



“Britannia Industries Limited Q2 FY20 Earnings
Conference Call”

November 15, 2019



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Moderator: Ladies and gentlemen, good day. And welcome to the Britannia Industries Limited Q2 FY20 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. Yash Vardhan Bagri. Thank you and over to you, sir.

Yash Vardhan Bagri: Thanks, Karuna. Hello, everyone. This is Yash from the Investor Relations team. I welcome you all to the Britannia Earnings Call to discuss the Quarter Two 2019-2020 Financial Results.

Joining us today in the Earnings Call is our Managing Director – Mr. Varun Berry; and CFO – Mr. N. Venkataraman. We will start the call with remarks on performance by Mr. Varun Berry. Subsequently, we will open up the call for questions.

Before we get started with the presentation, I would like to draw your attention to the Safe Harbor statement included in the presentation. So just before we begin, I would like to read out the Safe Harbor statement for all of you. This presentation may contain statements which reflect management's current views and estimates and could be construed as forward-looking statements. The future involves risks and uncertainties that could cause actual results to differ materially from the current views being expressed. Potential risks and uncertainties include factors such as general economic conditions, commodities and currency fluctuations, competitive products and pricing pressures, industrial relations and regulatory development.

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

Varun Berry: Good afternoon. So let me start with the presentation. So if you get to Page #3, that shows the progress of the top-line. So our consolidated NSV for the quarter has been Rs. 3,000 crores for the first time, that's a benchmark that we have never crossed in the past, so Rs. 3,023 crores. Not very happy with the growth, but as you know, the environment is such that the top-line growths are subdued, so a 6% growth for the quarter. If you look at the 24-month growth, it's 19%, which has also been coming down. So if you were to look at the peak, it was at 25% in the last six quarters, and we are at 19% as of now.

Moving on to the next page, which is about our market share:

So we continue to strengthen our market leadership. The gap between us and the next competitor has widened even further. And this has happened in very, very tough market environment, which all of you are aware of. So I am not going to drain this chart, which is Chart #5. We are aware of what the situation is, we are also aware of the steps that the government has taken. And we are hopeful that with these steps, the economy should revive as we go forward. Although, at this point in time, in the last quarter we didn't see much of the recovery happening. So it will take time, I would say. But probably in the next 9 to 12 months we should start to see the recoveries.



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Moving on to the next slide, which shows what we are doing in these challenging circumstances to drive profitable growth. So it's the same model that you have been seeing, building brand equity, innovation, relaunches, new category entries, distribution strengthening, technology and back-end efficiencies, as well as sustainability.

Getting on to the next slide, which shows the investments in the brands. So there have been a lot of brands which have been on air. So we have launched Treat Burst, which is the democratized version of our Chocolush. It is a chocolate filled biscuit which is doing really well for us. We have also been advertising Treat Stars, which is a completely new format of biscuit, that's doing extremely well for us as well. We have relaunched our Cream Cracker, it's a much thinner, much better bite, great product, which is also doing well. And what we have done is we have made an attempt to take Milk Bikis to the Rest of India. It's predominantly a South-based brand with most of the business coming out of Tamil Nadu. So what we have tried to do is to we have tried to broad-base it and make it a pan-India brand, and we are seeing some very good results with that as well. There have been some digital activations behind NutriChoice, Milk Bikis, and we have had some promotions on our big brands, which is Good Day and Marie Gold.

Moving on to the second platform, which is innovation and relaunches. In this quarter, we had a limited edition launch of cream biscuits, which was Treat Tiramisu and Red Velvet. These are limited-edition launches, which are going to be in and out. And we are seeing some very good traction with these products. I don't think any company has done an in and out in biscuits. It used to be quite common in my previous company. So we used to do in-and-out beverages, we used to do in-and-out snacks as well. So we are trying to do that in the biscuit industry. And I think this could be a game changing move, because it creates the excitement, at the same time, doesn't create the complexity that launches create. So this is going to be for a period of time and then we are going to withdraw it.

The second one is, we have test-launched Little Hearts Strawberry in the West, which again has had a very good response. We have relaunched, and as I have already said, we have relaunched our NutriChoice Cream Cracker, we have relaunched Good Day, we have also relaunched Thin Arrowroot, which predominantly sells in the East. And all of these have shown the right traction as far as we are concerned.

Number three is about new categories. You have seen that we have launched wafers a few quarters ago. We have started to see traction on wafers. We have become the number #3 brand in wafers in the country in a very short period of time. We have also got a double-digit market share in this category. Salty snacks, we have launched in the South, and we are seeing traction from Q1 to Q2. As we speak, we have also launched it in the West and we have had a fairly good response to our products in the market, although it's too short a time to really declare victory. But we have now got two lines, one in Bangalore in our Bidadi plant; and the second one in Ranjangaon in our Pune plant. And both of these plants are producing salty snacks, which are now in the South market as well as entering the West market as well.



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The other new category launch has been our milkshakes, where we have got a 20%-plus market share in a very short time from launch. We are the number #2 brand in less than a year of launch. Croissants, where we had started in the first quarter of this year, but we have had some back-end issues, so we resolved those. Today we have got perfectly good products, but we have just made sure that we are absolutely careful about the products as well as the response from the consumers. So what we have done is a limited territory launch. So we have launched it West Bengal and Tamil Nadu, as well as in modern trade. And this is going to be a test market, which is going to give us indications of any changes, any modifications that we might require as we go forward. As of now, it seems to be moving in the right direction. But we will run this through for three to four months before we take a decision of taking it pan-India.

The number four platform is about our distribution drive. We have increased our direct reach by about 30,000 outlets. We are sustaining our rural distribution as well, where from March to September, we have gone up by almost 2,000 rural distributors. We are also sustaining our numeric distribution increase, month-on-month we have been looking at higher numeric distribution throughout the country. Our market share gains in the Hindi belt have also continued, quarter-after-quarter, month-after-month we have seen this. However, there has been a slowdown in our growth in the Hindi belt, which as we all know, is connected to the economic slowdown as well as the rural slowdown in the country.

Number five, our high-tech food park in Ranjangaon, which is now up and running. We have got 12 lines operating there with a total capacity of 140,000 tonnes per annum. We have got eight biscuit lines, two cake lines, one croissant line and one salty snack line. A lot of these lines are imported. Some of these lines are the first time this kind of technology for us as well. So we are definitely looking at a much improved product as well as much better efficiencies in our plant in Ranjangaon.

Moving on to the next page, which is sustainability drive on plastic. We did have an awareness drive amongst employees, and we ended up collecting 2 metric tonnes of plastic waste across six locations. We have also had a digital campaign to inspire every person to make a start in the waste segregation journey. So we are firmly on to making sure that we eliminate plastic from our products. We are looking at a five year time frame on how we can eliminate as well as look at recycling all the plastic that we put in the environment. And we are making sure that this becomes an essential part of not just the team here but the entire Britannia family across all locations.

On the next page, it's about Adjacent Bakery. Bread focus continues to be on profitability and we are making good progress there. Dairy, what we have been doing over the last two years has been reducing the commoditized part of dairy. So while we have seen a single-digit growth, the fact is that the value-added products are growing while there is obviously a decline in our commoditized products, like ghee, etc.



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International, Middle East and Africa continues to be a very challenging environment. Americas have been growing in double-digits. Nepal operations have started and are doing extremely well. And we have seen very steep market share gains in Nepal as a result of that.

On the cost front, Page #number #16. We have seen that the overall commodity inflation is moderate at 3%. And in the flour there is a huge inflation of 14%; and similarly on milk there is an inflation of 37%, which is balanced by inflation of only 1% on sugar and a deflation of 13% on palm oil. So this is under check. And also, our journey on reducing wastages, leveraging fixed cost and driving cost efficiencies is moving ahead with full steam. But I must say that as a result of the slowdown that we have seen in the last one year or so, there have been some inefficiencies which have crept into the business. And all of us are aware of these and working towards making sure that we remove them, and also continue with our cost efficiency programs very, very aggressively as we move forward.

Moving on to Page #18. Our profitability has improved, so our operating profit is at an all-time high of Rs. 447 crores in Q2, which on a 24-month growth basis is at 30%. So happy with that number, it is the highest ever at 14.8%.

Moving on to the financials, Page #20. We have seen a 6% increase in net sales to Rs. 3,023 crores, a 9% increase in PBT to Rs. 498 crores, and a 33% increase in PAT. Thank you to the Government for reducing corporate taxes, which has given us a 33% growth. And if you look at the numbers below that, you will see that profit from operations has again moved up to highest ever at 14.8%. Profit before tax has moved up to 16.5%. And profit after tax, because of the corporate tax reduction, has moved up very sharply from 9.4% to 13.4%. So happy with our financial performance, a lot to do as far as the top-line is concerned.

So that is where we are at. We are happy to open the call for questions.

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

Abneesh Roy: Varun, my first question is on Treat Croissant. So here are a few sub-questions. One is, versus Bauli in Bengal, how is the distribution? Second is, are you advertising in these two markets of Tamil Nadu and Bengal? Third is, Rs. 15 is still a very high price point for most Indian consumers, so would you need to look at Rs. 5 and Rs. 10 at some stage? So these would be the key questions on croissant.

Varun Berry: Okay. So your first question, Abneesh, was on distribution. I don't think we have reached the level of Bauli at this point in time, but we are moving towards that. And I would say in a month, we would have crossed them comprehensively. Second is about advertising in these two states. Yes, we are looking at advertising in both Tamil Nadu as well as West Bengal. And that's the reason for us choosing these test markets as well, because both of these markets have secluded



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media. And hence, we are choosing these markets as the two markets where we are doing it. So that's the second.

Your third question was about the price. Now, price wise I think we don't want to really get into that trap of Rs. 5 at this stage, because I think if you were to look at the product, it's also important that the product should be substantial and it should be enough to fill the consumers' hunger, as well as again particularly it has to be really good so that it also gives them the pleasure of eating.

And also from research, it seems that Rs. 15 is going to be all right with the consumers. While, yes, around price point of Rs. 10 would make the proposition even more attractive. But I think a combination of quantity as well as price is important. So for the time being, we are going to stick with Rs. 15. And we are going to make sure that we drive that hard and make this into a substantial business as we go forward.

Abneesh Roy:

Two follow-ups here, Varun. One is, how is that small company like Bauli able to have such a good distribution? Even in Mumbai, I find very good distribution. Is it that focused small companies in specific niche categories are getting good sales, is that some change? Second is, you mentioned wheat flour procurement, so what was the specific issue here?

Varun Berry:

So basically, we needed a specific kind of flour, the flour required had to have higher gluten, it had to have certain other criteria that was required for that particular product. So what we have done was we had gone out and we imported flour from Australia. But unfortunately, what we found was that if you kept the flour for more than a month, then the properties of that flour changed. And you are not able to get the same product from a flour which was imported and which was more than a month old. And when you are importing flour, it always would be more than a month old. So then we decided that it's important that we source locally. So we then partnered with some flour mills to get the same properties with Indian wheat. And we were able to crack that. And I think we are at a stage now where all those are behind us. We have got the right flour, we have got the right product, and in every product you have that kind of issue. We have got it. And now just to make sure that everything works, we are making sure that we do a detailed test market with very, very clear consumer feedback so that there's nothing which can go wrong in the future.

Now coming to Bauli. Bauli is a one-product company. And I would say they have done a good job as far as distribution is concerned. But at what cost is the question, because with a one-product company, the kind of money that you pay, not just for your production facilities but also for your distribution, etc., becomes prohibitive. So we have to watch how they sustain this. But you are right, I do think that there is some truth about the fact that smaller companies who are focused on one product, obviously, that is their bread and butter. And they have been doing well. And I do think that we have to also be extremely nimble as we go forward and make sure that we have all the requisite qualities of a startup, of a small company so that we can also have a



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certain kind of way of working, which gets us to settle these small products and new products as we go forward.

Abneesh Roy: Right. My second and last question is on China...

Moderator: Excuse me, this is the operator. Mr. Roy, may we request you please rejoin the queue?

Abneesh Roy: It was only one question. Now I am coming to the second question. So in Time Pass, Varun, my specific question is, when do you launch in rest of India? And second is, out of the three formats, which ones are doing well? And in South India, in terms of percentage distribution again, what kind of outlets are you able to reach for this kind of mix?

Varun Berry: So Abneesh, you are asking too many questions. Okay. Anyway, I will answer. The fact is we have actually already launched in the West as we speak, I think just three days back we have launched it in the West. Out of the three products, the wavy seems to have an edge, but the others are catching up, the sticks as well as the fills are catching up because those were launched later, wavy was the first one to be launched, so they are catching up. My favorite is the fills, but obviously, the consumers have to like it as well, my liking it doesn't help us. So we are confident that all three flavors, all three formats have a certain difference to what there is in the market. And hopefully all three of them will do well as we go forward.

Abneesh Roy: And what percentage of outlets they are reaching South India?

Varun Berry: So I think we are reaching about 100,000 outlets in the South.

Moderator: Thank you. The next question is from the line of Sameer Gupta from India Infoline. Please go ahead.

Percy Panthaki: This is Percy Panthaki here. Sir, my question is on the slide of cost inflation that you put in your PPT. This quarter your inflation was modest because probably you had some low-cost covers. Going ahead, can you give some guidance on what will be the overall cost inflation? And how do you plan to tackle it? Do you plan to pass it on to the consumer or do some extra cost initiatives or do you plan to take a hit on your margins?

Varun Berry: No, sir. I think the inflation continues to be modest and we continue to have covers. So I don't think that this 3% could go to 4%, 4.5%. And if there is a need for price increases, we will take that. So selectively, we have been taking a few price increases. And we will continue to do so selectively as we go forward, if the inflation is more than what we can get out of our cost efficiency programs as well as all the other initiatives.

Percy Panthaki: Right. Sir secondly, if I do a consol minus standalone at the sales level, the derived subsidiaries are showing a decline in sales, can you explain the reason for that?



Varun Berry: See, it's a part of our dairy portfolio. So our fresh dairy as well as our milkshakes sit in Britannia. So in the portfolio which sits in BDPL, which is our subsidiary, obviously, the commoditized businesses are going downwards in terms of sales and that is showing a reduction. And also it's the Middle East sourcing, which was being done. So what we had thought of was to move our plant from Oman to Dubai and we were preparing for that. And in the interim, the Middle East was sourcing its products from our plant in Mundra. But then we went back to the government in Oman, and they gave us a very good package. So we are now staying in Oman. But during that period where there was no decision on which way we are going, there was a sourcing and that was a period of this quarter. So there was sourcing from India. So I think that were the two reasons.

Percy Panthaki: Right. Sir and lastly, in this difficult economic climate can you just give some idea how the consumer is behaving in terms of your sales? How is the mix moving? Is it moving towards more premium, more low price points within the mass market brands? I mean, any kind of flavor that you can give on this is helpful.

Varun Berry: Well, the mix is moving towards premium which is truly a conundrum to me. So what the sales are showing is that the premium products are doing better than the value products. So what consumers seem to be doing is cutting back. But whenever they are consuming our products or any other products in the market, they seem to be leaning towards the premium products.

Moderator: Thank you. We move to the next question from the line of Devansh Jain from Devansh Traders and Securities. Please go ahead.

Devansh Jain: So, a follow-up to the question that the previous participant asked. You said that your standalone top-line growth includes the impact of some export timing, the Oman factory sale getting sourced from the Ranjangaon plant. So how much...

Varun Berry: Not Ranjangaon, Mundra.

Devansh Jain: Mundra plant. So how much of the top-line growth was aided because of that standalone top-line growth? So you reported a 6.8% top-line growth, so how much of that was on account of this sourcing?

Varun Berry: It won't be substantial. It will be probably about 0.3%, 0.4%.

Devansh Jain: Okay. And how much will be the volume growth then in your top-line growth this quarter?

Varun Berry: It's about 3%, the volume growth is 3%.

Devansh Jain: Okay. And one more question, on your standalone gross margins if I had to see, if I would look at your inflation chart that you are showing in PPT, so there is an inordinate inflation that we



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have addressed in milk, which is about 37%. But this would not be a significant raw material as far as the standalone business, which is the bakery because essentially. This would not be a significant component of a raw material. So if exclude that, what would be the inflation of your standing in your gross margin of Britannia this quarter?

Varun Berry: That's a very complicated question. Your inference is right that milk is a fairly small part of our bakery business. But I can't give you the calculation on how much difference would it make. I don't think it will be a very large number.

Devansh Jain: So the 3% then essentially verifiable to infer it could be close to 2% odd?

Varun Berry: I really don't know. We will have to calculate that.

Devansh Jain: Okay. And sir, this percentage is on your RM wide and not the impact on your margins, overall commodity inflation is moderate 3%, the number that you have quoted, is the percentage is RM wide?

Varun Berry: Yes, total basket.

Moderator: Thank you. The next question is from Nandan Vartak from Wealth Managers. Please go ahead.

Nandan Vartak: Sir, my first question is on revenue mix. So if you split between biscuit and non-biscuit as two parts, what would be current mix in revenue?

Varun Berry: Biscuits would be at about 75%.

Nandan Vartak: And where do you see this number, this mix going towards in two years?

Varun Berry: Two years, I would say maybe down to 70%.

Nandan Vartak: Okay. And what would be the components in non-biscuits? So a large contribution from non-biscuit would be which product, what those would be?

Varun Berry: All the adjacency products, so cakes would be the larger one. Even our croissants and then salty snacks, all of that is going to be adding to our total revenue.

Nandan Vartak: Okay. And the second question is on SG&A. So if we look at SG&A contribution towards margin, initially it has been significant. So do we see that going further? So do we expect the same expansion in margin from contribution of squeezing SG&A cost?

Varun Berry: Yes, so we don't give any guidance. So I would not like to comment on that. Excuse me for that. But you know that we always look at efficiencies. We always look at making sure that we bring in the best cost and the best overheads. So we will continue to do what is necessary to...



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- Nandan Vartak:** Okay. So basically medium-term we were moving towards that path?
- Varun Berry:** Yes.
- Moderator:** Thank you. Next question is from the line of Prasad Deshmukh from Bank of America. Please go ahead.
- Prasad Deshmukh:** Two questions. Firstly, while you continue to gain share, when the industry moved to GST regime the expectation was that the Tier 2 or the unbranded players will start losing share. Is that phenomenon visible or is it now stabilizing at a new level?
- Varun Berry:** Well, what we have seen was when GST was first brought in we saw the local players lose some steam. Thereafter, I think it started to come back. And again, we are seeing that the organized players are now once again making a little bit of a surge. So I don't know which way it goes. I think it depends on how strictly GST is implemented. And I do think that the government has become fairly strict with the rules and regulations now. And if that happens, then organized players would benefit from that.
- Prasad Deshmukh:** Sure. And second question, in terms of your in-house manufacturing, what is the percentage now?
- Varun Berry:** It's close to 60%.
- Moderator:** Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.
- Shirish Pardeshi:** Just a few questions. One is that we have seen that you have now targeted the Western market. So is the Western market much more evolved in terms of salty snacks? I mean, my guess is that North was much evolved market for salty snacks.
- Varun Berry:** No, the Western market, actually the West India market is, I wouldn't say evolved, but yes, from a consumer standpoint they consume a fair amount of salty snacks. But there are lots of value players. So it's going to be a good acid test for us to be able to establish ourselves, because all of the value players are based in Central India and West India. So we are hoping that we will be able to find traction with our products even in this value market.
- Shirish Pardeshi:** Actually, that was my question. Because if you look at Western and mid-India, which is more crowded in terms of more number of players. And since we have chosen, that is primarily because of your Ranjangaon facility and supply?
- Varun Berry:** Well, we want to be a pan-India company, but we want to do it in stages, we don't want to put large facilities with capacities which will have to be transported long distances. We want to have self-sustained capacities within each region so that our logistics cost of transporting product,



which is basically transporting air, is the bare minimum. So with that in mind, we put up smaller lines in every region. And we will continue to do so hereafter in the North as well as in the East. So we want to be pan-India. So it is not that we were going to leave the West vacant, we were going to launch there. Because if you want to be a national brand with national advertising, then you have to have presence in every region.

Shirish Pardeshi: Okay. My second question is on the industry growth. Last quarter, you have guided that value segment was declining or probably it has not grown to the expectation. So the question is, there are two parts. One is that what is the industry growth? And what is our domestic volume growth? You have mentioned that domestic growth is about 6.8%.

Varun Berry: Yes. So the total industry growth is obviously less than 5% as of now. And hopefully, we just hope that it starts to move in the right direction because these are really low-priced products. And I do think at some stage these will start to move in the right direction. Also, you have got to remember that as the base reduces, we are just about completing one full year of slowdown, as the base reduces growth will come back. But opportunity, which has been lost will be lost forever. So it's the way you look at it. I have always looked at 24-month growth, because that brings in the base effect and factors that into the equation as well.

Shirish Pardeshi: So within our domestic 6.8% revenue growth, what is the volume growth we have seen in domestic market?

Varun Berry: 3%.

Shirish Pardeshi: Okay. And overall is also 3%?

Varun Berry: Yes. And see, everything else is so small, what really determines the growth is the domestic market.

Shirish Pardeshi: Okay. Just last question on wholesale. What is our wholesale contribution? And which part of India you are seeing the pain in wholesale?

Varun Berry: So our wholesale contribution is about 33%, which I think which would be the lowest amongst all the big companies and we are seeing the wholesale pain all across the country.

Moderator: Thank you. We move to the next question from the line of Siddhant Chhabria from HDFC Securities.

Siddhant Chhabria: My first question is regarding your rural and urban growth. So how is that compared with each other?

Varun Berry: So for us, I would say, rural is still faster because we are still making inroads into some of the rural areas. But from an industry standpoint, we know that rural is much slower than urban. So



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there is pain, there is pain in rural. And it's important that, that gets sorted out for the overall growth to come back for every possible FMCG company.

Siddhant Chhabria: Okay. And sir, you had also stated that during the slowdown you would moderate your aggression on new launches. So my question is, now how do you look at your aggression with scaling back or adding more products, what kind of timelines are you thinking of?

Varun Berry: So we have postponed some of our launches, we had a fairly packed calendar. But as I was saying, when we started to see the slowdown we decided to postpone these launches. Because what we were seeing was that there were inefficiencies coming into the system. When you have new launches, you tend to have some amount of product coming back to you, because you can't fully estimate how much product you will require for the market. And that creates a negative cycle within the company and outside the company because it obviously creates financial stress as well. So we decided that it's best to postpone this. So there were two things that we did. One, we strengthened our supply chain to an extent that whatever products we would launch, we made the new products available only on a replenishment basis. And second, we postponed our new launches to make sure that we are not doing too many things in an environment which is fairly painful. So those are the two steps that we have taken.

Siddhant Chhabria: Okay. And considering food inflation has now at a 33-month high, how do you think that impacts consumer sentiments in rural? And how does that impact demand?

Varun Berry: Well, you have seen the demand, you have seen what's happening to the rural economy, etc. So I do think that there is some amount of negative sentiment which really needs to go away for the path to be cleared for the kind of growth that we have seen in the past years. So let's hope for the best. I do think that the government is taking all the right steps. They might be missing a few, which I am sure they will take as they go forward. And hopefully with that, I think that we should be able to see the economic growth coming back.

Moderator: Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead. As there is no response from the current participant, we move to the next question from the line of Dipen Seth from HDFC. Please go ahead.

Dipen Seth: Sir, just one little detail which might help us understand the cost structure of the company. I can see that other expenses that comes after raw materials, employees, ASP and all of that, other expense is a long tail of many sub-items. But as a percentage of revenues, this clubbed number is at a six-quarter low of 15.4%. Should I interpret this just to be a little bit of operating leverage, which is not suggested by the 6% top-line growth? Or are there two or three large parts in this which have moved pretty differently from trend?

Varun Berry: No. So essentially it's leverage. One is, it is operating leverage. And second is, it's the own production versus outsourced, which is leading to some amount of saving there.



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- Dipen Seth:** So there is a tail of items in other expenses related to the outsourced part of the production, which has gradually dipped and which has reached the stage where the expenses have fallen through to as low as 15.4% in the mix?
- Varun Berry:** Venkat, you want to add something that?
- N. Venkataraman:** Yes. I think maybe you should look at the employee benefits and other expenses together. And if you see there, employee cost is showing some increase, whereas other expenses showing reduction. Probably, you can look at all the lines together.
- Dipen Seth:** Yes. So I hate to argue, but that is actually the benefit of seeing these two numbers separately. And there is probably some sub-item under other expenses which is moving in a way so as to influence its role in the mix. And if I look at the trailing five quarters, as many as the last five quarters, it's been an average of 16.5%. And in this quarter, it's less than 15.5%. Now, 100 bps from trend line doesn't get shaved off just by 6% top-line growth. I agree that there's a long tail of items here, but there's something in the mix of those items, which has moved in a way that has tended to bring this down to 15.5%, in fact, 15.4%. So that's the sense I wanted. Maybe what we will need to do is look at your annual statement, your annual report, open up the schedules and then see which items might have influenced. So I was hoping that I might get some insight into what's happening in the cost structure of the business here.
- N. Venkataraman:** Yes, if you look at two elements that Varun just explained. Sequentially, they moved about 13% on the top-line. So fixed line items will show reduction. The second is the mix of own versus outsourced manufacturing. These are the 2...
- Dipen Seth:** So I think the both of them combined, it kind of provides some explanation, and I will take that. Okay, thank you sir.
- Moderator:** Thank you. The next question is from the line of Aditya Soman from Goldman Sachs. Please go ahead.
- Aditya Soman:** Sorry, I got dropped off earlier. Sir, two questions. Firstly, on Treat and some of the new variants that you are launching under Treat. Now all of these variants are gross margin accretive for you?
- Varun Berry:** Yes. They are all gross margin accretive. So what we do is we have a very clearly laid out stage gate process. And any product which is not gross margin accretive doesn't get launched. So that really is the process that we follow, and all of these are gross margin accretive.
- Aditya Soman:** I understand. And on what year would you expect all these Treat variants to reach national distribution?



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- Varun Berry:** As soon as you start buying them in hoards. No, we are looking at building these brands, we are looking at advertising them aggressively, and we are seeing great traction on these. So hopefully they should become Rs. 50 crores and Rs. 100 crores brands in 1.5 years of launch.
- Aditya Soman:** And all these would be at sort of affordable price points, right, so we are talking about Rs. 5, Rs. 10, Rs. 15 price points?
- Varun Berry:** Yes. All of these are at affordable price points and they are very, very interesting products. And what we have done is we haven't compromised on the product, but we have brought the packaging costs down compared to some of the other products in the market so that the consumer does not buy by packaging but buys the product and enjoys it at a price which no one else can provide to them.
- Aditya Soman:** I understand. And second question is largely related to market share. So you reported, obviously, an acceleration in market share growth over the last couple of quarters. And we have also seen some of the comments from the number #2 player. So would it be fair to assume that a lot of your market share we have actually is coming at the expense of the number #2 player or would that be a stretch?
- Varun Berry:** Well, I think we are gaining not just from the number #2 player, but from other smaller players as well, because it's a fairly complicated market with different players dominating different geographies. And we probably are the most heterogeneous company across the country. So I think we have gained from the number #2 player as well as from the smaller B players as well.
- Aditya Soman:** And I see that this conversion cost, either item in these other expenses, which is the one where you're seeing it is a saving, because, I mean, that was one number that we saw last year, it actually went up sequentially, I think, because of the issue that you had with bread. Would that be an item that we are seeing in the meaningful some delta in this year?
- Varun Berry:** Venkat, do you want to comment on that?
- N. Venkataraman:** So last year there was some change in the business model. We have no such impact to the sales. However, what you are seeing is right, conversion charges appears as part of other expenses. Now more and more of our own manufacture, it goes down on the conversion line, goes up on the employee cost, and that's how it is.
- Moderator:** Thank you. The next question is from the line of Arnab Mitra from Crédit Suisse. Please go ahead.
- Arnab Mitra:** First question was on distribution. So it seems that the pace of expansion of direct reach has definitely slowed down this year versus the last year and the previous few years. So is it a function of the fact that you believe this 21 lakhs is a good number, and you will now want to



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consolidate? Or is it a bit of choice given the slowdown and how do we look at this kind of going ahead from here?

Varun Berry: Yes. So you are right, what we have done is we have deliberately slowed down our aggressive direct reach program while we are continuing with it. And if you think about it, 30,000 outlets is not a small number. But the issue really is that at this point in time where there is an aggressive slowdown in the market, what makes sense for us to distribute more SKUs into the outlets that we are present in or does it make sense to go wider? And we have chosen that let's go wider, but at a slower pace, but let's get more and more SKUs, because now we are launching new products as well, let's get more and more SKUs into the outlets that we are already present in.

Arnab Mitra: Okay. And the second question was on the overall growth. I think you started the call by saying that possibly the stronger recovery would be nine months away from now. But in the interim period, do you get a sense of stability that the market conditions are stable? And while we are growing slow, we continue to grow at these rates? Or is there a wish that the growth could actually slip off also from these lower levels based on what you have been seeing during the quarter or maybe even during the third quarter, as we are into it?

Varun Berry: So again, this is a bit of a guidance, so I won't speak on that. But what I can tell you is that I don't think it's about growth, I do think that growth will start to come back sooner than we expect, basically, because of the base reducing. The opportunity that we have lost will obviously be lost. The issue really is, when will the country start to see, you know, this country cannot survive on a 4%, 5% economy growth. GDP growth has to be 7% plus, 8% plus, for this country to thrive. So from a survival to thriving, there is a 3%, 4% delta which the country needs to create. And I do think that getting to that is going to take 9 to 12 months.

Moderator: Thank you. The next question is from the line of Ajay Bodke from Prabhudas Lilladher PMS. Please go ahead.

Ajay Bodke: Sir, what was the CAPEX outlay for second quarter FY20? And what is the guidance for the current year and next financial year? Secondly, what is the value of total ICDs placed with group companies as of September end and the average rate of interest charged?

Varun Berry: So the CAPEX we are also trying to slow down, because as volume growths are not meeting whatever we had set for ourselves, we have tried to contract whatever we are spending. So in the first half we would have spent about Rs. 170 crores, Rs. 180 crores on CAPEX. As far as ICD is concerned, not much of a change. It's about approximately what it was, probably Rs. 450 crores or so, at a rate of 10% interest rate.

Ajay Bodke: And the guidance for CAPEX outlay for the full year and for next financial year?



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- Varun Berry:** It won't change much, it will remain at about the same ballpark, unless there are big projects which come through, which when they come, we will inform you about.
- Ajay Bodke:** And if I look at the inventory buildup for the first half FY20 and compare it with the first half last year, there seems to be a large buildup of inventory. So would this come off as we move forward in the second half?
- Varun Berry:** Yes. So a lot of that is because of raw materials. So we have done some opportunistic buying, where we got very good rates on some of our raw materials. So that's the reason for the inventory buildup, and that will square off as we go forward.
- Ajay Bodke:** And I recollect distinctly you mentioned in the last call that you have forward covers that ran out in December on many of the raw materials. So is there any change? And have you extended the covers?
- Varun Berry:** Yes, we probably have. See, each one of the commodities has a certain season. So we usually cover till before the season. So mostly, I would say our covers are until about February now.
- Moderator:** Thank you. The next question is from the line of Krishnan Sambamoorthy from Motilal Oswal. Please go ahead.
- Krishnan Sambamoorthy:** Yes. My questions have been answered.
- Moderator:** Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan. Please go ahead.
- Kaustubh Pawaskar:** Sir, just wanted to know what is the contribution of new product launches now? Because last quarter it was about 3%, but we are seeing the new launches, they are gaining market share and good traction. So has there any change in the contribution from the new launches?
- Varun Berry:** No. It's approximately the same. As I said that we had held back some of our launches. So that hasn't changed very much.
- Kaustubh Pawaskar:** Okay. And sir, my second question is about the cost-saving initiatives and your target of about cost saving of about Rs. 250 crores this year. So that still stands at current level?
- Varun Berry:** Yes, it does. So we will achieve that for sure this year. And that's been very, very important for us in these circumstances. So we have doubled down on our cost-saving initiatives and our cost efficiency programs through the year.
- Kaustubh Pawaskar:** Okay. And sir, will some of these savings will utilize for your advertisement and promotional expense? Or there also you are planning to a little bit slowdown considering the softer demand environment?



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- Varun Berry:** No. We continue to build our brands; we are not slowing down on that. But there is sometimes a toggle between promotions and advertising. But otherwise we continue to build our brands.
- Moderator:** Thank you. The next question is from the line of Harit Kapoor from Investec. Please go ahead.
- Harit Kapoor:** Just one question regarding marketing expense for this quarter, would there have been a slightly lower spend growth, given the fact that we had a higher spend in Q1 because of World Cup as well the base in the quarter had the 100k celebration?
- Varun Berry:** Yes. Certainly lesser than Q1, but it's at the same growth rate as the top-line. So we also try to variabilize our advertising and sales promotion expenses to make sure that we don't go beyond what the top-line growth is because then you are sort of deleveraging your costs. So our NSV spends have been in the same proportion as our top-line growth.
- Moderator:** Thank you. Ladies and gentlemen, this was the last question for today. I now hand the conference over to the management for their closing comments. Over to you, sir.
- Yashwardhan Bagri:** I thank everyone for spending time with us on the call today. We look forward to interacting with you again. Thanks.
- Moderator:** Thank you, members of the management. Ladies and gentlemen, on behalf of Britannia Industries Limited, that concludes this conference call. Thank you for joining us. And you may now disconnect your lines.