"Britannia Industries Limited Q2 FY 2019 Earnings Conference Call"

November 13, 2018

MANAGEMENT: **MR. VARUN BERRY -- MANAGING DIRECTOR,**
MR. N. VENKATARAMAN -- CHIEF FINANCIAL OFFICER,
MR. GUNJAN SHAH -- VICE PRESIDENT (SALES),
MR. ALI HARRIS -- VICE PRESIDENT (MARKETING),
MR. VINAY SINGH KUSHWAHA -- VICE PRESIDENT (SUPPLY CHAIN),
MR. MANOJ BALGI -- VICE PRESIDENT (PROCUREMENT),
MR. SUDHIR NEMA -- VICE PRESIDENT (R&D AND QUALITY),
MR. VENKAT SHANKAR -- VICE PRESIDENT (DAIRY BUSINESS),
MR. JAYANT KAPRE -- VICE PRESIDENT (ADJACENT BAKERY),
MR. PIYUSH BHANDARI -- INVESTOR RELATIONS,

Moderator: Ladies and Gentlemen, Good Day and Welcome to the Britannia Industries Limited Q2 FY 2019 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. Piyush Bhandari. Thank you and over to you, Sir!

Piyush Bhandari: Thanks, Inba. Hello, everyone. This is Piyush from Investor Relations team. I welcome you all to this Britannia Earnings Call to discuss the Q2 FY 2019 Results.

Joining us today on this earnings call is our Managing Director -- Mr. Varun Berry; CFO -- Mr. N. Venkataraman; VP (Sales) -- Mr. Gunjan Shah; VP (Marketing) -- Mr. Ali Harris; VP Supply Chain Mr. Vinay Singh Kushwaha; VP (Procurement) -- Mr. Manoj Balgi; VP (R&D and Quality) -- Mr. Sudhir Nema; VP (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: Good Morning, everybody. I will move straight away to Page #03. Page #03, basically, there is a banner which actually is very close to our heart. It is all about consistency and over the years, the greatest source of motivation for this team is our consistent performance which is pretty evident on the next page, which is Page #04. So, we have had a CAGR on the top-line, of 11%, and 31% CAGR on the bottom-line.

Moving on to Page #05. The strategic planks as we see it are obviously heightened innovation. We have spoken about the number of new launches that we are doing this year. We have got new categories that we are entering into. We had the 100th year celebration this year which we have got very good feedback because it was not just a one-dimensional celebration. We went out and we reached out to everyone including consumers and old employees and all of you. I think, it went off really well. Fourth is distribution momentum, which continues and a very strong distribution momentum, which continues. Number #05 is our international business and Dairy. And there, I think we have made good progress in this quarter. And the last one is a cost efficiency program, which drives profitable growth for us. And obviously, the underlying factor is the team which is in this room and obviously, the entire Britannia family which is today, fairly nimble, obviously homegrown, stable and our slogan, which is "Britannia for Britannians" continues. So, there is growth for all our people within the organization.

Moving on to the next slide which gives the innovation that we have done this year. So, we have had a fair amount of innovation in Biscuits. We have relaunched products, we have launched some very interesting products in the premium segment and we have also gone down to the popular segment and launched, for example, the Good Day Cashew Almond product which is an Rs. 5 product which is giving us very good results. We have relaunched some of our brands 50-50 which was relaunched about 2 months back is showing great promise. And similarly, Bourbon is showing great promise. And we have got more innovation in the pipeline and very-very exciting innovation as we get into the second-half.

On the next page is the new categories. So, we have entered the Wafers category, and we had a certain capacity and we thought that it would be able to take that capacity across the country. But what we have seen is that the response was so good that we have restricted our distribution only to the South. And even within the South, we have restricted it predominantly to 2 states and we are running out of capacity. So, we are in the process of now making sure that we have enough capacity to take this to an all India launch. Our Croissant - the project is underway. And we have got this, as we speak, we are doing our production runs, trial runs and it is looking very good. So, we are I think, about a month - a month and a half from launching this product which I think is a very-very exciting product for the Indian consumer.

Other macro-snacking opportunities which we are also tapping on are Cakes. We have got technology which has been brought in as we speak, again, we are commercializing those technologies and we are commercializing those lines to make sure that we get to a launch earlier on in the fourth quarter.

Next page is all about the massive multimedia campaign that we did this quarter for the 100 years and I will request Ali to jump in and just explain quickly on what we did.

Ali Harris: So, this 100 years campaign was a comprehensive campaign that we did across mediums. Of course, there was a large television campaign. There was a digital campaign, we did a massive outdoor campaign. We also have done a very extensive visual identity change, which is across stores. We have put up very-very impactful visibility for Britannia which is going to stay for some time. Also, the consumer campaign, of course, you look at our packs and we have communicated the 100 years milestone on our packaging. There was a large internal campaign that we did where we touched every single stakeholder related to Britannia and we have really thanked various stakeholders and partners for their contribution for the last 100 years. And we have shared our plans for the next years and there is a lot of excitement across for what we have in store.

Varun Berry: So, we did spend more money on our A&SP this quarter and I think, it was well worth it because what we have seen is that it has just created a very-very positive momentum for us as we go forward.

The next page is about distribution, again, great momentum. Our direct reach is almost at 2 million outlets and I will ask Gunjan to comment on our distribution agenda.

Gunjan Shah: Hi. This chart has something that is very familiar to you. The left quadrant talks about the direct reach as you can see it is almost at 3x from over the last about a few years. And as Varun said, we are very close to hopefully next quarter, we should be talking about 2 million plus. That has been also clubbed with a significant increase in the kind of reach that we have tried to penetrate into rural. I think, it is something that we are extremely well, right? What you see out here 16,500 stock points. We should be looking at now crossing 17,000 which was very-very far away a few years back. Also, rural continues to outpace the urban growth and that is also something that we know has a lot more head space for us to grow faster. The bottom section there you see is also something that we have shown to you, it has been a focus area for us getting the Hindi belt growing. The 4 large states in the Hindi belt are growing extremely well. And clubbed along while you see individual state growths across Rajasthan, M. P., U. P., and Gujarat clubbed along the Hindi states continue to grow what we want is faster than the overall growth of the company, at about 1.5x.

Varun Berry: Moving on to the next page which is the international business. We have seen a double-digit growth in the international business despite a slowdown in the Middle East. A lot of countries have, in fact, got shut down. But despite that, we saw a double-digit growth and this is on the back of all the entries that we made into the new countries as well as our Mundra factory, which has just started up and that is giving us a cost advantage. It is giving us the efficiencies for us to expand our international footprint. And we are also almost ready and we are in Q4, looking at commercializing our Nepal plant.

On the Dairy front, we have also had some interesting launches. I request Venkat Shankar to comment on that.

Venkat Shankar: Hi, everyone. So, this quarter, we have launched our Milkshakes in the Tetra pack format. This is a product which was only available in the HDPE bottle format as well. But with Tetra, we are achieving a few significantly incremental things. Number one, it is launched at a very competitive price point of 25 MRP. The second is that this is a national launch and it is being taken across the country. It is early days, we have launched 4 flavors: Chocolate, Strawberry, Vanilla and Mango. It is about 15 days into the market. But initial indication from our teams is that this has been received very positively from the market and we will update shortly on our launch objective have been made.

The second product that we are launching this particular quarter is our Dairy whitener in a new format which is a jar format. Now, this is a category which is largely present in refill pouches only. And our belief is that the jar is a long felt need of the consumer and therefore, we feel this has built a good strong competition for Dairy whitener.

Varun Berry: Okay. Moving on to the next page which is about cost-efficiency programs. We have indexed this to the year 2013 - 2014 and you have seen how we are doubling up and getting fresh efficiency to the entire Britannia system. So, last year we did about Rs. 225 crores of savings this year we are looking at a similar kind of number. And this number, you got to remember, is we do not recycle anything from last year. The clock starts on the 1st of April and closes on the 31st of March. So, these are all fresh efficiencies that we bring to the table.

Moving on, Ranjangaon, which is our flagship factory as we speak, we have commercialized that and I will let Vinay comment on that.

Vinay Singh Kushwaha: Hi, everybody. So, Ranjangaon is a project that we started physical work sometime in January this year. While the photograph here shows Biscuit being rolled out, the Marie line of Biscuits, which started commercial production. We also started the Cake production on one of our Cake plants which were set up in Ranjangaon which we have started in July. We have got an additional 2 lines that are at various stages of a startup, so Ranjangaon is looking good, it is going to be a very large play for us. On its full scale, it will have roughly 8% to 10% of national capacity in one center. So, it is onstream and it is firing well for us.

Varun Berry: And also, the Croissant plant is at Ranjangaon, which is going to start in the next 1 month or so.

Okay, going on to Page #13, which states our strategy which is to be a "Global Total Foods Company". I am just restating it just to emphasize where we are going.

Now from there on, moving on to the Q2 results. So, if you would look at the top-line growth, there is been a very strong top-line and volume growth on the back of a very positive momentum in the market. We are hoping that this momentum continues. But as you see, in Q2 of every year, we have a little bit up in terms of the top-line. But this year, the up that we have had is larger than what we have seen in the previous 2 years or 3 years. So, I think we are moving in the right direction. And even if you look at the 24 months growth number it has again moved into the 20’s. So, while it is a positive momentum for this quarter on a 1 year basis but even on a 2 years basis, it is now 21% growth. So, that we track very-very closely, and we are happy that we are seeing this positive momentum on the top-line.

Now on the commodity front. We did go long on our commodities which has really helped us. So, we went long on flour, we went long on sugar, and to an extent, we went long on RPO and milk as well. And this year, it is proved to be very-very helpful for us. As a result of that, we have been able to curtail our overall inflation to under 4%.

Moving on to the next page. Also, so if you were to look at our bottom-line performance, there are 2 underlying factors to it besides the one that I already spoke about which is our commodities and going long on commodities in a year like this. Accelerated cost efficiency programs, and obviously, leveraging fixed costs have been the 2 big pillars that we have been following.

In this quarter, you will see the expenses going up and you know Venkat can explain to you the other reason. But one of the reasons is the A&SP because of the 100 years celebration has been fairly high. The other reason is that there is a business model change that we made in bread which is showing some expenses there. And I am sure there will be questions which Venkat will answer at the end of the presentation.

Now, if you look at our profitability chart which is on Page #18, you will see that again, a very consistent chart with profitability going up quarter-on-quarter and from a 14% consolidated operating profit in the last quarter and 13.6% operating profit in Q2 of last year. We moved to 14.6% in this quarter. And if you were to look at the growth on a 12 months basis, it is 21%, on a 24 months basis it is 35% on the profitability front.

Moving on to Page #20. This gives the consolidated numbers, so net sales are up 13%; profit from operations up 21%; and profit before tax and profit after tax 17% and 16%. And the numbers which are the percentages are given at the bottom. So, profit from operations has gone up to 14.6%; PBT has gone up from 15.6% to 16.1%, and PAT has gone up from 10.2% to 10.6%.

That is all for me. So, we can now open the house for questions.

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 Aditya Soman of Goldman Sachs. Please go ahead.

Aditya Soman: First question is on premiumization. Did you see any sort of significant momentum in premiumization during the quarter? And the reason I ask this is because you have double-digit volumes on net sales of 13%. So, is the gap between the net sales and the volume growth premiumization or is it just price increase?

Varun Berry: Well, yes. There is a better mix because for us the value segment is not growing and it is the premium segment which is showing the bigger growth. So, that is where it is because there is hardly been any price increase during this time.

Aditya Soman: Okay. So, you said the majority of that gap is and in terms of price increases, do you expect to take any pricing action in the rest of the year? Or do you think that the commodities currently are in a place where you should be able to manage?

Varun Berry: So, we will have to take pricing actions because what you see for our inflation is not the story outside of our company because what we have seen is we have seen a fairly steep inflation on wheat. We have seen inflation on sugar as well. So, there is inflation which we will have to cater to. So, we plan to do a price increase as we move forward towards the next year. Our covers are halfway through Q4. So, as our cover exhaust we will have to make sure that we set ourselves for a price increase.

Aditya Soman: Thanks, that is very clear. And lastly, in terms of other expenses during the quarter, we saw a 20% jump in other expenses in the standalone numbers. Is this largely a function of higher advertising and freight expenses or is there anything else?

Varun Berry: So, there are 2 factors to this and I will let Venkat comment on that.

N. Venkataraman: You are right there is an increase in the other expenses line. So, 80% of the other expenses are variable expenses. So, it includes things like conversion charges, distribution charges, labor cost for contract labor costs and advertising, right? So, 80% of it is variable to the volumes that happened. So, the one explanation is the volume therefore, the second part is that we had some onetime 100 years activation that happened during the quarter, right. The third is, we had changed the business model so far as Bread is concerned. So, last year the same quarter we were buying finished products from vendors. Now, during this quarter, we have moved from buying finished Bread from vendors and supplying them material and paying them conversion. So, there is has been a shift between the lines of material consumption and other expenses. So, if you remove these transactions that I am talking about, the increase will be in line with the increase in the volumes..

Aditya Soman: Understand. So, if I exclude the...

N. Venkataraman: this is in line with the last quarters as well.

Aditya Soman: Okay. So, if I exclude the activation and change in the Bread business model then you are saying it should be in line with volume growth.

Varun Berry: Yes, absolutely.

Moderator: Thank you. Our next question is from the line of Latika Chopra from J.P. Morgan. Please go ahead,

Latika Chopra: My first question was on demand, what are you really seeing on the ground? You have been delivering double-digit volume growth. We are heading into second-half where the base catches up to some extent. And we are seeing a very encouraging pace of new product launches. Should we expect a high single-digit, low double-digit volume momentum to sustain? Or would price hikes which you talked about we could expect some moderation here?

Varun Berry: So, price hikes usually give a moderation on the volumes. But we are not looking at price hikes which are completely out of whack. The price hikes will be in the range of 3% to 3.5% when they are fully out in the market. So, the thing is that right now what we are seeing is a reasonable momentum in the market. And when the momentum comes, it lasts for some time and next year, as you know, is the election year. So, usually, election-year momentum on consumable goods products continues. So, we are hoping that this momentum should continue. And obviously, we are continuing on our innovation journey on our new product launch journey. So, that should give us that extra edge in the industry as well.

Latika Chopra: All right. And just prodding a bit more on new launches, I understand that last time you mentioned these accounts are roughly 5% of turnover. What kind of contribution one could expect say 2 years' time for these new segments that you are looking at including the Chipita JV?

Varun Berry: So, Latika, these days you cannot tell what is going happen next month and you are asking me what is next year it is very difficult to answer. But yes, hopefully, this will become, all these, the new segments that we are talking about we are hoping they will become a reasonable base for us as we move forward.

Latika Chopra: And just last small one, 1.9 million direct reach that you have today what is your ambition here? where you can take this to?

Varun Berry: Gunjan, would you like to comment?

Gunjan Shah: So, Latika, as you can see from the graph, we have been adding in the range of about 2 lakh - 2.5 lakh outlets every year and I think, the universe is extremely large. Obviously, it will go indirectly to an even larger number of outlets. And you have seen the success and the gains that we have seen from direct reach to many of these outlets. So, I guess the pace will continue in the range of about 2 lakhs per year.

Varun Berry: So, Latika, there are 2 factors to this. One is, obviously, the expansion in our direct reach and I had said this last time as well that till the time we reach about 2.5 million outlets directly, I think we do not even have to think because we can see that there is at least another 5 lakh outlets which we can add in the areas that we operate, outlets which are not covered directly by us. The second agenda for us is also going to be as we get into innovations, as we get into new categories, the second agenda is now going to be how do we create a pipeline which is going to transport all these products to the retail outlets. So, what we did 5 years back by splitting our routes and looking at creating bandwidths within our distribution system, we are now evaluating that once again to make sure that all the new products are well executed and are in the market as we would want them to be because what we would not want is to have these products but not have the kind of execution that we need for these products in the marketplace. So, again, it is a dual agenda, while we increase our direct distribution continue to do so we will also make sure that we increase our depth as we move forward.

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

Percy Panthaki: Hi, sir. This is Percy Panthaki. Sir, my first question is on Dairy. This Dairy whitener right now which you have was launched, would you be able to give some idea on the size of the market and how it is split between B2B and B2C and what your strategy is in terms so focusing within the 2 segments, B2B and B2C?

Venkat Shankar: Yes, the current estimates put the consumer part of the Dairy Whitener at about Rs. 3,000 crores predominantly dominated by a few consolidated brands. The institutional market is at least about half its size but they are not very reliable estimates on that part. So, that is as far as the market sizing of this particular

Percy Panthaki: Sir, when you say institutional, are you counting HoReCa and stuff in that?

Venkat Shankar: Yes, exactly.

Percy Panthaki: Okay. And you will focus more on the retail market or on the HoReCa one as well?

Venkat Shankar: We are almost exclusively focused on the retail side of this business which is the consumer part of it, which will be all the packs up to about 1 kg, starting from 10 grams to 1 kg in different pack formats.

Percy Panthaki: Right, sir. Sir, my next question is on Biscuits. I just wanted to get a sense if you have done any internal exercise on the contribution of premiumization to your overall sales growth on a slightly longer term let us say last 3 to 5 years on what internally you classify as premium. And what is the contribution of that now versus, let us say, a few years back? Any kind of sort of flavor or data you can share on this?

Varun Berry: So, broadly, I can tell you broadly the fact is that our contribution from our value portfolio has gone down considerably and so has the industry. So, overall industry, the value portfolio, it has become a much smaller part of what it used to be. So, just to quote some numbers, while I have been in this company during these last 6 years, I remember it used to be north of 50% the contribution of the value portfolio and now it is south of 40%. So…

Percy Panthaki: Sir, what is the definition of a value portfolio?

Varun Berry: The value portfolio is anything which is less than Rs. 100 a kilo.

Percy Panthaki: I see. And this 50% to 40% change is for Britannia or for the industry overall?

Varun Berry: For the industry. We are much lower; our contribution is much lower in the value portfolio

Percy Panthaki: Right, sir. And finally, just wanted to understand your competitive strength versus the 2 or 3 other large players I mean, everyone is doing more or less the same things, that is launching new products, innovating, trying to premiumize, reaching out to more number of stores. Everyone is doing these 4 or 5 main things. So, where do you sort of have a competitive edge among all these drivers? Where do you think you sort of are better than the competition?

Varun Berry: So, the first competitive edge is our brands. I think we have got the strongest brand in the category. Second competitive edge is a distribution, distribution if you look at it, we have widened the gap between us and the third player and we have narrowed the gap between us and the first player in distribution, right? So, we are not the leaders as far as distribution is concerned. We might be the leaders by far from a share standpoint and we are leaders even in the premium segment, etc. But from a volume standpoint and from a distribution standpoint, we are not leaders. So, we have narrowed the gap considerably between us and the leader from a distribution standpoint and also widened it with the number 3 player. So, that gives us a competitive advantage. Our distribution numbers have been moving faster than any other company in this segment. And I would hazard to say even in the industry, we have really done some spectacular work from a distribution standpoint and the third is obviously the new R&D center and the entire R&D team which has been delivering very-very spectacular innovation projects for us. And last but not least, the fact that our supply chain and our finance team together have a very-very tight spine in terms of our costs, right. The cost-efficiency programs that we run, the supply chain efficiencies that we track, the kind of costs that we take out of the system year-over-year I think those are the competitive advantages which are easy to talk about but very difficult to replicate.

Moderator: Thank you. Our next question is from the line of Arnav Mitra of Credit Suisse. Please go ahead,

Arnav Mitra: First question was on the Cream Wafers market, if you could just help us with any kind of category size estimation here. Is it a very fragmented market in terms of market share? And is it a growing market in the last few years?

Varun Berry: So, yes. So, let me just ask Jayant who handles the Adjacency business to talk about this.

Jayant Kapre: This is Jayant here. So, the market is approximately Rs. 400 crores to Rs. 500 crores. It is been growing at a CAGR of 20% and this is a market which is quite fragmented in terms of smaller local players and some private labels in the modern trade. And is why your right to succeed is quite high here and the initial response to the market also reflects that.

Varun Berry: Just to add to that, I think this is a completely unexploited market as far as India is concerned. If you were to see outside of India, there are companies, like Loacker and Manner, these are 2 European companies which only do Wafers, they do not do anything else. They do not do Biscuits, they do not do Cakes, they do not do chocolates, nothing, only Wafers, they do and they have businesses ranging from €250 million to almost €0.5 billion only doing Wafers. I think it is an unexploited market. If it is looked at in the right way this could create a much larger niche than what it currently is in the country.

Arnav Mitra: I am sure. So, in that sense, you would say that one of the reasons why though the Indians are pretty familiar with the format. It possibly has not grown because nobody has like seriously invested in it. Would that be how you will be looking at it?

Varun Berry: Absolutely, right.

Arnav Mitra: Sure. The second question is on the P&L overall. So, in the last couple of quarters, your EBITDA has grown pretty strongly. But the PAT growth has not much below EBITDA I think largely because of other income and a few other factors. So, do you think those factors continue in the second-half where PAT grows much below EBITDA, including the increased depreciation and things like that?

Varun Berry: Venkat, would you like to comment on that?

N. Venkataraman: Yes. So, other income last year had an exceptional credit. We had an interest on pension deposit of about Rs. 14 crores that came in effect in the last year last year quarter 2, right? So, if you take that out the growth has been definitely there and if we look at the overall percentage, even at the PBT level, for instance, it is moved from a 10.3% last year quarter 2 to about 10.8% this quarter.

Moderator: Thank you. We will take our next question is from the line of Ravi Naredi of Naredi Investments. Please go ahead.

Ravi Naredi: Varun, in your guidance company able to reach new heights again and again in the last 6 years. Only one concern Varun, loans amount reaches Rs. 1,123 crore, this amount diverting to other companies of other Bombay dyeing group. If you keep this amount in Bank FD, our market cap will rise more than debt. So, what is your view on this?

Varun Berry: Venkat, do you want to comment on this?

N. Venkataraman: Yes, its investment in NCDs totally. So, the returns so this, so the total company treasury in excess of about, Rs. 2,200 crore consolidated, right. What we have done is moved a few of them from mutual funds to better-yielding investments. So, we have currently a return of roughly about 9% on average.

Varun Berry: But we take your point, we take your point.

Ravi Naredi: Main, what I our main, we are earning from Biscuits and other products. We are not here for earning by investing in fixed deposit in group companies, so this is the main concern of investor.

And if you do by changing the loans and advances to Bank FD your market cap our company market cap will rise by 10%. You have nothing to do, but you have to discipline all this system, that is the important thing.

N Venkataraman: Sure, we take that point.

Ravi Naredi: And sir, what is the right CAPEX plan after this Ranjangaon?

Varun Berry: So, we are talking about strong volume growth. As the volumes to grow requirement for new lines, etc., keeps going up. So, as we speak, we are now looking at probably a new plant, maybe 2 plants in the East. We have already just commissioned the Guwahati factory. But the east, we are looking at 2 plants. We are looking at probably 1 more plant in the south and maybe 2 years down the line, 1 more plant in the north as well. So, there will be more capacity required and also you got to remember that Ranjangaon is a very-very large facility while we have got 5 lines coming up in the next 2 months or 3 months, the fact is that the fully blown plan is to have at least 14 lines there and also our Dairy facility in Ranjangaon. So, that is the capital requirement which the company has and just to put that in perspective, as we require more funds to invest in our own business obviously, the requirement of putting in for higher deposits will also go down.

Moderator: Thank you. Our next question is from the line of Nandan Vartak of Wealth Managers. Please go ahead,

Nandan Vartak: So, my question is on subsidiary performance. So, we have witnessed a good gross profit margin shift from the range of 40% odd to 55% now. So, what are the drivers there?

Varun Berry: So, basically, the Dairy business, as well as the international business both, are doing well for us. So, we are seeing good yes, as well as Dairy is concerned, we are seeing good growth in the strategic portfolio. There is some kind of shift that is happening from the high margin value-added portfolio is growing and the low margin commoditized portfolio is not growing and that is by design, so that is one. Second is in the international markets, where our gross margins are very good that also has seen a double-digit growth this quarter.

Nandan Vartak: Okay. And if you could please give guidance about our top-line growth here? The subsidiary top-line growth has been flattish and that is what I would like to understand.

Varun Berry: So, that is what I was talking about. Basically, the commoditized Dairy part of the business has not been growing and hence, that is the reason that basically overall Dairy growth has been a little tepid. But within that, the strategic part which is the value-added part of the portfolio has been growing very rapidly.

Nandan Vartak: Okay. So, can we expect that this would be in line with the overall consolidated growth going ahead?

Varun Berry: We do not give a future forecast, so would not be able to comment on that. But obviously, the endeavor is that each part of our business should grow aggressively.

Nandan Vartak: Okay. And the international business, which has been reporting double-digit growth now so which new geographies have contributed to this growth?

Varun Berry: So, the Middle East has been doing well for us and there are some new geographies that we went there in Africa, etc., which are giving us some good results as well. But the Middle East, which has been fairly flat for some time, we have seen some growths because of share gains that we have got in that territory.

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

Tejas Shah: Sir, our thrust on innovation pipeline has been here for a while now. So, I just wanted to know what would be that revenue contribution from innovations which are more than 12 months old now?

Varun Berry: It is about 5%. So, what we do is we do not track 12 months, we track 24 months. So, after a product is launched we consider it innovation for 24 months and we look at what it is generating for us from the top-line perspective as well as from the bottom-line perspective. And that number is about 5%.

Tejas Shah: And sir, is it fair to say that the incremental growth there will be a larger share from this pipeline?

Varun Berry: At this point in time, yes, we are getting good momentum from there and we are hoping that that will continue.

Tejas Shah: Sure. And sir, on rural growth momentum if you can share some observations, if you have any?

Varun Berry: So, rural growth momentum for us has been very-very good. And in fact, even in the time where there was a slowdown in the rural market, we have continued to see very high growth and that has only accelerated. And the reason for that, it is very difficult for us to bifurcate what is the market growing at and what are we going at because our agenda is to go as deep as we can. And as you know that our urban shares have always been higher than our rural shares. So, the opportunity in rural always has been very high for us. And we have tried to make sure that we go deeper into rural and we get our rural share to be equal to urban share. We still have not got there. But the growths are very-very good at this point in time.

Tejas Shah: Sure. And sir, lastly, one follow-up on other income. What would be the weighted average yield on our treasury book for this year at least?

N Venkataraman: For the quarter, it is looking upward of 9%.

Tejas Shah: This is for the whole book or the ICDs that we have given?

N Venkataraman: Whole book. I am talking about the whole book.

Tejas Shah: And then ICD yield is how much?

N Venkataraman: ICD is about 10%.

Moderator: Thank you. Our next question is from the line of Het Choksey of KR Choksey. Please go ahead,

Het Choksey: I have just one question, actually. See I think, we have been growing exceptionally well in the premium category and trying to avoid the crowded space. How is the company positioning itself as far as the shelf life and shelf space is concerned? I understand that we are having a lot of competitors who are also innovating and also fighting for the same shelf space in the urban and rural areas. So, I would like to understand a bit on with every category that you develop, how is it that you command this kind of a shelf space and the entire economics around that?

Varun Berry: So, the shelf space it is a factor of your execution in the marketplace, your relationship with the customers and I think, the fact that we are a 100 years old company with a lot of focus on brand-building, a lot of focus on distribution which has been rejuvenated by the sales team in the last 4 years - 5 years, I think that is what gives us the ability to dominate shares in the markets that we are strong. But having said that, there are a lot of markets that we are not strong in and that is what we are focusing on. So, if you think about the Hindi belt, I keep getting feedback from friends and family that we are not strong and we are weak in those markets and that is why we are focusing so much on those markets to make sure that we are, so if we were to look at the south and north it is chalk n cheese while the south share will be between 50% and 60%, the north share will be in the teens or even less, right. So, the objective really is to make sure that we identify these weak markets and keep doing what we are doing in the strong markets and keep getting more shelf space and keep getting our products in, etc. And that is what we dream, that is what we think of and that is what we do in the marketplace.

Het Choksey: Understand, I think fantastic. So, just one follow-up on that, are you seeing that same positive response as far as the smaller SKUs are concerned? Because I understand that you launched more categories and except those categories, you launch smaller SKUs for the wider visibility in the rural area. So, is this the same response in the rural area maybe in a smaller shop where you are getting more commanding more presence graduation with competitors?

Varun Berry: So, if you are talking about low unit price tax, we have seen tremendous response to our Good Day offerings. Good Day Butter which we had launched about 5 years back has been a tremendous driver of sales for us. And we recently launched Good Day Kaju Badam in the Rs. 5 segment about what, 2 months back and that is also starting to pick up very-very well. So, yes, that does gives us at the same kind of muscle that we get in the urban markets.

Moderator: Thank you. Our next question is from the line of Dipan Mehta from Elixir Equities. Please go ahead,

Dipan Mehta: Sir, over the last few years you have been increasing your own production. So, at this point of time, what is the production which is outsourced? And what are these own production in terms of revenue contribution?

N Venkataraman: In terms of volume 45% is outsourced currently, and 45% is done in-house. In value terms, it should roughly be a little over 60% in-house.

Dipan Mehta: 60% in-house? And that you expect over the next 4 years - 5 years would be almost 70% - 80%. What is your target scenario as far as in-house manufacturing is concerned?

N Venkataraman: In terms of volumes 65% in-house is what we are looking at. So, in value terms, it should be about 70%.

Dipan Mehta: Okay. And second question, sir, is regarding the contribution of new product launch. If you can give us some data point like 3 years old products or 2 years old products - 1 year old products or the contributions of the total sales volumes? I just wanted some data point if you are disclosing as to the revenue contribution from new products maybe say 1 year ago launched products or 2 years ago launched products or even 3 years ago launched products.

Varun Berry: So, what does that mean?

Dipan Mehta: Means supposing products which you have launched 12 months ago - 24 months ago, what is the contribution of those new products in total revenue of the company?

Varun Berry: Yes. So, as I was saying, we track products which have been launched in the last 24 months, taken as innovation products and they deliver about 5% of the total revenue of the company and that is what our benchmark is and that is what we work towards.

Moderator: Thank you. Our next question is from the line of Latika Chopra of J.P. Morgan. Please go ahead,

Latika Chopra: Just two small follow-ups. One was, what was the growth in advertising spends in the first-half that you have seen? And the second was, if you could mention the CAPEX outlay for FY 2019 and FY 2020.

Varun Berry: Yes, Venkat, what is the number for...

N. Venkataraman: It is an increase of roughly 20% over the previous year.

Latika Chopra: Okay. And for the full year, you would expect this to moderate because this will include 100th years celebration expenses, I believe in Q2?

Varun Berry: That is true. Yes. So, this quarter was a very heavy quarter and rightfully so it is a momentous occasion for us. So, yes, it will moderate.

Latika Chopra: Right. And the CAPEX?

Varun Berry: The CAPEX number for this year is Rs. 500 odd crore and in the first-half it is about Rs. 200 crore and in the second-half, it will be an under Rs. 300 crores.

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

Kunal Bhatia: I just wanted to know what is the capacity build-up you are doing in case of Croissant?

Varun Berry: In case of for Croissants. So, the capacity that we have is about 200 million pieces per year. So, that is the kind of the capacity that we have currently and we thought that, that capacity would be good for us for 3 years. But we will have to see and if we see the product flying off the shelves then we will have to hasten to make sure that we put up more capacity. So, this is one of the biggest lines that they make. But it is also one of the biggest countries in the world, so you will have to wait and see.

Kunal Bhatia: Okay. And sir, in case of Ranjangaon, as you were mentioning with the 14 lines, what would be the capacity?

Varun Berry: So, overall capacity, these are going to be very different lines. But it would probably be about 1,30,000 tonnes per annum, so about let us say 11,000 tonnes per month.

Kunal Bhatia: Okay. And so this would be approximately 10% of our overall capacity, if I am not wrong?

Varun Berry: Yes, maybe about 11% - 12% of our overall capacity.

Kunal Bhatia: Okay. Sir, and this should be done by FY 2020?

Varun Berry: It will be done in the next 2 years.

Kunal Bhatia: Next 2 years?

Varun Berry: Yes.

Kunal Bhatia: Okay. So, we should reach 1,30,000 tonnes by the next 2 years.

Varun Berry: Yes.

Moderator: Thank you. Our next question is from the line of Kaustubh Pawaskar of Sharekhan Limited. Please go ahead,

Kaustubh Pawaskar: Sir, my question is on efficiencies. This year, we are targeting about Rs. 225 crores of cost savings. So, what would be the key drivers? And with the commercialization of the Ranjangaon facility that will further add to the efficiencies or it is included in whatever targets you have been set?

Varun Berry: Yes, it has been included in the targets that we have. So, our efficiency programs remain broadly the same. So, it is all about energy saving. It is all about reduction of kilometers traveled by our Biscuit. So, those programs remain the same. But I will let Venkat comment on this and talk about what programs we have for this year.

N. Venkataraman: So, as Varun said, the things will remain largely the same. There will be efficiencies in a factory which is in terms of reducing power and fuel and labor. It is in terms of the reduction in distance. It is also fiscal incentives in some of the new facilities that are coming up. It is also a reduction in material usage to focus on defectives, etc. So, largely, this will continue to be the themes for the next couple of years and the 225 that we are talking about is going to come out of all these initiatives.

Kaustubh Pawaskar: Okay. And so what is the cost inflation, raw material cost inflation you are expecting for the second-half?

Varun Berry: Well, it probably be about 4%, not second-half internally this quarter we have covered. But in the fourth quarter, it will probably be 4% - 4.5%.

Kaustubh Pawaskar: Okay. So, the 3% and 3.5% price hike, what you are planning to take will cover up whatever the inflation you are expecting?

Varun Berry: Yes, a little less than the inflation so that cost efficiency programs, etc. also come.

Moderator: Thank you. Our next question is from the line of Rahul Ranade of Goldman Sachs Asset Management. Please go ahead,

Rahul Ranade: Just two quick questions. So, firstly, can you give us a sense of the Biscuit industry overall in terms of the geographic split? I mean, we shared market share for us in the south versus north but industry as a whole what would be the split be?

Varun Berry: It is fairly even, I would say. So, while we dominate the south, the north is also in terms of I am talking in terms of volumes, the north is more of a value space. So, a lot more value products are consumed there but in terms of volumes, it will be evenly split between north and south.

Rahul Ranade: Okay. And this value portfolio stat that we give, it was more than 50% say 5 years - 6 years ago, which has gone down less than 40% now. I am sure that this is inflation adjusted, right? For the value Biscuit versus premium?

Varun Berry: Yes, like-to-like.

Moderator: Thank you. Our next question is from the line of Binoy Jariwala from Sunidhi Securities. Please go ahead,

Binoy Jariwala: I had a quick question on the Hindi belt. If you could give us some color as to what is our distribution penetration in the Hindi belt which are we the largest player and how far can we expand, how deeper can we go with Hindi belt?

Varun Berry: So, if you look at the gap between us and Parle, But if you look at all India, all India is about let us say 6 lakh outlets, right? So, if we get to let us say 5 million approximately they get to 5 million plus 6. And the delta between us and them in the north is about 8 lakh outlets or 9 lakh outlets, right? So, we dominate all other territories. Most of the gap between us and the market leader in terms of distribution 150% of that sits in the Hindi belt, right? So, that is the kind of gap and hence, that is the kind of focus that we provide to those weak markets.

Binoy Jariwala: Right. And Hindi belt as a contribution to the overall sales, how much will that be? And how would our market share in the Hindi belt look like vis-à-vis the pan India market share?

Varun Berry: I told you it is about in the teens. Our market share in the Hindi belt is in the teens.

Binoy Jariwala: Okay. And the contribution to our overall sales?

Varun Berry: 30% - 35%.

Gunjan Shah: Category.

Varun Berry: To the category.

Moderator: Thank you. Our next question is from the line of Devansh Jain of Devansh Traders & Analysts. Please go ahead,

Devansh Jain: Sir, two pointed questions. Since you have said that you had a 4% odd inflation which you are able to totally offset with the cost-saving measures that you do, so if that is the impact that the cost savings measures have on the company's P&L. Could you just give a sense of what is the absolute quantum that we have been able to realize out of that Rs. 225 crores of targeted cost savings that we had for the year?

Varun Berry: I did not understand the question. But let me tell you, first of all, all of that 4% is not because of cost savings. That 4%, we have been able to neutralize because of the long position that we took in our commodities this year, right? It was a very good call that was made and that was the reason for us to neutralize the inflation. Yet, the cost-saving measure also neutralizes it to the extent of Rs. 225 crores. Now, what is the question? Out of that Rs. 225 crores, what do you want to know?

Devansh Jain: I want to know what is that we have been able to realize since we are halfway into the year. So, we would have realized some part of that Rs. 225 crores that are targeted for the year. So, what is that number looking like for us in terms of realizations?

Varun Berry: So, usually in the first-half, it is lower than what is in the second-half. So, usually, it is about 35 - 65 because the program starts at the beginning of the calendar year and then we gain momentum month-on-month. So, as we go through the year, it accelerates pretty rapidly.

Devansh Jain: Okay. And just to put them perspective, so since we did a lot of hedging as far as our commodities are concerned and then costing also had its benefit that we sort of realized. So, as far as the pricing or grammage actions are concerned, we have not done anything significant is what we are saying, right?

Varun Berry: No, we have not done. A very little price increase has happened this year. So, all of that, we will have to work on, we have worked on and we will have to look at what is necessary and we will plan that in the fourth quarter of this year.

Devansh Jain: Okay. And sir, just one more question if you could allow me. In the Q4 last year, your purchased traded goods were abnormally high. It was some Rs. 618 crores if I quote the number as far as standalone financials are concerned. So, as was said when I had asked the question at the Q4 analyst call, it was said that there was some change in the business model as far as the Breads category is concerned. Now when we have purchased traded goods as the number goes up it means that you are purchasing the final FG from the vendor. But have we shifted that strategy to a different I mean model of operation in Q2 this year. I mean Q2 this year because the number again has come down to some Rs. 300 crores that we are used to seeing as far as the purchase of trade goods is concerned for Britannia?

Varun Berry: Yes. So, that is true. So, in the last 3 years, we moved from supplying FG to the vendor doing the contract packing buying FG and now we have moved back to supplying FGs.

Devansh Jain: Okay. Between Q4 and Q2 of this year, is it?

Varun Berry: Yes.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to Mr. Piyush Bhandari for closing comments. Over to you, Sir!

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

Moderator: Thank you, members, of the management. 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.