"Britannia Industries Limited Q2 FY22 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to Britannia Industries Limited Q2FY22 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 hand the conference over to Mr. Yash from an Investor Relations. Thank you. And over to you, sir.

Yash: Hello, everyone. This is Yash from the Investor Relations Team. I welcome you all to the Britannia Earnings Call to discuss the Quarter 2 FY21-22 Financial Results.

Joining us today on this Earnings Call is our Managing Director -- Mr. Varun Berry; Executive Director and CFO -- Mr. N. Venkatraman; VP (Procurement) -- Mr. Manoj Balgi; Chief R&D and Quality Officer --Mr. Sudhir Nema and VP Sales -- Vipin Kataria.

Before I pass it on to Mr. Varun Berry, I would like to draw your attention to the Safe Harbor statement in the presentation. Over to Mr. Varun Berry, with remarks on the performance.

Varun Berry: Good morning, everyone. So, let me start with the presentation.

If we could just get to Slide#3. So, what we have seen this quarter is that the economy seems to be opening up, which is pretty evident from the COVID cases dropping dramatically from where they were, during the second wave. And similarly various business resumption indexes are showing that businesses are back beyond where they were pre-COVID. So, that's the good part.

However, all this is happening in a highly inflationary environment. Two things which are really driving inflation I) Crude oil prices and II) Palm oil prices, which is one of critical ingredients for us. So, I will talk more about this as we go forward.

So, our approach to the inflationary environment has been, obviously, if you look at the pressures, the pressures are coming, as I said from palm and fuel, which is leading to increases in corrugated boxes, as well as in laminates. What we have done is we have, there is no substitute for price increases in an environment like this. So, we have actioned price increases. But the point is that, when we do a price increase, only a third of that is a direct increase in your MRP. Two-thirds of that happens through grammage reduction, which takes a little longer period. So, we have actioned those, and those will be falling into place as we go forward.

We have also double down on our focus on cost reduction, which is giving us and I will talk about that in a little more detail as we go forward. And we have focused on discretionary spends, which can be eliminated, to be eliminated, because these are very difficult times. So, that's the approach that we have taken to the inflationary environment.

Now coming to our results, so our performance, I would say, in the current circumstances, has been fairly resilient. So, if you were to look at the consolidated revenue on a year-on-year basis, it's gone up 6%, on a reasonably high base of last year. And sequential growth is also 6%. And if you look at a 24-month growth number, it's 18%. From operating profit standpoint, while you look at year-on-year, we have dropped 19% versus last year, which was really the peak for us, the first six months of last year were the peak for us, as far as operating profit was concerned. Sequential growth has been 1%. And at 24-month growth has been 14%.

However, the positive thing in this whole story is that despite actioning pricing and obviously this reflects on the pricing power that we have in our brands, we continue to gain share and in fact, this has been a period of very high growth as far as share is concerned. Last year we had seen tepid growth in market share. But this year, we have accelerated that. And we are seeing very good market share growth in this year.

Moving to the next chart, which is Chart#6, which shows the revenues and if you look at the 24-month growth for the year, it stood at 21%, with a very healthy sequential shift, which I have already spoken about.

We continue to focus on our strategic planks. Now, we have spoken about these in the past as well. So, innovation well it is a strategic plank, but this year, because of COVID-2 coming, we had to prioritize some of these for later in the year.

Distribution and marketing also, during that period, took a little bit of a hit. But our rural focus has continued, and we have made great progress as far as rural is concerned. Our cost focus continues, and I will talk about where we are at on that. Our other businesses, some of the businesses have done really well during this period. And our sustainability agenda has gained a lot of momentum during this period.

So, coming to innovation, while some of the innovation ideas were deprioritize for later in the year. But we launched the Milk Bikis which is iconic brand in Tamil Nadu as a Milk Bikis Classic as it used to be 40 years ago. And that's done extremely well because it's nostalgia in Tamil Nadu and it's doing extremely well. We have launched a bridge product between snacks and biscuits which is called Potazos. And that's doing extremely well. We are extending it Pan India. We also launched Treat Wafer Stix across the country. We have also commercialized our facility in our Perundurai plant where we can produce flat wafers as well as wafer sticks. And we launched Marble Cake starting in the East, and it will be flowing across the country as well.

Slide#9 From a marketing activity perspective, while we kept our marketing activities fairly focused, but there were some very interesting campaigns. For Bourbon we had, three cricketers and it came out to be and it was applauded by our consumers as well. So, that's doing quite well. Milk Bikis 'Doodh Roti ki Shakti', which is the protagonist is Pankaj Tripathi, also continues to do very well. We have done a NutriChoice Digestive new campaign. We did a Jim Jam campaign, which we exposed this quarter. So, there has been a fairly good mix of marketing activities this quarter on biscuits as well as on cake. The Marie Gold Startup Activation for the third year running, you know it's been very successful in the first two years, has also been started off.

Now getting to our distribution agenda, as I said, we have done some really good work as far as rural distribution is concerned, as you all know, our share in rural is lower than what it is in urban. And hence, we keep doubling down on rural distribution. And as you will see, we have reached 25,000 rural distributors, which is giving us a very good growth, which is evident from the other two segments in this slide, Slide#10.

So, on the focus states, the growth is outpacing the country's average. So, we are 33% higher in the focus states. And if you remember, the focus states are the ones where you have a bulk of the country's rural space, right. And if you were to look at rural; in rural, we have gained 2.5 times the share that we have gained in urban. So, both these are pointing towards our agenda working, and we are gaining more momentum in weak state as well as in rural.

Moving on to the next slide, which is Slide#11, about channels. So, what had happened during the pandemic, during COVID-1 as well as the second wave, was that we had seen a muted modern trade growth. So, it had gone down below what we were seeing in traditional trade. But as we look at what's happening in Q2 of '21 and '22, which is the quarter which has gone by. Again, modern trade has picked up and we are seeing almost a 10% higher growth in modern trade than what we are seeing in the other parts of the business.

We had lost a little bit of momentum because supervision was not possible. Salesmen were not able to go to the market. On our direct distribution agenda, from 23.7 that we had reached in March '21, we had dropped to 20.8 in June, but we have started to pick that up, and we should be back and beyond the number in the coming months.

Now, the third plank, which is driving an ecosystem of efficiencies, we continue to double down on this. You know the planks that we work on, obviously productivity, zero-based budgeting, reducing waste, and saving wherever possible, and reducing distance to market. On these we gained strength, and we are six times what we got when we started this program in '13, '14. So, it's approximately Rs. 250 crores of cost efficiencies that we are getting out of the programs that we are running.

On Page 13, we have seen some even in our other businesses, so we have seen sequential shifts across, out of home consumption coming back, which is reflected through the Milkshakes, etc. the Lassi that we have launched. So, we are seeing that happen. We are seeing consistent increase in market share on commercialization of our Treat Stix as well as our flat wafers products. We have seen healthy double-digit growth in dairy basis, the Milkshakes and Lassi products that we have.

We have done a huge distribution revamp in our Middle East business, specifically in UAE, which is going to give us, which is starting to give us very good market share gains. Nepal continues to do really well. In fact, someone that I know, had gone to Nepal, to the Base Camp of the Everest, and they were saying that, wherever you go, you get nothing else but tea and Good Day so I was delighted to hear that while I have not seen it myself, but that's what they said. And similarly, our Africa expansion plans are doing well. There are three countries that we are looking at, seriously. And we have already started manufacturing operations into.

Moving to the next slide, which is Slide#14, which is about Sustainability. Now as you know that we issued our first Sustainability Report in August 2021. And the Dow Jones Sustainability Index scores are awaited. What we have done is we have got the ESG metrics, integrated into our management team here, everyone owns these numbers.

Some of the targets that we have taken for ourselves and very important targets. So, if you were to look at from a people perspective, we are looking at 50% women at our facilities by March 2024, which I think is a fairly lofty, but a very, very good target to take. We have looked at more than one lakh beneficiaries to be reached through a Britannia Nutrition Foundation, by next year. From a resources standpoint, a 60% renewable electricity by March 2024, which is again a lofty target, but we are very excited about it.

We are looking at removing plastic trays from our products by March 2023, which would mean 20 lakh kgs of plastic being removed from our product. We are looking at water consumption to be reduced by 30% in our factories through recycling and reuse by March 2024 versus what it was in 1920. From a growth perspective, we are looking at reduction of sugar by 8% in all our products by March 2024, and 6% reduction in sodium, again by the same date.

From a governance standpoint, we are targeting 2nd or 3rd quartile in S&P Global CSA, in food product sector this year. There are three ESG policies which are to be released in the next quarter, the Sustainability Policy, the Human Rights Policy as well as the Vendor Code of Conduct. So, a great progress here. And we will keep you updated on how we are doing against these.

Now getting to the meat of it. So, let's get to Page#16. So, as you see, these are the four major commodities that we consume. For us, now these are numbers which are internal to Britannia, flour is a deflation of 7%. However, if you look at the market, its inflation, it's a slight inflation, not a large inflation. We have been able to maintain a deflation because we have been buying at the right prices. Sugar is a deflation of 2%. Again, if you look at the market, it’s a inflation of about 2% to 3%. But what's happening is that both flour and sugar from India are becoming, have got export parity. So, we have got to watch out and see how this pans out and how much export we see for these two commodities from India, which will definitely reflect in the pricing as we go forward. But these two have been reasonably good for us, where we have had the pain is in RPO, where the market inflation is approximately 54%, while through some forward buying etc. our inflation is 46%. And milk, which is an inflation of 15%. But a bulk of the inflation is coming out of RPO for us, right.

And then if you were to get to Slide#17 it shows what are the other components of inflation that we are facing. So, industrial fuels, there is an inflation of 35%. Freight which is basically diesel is an inflation of 20%. And obviously, the oil prices are leading to an inflation of approximately 20%, for our laminates, and there has been some waste paper issues etc., plus international shipping has become very tight and very expensive, which is leading to an inflation of 46% for corrugated boxes.

So, that's the story on inflation, but if you go to Page#18 that shows, how inflation has hit us this year. So, if you were to look at the cumulative inflation, which is reflected by the brown bar, the cumulative inflation in the last six years is less than what we have seen this year in '22, in the full year of '22. So, that's the quantum of inflation that we are facing.

Now, obviously, there are forward covers, there are cost efficiency programs and all of that we are working on. But in a situation like this, there is no substitute for a price increase. So, we have gone ahead, and we have implemented pricing. And as I had said in the beginning, one-third of our pricing is through MRP changes, and two-third is through grammage reduction, which takes time because you have got to experiment, you have got to get the settings, right, of the machines, etc. So, it's taken time, but the entire inflation is going to get covered through either cost efficiency programs, or the pricing that we have taken by the end of this year. And as I said, in the beginning, despite being the first movers on pricing, we continue to build our competitive landscape pretty well, by gaining market share.

Now, moving to Slide#19. So, despite the inflation that we have seen, our consolidated operating profit is comparable to our pre-COVID levels. So, if you were to look at Quarter 1 and Quarter 2, both put together, they are approximately Rs. 506-507 crores, which is, compared reasonably well to what it was pre-COVID. Yes, last year, we had seen, Herculean task in terms of what we had seen in terms of profit achieved was amazing. Now, compared to that, it's a drop, but pre-COVID, we seem to be moving in the right direction.

Now, getting to the final slide, which shows the story, on our quarter performance. So, if you were to look at quarter performance, it is the numbers are there. So, net sales of Rs. 3554 crores, operating profit of Rs. 508 crores and the PBT and PAT, thereafter. If you look at the year-on-year, numbers, we have grown 6% on net sales. We are down 19%, on operating profit. We are down 22% on Profit before Tax, and Profit after Tax is (-23%). Obviously, there is a reflection of Rs. 35 crore of income tax benefit pertaining to the Quarter 1 of 2020, which was taken in Quarter 2 last year. So, that's why the PAT is looking, much lower than the rest.

But if you were to look at the 24-month growth, 24 months is a reasonable growth. And if you were to take away that Rs. 35 crores here, actually our PAT would be at a growth of 4% to 4.5%, is that right? 4%, yeah. It would be a growth of 4%.

Now, if you were to look at our year-to-date numbers, similarly, on a 24-month basis, we have grown 21% on net sales, 27% on operating profit, 18% on PBT and 18% on PAT. If you look at our profit from operations, and all of these as percentages, yes, in half year we have seen a decline versus last year, but reasonably comparable to 2019-2020. And with all of the pricing initiatives coming into play, we should be coming back to where we would like to be. So, that's from me. Over to you for any questions that you may ask.

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

Abneesh Roy: My first question is on the pricing dynamic, if I see tea and soap companies have taken high single digit to double digit kind of price growth, when they saw inflation. In your case, it seems to be limited. And a related question is, you said you have taken one-third of the pricing hike by MRP and two-third by the grammage, so if you could tell us two, three years back, when Parle's market share was far behind us, now the gap is lower then also was it a similar thing, in terms of one-third on MRP?

Varun Berry: Yeah, so Abneesh, see this category is a lot price driven. So, the price points make a big difference. So, Rs. 5, Rs. 10 in any case is fixed, right. So, if you can't make it Rs. 6 and Rs. 11 because consumers just shy away from buying that. So, you have to do grammage reduction there. So, wherever you have round price points, you have to do grammage reduction, to take a price increase. And yeah, things have always been like this. A large part of the portfolio has been on fixed price points. So, not much has changed there. So, if that's your question, there is not much has changed.

Abneesh Roy: Essentially, why the grammage cut cannot be a bit more, because it's a two-player industry, you and Parle dominate, and volume growth also is not high. So, how will the players grow if they don't cut grammage in these kind of scenario? So, what is the issue in the grammage cut being slightly more higher?

Varun Berry: No, so what we are saying is that we will take as much pricing as is required. So, the inflation will be completely covered through our pricing initiative. It's just that why we mentioned that one-third and two-third was to just give you the pain of grammage reduction, it takes time, right. So, one-third of it was taken immediately, all you need to do is print the price, right, if it's Rs. 26, going to Rs. 28, you just have to print the price, it can happen in a day, right. When you are doing grammage reduction, you have to do trials, you have to make sure sometimes you have to reduce the size of the biscuit, sometimes you have to reduce the size of the package. So, all of that takes a lot of trials and takes a lot of time. And especially for products like cake, etc., it takes a very long time because shelve life and all of that has to be tested. So, that was the only reason to tell you that number.

Abneesh Roy: Varun, one follow-up here. So, if I see you are one of the few FMCG Company in which gross margin pressure quarter-on-quarter is there 119 bit. So, when I see your raw materials chart RPO are close down quarter-on-quarter, and milk, sugar are largely stable, flour has gone up quarter-on-quarter. So, has the competitive intensity gone up with Parle because Parle last one and a half years has done because of COVID, so do you think that could also reverse going ahead? And if you could address quarter-on-quarter, GM pressure?

Varun Berry: No, so from a competitive standpoint, we have only become stronger, Abneesh. You have only seen a stronger show from us, right. So, we are not facing competitive pressure. I think everyone's doing what is required. Yes, we have taken the first mover, because we are market leaders, so we have to be first movers on pricing. But despite that we have seen no pressures on market share.

Abneesh Roy: My second and last question is on this news article, "Britannia to create a post of CEO reporting to MD, Varun Berry and succession planning." Could you clarify on that, what exactly it means because I think half of your second tenure is still left. So, wanted to understand the ramifications for that?

Varun Berry: There is no ramifications for that. So, we will talk about that when it comes to it. So, there was no official announcement or anything like that. And we will talk about that as we come closer to time. And I am here, don't worry.

Moderator: Thank you. The next question is from the line of Avin Mehta from Macquarie Group. Please go ahead.

Arvind Mehta: I just wanted to clarify one bit. Is the understanding correct that our margins should become better, should improve from2Q levels and 3Q and reach normality by 4Q, that's what you are highlighting because the price increase, especially the grammage pass through takes time, is that understanding correct, sir?

Varun Berry: No, that's absolutely correct. The other thing is, there is one joker in the pack, which is the inflation itself. So, every quarter we have been thinking of, inflation at some stage stabilizing. But that hasn't happened. So, I guess we will have to be nimble. And if there is a requirement, we will have to make sure that we do whatever is necessary under those circumstances, if inflation goes up from where we are at, we might have to take a little more pricing. So, we will be absolutely nimble on that.

Arvind Mehta: And just a follow-up on that, by normality, is this supposed to mean the 15% to 16% EBITDA margin seen in the earlier years, or would it be closer to the 19%, because you did highlight last quarter also, that 19% is one off, but should we kind of assume something in between the two, between the 15% to 16% seen earlier, and the 19%? Is that the right way to look at normality?

Varun Berry: Well, the right way to look at it is that last year was something which probably will take us some time to reach. So, I would say normalcy would be from where we were pre-COVID and beyond, not where we were during COVID and beyond.

Arvind Mehta: So, somewhere closer to the pre-COVID levels is what we should we seeing. And the second question was just bookkeeping on the ICDs, it seems to be an increase from 1Q level, is that understanding correct and if yes, where is that primary cost?

N. Venkatraman: So, ICD as of 30th September stands at Rs. 505 crores, which is --

Arvind Mehta: It was Rs. 460 crores, right last --

N. Venkatraman: Rs. 470 crores in the last quarter, marginally higher.

Arvind Mehta: And is this, any specific entity would you like to call out or is it just broad-based across the group?

N. Venkatraman: No, it is two entities which is Bombay Dyeing and Bombay Burmah only. It depends on the timing of repayment and timing of placement of ICDs.

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

Shirish Pardeshi: Just two questions from my side. Could you spend a minute that you said in the press release that your weighted inflation is about 14%, so far, whatever measures we have taken in the quarter, how much we have covered from this and what is going now in the market?

Varun Berry: So, Shirish, the total annualized inflation is going to be approximately Rs. 1,300 crores on an annualized basis, right. And we will cover that entire inflation by the end of this year, on an annualized basis.

Shirish Pardeshi: So, is it fair to say that one-third would have been already taken, the price increases and cost measures what you have taken is covered.

Varun Berry: So, in fact, everything is actioned, right. It just takes a little more time to implement it. And that's why it's going to go towards Quarter 4, the completion of that. But everything has been actioned.

Shirish Pardeshi: Just one follow up on this cost control, what you mentioned that it's one off at such times. Somewhere in the past you mentioned a number of Rs. 200 crores odd, is that number is different, higher, or lower for FY22?

Varun Berry: What is Rs. 200 crores?

Shirish Pardeshi: The cost containment or the efforts what you have taken in terms of cutting the cost.

Varun Berry: Yeah, so the cost efficiency programs, I just shared it's approximately about Rs. 250 crores now.

Shirish Pardeshi: My second and last question on the distribution front, in the domestic and also in the international. So, Part 1, is that in domestic you said that your pre-COVID level, but then you have also mentioned that your rural distributor points has gone up to 25,000. So, this is the direct distribution which you are undertaking or it is a redirect distribution which you have accounted?

Varun Berry: No, this is direct distribution. So, what we do is that we have these rural distributors who cover small villages. They cover anywhere from 20 to 50 outlets per distributor. We provide them IT infrastructure through a handheld, etc. So, that we have control over where they go and what they service. And so that's as far as our rural distribution is concerned. In urban areas because of the COVID impact, we did lose a little bit of steam in terms of our supervision, which we have spoken about. But we are confident that we will be very close to where we were pre-COVID and beyond, in the next six months or so.

Shirish Pardeshi: And could you spend a minute or two on the international business? What's happening in Africa, any status? And you said, Nepal, last two quarters has done well. So, what is it that we can expect as a contribution from Nepal for FY22, maybe ’23?

Varun Berry: So, Nepal is a small business, it just crossed Rs. 100 crores which is good, because in a country where we were exporting product, now with the plant there, we have become market leaders. And we are seeing very good traction for all of our products. And we haven't even launched some of our products there. So, we are looking at expansion plans as well. But, finally, it's a Rs. 100 crores business, but then that's how we build our international business by building these small businesses across.

As far as the Middle East business is concerned, we had to take a step back to leap forward. And the step back was that we had a master distributor in the UAE, who was not able to give us the kind of distribution and the performance that we were looking at. They got more involved with their logistics business and their distribution business was taking a backseat. So, we have now gone ahead and changed our distributor. We have got a very aggressive and a very good distributor there. And in the last three or four months, we have seen, we have made some very good headway there. We had been losing share bit-by-bit in UAE. And now in the last three, four months, we have seen share gains, and we have gone to the level that we were at our highest share there. So, that's the good news there.

As far as Africa is concerned, we are not doing, taking the high CAPEX route. We are not investing in our own factories. But we are looking at contract manufacturing facilities. We have already got two contract manufacturing facilities, one in Egypt, and one in Uganda. Now, we will look at how we scale that up, and how we can use those facilities to even export to other African countries. So, that's as far as our Africa business is concerned. Does that answer your question?

Moderator: Thank you. The next question is from the line of Mangalam Maloo from CNBC. Please go ahead.

Mangalam Maloo: From the conversation that you have had with everyone else this far and the conversation that you have spoken on the presentation, etc. it sounds like the worst of margins are behind the company and the best of demand is yet to come. Is that thesis, correct? If yes, then what are the factors that can accelerate or decelerate this thesis?

Varun Berry: So, Mangalam, see, in today's environment, I can't comment on the demand. I think the demand for most businesses seems to be coming back, right. But it's month-to-month, quarter-to-quarter change that we are seeing. However, I think there seems to be momentum, as far as we can see currently. Yes, your understanding is correct. As far as margins are concerned, we have taken all of the measures and all of the actions that will get us back to where we would like to be. And if the demand scenario continues the way it has been in the last three months, then we should be in a very good place.

Mangalam Maloo: Ahead of festive season, did you not see any sort of momentum coming by in terms of demand as well. And new launches that you have done this year lot more Britannia products in stores right now and most of them on the premium and as well. So, how much does that account for as a percentage of your sales right now and going ahead?

Varun Berry: So, our premium products actually have been doing really well. Frankly, Mangalam, we don't do the bottom of the pyramid products, it's very little that we do have glucose, etc. So, to that extent, I think we have seen momentum on our premium products, in the last three or four quarters. And we are hoping that that momentum will continue. What we are doing as a strategy is to look at some of our premium products to even fight with the value products with the right margin, so Good Day, and now Milk Bikis, North, which is rest of India, Milk Bikis, they are two products which are, while they are premium products, they are fighting all of the value products, at the right price points. So, that's our strategy. And hopefully we will keep seeing traction on those as we move forward.

Mangalam Maloo: I mean, new products as a percentage of sales, and how are they likely to be going ahead, the innovation?

Varun Berry: Innovation, what we target every year is about 5% of our revenue. But innovation for us is products, which are launched in the last 24 months. Products which have been launched let's say three years ago, fall off the innovation bucket. So, we look at about 5% of new products coming in every year.

Mangalam Maloo: Another word on the margin itself, in terms of inflation, you said that you have gone ahead and taken forward cover, etc. What if the prices normalize because these are unprecedented times, then do you stand to lose that benefit by having bought forward contracts?

Varun Berry: It doesn't seem like that Mangalam, it's very clear that there doesn't seem to be, you know we have seen very positive results till now. And it doesn't seem that the prices are going to fall. We have only got covers for another three, four months, till the end of the year. So, I think we will only benefit from that. And when you do that, there is a chance that you could, because you are using your judgment to do it. But this time, I think our judgment is right. Venkat, you want to comment on that.

N. Venkatraman: No, I think you said that, right. And in the first three quarters, Mangalam, I think between the market inflation and our inflation, I think we have been able to save almost about Rs. 200 crores.

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

Percy Panthaki: My first question again is on cost, just wanted to understand. So, first of all, very surprised that for the first time you have given some guidance on what price increases could happen in the next two quarters. And I think you are the first FMCG company to do so. But if I take your guidance, 10% kind of price increase going through in Q4, do you think the market construct enables you to take that kind of a price increase in the sense that earlier, let's say three, four years ago or whenever, you had a cost inflation at that time, your margins were not sitting at such a high base. And therefore the entire industry was okay to sort of pass on this benefit. But with such high margins in the industry, do you think that the competition might take a call saying that no, we don't want to pass on 10% kind of a price increase. And instead, let me try and focus on gaining market share or sort of, I mean, something of that sort, which would make you uncompetitive if you really go ahead with your plan, 10% price increase?

Varun Berry: No, so Percy the thing is that first of all, it’s not a guidance. We have spoken about it because it has been actioned already, right. So, in this quarter, we have actioned all of this. So, we thought that if we have actioned something then all of you need to know about that. So, that was the first thing.

Second, I think what has happened over the years, is that the margin table for the entire sector, entire industry has gone up. And people have gotten used to making a certain amount of profit. And once that happens then people are not bickering for a small piece here and a small piece there. And I think, we have reached that stage of maturity as an industry. So, I don't think we will get back to a doggy-dog kind of scenario, as far as pricing is concerned.

What we have seen, we have taken pricing and in certain cases, competition has followed, certain competitors haven't followed. But over a period of time, I think the market leader's actions hold important for the entire industry. And what we have seen even in the past, while you are right for the last five, six years, we haven't seen too much inflation. But what we have seen in the past is that if there is inflation, and if we take the right price increases, competition usually follows. So, I think it's the industry is at a very different level of maturity, currently. And hence, I am not a soothsayer so I don't know how this is going to work out. But I personally think that this will pan out well, for the entire industry.

Percy Panthaki: Secondly, I just wanted to understand the mechanics of this price increase on the margin. So, this quarter with a 4% price increase you have clocked a 15.7% EBITDA margin. Now with another 6% this 4% going to 10%, mathematically, unless the cost inflates further, you should be at a 20% margin with a 10% price increase. So, where am I going wrong in this calculation because you clearly would not sort of be comfortable with a 20%, right?

Varun Berry: No. So, see, the quarter-on-quarter inflation is also there, right. So, if you were to look at the kind of inflation that we have seen quarter-on-quarter, it's quite a bit. Venkat, do you want to comment on that.

N. Venkatraman: No, absolutely right. The inflation that's going to happen in Quarter 3 and Quarter 4, have been factored, because some of these are covered through forward contracts. So, we are reasonably clear about the Q3 numbers. So, those have been factored. And therefore, like Varun mentioned earlier, the joker in the pack is really the inflation that's going to be there in Quarter 3.

Percy Panthaki: So, can you just give me one number as to what is the inflation between what you have actually experienced in the Q2 P&L, versus what the spot prices are today?

Varun Berry: So, I gave you the number, let's take RPO, the inflation was 54%, but because of our forward buyers, our inflation was 46%. So, that's the kind of delta. It's between, let's say, on each commodity 5% to 8%, right, the difference. And once that cover goes off then obviously, prices will go up. So, we have taken all that into account, as we have looked at, what kind of price increases that will be required. See, when we started off, we did not realize that this inflation is going to be there for a very long time. As we realize that this is more of the norm for the future that's the time we decided to take a very clear call on what is required and then we took action on this.

Percy Panthaki: Have you seen or do you expect to see any kind of downtrading in the biscuit industry?

Varun Berry: See, downtrading happened a lot last year, right. If you remember, last year, during COVID, there was a huge amount of downtrading which happened. Will downtrading happen again, very difficult to say. I personally think that with the economy opening out, with things looking brighter, there is a sense of fulfillment as far as people are concerned, consumers are concerned.

So, in these kinds of times when things are looking a little brighter, usually downtrading doesn't happen. So, my personal feeling is that this is not the time where we will see downtrading, but yes, we will see as we move through this time we haven't seen it in the last six months and we are hoping that we don't see it in the future as well.

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

Arnab Mitra: My question was that this kind of a 10% price increase happening after a very long time in the industry. As you cut grammage, do you expect the volume consumption in the category to go down as consumers may consume lesser given that it is happening through a grammage cut? Or do you expect that dynamic to be made up through higher volumes? And the second thing is, if the volume growth does remain very tepid, let's say almost a flat number, will it be something which worries you, or given that your market shares are doing fine, it's okay to have this kind of a low volume growth for all this period of time?

Varun Berry: No, so you are absolutely right. We are going to see a period of low volume growth, not just for us, but for the industry as a whole. But it's not a great place to be but considering the kind of inflation that we are seeing in the marketplace, there is no other alternative. So, I think we will have to take it in our stride, we will probably see a scenario of low volume growth for a year or so and then things will start to come back to normal.

ArnabMitra: My second question was on all the non-biscuit portfolio so during the COVID, period, you had taken a bit of a step back there because of obvious reasons. And now, given the very high inflation, do those things still remain a little bit on the backburner? Or do you see next three, four quarters, you are going a lot more aggressive on the new products, non-biscuit portfolios, we are talking about.

Varun Berry: No so we will go very aggressive on that. So, what we are doing, even in the non-biscuit portfolio is we are actioning price increases there as well, for most of our products. And with that done, we will make sure that we put in all the right initiatives, whether it's advertising or sales, promotion, activation, etc. and we go aggressive behind our non-biscuit portfolio as well. But just to let you know, even in our non-biscuit portfolio, we have seen a very good momentum on market share.

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

Harit Kapoor: So, my first question was on the non-biscuit innovation agenda. So, over the last 18 months or so that agenda has been partially derailed because of COVID. And we have had the ambition to be total food, I just wanted to get a sense of now the next six months, do we see, given the high inflation in biscuit and non-biscuit some of this innovation agenda to get postponed to maybe Fiscal Year ‘23 or the category lead innovations that you were looking at, prior to COVID and the intent in some of these new categories, all that innovation starts to come back. So, just wanted to know, the timeline on when we can see a higher push there.

Varun Berry: No, so we will start to see higher push in the next quarter or so. See, the innovation was not put on the backburner because of inflation, right. Innovation was put on the backburner because of COVID. Most of the innovation products are on-the-go product, because on-the-go was out of fashion that's the reason why we put that on the backburner. But now with price increases all taken and the margin table moving back to normal, I think we will be looking at going aggressive on the non-biscuit portfolio and innovation portfolio.

Harit Kapoor: Second question is on the distribution side, we have quite a significant penetration gains on rural distribution. I just wanted to understand what can be the universe for this for you, you know, already at 25,000 do you see yourself now, getting close to steady state there where further expansion is unlikely, will the focus be more on throughput rather than addition. And this question will move from maybe to three-year perspective.

Varun Berry: No, so that always is a balancing point, throughput is important. But as I have said in the past as well, our share in the rural markets is 70% of what it is in overall, right. So, we have got a much lower share in rural markets. So, the first target for me is to make sure that we equalize the share in rural and urban. The difference between rural and urban share is huge for us. So, for that to happen, there are, and there is no reason besides distribution for our rural share to be lower than urban, it's our own inability to get to all of these villages, and all of these areas where we have lower share. So, the target is really to equalize this. And I would say it's not going to happen in a hurry, but the rate at which we are going maybe in the next three years, we will have the same share in rural as we have in urban. So, I think with that objective in mind, our rural push will continue for a lot more time.

Moderator: Thank you. Ladies and gentlemen we will take the last question from the line of the Vivek Maheshwari from Jefferies. Please go ahead.

Vivek Maheshwari: First, a very basic question on Slide#18, where you have shown the price increases. So, just to get it right, what you have essentially done is 10% price hike of which 3% is explicit. And let's say 7% is the grammage. That 3% price hike is getting reflected in 2nd Quarter already. 1% is grammage, which will move up to 7% by exit. Is that understanding correct?

Varun Berry: That's a very complicated equation. But yes, I would say more or less.

Vivek Maheshwari: So, explicit price hikes whatever you have had to take up, that you have done already, which is why the full percent number jumps up to 10, right.

Varun Berry: Yes. So, the rest of all these grammage reduction numbers that will come in Q3 and Q4.

Vivek Maheshwari: Second, Varun, a few of your, at least the personal care peers have sounded a word of caution on rural, with either AC Nielsen showing, a deceleration or their own numbers by the exit showing some kind of deceleration, what is your experience and outlook on rural?

Varun Berry: Our outlook is very positive. We have seen very good growth in rural. And I think it's not so much about economy. It's more about our ability to reach to the villages and distribute our products. So, we continue to be bullish as far as rural is concerned.

Vivek Maheshwari: And last thing, I mean, if I draw parallels with Marico's Parachute, we have generally seen in high inflationary environment, Marico ends up passing on the hikes to the customers. And there is an unorganized to organized shift which is in favor of typically Marico. Now in case of biscuits there is more than one player so, let’s say three, four organized but the unorganized steal is also quite large. Do you think this I mean, if Britannia is facing this headwind, the unorganized will be far more impacted? Do you think the next 12 to 18 months could see actually, the larger guys benefiting from a share gain standpoint?

Varun Berry: See, I can only talk about what's happened in the last six months since the inflation became rampant. So, what you are saying has played out. So, the larger players have been gaining, and the smaller players have been losing. So, you are right, with our scale, we can get a lot better bang for our buck in terms of countering inflation while the smaller players have a difficult time. So, in the past that's happened I don't know how it plays out in the future as well. But we will make sure that we bring in all that’s required to give us the upper hand as we go forward. And as you know, 35% of the biscuit market is unorganized. So, we will try and see what we can get out of it.

Moderator: Thank you very much. And I will hand the conference over to Mr. Yash for closing comments.

Yash: Thank you everyone for spending time with us on the call. We look forward to interacting with you again.

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