costs less. A manufacturing push is good, but it is important to have consumer advocacy rather than just relying on manufacturing push. And it also says that scale is not sufficient, you need to have consumer centricity, you need to make sure that you have consumer engagement models, you embrace complexity and you become agile as a team and as a organization, right? So, I think it is very-very important for us to recognize that, right.

We in a large company always think of how we at one shot can run a line for five days and just keep producing one product which will give us the kind of efficiencies that we want. But I think we have to really start to do a little bit of introspection and even if life is creating a little bit of complexity for us I think it is important for us to take that forward. In that view what we are trying to do is that we are trying to build strategic business units within our business. So overall business there will be strategic business units. So while we have the scale of a large company we would like to have the thinking of a start-up within these smaller businesses, right. So with that spirit what we have done is that if you go to the next slide which is slide #17, which talks about the organization structure. So what we have done is we have created these business units and as you will see on the right-hand side of this slide there are three business units that you see. So there is VP International, so international is one business unit for us. Dairy which is going to be the largest investment that we make as a business is the other business unit and we have recruited a very-very able leader to run that business for us. The gentleman's name is Venkat Shankar, he is here with me. He has worked in many FMCG companies and he has also done private equity work for almost 9 to 10 years of his life. So he brings a long experience and a very diverse experience to the table. So we are looking forward to his contributions and we have got, I think the last time I have spoken about Jayant who handles Bread, Cake, Rusk and the Britchip which is the Croissant business. Under Jayant, we have also got leaders who will run each one of these sub-categories and each one of those leaders are also highly empowered and will be running these businesses with the agility and the mindset of a smaller company.

So I think I am actually quite happy with the team that we have today, the quality of the team, the thinking as well as execution capability of the team is of a very-very different order. So very proud of that.

Now moving on to the next slide which shows where are we going to put up the facilities that we are talking about. So Ranjangaon is going to be a food park for us. It is a very large facility. It is a 150 acres facility that we are putting up which is going to have Biscuit, Cake, Rusk, Croissant, Dairy and some of the other products that we want to do, all of these in one facility. And we are looking at also putting up the backward integrated facilities in Ranjangaon which will mean, milk collection, flour mill and warehousing and raw material storage which will be technologically superior to what anyone else does or even what we do in our factories.

So now with that moving on to the results. So if you would look at the results for Q4, we have grown 13% in revenue terms and you will also see from the gradient that it is been a journey forward for the last four years which we are very proud of. As we speak about this, the inflation has been under control, so it has not been a year of high inflation, in fact, our overall inflation for the year was about 3% and that too because of few commodities while there is a deflationary trend in Flour, Sugar, and Milk. But there was an inflationary trend in RPO where the tax went up from some 7.6% odd to 48% and because of that, there was an inflationary trend as far as palm oil was concerned. There were also other facts, there was an inflationary trend, so we saw that in Butter, also we saw it in our Packaging Material. So, there were some inflationary trends and some deflationary trends which got the overall inflation to be at about 3%.

Moving on to our bottom-line performance, our bottom-line performance has been fairly good. Our accelerated cost efficiencies programs have given us a fair contribution to what we have achieved, and we have also leveraged our fixed cost. So getting to the graph which is on page number 24, you will see that we are now for the last two quarters we are at an operating profit of about 14%.

Getting to the financials, net sales growth of 13%, which is page #26 by the way. So net sales growth of 13%; profit from operations up 29%; profit before tax up 29%; and profit after tax up 25%. And we have also, we have identified some idle assets which we have had accelerated depreciation in this quarter of about Rs. 10 crores and we have built some reserves for our centenary year which is approximately Rs. 14 crores which will help us in our bonuses and other rewards that will have to be provided for the centenary year. So with that, if you were to look at the overall results and the progression which is at the bottom of the chart you will see that the progression all from profit from operations from profit before tax and profit after tax has been fairly good and just a note at the bottom, profits have been restated from 2015 - 2016 onwards to make the numbers comparable.

So that is all from me. We can now open the session for Questions-and-Answers.

Moderator: Thank you very much. We will now begin the Question-and-Answer Session. The first question is from the line of Abneesh Roy from Edelweiss. Please go ahead.

Abneesh Roy: My first question is on promotions and offers. Sir, when I see your delightful innovation in Q4, out of the four products three have an extremely high level of promotions offer 33% off - 25% free grammage. Also, your 22-bps gross margin seems slightly lower than in our expectation because Milk, Sugar, Wheat prices have been soft, there is inflation in Palm Oil, etc, so just take us through have the offers in general in the industry gone up or is it a drive largely from you?

Varun Berry: See the offers basically are from time-to-time, it is not like we run offers all the time. So I do not think there is any intensity as far as offers is concerned but you have got to remember one thing, Avnish when the commodity prices are stable people do tend to promote products a lot more than when they are not stable but I would not say that its anything beyond the ordinary.

Abneesh Roy: Sir, my second question is on the Cheese business, you have a great brand there. But based on whatever market share data has come, it seems you have lost 300 bps market share and Amul seems to have gained 700 bps volume market share. Now, will the new factory in Ranjangaon help resolve this? Because I think, that has been the key issue because of outsourcing…

Varun Berry: Yes, so if you were to look at the premium versus Amul we have a very high premium versus Amul, right. So we rate currently at between 27% to 30% premium as far as Cheese is concerned versus Amul products and that I think, will get sufficiently resolved as we start to produce our own products because right now there are many heads to share the profit. So I think that will certainly resolve the issue but that we are still two years away from that. So, we will have to look at what are the interim ways of making sure that our shares keeps moving in the right direction as far as dairy is concerned.

Abneesh Roy: Sir, one clarification there. In the slide, you have mentioned commercial production to start in Q1 and then you are saying it will take two years, why such a gap?

Varun Berry: No, we have not said commercial production. No, that is not Dairy, Abneesh. That is not dairy that we are talking about. We are talking about the first commercial production to start would be Cake, then after that followed by Biscuits, Dairy is only going to start about two years later because the lead time to get the processing facilities ready for Dairy is fairly long.

Moderator: Thank you. We will move to our next question which is from the line of Sameer Gupta from India Infoline. Please go ahead.

Percy Panthaki: Hi, sir. This is Percy Panthaki here. Sir, this quarter as the results are coming most of the FMCG companies are calling out a revival in FMCG demand. So just wanted to have your take on it, I mean in this quarter numbers also of few of the companies have been on top line higher than the estimate, so it does look like there is a sudden change in the demand environment so are you seeing anything of that sort?

Varun Berry: Well, we have seen two quarters of double-digit volume growth. It is always good to have that kind of volume growths because as I have always been saying India deserves as a country with the kind of GDP growths that we are seeing it deserves to see much better growth, so I am hoping that it continues and the revival does happen and this being an election year, hopefully, it will sort of continue for at least a year and then with a stable government things should be moving on at the same pace.

Percy Panthaki: Right. Sir. Secondly, just a couple of accounting questions I wanted to ask. One is your employee cost on a Y-o-Y basis is up quite a lot, over 30% in the standalone. So what is the reason for that? And secondly, if I look at your console minus standalone accounts, the sales have declined actually for this quarter on a Y-o-Y basis, but the margins have inched up sharply, so just wanted to understand for both these things story behind the numbers.

N. Venkataraman: So, on employee cost, we had reported the last quarter also there is an Rs. 17 crore of a provision that we have made on the pension settlement. That is a one-off that happened the last quarter. Similarly, …

Percy Panthaki: Sir, I am talking about Q4.

N. Venkataraman: Q4.

Percy Panthaki: This quarter. This quarter on a Y-o-Y basis, so Q4 this year versus Q4 last year on a standalone basis your employee cost is up quite sharply and even versus the last quarter sequentially it is up quite a lot.

Varun Berry: So basically, what we have done is because this is our centenary year as I was mentioning in my presentation as well we have built about Rs. 14 crore as celebration / bonus for our centenary year in this quarter.

N. Venkataraman: What was your second question?

Percy Panthaki: Understood, sir. So if I just do your console P&L minus your standalone P&L, the sales is down but the margins are up very sharply, so both on sales and margins what is the story behind the numbers?

N. Venkataraman: Subsidiaries are essentially the international entities and Dairy business, right? So far as international is concerned the growths have been better, right as compared to what it was in the first three quarters and the margins are always better there. In addition, we have also taken some price increase actions for the international subsidiary so that is one. The second is the focus in Dairy has been on value-added products and in which the margins are better coupled with Milk prices being lower.

Varun Berry: So basically, as far as Dairy is concerned because we prioritized on Cheese while Cheese is up double digits some of the other commoditized categories are down. So, if you were to look at overall volume or revenue that is below what it was last year. However, at the same time, the margins are up because Cheese is now growing while the other commoditized segments are not growing. So, the margins are dramatically up versus last year, so that is the reason for what you are asking.

Percy Panthaki: Understood, sir. And could you please allow me one question on Dairy, please?

Varun Berry: Okay, go ahead.

Percy Panthaki: Okay. See, sir, just wanted to understand the thought process and philosophy behind going into the backend of Dairy you are an FMCG company, you are not going to sell Pouch Milk, you are going to sell value-added products we just use milk as an input. Why do you want to get into this completely different business of procuring milk and putting up plants etc.? Why do not you concentrate on branding and let the procurement and manufacturing be done by a third-party because you are able to command serious brand premium and if you just lose out on 2 percentage - 3 percentage cost benefit by not doing your own manufacturing or procurement you will more than makeup that in your branding initiative. So just wanted to understand the thought process behind this entire initiative.

Varun Berry: The thought process is that we want this to be a fully integrated Dairy operation. So you got to remember that we consume a lot of Dairy for our biscuit business, right? So the total quantum of Dairy that we consume is about 300 to 350 crores, right. And basically, what we consume are byproducts of what we would produce if we were making Cheese in our factory, right. So Whey powder is output out of Cheese, even SMP has to be the milk balancing tool that we have in the factory. Even Ghee is something that comes out of milk processing because of the fat that you generate. So basically, it just makes the entire thing end-to-end consolidated operation. And frankly, that gives us a great amount of leverage from a pricing standpoint because if you have a co-packer, I am not saying that we are going to walk out of co-packers, right. So we will certainly still have co-packers. So if you were to look at biscuits 20 years back we used to have zero in-house production, a very little in-house production from there we went to 30%, now we have gone to 50%. So similarly, the journey here is also going to be similar. But one, it is going to be a fully integrated operation. Two, we are going to use the right technologies and make sure that it is more efficient than anyone else in the country. Three, we are going to create a portfolio of products which are certainly superior but also from a format standpoint are exciting for the Indian consumer and hence create these categories within India. So we have very ambitious plant and Dairy, as you know, is a very-very large category with very-very positive connotations as far as health is concerned. So we would certainly want to be a large player in this category.

Moderator: Thank you. The next question is from the line of Arnab Mitra from Credit Suisse. Please go ahead.

Arnab Mitra: First question was on the input cost. You said that there is about a 3% blended average increase. So just wanted to understand this reduction in Milk and Sugar which has happened which seems quite sharp, has it started fully reflecting in your consumption prices or that full reflection will happen going ahead? And in that context, do you see this 3% number actually tick up or tick down as you kind of move into FY 2019?

Varun Berry: So it is seemingly stable right now. It is actually starting to reflect. Last quarter we certainly were reflecting the deflationary trends as far as Milk and Sugar and Flour was concerned and I think, it is looking like it is going to be stable at least for the first two quarters of this year. So I see no big change as far as a commodity is concerned.

Arnav Mitra: Sure, thanks for that. And second question on the growth, while your growth has definitely ticked up in the second-half, I think the 24-month growth that you gave are still below let us say the pre-demonetization levels when you were running in the mid-20s or so. So as the low base of demon and GST that period goes away, do you see you being able to go back into those kind of two year growths? I mean what I mean to say is that it would require some kind of a pick-up from these levels or this level of demand can take it up to those levels?

Varun Berry: Well, I am hoping that we will be able to maintain our numbers. So, if you were to look at it from Q4 of last year which was a 24 month growth of 12% went up to 15% to 19%. So, we are moving towards the pre-demon numbers of 22% - 25% and hopefully even 26% and 30%. So, I am pretty hopeful that things will move in the right direction from now onwards.

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

Aditya Soman: First question is again on Dairy, you talked about SMP and whey and would these also be obviously products that you would look at in your Dairy plan?

Varun Berry: So we are looking at a drier which will be able to dry whey as well as SMP. So, it is a common facility for both and as you know that you need to have some Milk balancing in your Dairy facility so that Milk balancing will happen through SMP and we do consume SMP in our Biscuit operations, so depending on what is our production cost and what is the market cost, we will certainly be making sure that we produce enough to be able to use it in our biscuit production.

Aditya Soman: Understand. So just a follow-up on that. So this will basically be for balancing the entire product but you will have a primary sort of value-added business on the dairy?

Varun Berry: Yes. Predominantly, the dryer facility will be for Whey powder but whatever is the balancing number for Milk will be used for SMP.

Aditya Soman: I understand. Secondly, on your accounting, in terms of we have seen the investment go up quite meaningfully on the balance sheet. Can you explain what that is?

N. Venkataraman: Yes, CAPEX for the currently year has been Rs. 375 crores so that is the investment that has happened in the current year.

Varun Berry: And it is basically, bulk of that is in manufacturing facilities and technologically superior and new technology for India kind of lines that we brought in for Biscuits as well as for Cakes.

Aditya Soman: I understand. I also meant the investment there is investments in your current investment line that has also shot-up quite a lot?

N. Venkataraman: So current investments going up has to do with the treasury investments. The overall treasury investment has moved up almost about Rs. 750 crore versus the last year.

Aditya Soman: Okay. And sir, this will largely be in liquid fund and stuff like that?

N. Venkataraman: Right, correct.

Moderator: Thank you. The next question is from the line of Latika Chopra from JP Morgan. Please go ahead.

Latika Chopra: Hi, everyone. This is Latika here. The first question was on margins, you mentioned that FY 2019 is going to be quite a heavy year on new product launches. Would these products incrementally be gross margin accretive? And also, assuming that the brand investments will scale-up to support these, would you still expect the overall margins to improve in a considerable manner considering we have seen almost close to 100 basis point kind of improvement in FY 2018 in your operating margins?

Varun Berry: So Latika, first of all, we do not give an outlook. But see, we have got a very clear protocol, so we have got a stage-gate process. We have also got an innovation process which is very clearly spelt out. So if there is a extend product which is an extension of a brand we clearly have a protocol on how much investment can go into it? What kind of margins do we generate out of it? If it is a new to the market product, what kind of investment needs to go? What kind of margins should it be there, and all of these have to be accretive to our current products, right? So innovation, there is nothing which is going to be dilutive to our current products. So with that, we do think that we will be able to have enough funds to develop and support these products.

Latika Chopra: All right. And the second question was on product mix. Could you share how does your Biscuit sales stack up now in terms of premium popular and mass segments? And how would you expect this mix to change over the next three years five years? And does this imply that there is an opportunity both at realization improvement and margin improvement going forward, just for the Biscuits category?

Varun Berry: Yes, so actually if you look at the contribution from the value part of the portfolio, it is only dropped, and it is dropped quite a bit. What has been really growing for us is the premium part of the portfolio and hopefully that trend will continue.

Latika Chopra: Any numbers you could share, Varun on what is the share of premium today?

Ali Harris: So almost 85% of our business is from non-value products which are in the core and the premium segment. And as Varun said, that is the segment that has been growing faster than the value segment for us. And that is how we are premiumizing our portfolio and that is the trend that we expect to continue.

Moderator: Thank you. The next question is from the line of Kunal Jagda from KR Choksey Shares & Securities.

Kunal Jagda: Sir, you just mentioned that you are starting an operation in Nepal, so just want to know that would be through JV or acquisition or you would be doing independently?

Varun Berry: No, we are going ahead independently.

Kunal Jagda: And what was the CAPEX for Ranjangaon?

Varun Berry: The total CAPEX for Ranjangaon and that is three years CAPEX will be Rs. 1,000 crores. In the first year will be around Rs. 350 crores and then we will scale up towards Rs. 1,000 crores and that is something which is our commitment to the Maharashtra Government basis which we have got the requisite incentive.

Kunal Jagda: And what will be the utilization level in this facility?

Varun Berry: Our utilization levels are always in the 90s. So, we will put it in such a way that our utilization gets very quickly ramps-up to over 90%.

Kunal Jagda: And what would be the asset turns sir, for this plant?

Varun Berry: Asset turns?

N. Venkataraman: What is asset turns?

Kunal Jagda: What would be asset turn for Ranjangaon? Asset turnover?

N. Venkataraman: About 4 times, it will be 4x roughly.

Moderator: Thank you. The next question is from the line of Mike Sell from Alquity. Please go ahead.

Mike Sell: Please could you update us with the level of inter-corporate deposits at the end of the year, please?

N. Venkataraman: Yes, so ICD to the group companies I hope you are referring. For the group company, ICD as of March 2018 was Rs. 350 crores versus Rs. 450 crores the last year March.

Mike Sell: And do you have plans to reduce these to zero in the coming years?

N. Venkataraman: It has been coming down, over the last couple of years it has come down. We have no such plan at the moment but then it has been progressively coming down.

Moderator: Thank you. The next question is from the line of Deepankar Sati from Magadh Capital. Please go ahead.

Deepankar Sati: Sir, I want to know about Croissant business. So what kind of growth you have seen there and what we can expect from that business?

Varun Berry: So that is my favorite project by the way. I think, there is a lot of excitement in that project because of two or three things. One is the product itself is delightful, it is on the go, it is aimed at the young people, it is any time of the day. Again, I feel like I am sort of repeating myself, but I think it is a very-very exciting product which is also reasonably filling compared to other macro snack products. And we have seen that anything that is center-filled in India is a very-very product whether it is a center-filled Biscuit or Cake or whatever our experiences have been that center-filled which brings in solid with liquid is very exciting for the Indian palate. So the second thing about that project is that it is not a low CAPEX project that we will see a lot of people coming in with investments to put it in there because it is a fairly complex line. It is not an easy product to make. So I think once we get in there we will be able to dominate that space. While there is an Italian company called Bauli which has already launched and is doing reasonably well. But with our scale, with our distribution, with the kind of facilities we have, I think we will be able to dominate that space. So I am looking, really looking forward to that and I hope that my team will make me proud on that because I generally hope that we will be able to finish up that capacity very quickly and will be putting up more lines for that product as we go forward.

Moderator: Thank you. The next question is from the line of Nanadan Varpak from Wealth Managers. Please go ahead.

Nanadan Varpak: So my very small question is about Dairy segments. So, what would be our distribution reach in the Dairy segment?

Varun Berry: Current distribution reach is a fraction of what it is for Biscuits so Venkat, how many outlets do we get to?

Venkat Shankar: Total about 1 lakh, 1 lakh.

Varun Berry: So we get to about 100,000 outlets compared to Biscuits which is 5 million outlets, so a long way to go. But we also do not want to spread ourselves thin because we are a very premium player today. But tomorrow with our facilities, with low unit price points, with the right kind of products we would like this distribution to go up dramatically.

Moderator: Thank you. The next question is from the line of Prasad Deshmukh from Bank Of America. Please go ahead.

Prasad Deshmukh: Two questions. Firstly, on Nepal – as to would it be possible to put a number to the size of this opportunity, what products you would be pushing at least in the first year and margin profile?

Varun Berry: So let me just close out on the margin. So currently we are exporting from India and we make reasonable margins, right. So if you were to look at the margins with the local facility they will be accretive to what our margins in India are, right? So that is the first point. Second, from a facility standpoint, the investment in the facility is not very large. We are looking at some Rs. 55 crores of investment from a capital standpoint and with that we hope to generate Rs. 60 crores to Rs. 70 crores for starters and scale that up to almost Rs. 100 crores - Rs. 150 crores in the next three years to four years. The kind of products are going to be exactly what we do in India, so it is going to be Good Day, it is going to be all of our regular products.

Prasad Deshmukh: Okay. Second question on your vendor consolidation. I think post GST you had said that one of the drivers of your efficiency would be vendor consolidation. So has that already started reflecting in numbers or it is yet to happen?

N. Venkataraman: No, we have not done any vendor consolidation. We have done the working, we have found that transportation happens to be a very key component of supplies by the vendor and with about 70 factories across the country, it is important for us to have vendors in the local area. Having said that, there are commodities and products where consolidation has happened.

Moderator: Thank you. The next question is from the line of Hemant Agarwal from Devansh Traders & Analyst. Please go ahead.

Hemant Agarwal: Sir, I have two specific queries regarding the results that you have posted this quarter. Sir, if I look into your results for the quarter your purchases of traded goods have shot up quite significantly. So, from a number of Rs. 301 crores last quarter it has shot -up to some Rs. 18 odd crores. So, is that attributable to some change in an operational model that we are envisaging or what is this attributable to?

N. Venkataraman: Yes, so essentially there has been some change in the method of buying, right? In some places, we use to supply the basic raw material and convert it into the finished product. In some places post-GST some of the product types such as bread it was better to do the other way which is to buy the finished product. Ask him to buy the material and then supply it, that is one. The second is some of the factories also went through this transformation so it does not really matter. I think both lines have to be read together.

Hemant Agarwal: Okay. So the question was your gross margin because of that if you add up all the material consumption which will be your CMC rate, cost of material consumed, purchased, stock and change in inventory that could have led to a decline in your gross margin percentage. So if we add up all these other percentages with GTO, it will total out to somewhere around 36.8% versus 37.7% of your last quarter that is what my concern was.

N. Venkataraman: Which is what Varun explained saying that there was an increase in the rate of RPO, the customs duty on Palm Oil, went up from about 7.5% mid-quarter September 2017 to about 48% in March. So the RPO rates went up significantly that impacted this 0.7% that you are talking about largely.

Hemant Agarwal: That I guess, sir, should have been opted by the softening of the oil rate and flattish trend of Maida rate as well I guess?

N. Venkataraman: No, Maida rates start coming down from April because the crop season is end-March, beginning April. Maida rates if anything will be highest in quarter four.

Hemant Agarwal: Sir, one more query if you could allow me. Sir, you have also reported a 50%-odd percentage growth in the other income. So if I add up the operating revenues and other income for Britannia it will total to sum Rs. 71 odd crores for the quarter versus Rs. 45 odd crores that we reported in the last quarter so what is that attributable to, is this a recognition of fiscal incentives in the commercialization of your new facilities that you have actually entered into.

N. Venkataraman: Yes, you are right. This is recognition of fiscal incentive in the state where they have announced the fiscal incentive under the GST regime, which is Karnataka….

Hemant Agarwal: So this is Karnataka.

N. Venkataraman: Karnataka, yes. From July we had stopped recognizing fiscal incentives because under the GST regime it was not announced in most of the states. So Karnataka announced in the month of March and therefore, for the period from July to March it is been recognized. But if you look at the year as a whole, you will still see that it is lower.

Hemant Agarwal: Yes, correct, correct, agreed. I was talking about the core Q-o-Q.

N. Venkataraman: Yes, so states like Bihar, Orissa, etc., they have still not announced. And therefore, a year as a whole you would not see that going up and so far, as other income is concerned it is to do with the treasury investments and the volume of the treasury investments primarily.

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

Amnish Aggarwal: A couple of questions from my side. We have been targeting cost efficiency program year-after-year like last year we had a target of Rs. 250 crores and we achieved Rs. 225 crores. Now this year, again, we are targeting higher amounts from the cost efficiency program. So can you throw some light on that, what could be the quantum of cost efficiency programs in the current year and are there any additional heads under which the cost efficiency programs which will now cover?

Varun Berry: No, it continues to be the same heads. The quantum that we are looking at is little more realistic. So we are looking at Rs. 240 crores and we are fairly confident that we will get to that number. We have started on the projects a few months back. In fact, what we do is we start on the projects midway into the previous year and then we work towards accomplishing those in the next year. So that is what we did in the previous financial year and hopefully, we will be able to get to our number this year.

Amnish Aggarwal: Okay. Sir, my second question is again on the input cost inflation. That if I break up your raw material cost and the 4Q numbers which you have given for deflation in three commodities and increase in RPO then actually as per my calculation there should have been a deflation of 2% to 3% rather than inflation. So are there other commodities than the four mentioned in your Presentation where the inflation has been disproportionately high? And given the fact that Sugar prices are at a multi-year low even Flour is flattish so we in any way going to have some deflation as we move down towards the rest of the FY 2019 now?

Varun Berry: So the cardboard boxes, Butter I told you, Palm Oil, Cashew Nuts you know those are the areas which we have seen inflation in and when I looked at these numbers I said that if this is what the deflationary trend is then it does not look like a 3% inflation. But when you rack up the numbers you see that there has been overall inflation of 3% which is primarily driven by RPO but contributed in small quantum by the other areas that I spoke about and as we go forward, hopefully the prices should be flattish, but the thing is that we are again now cycling the lower numbers of last year. So there will be a slight amount of inflation as we go forward but it is going to be very-very controllable.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal & Broacha. Please go ahead

Kunal Bhatia: Sir, I just had one question in terms of you mentioned the CAPEX in the current year was about Rs. 375 crores, so just wanted to know how much was it for the Ranjangaon plant. And secondly, also wanted to know post the investment in the Ranjangaon plant of Rs. 1,000 crores what kind of outsource production are we looking at that point in time vis-à-vis and also if you could give what is the current status?

Varun Berry: So the outsourced productions, you got to remember that if we are growing volumes in double-digits we require about 100,000 tonnes of extra capacity every year. So the overall outsourced number is not going to go down dramatically, the own factories would get to about 60% and outsourced will get to about 40%. The Ranjangaon investment in last year was about Rs. 170 crores out of the Rs. 375 crores. So out of Rs. 375 crores, Rs. 170 crores was in Ranjangaon.

Moderator: Thank you. We will take one last question from the line of Het Choksey from KR Choksey Shares & Securities. Please go ahead.

Het Choksey: My question is to Varun and the entire team. So Varun basically, I have been a big fan of this company. But more importantly, your vision here for this company has been fantastic. Can you please throw some light on the breakfast segment which we are targeting to grow in future because I really believe that to become the complete food company, you need to get into the breakfast segment big time to display your potential? And my second question is from the HoReCa segment for Cheese. We have seen big competition in the hospitality, restaurant, and catering for Cheese from Go and Amul especially Go, which has a fair amount of SKUs in this space. I want to understand from this company as to how bullish are we and how aggressive are we to put ourselves because I think the B2B segment is showing distinct signs of improvement with the per capita consumption going up. So I would like to have a little sight on that and a little follow-up question maybe but little later on but, yes, thanks for that, yes.

Varun Berry: Okay. So breakfast, yes, I do agree with you, I think the breakfast space in India is very large but it is a very-very difficult space to get into because everyone wants to have hot breakfast rather than have cold breakfast. So no one has really been able to come up with a product which meets the requirements of a housewife from a hot breakfast standpoint because housewives want to add value and also want to create their own recipes as far as breakfast is concerned. But I am not saying that we are not looking at it. We certainly will look at it and I think it is going to be whoever cracks this will get a big bonanza out of this. What we are doing is we are at this point in time putting this as priority three because it is not that we are not working on it, we are working on existing categories, we are looking at what are the existing breakfast categories that we can enter and what are the right to succeed that we have in those categories. But I think, the big move forward is going to be on creating certain breakfast categories which fulfill the requirements of an Indian housewife. But from our current portfolio standpoint, we are looking at breakfast Biscuits. We are looking at some other breakfast snacking categories. I think Chipita is also a potential breakfast product because it certainly can be a breakfast-on-the-go and we are also looking at other categories within the current breakfast space which we are not currently in to see what is our right to succeed in that segment. Your second question was on Cheese. In the infrastructure that we have today, it is very difficult for us to compete with a manufacturer of Cheese as far as the B2B business is concerned. You are absolutely right. It is the fast food companies which are creating the Cheese market in India. They are getting people to try out Cheese and like it and stay with it. So hence, it makes sense to have a B2B component to our Cheese business. But as I told you, we have many heads to feed. We have got contract packers with fairly high fixed cost, etc., so it is very difficult for us to compete in that segment and if we do compete the margins are very low. So we used to do it and we have almost come out of it because it was not giving us the requisite margins. But as we start to do our own business at that stage we will look at it very, very seriously as we get our backend into place then we will start to look at it very seriously.

Het Choksey: All right. I think that is a fantastic suggestion. And I would really be happy if we can implement it because we are seeing the distinct amount of revival in this segment. And considering the backend integration which we are doing, I do not think it will be difficult because if you look at Manchar and Ranjangaon both these belts are big-big milk-producing belts so….

Varun Berry: Absolutely. That is why we chose Ranjangaon as our facility.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to Mr. Piyush Bhandari for closing comments.

Piyush Bhandari: Thanks, everyone, for spending time with us on the call. We look forward to interacting with you again. Thank you.

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