“Britannia Industries Limited Q2 FY '21 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to the Britannia Industries Limited Q2 FY '21 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now would now like to hand the conference over to Mr. Yashwardhan Bagri from Britannia Industries Limited. Thank you and over to you, sir.

Yashwardhan Bagri: Thanks, Janice. Hello, everyone. This is Yash from the Investor Relations team. I welcome you all to the Britannia Earnings Call to discuss the Q2 FY 20-21 Financial Results.

Joining us on the call today is our Managing Director – Mr. Varun Berry; CFO – Mr. N. Venkataraman; Chief Commercial Officer – Mr. Gunjan Shah; Chief Development & Quality Officer – Mr. Sudhir Nema; and VP (Procurement) – Mr. Manoj Balgi.

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

Varun Berry: Good morning, everyone. So let me start by taking you through the deck. So if you were to get to Page 3, that just gives you an indication of where we are at today. So if you were to look at pre-COVID, the economic slowdown had started, and the GDP growth was at about 4.2%. It obviously came to a virtual standstill with GDP declining by 24% during the lockdown. The slow recovery, we have seen the IIP decline of 8% in August, there's also a news of 20% of the salaried job losses which are happening. So there is going to be a little bit of turmoil from an economic standpoint.

From a demand standpoint, FMCG growth were about 5% to 7%, in lockdown there was panic buying on staples and essentials benefited. And there was rationalization of spends for non-essentials. The current situation is that diversified spending has started, there is a little bit of downgrading that we are seeing in the market. And there is a pent-up demand for non-essentials.

From a supply standpoint, it was a level playing field during lockdown, there was complete destruction and people who are able to ramp up their businesses faster got into an advantage. And we have got back again to a level playing field.

Regulatory and administrative situation, improvement in ease of doing business pre-COVID, deferment of certain compliances during the lockdown, and again, now there are certain changes which are going to come through, Make in India is going to get a boost, Farm Bill, Labour Law, etc., all of those are on the anvil. So hopefully things will become even better as we go forward.

Going to the next page. Amidst all of this, what we were doing during the last quarter was certainly going back to focus on distribution and marketing. We have also started to get back to innovation as production pressures have seized a bit. Cost focus, even during the lockdown we were cost focused and we continued to be cost focused. Adjacency businesses have performed well, and sustainability is the fifth plank, which we are very, very passionate about, as we go forward.

So getting to the first plank which is distribution and marketing. As far as distribution was concerned, we had dropped during March, our distribution numbers had dropped from the peak of 21 lakhs to 19.7 lakhs. But now we are back in September and we are beyond what we were in March'19. As far as rural distribution is concerned, again, we had 19,000 rural distributors in March 2020, that has gone up to 22,000. So, we are building our rural distribution. There was a disruption, obviously, during the last eight months, which we have settled, and we are moving forward and building distribution aggressively. Even our Hindi belt agenda is looking good, this is indexed to 2017-2018 and we are seeing good growth. The CAGRs between 2017-2018 and 2020-2021 range from 12% -13%, to 21% -22% in these states. UP continues to be our best performing state even today.

Moving on to advertising and sales promotion. The spends are not yet normal but coming back close to normal. So what we did was that, whichever were the brands where we had everything that was required, from stock to SKU, availability, etc., we started to go back on air and on digital platforms, etc., with our advertising and sales promotion. So Good Day, Bourbon, Marie Gold are the three brands which got the focus during this quarter. And we also ran some promotions on certain packs where we thought that we were in a position to provide the stocks that were required by the market.

Moving on to the next page, this is on our SKU and range availability. This is not what we were producing, but this is what was available in the market. So, during pre-COVID levels, we were obviously at full range on SKUs. We had come down during this period, and now we are getting very close to where we were pre-COVID.

As far as our bill cut efficiency, which is the number of bills that we cut across the country, again, this had dropped, obviously, because of people not being able to get to certain outlets, but now we have gone beyond where we were at the pre-COVID levels.

Continuous replenishment system, this is something that is very important for us, because this takes out the manual intervention in stock availability to our distributors. So obviously, this had suffered during the last eight months or so, we had come down to 36% of what we were doing pre-COVID. But again, we put the pressure on this, and we have gone back to a continuous replenishment for our distributors. So that manual intervention is avoided, and peaks at the end of the month do not happen.

So we are getting back to all our systems as they were and trying to better them as we get to a situation of normalcy. I am not saying that we are getting there right now, but I think things are becoming better as we speak.

The third is on cost efficiency programs. From the previous quarter the factory productivity has been better during the current quarter. Wastages, there has been a little bit of a slip, but that was something that we are looking at and we will make sure that we stay at our peak levels in terms of wastages. Direct dispatches from our factories which give us better efficiency and better costs have gone up even more than what they were during the pre-COVID level, so now they are at 1.5x what they were at the pre-COVID levels. And the fixed cost leverage versus where we were, is at about the same level.

Getting to the adjacency business. Our international business has been delivering very good results. So Middle East and Africa, while they are not double-digit growth, but we are seeing growth. And in the current circumstances where the Middle East economy is completely burdened, it's good to see single-digit growth there. But the rest of international has been growing at a very, very healthy double-digit growth. So that's giving us a very good growth on our international business.

The bakery adjacencies have also been doing well. We significantly improved our profitability on bread. Our rusk business is growing pretty aggressively. The cake business has not been growing very aggressively, and the reason for that is because it depends a lot on modern trade as well as on transit clusters like railways, etc., which have been affected during this period with trains not running and even modern trade businesses not growing the way they were pre-COVID. Our dairy business, again, what we have seen is a little mixed. While cheese has been leading the growth with very aggressive double-digit growth, there is a decline in the out-of-home consumption, which has obviously impacted our drinks portfolio. So versus last year, we have not been growing on our drinks. And the positive there on the dairy portfolio has been the benign milk prices, which has given us a significant profitability improvement and also the mix, which is now moving towards cheese, which is our most profitable dairy product.

Moving to Page 10, which is on sustainability. So we had set some goals for ourselves, and we will give you an update on where we are versus those goals. So, reduction of plastic, we wanted to reduce the amount of laminate that we use in our products. And we have achieved a 15% per tonne of finished goods since 2013-2014, and we are continuing to look at how we can reduce this even further. We wanted to take out all plastic trays from our products, it's going to take some time, but we have made the start to this journey by reducing it from all our Treat Cream products. We wanted easily recyclable laminate; we have transitioned this to easily recyclable laminate for some of our major brands like Good Day and almost 30% of the laminates that we used are easily recyclable. Then the fourth one was on plastic recycling. We are building capability in-house through a third-party partner. And this project has got all internal clearances, and we are moving forward very rapidly to put this facility up.

The second one was on enhancing the good in the product. Which is, there is a target of 5% sugar reduction by 2022. Work is underway for two of our largest brands, also 5% sodium reduction by 2022, which also is in progress on three of our large brands.

Energy, we wanted to reduce our fuel by 35%, the fuel that we consume by 35% in our factories. We have actually achieved that since 2013-2014. Renewable power, we wanted to reach 45% by the end of 2021. And we are well on track for that.

As far as nutrition is concerned, there is a lot of work that's happening. Community based approach to improving the health and nutrition of children, adolescents and women. So we are working in four states across 36,000 children and we are also distributing iron enriched biscuits in a lot of states. So there is a lot of work that's happening, and we can give you a detailed account of that maybe the next time.

As a result of that we have seen, I would say, a very resilient performance. So our revenues have grown 11% and our 24-month growth is at 18%, operating profits have grown by 40% and our PAT growth is 23%. But the difference between operating profit and PAT is large because last year in the same quarter we adjusted for the tax benefits that we had got in the previous quarter as well. So it was a six-month accounting that was done in Q2. If you were to remove that one-off factor, then our PAT growth is at 34%.

Moving on to the next page, which is on commodity. Commodity, overall inflation is moderate at 2% to 3%. There is, in fact, a deflation as far as flour and milk is concerned, flour deflation is 5% and milk is at a high 21% deflation. There is a big inflation in RPO which is at 25% and sugar where there is a moderate inflation of 4%, which leads us to about a 2% to 3% increase in input costs as far as our commodities are concerned.

Which takes me to the financials:

So, if you were to go to Page 14, you will see our revenue growth for the full year 2020-2021 stand at 18%. Obviously, we had a bonanza in Q1 at 26% and a good 11% in Q2. Our profitability is between the two quarters, I think, this is the highest profitability that the company has ever seen. So, in the half year we are at 19.2% and even in this quarter we are at 18.7%. So, very good numbers with a growth of 40% and a 24-month growth of 50%.

So, just getting to certain key financial lines on the consolidated report. So, net sales growth of 11%, operating profit growth of 40%, PBT growth of 34% and profit after tax 23%. But if you were to adjust this, this will also be at 34%. And if you look at it, the profit from operations have moved from 5.7% right up to 18.7%. So we have been building this business slowly and steadily and there is great progress as far as profitability is concerned and similarly on PBT and on PAT.

Our readiness for the future, the last slide. Obviously, there are certain requirements in terms of capacity. So, we are looking at three Greenfields as we speak, one in Tamil Nadu, one in UP and the third one in Bihar. There are two brownfield plans as well, we are expanding our Orissa facility and also looking at expanding our Ranjangaon plant. The dairy back end is expected to be commercialized in FY 2022-23, the work has already started and we are very excited about that. We are evaluating co-packing opportunities in two countries in Africa. And that could give us a huge leverage and the opportunity to get into a few more countries in Africa. In fact, those two countries will give us access to almost 8 to 10 countries in Africa because of the free trade agreements that they have.

We are also monitoring the consumer insights and behavior which change almost every day. And we are making sure that we incorporate this in our medium-term strategy so that we do not lose sight of what's happening with this hugely confusing situation that we face in the world today. And finally, the Labour Law and the Farm Bill, we are watching that very carefully. And seeing how that is going to impact us as we move forward.

So that is all from me. I will now open the house for questions.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question answer session. We take the first question from the line of a Abneesh Roy. Please go ahead.

Abneesh Roy: My first question is on the adjacency. So in Q1 also the cheese portfolio had done well, and drinks portfolio had suffered because of out-of-home consumption being very low. So is there any trend reversal here? I understand, broadly, milk portfolio, cheese portfolio continues to do well, but is there any slowdown there? And similarly, in the drinks portfolio, is there a pickup which you are seeing versus Q1, at least the exit rate?

Varun Berry: Yes, we are seeing that we are seeing a pickup. But it's going to take time, Abneesh, because life is getting back to normal, but certainly it's not normal currently. But you are right, we are seeing some of those home consumption products normalize in terms of sales, and some of the out-of-home consumption products move up and start to grow.

Abneesh Roy: And one follow-up here. So rusk is also largely in-home consumption, just like biscuits and bread. Why has rusk grown much faster, what is the reason?

Varun Berry: No, so rusk and biscuits, both have grown faster.

Abneesh Roy: No, that was Q1.

Varun Berry: So even Q2 is a reasonable number, if you look at it. Rusk is a slightly higher number than biscuits, but still a lot of in-home consumption is happening. And I do think that during this period we got some competitive advantage because other people couldn't start. And hence, we have got a lot more trials and people after that have stuck to our brand, especially in the north where we have a low share, I think we have got a lot more trials, and hence, our brands are sticky.

Abneesh Roy: My second and last question is, in Q1 you said current growth rates are way beyond anticipation, and that is why five new facilities, now it has slowed down significantly just in one quarter. So is there any thinking that in terms of timelines the greenfield plans in TN, UP, Bihar could be delayed a bit? Because if demand is going to grow at that 5%, 7% volume growth in the coming quarters, so why do you need three greenfield plants? Why don't you just expand in the brownfield in Orissa and Ranjangaon?

Varun Berry: That will not be enough, Abneesh. You got to remember that we are selling almost 1.2 million tonnes, 1.3 million tonnes of product. And even a 5% would require one full plan. And these will be phased out, it's not like they are all going to be ready in 10 months. So all three of these facilities will be phased out. And the way we look at it, it makes sense to put these plants in areas where we have a dearth of demand. And also, if need to be, there will be some inefficient lines or inefficient facilities which could be compromised, if required.

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

Aditya Soman: Sir, first question - Again, we have seen a meaningful slowdown compared with 1Q, any sort of colour on the sequential momentum, let's say, in August, in September compared with July? And if there is a, sort of, marked slowdown sequentially, is this just a function of sort of in-home consumption reducing and consumer shifting to other products? Or if you could breakdown the sort of growth construct that we usually do, would be useful.

Varun Berry: So I will tell you, so we had a double-digit growth in the first month of the quarter. The second month was, for some strange reason, very slow, so low single-digit growth in the second month. And then again, growth came back in the third month of the quarter. So it's impossible to figure out what really is driving demand in these current circumstances. And as we speak, things are looking reasonably okay because it's festival season. So it's impossible to understand and to forecast what is going to happen next month, so it is a step at a time. Our focus is to make sure that our strategic planks remain solid and we keep gaining as far as market share is concerned, and we are not underleveraged versus what the category growths are. So those are the focus areas for us. And obviously, to make sure that we get back in the face of the consumer with our brands, because we have been off-air for almost five - six months. So those are our priorities and we will take a step at a time and make sure that we do not lose any edge in the marketplace.

Aditya Soman: Fair enough, very clear. And as you indicated in your comments earlier about the worsening macro and seen some downgrading that you are seeing because that, so was there any downgrading impact in 2Q as well that you can possibly say that is one area that you should be able to identify easily?

Varun Berry: Well, there is downgrading, which clearly is visible in the market. But the thing is that you have got to look at a broader canvas when you are talking about downgrading. The way I look at it is, if there is downgrading, we are the cheapest snack in the marketplace, so why can't we down trade consumers from whatever snacks that they are consuming to our portfolio of products. So I think we haven't been disadvantaged. While I know where you are coming from, we don't operate in the value part of the portfolio, we are very small players there. So your question really is about, have we lost to the value players in the segment? The answer to that is, no, we have not. Within our portfolio, there are certain brands which are growing faster and there are certain brands which have come at an even keel. But the objective for us really is to make sure that we keep gaining from all other snacks because if there is downgrading then we are the cheapest snack. So that's our objective internally as a team.

Aditya Soman: Thanks. I think that's clear. And just one follow-up on this. I mean, I think it's very clear what you said about downgrading. The only question here is, is there also some trade down to lower price point SKUs of sale at the same brand, is that something that you are seeing as well? Because again, there I would assume that you have a better product or better portfolio for the same brand at a lower price point?

Varun Berry: Not as significant. We haven't seen a sharp movement towards small packs or anything like that. But yes, what we are doing is we continue to democratize some of our products. So for a premium product like Chocolush, we have got a democratized version which is Treat Burst and we have seen great momentum for both products. Treat Burst, which is democratize, which is cheaper, etc. It's a premium product but because we have taken the frills out of the packaging, etc., it's sold at a cheaper price. And we are seeing great momentum for both products in the last one quarter. And we have launched a layer cake at Rs. 5 which is doing extremely well. So we are democratizing some of our products. But it's not liked a shift happening from a large pack to a small pack to a small pack.

Moderator: Thank you. The next question is from the line of Percy Panthaki from IIFL Securities. Please go ahead.

Percy Panthaki: My first question is on the advantages you saw in Q1. There were two advantages as I can see it, one is that the consumer behavior had changed more towards in-home consumption rather than out-of-home, street food, etc., and biscuits was the beneficiary of that. And second is the competitive intensity was a little lower in Q1 versus the pre-COVID period and you took advantage of that. So just wanted to understand, in Q2 is there any remnant of these two advantages or the Q2 numbers which you have posted, are despite those advantages completely gone?

Varun Berry: Well, one was your comparative advantage, what was the other one?

Percy Panthaki: Consumer behavior change in terms of what they consume, etc.?

Varun Berry: Yes. So I think consumer behavior changes every day. So I can't forecast the consumer behavior, but I do think that consumers are getting tired of sitting at home and ordering home, etc., all of that has started in a big way. So I do think that consumer behavior from that standpoint is changing. And yes, I think to an extent that advantage that we had is evening out, I wouldn't say going away, it is evening out. And obviously, the comparative advantage that you are talking about was of being first off, the block, it wasn't about not there being competitors in the market, it is just being first off, the block, and in trying times executing really well. And that did give us an advantage, a comparative advantage at that time, which I think has become an even playing field. So people today are able to produce their products, get to the market much easier than what it was in the first quarter. So the answer to both is, I would say, yes, definitely the advantages of the first quarter do not hold as we had explained in the first quarter. But yes, whatever we got out of it will continue to be with us, because we got a lot more trials, we got a lot more people to try products, some of our products which they hadn't tried in the past. And what we are seeing is that they are sticking with our products, because they like them. So I think that is how one has to operate, you have to take advantage of this situation and make sure that you continue to serve those consumers in the future as well.

Percy Panthaki: Varun, where I am coming from is, I know that you don't give guidance and that's why I am just trying to sort of think this through as to whether the 11% growth that you have delivered in Q2, is that a sustainable number? Or does that have benefits which will pay off in Q3 and therefore Q3 growth will be lower? I am just trying to think that through, not asking for a guidance.

Varun Berry: Yes. I think, see, I have told you already that the trend was that double-digit in the first month. So, there is no trend, really. If you were to analyze the last quarter, the second month was the lowest, and then it again went up in the third month of the quarter.

Percy Panthaki: Very clear, Varun. My second question is on the intercorporate loans and advances and deposits, etc. What is that number in rupees crore in September? And also, during the past six months, what is the highest ever that, that number has touched?

Varun Berry: Venkat, are you on the call?

N. Venkataraman: Yes. Yes. I am there.

Varun Berry: Yes, Venkat?

N. Venkataraman: So the ICD balance as of September for the group company stands at about Rs. 700 crores. And it used to be in that order of magnitude, let's say, even in the month of March 2020 also.

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

Arnab Mitra: My question was on your EBITDA margins. You have seen a very strong 400, 500 basis point kind of expansion in the first half. And in this quarter also, despite normalization of a lot of things your margins are still way higher than where it used to be pre-COVID. So what do you think of this, is this a new normal of margins that you aspire to hold? Or are there some factors, if you could help us understand, which could take it down a bit from here, but you would still be sustainably higher than what you used to be pre-COVID? Any color on this topic, please.

Varun Berry: So there are some factors which will get normalized completely. So there are certain efficiency factors, which obviously came because we were producing only 20% of our SKUs and distributing. So obviously, you get a lot of efficiencies with long runs, etc., etc. So I think as we start to produce all of our products and all of our SKUs, there will be some loss in efficiency. And similarly, there were advertising and sales promotion, which had taken a backseat because we didn't have enough product to sell. So I think there will be some normalization as we go forward. What we have done internally is that we have made each one of these efficiencies into a project for ourselves to make sure that as we go forward, you know, we have a concept called Best in Britannia. So we look at across our factories, across our units, across our regions, and we identify which are the best in Britannia and then we try to emulate what they have achieved. So now this has given us a new Best in Britannia across our factories, across our units, across our regions, it has given us a Best in Britannia. So we are looking at how we can keep that as our benchmark and continue to make progress against that. So while there will be some downside versus where we were in the last two quarters, but we will try our best to look at what best we can do to keep the efficiencies there.

Arnab Mitra: Sure. Thanks. And my second question was on the input cost scenario. So, a lot of the media reports and market prices seem to suggest that wheat prices are significantly lower than where they were six, seven months back. I mean, a lot of reports talking of a 20% decline and things like that. So is it possible that you actually get a deflationary input cost scenario going ahead? Or would you anticipate still a relatively benign scenario, but not a deflation from where you see the input cost today?

Varun Berry: No. I personally don't see a deflationary input cost scenario. I think wheat, because of the distribution by the PDS system, etc., there has been a lot more availability with the needy, etc. So I think once that gets over, things will start to stabilize, which depends on how long the government continues to give free wheat. But I would think that starting early next calendar year, things will start to come back. Actually, Manoj is on the call. Manoj, would you like to comment?

Manoj Balgi: So as you said, the distribution of wheat is supposed to end by November. And if the government doesn't continue, then probably we may see some stability in prices going forward.

Varun Berry: Right. And other commodities also, Manoj, if you could comment?

Manoj Balgi: So you covered in the initial presentation of yours that palm oil is definitely seeing some inflationary pressure and milk is seeing a deflationary pressure. All other commodities are expected to remain range bound.

Moderator: Thank you. The next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: The first question on CAPEX. So if I look at the first half, the CAPEX is less than Rs. 100 crores, which seems low, considering the number of projects which you are working on. Should we expect to pick up going forward? And on the same lines, did you face any capacity constraints this quarter? Like your sales last quarter as well as this quarter were around Rs. 34 billion, which is your all-time high. So if you can talk about CAPEX and if there were any capacity constraints.

Varun Berry: No, we didn't have any capacity constraints, at least in the second and the third month of the quarter we were in a good place. And that's why we started to produce all our SKUs and we started to distribute 100% of our SKUs. So we are now okay. It's just that during this period, we have added some facilities, some third-party contract packers to our fold and it was done in a way that at that time we were desperate for capacity and we needed everything that was possible. Now we have got to make sure that we sanitize that and look at where, which region, etc. And then we have got a long-term capacity planning tool which we run. So basis that we will make sure that we put the right capacities in the right place now.

And as a result of that, what is coming through very clearly is two facilities which are required in the next financial year, and we are working on the Tamil Nadu facility. Tamil Nadu, as you know, is our biggest state in terms of sales and the Tamil Nadu government has given us a very good incentive scheme as well, which is for the first time that we have seen from the Tamil Nadu government. And similarly in UP, which is becoming a fairly large state for us and there is a very attractive incentive stream as well from there. So these two will be the first two facilities that we will start to invest in and following that with Bihar. So those are the three facilities that we will have to invest in.

Kunal Vora: Sure. And what will be the inventory level compared to last quarter?

Varun Berry: So our inventories are almost back to normal. So we are now operating with 9 to 10 days of inventory, which was down to four, five days during the COVID period.

Kunal Vora: So would this mean that you have had some restocking benefit this quarter?

Varun Berry: No, this is not the distributor inventory.

Kunal Vora: I was talking about distributor inventory. What's the level of distributor inventory?

Varun Berry: Distributor inventory, we generally keep it flat. That hasn't changed too much. Five to six days is what we keep it at, unless it's a zero-day inventory distributor in the large cities.

Kunal Vora: And my last question, you partially answered. Like on one hand, consumer is seeking value and on the other hand your margins are at an all-time high, especially because of higher gross margins. Would you look to pass on some benefits of lower raw material cost to improve your market share in the value segment in which you are like a slightly weaker player?

Varun Berry: It doesn't make sense to do that because we don't want to get to the segment which gives us the lowest profitability. It makes sense to look at some of our products which give us good profitability but are also priced right. So that's why if you look at Marie and Good Day and Milk Bikis, which are highly profitable, but also right price from a consumer standpoint, those are the ones that we'll be supporting and from an advertising and from a promotion standpoint.

Moderator: Thank you. The next question is from the line of Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: My first question is, I don't know if you have answered this already, but let's say, this quarter growth was 11%, could you just talk about how the September exit numbers were roughly?

Varun Berry: So September was high single-digit, almost touching double. So September was almost at par with the quarter growth. It was just the August month which was a tough month for us for some strange reason. One of the reasons for August being tough also was the big day. So the big day in modern trade used to be a fairly large activity, but the modern trade business has not been gaining traction for most product categories. And also, their business overall has been a little under pegged versus where it was. So I think that could be one of the reasons. But the traditional trade growth has been very solid, all through the three months we've seen very, very solid double-digit growth as far as traditional trade is concerned. As soon as we start to see some opening up of the alternate channels like railways and institutions and all of that and modern trade gaining back some of its strength, I think things could look even better.

Vivek Maheshwari: Right. Thank you for that. And the other bit is, after your fourth quarter results, sometimes I think in June when we spoke, you have mentioned about the fact that consumers are preferring trusted brands. Now that we are like three - four months into this, and as things are kind of opening up, do you think that the same trend is continuing, which means that the market is still formalizing? Or you think that the unorganized smaller regional guys are still coming back in full force? I don't know if you have that kind of intelligence as yet. But any comments on that, please.

Varun Berry: No. So, the smaller guys are coming back for sure. But I do think, as I was saying earlier, once you get consumers to try our product and if they like it, they stick with it. So I am hoping that, that stickiness continues, and that gives us a long-term advantage versus the smaller players.

Moderator: Thank you. The next question is from the line of Harit Kapoor from Investec Capital. Please go ahead.

Harit Kapoor: Yes. Just had two questions. First thing was on the rural urban trends that you have seen. Our understanding is that your rural markets have continued to grow at a much faster pace. Just wanted to get a sense of how that trend has been in your categories as well as how much is rural for you now as a proportion compared to about a year back?

Varun Berry: So yes, you are right. So first of all, I think that the trend between modern trade and traditional trade, so traditional trade has been growing extremely well. And you have got to remember that we have a very large part of traditional trade. So modern trade is only about 10% of our total revenues. But there are certain months where modern trade is overweight, like August and January are the two months where modern trade is a little overweight because of their big days, right.

Now within traditional trade, if you were to look at urban and rural, the rural growth has been much faster and much quicker. And the reason for that basically is that there were so many lockdowns as far as large cities were concerned, but there were no lockdowns in the rural areas and hence it was business as usual. But even within that, if you were to think about it, there are a lot of trade partners who had a cash crunch during this period. And hence, it was very important to keep in touch with the situation on the ground and figure out which were the areas where there were sensitivities on our distributors running out of money and all of that. So we did that fairly well. And as a result of that, we have seen very good growth in rural, which is almost 30% of our total business today, the way we calculate rural, the way we have segregated it. Obviously, Nielsen is a different story. But the way we look at it, it's about 30% of our business and growing pretty aggressively. So that really is the trade structure for you.

Harit Kapoor: Got it. The second question was on the innovation part. So till about last year, new product contribution for your business was fairly healthy as you had entered new segments. I was just wondering, now that your SKU count has gone back, your focus on innovation is back. In the next, say, two, three, four quarters, do we see that incremental new segment led in growth starting to come back as well? Or is that already reflected in quarter two?

Varun Berry: No, it will start to come back. I would say we started it in Q2 but not entirely reflected in Q2. But yes, it will start to come back because now we have got capacity, it's getting back to normal. So we are getting back to our normal agenda on innovation as well.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: I have got three questions. The first question is, if you can tell us what is the domestic volume growth? And if you can split between biscuit and non-biscuit, what is the volume growth?

Varun Berry: So volume growth is about 9%. And you have got to remember that international is a very small part of our business, so that doesn't change volumes in a big way because it's very, very small. Between biscuits and adjacencies, I would think adjacencies would be a little faster. Probably not a big difference, but maybe 8.5% and 10.5% kind of a situation.

Shirish Pardeshi: Okay. Related to that, this quarter the presentation, there is no slide on market share. Could you comment about the market share trends in this quarter?

Varun Berry: This quarter we didn't get market share, because Nielsen was inoperative. And their numbers because of the shutdown, etc., they were not able to do their field work. And hence, we were not able to get any market shares from them. But starting August, we will start to get market shares once again.

Shirish Pardeshi: But could you comment on how your trade gives this feedback, whether it has gone up or not?

Varun Berry: Yes, I would think so. I think we have certainly been performing better than the category. But yes, we will know soon enough. The shares will be with us in another 15 days or so.

Shirish Pardeshi: Okay. My last question is, we saw that you filed on the exchanges that you have raised money through commercial paper. Could you identify and tell us what is this for, the money raised?

Varun Berry: So this is basically for the commodity buy that we do. So we have got inventories, we have bought some wheat and sugar, etc., so for that. And the commercial papers, the rate at which we are getting money today is really low. Venkat, 3.5%?

N. Venkataraman: Yes, they range between 3.5% to 4%.

Varun Berry: Yes. So it makes sense to borrow and not to take money out of your treasury, which gives you a certain yield.

Shirish Pardeshi: So if I understand correctly, this is for a forward cover of your input material that you are procuring?

Varun Berry: Yes.

Shirish Pardeshi: And that was the primary usage and nothing else beyond that?

Varun Berry: Yes, yes.

Shirish Pardeshi: Okay. Just last one question on the international business. You touched upon Africa business, but if you can highlight what are the moving parts which are adding the growth? Because we see that all subsidiary and international business has improved in terms of performance and even profitability. So what is the secret there?

Varun Berry: The secret there is there is no secret. It's the Americas which is doing extremely well. Even Southeast Asia we are getting good momentum there. We have opened up some new markets as in Latin America, Canada business is doing very well. So all of that is adding up. And these are all small businesses, but if you focus on them and if you get them to a new level, and they are highly profitable businesses, so that is what we have been doing. Small businesses but trying to grow them month after month after month. And the team has done a fantastic job of doing that.

Shirish Pardeshi: You invested a lot in Nepal business, so could you comment on that?

Varun Berry: Nepal is doing extremely well.

Moderator: Thank you. The next question is from the line of Mohit Khanna from Future Generali Life Insurance. Please go ahead.

Mohit Khanna: My question is on two aspects, basically on the raw material sourcing. So has the Farm Bill changed something with the procurement that you guys are doing, which is very recent? And also, what is the contribution by the new products that you have launched recently in the current quarter and on a normalized basis that you see?

Varun Berry: So I will answer the second one first, and I will let Manoj answer the first question. So, our contribution is about 4% to 4.5% from the new products that we launch. And that continues, despite the lockdown we still got almost 4% of our revenues from new products that we have launched. So over to Manoj for the first question on the Farm Bill.

Manoj Balgi: So Farm Bill, some parts of the Farm Bill were implemented in, say, June and July in certain states where the Mandi tax was removed, and we did capitalize on that. And as Varun said earlier, we are watching how the implementation will happen, because certain states are opposing, certain states are for. So as things progress and we get into the next procurement season for wheat, that is in March, April, we will have a better clarity on how it will impact us.

Mohit Khanna: Yes. So the reason I am really asking this is because I am trying to see that how is the raw material cost or gross margins faring up for you? Because below that line, as you rightly pointed out that advertising costs would normalize; and then on the margin, the EBITDA margin would normalize. So I am just trying to see that how much of a traction is still left on the gross margin side for you guys right now. And if there is any scope of improvement due to the structural changes in the procurement.

Varun Berry: Manoj, any point of view on that?

Manoj Balgi: No. We will have to see how we can capitalize on the benefits that we get out of the Farm Bill. If it is implemented in the earnest, it will definitely benefit the entire trade, including us.

Moderator: Thank you. The next question is from the line of Dipan Mehta from Elixir Equity. Please go ahead.

Dipan Mehta: Sir, congratulations on good set of numbers. So, it has been an endeavor to try and transform Britannia from a biscuit company to a more food product company. So in light with that, what progress has been made in the last two quarters? And you did not answer the question about biscuit versus non-biscuit revenue breakup.

Varun Berry: So about 25% of our revenues are from non-biscuit products. And as I had said earlier, the growths are slightly higher on that portfolio, despite a slightly slower growth on the cake's portfolio, which is a large part of the non-biscuit portfolio. So does that answer your question or is there anything more than that?

Dipan Mehta: No, it is fine. Just a suggestion, sir, that in the investor deck if you could give more granularity about the sub-segments and how they are moving in terms of revenues would certainly help us understand the company better. Thank you and all the best, sir.

Varun Berry: Alright. Thank you.

Moderator: Thank you. Well, ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Yashwardhan Bagri for his closing comments. Over to you, sir.

Yashwardhan Bagri: I thank, everyone, for spending time with us on this call. We look forward to interacting with you again. Thank you.

Moderator: Thank you. On behalf of Britannia Industries Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.