Analyst Meet
30th August, 2013

BRITANNIA

Eat Healthy, Think Better

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Eat Healthy, Think Better
TIGER

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Eat Healthy, Think Better
Marie Gold

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Eat Healthy, Think Better
cakes

BRITANNIA
Treat

50-50

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GOOD DAY

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Eat Healthy, Think Better
NutriChoice

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Eat Healthy, Think Better
MilkBikis

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bourbon
THE ORIGINAL
BOURBON

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pure Magic

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Premium Bake
RUSK

Food is a Rs 12,50,000 Crore opportunity

Branded food growing faster than overall food and non-food

Growth driven by rising income, quality consciousness and convenience seeking

Bakery, other than biscuits, is a growth opportunity for Britannia

Biscuit is the largest category in branded foods ~Rs 25,000 Cr

Dairy branded but generic, growing fast and providing scope for differentiation

Source: Ministry of Food Processing, Own Estimates

Business Update

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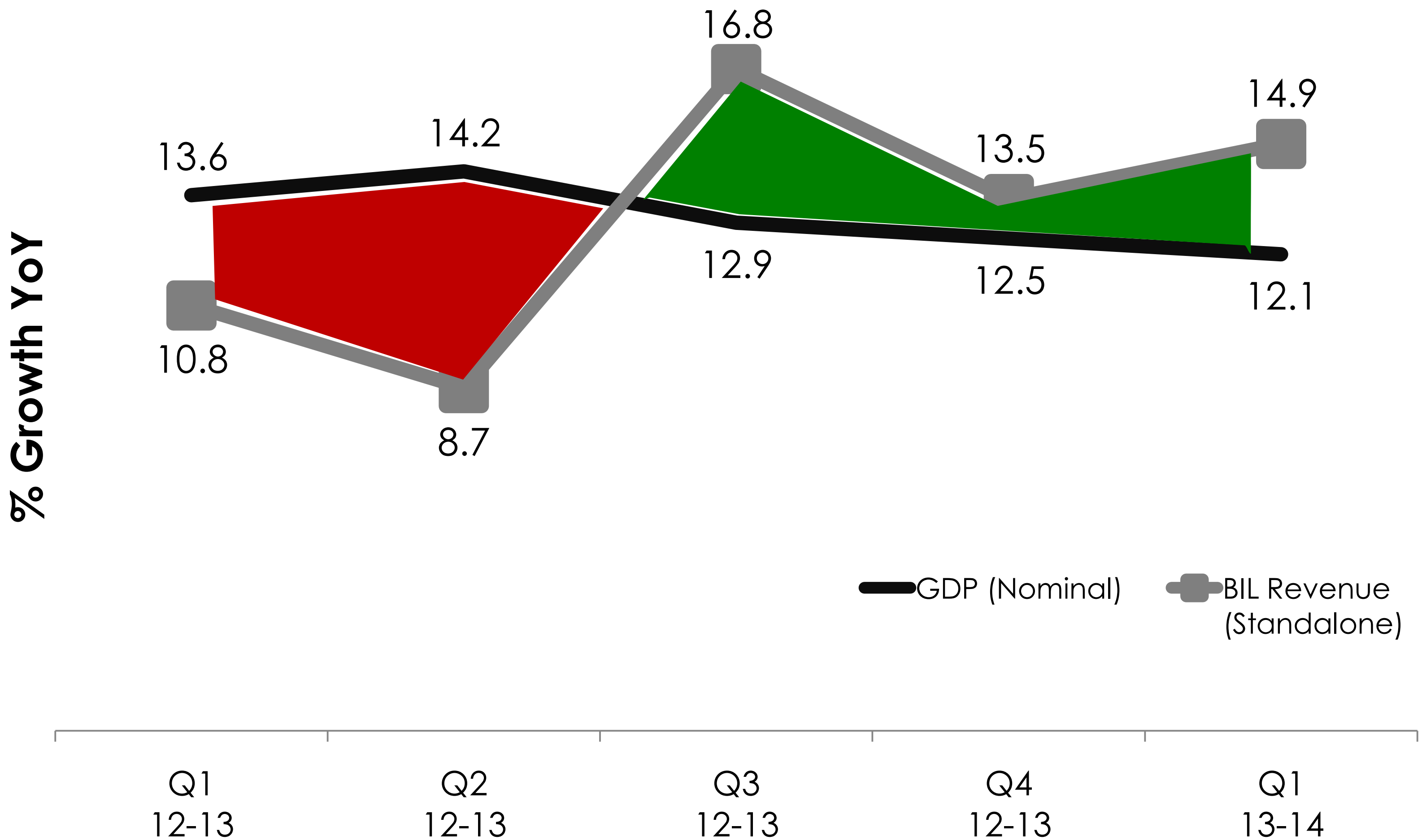
Highlights

- Powerful brands well supported
- Strong Go-to-Market
- People
- Core Category Focus
- Momentum in Revenue and Profit Growth

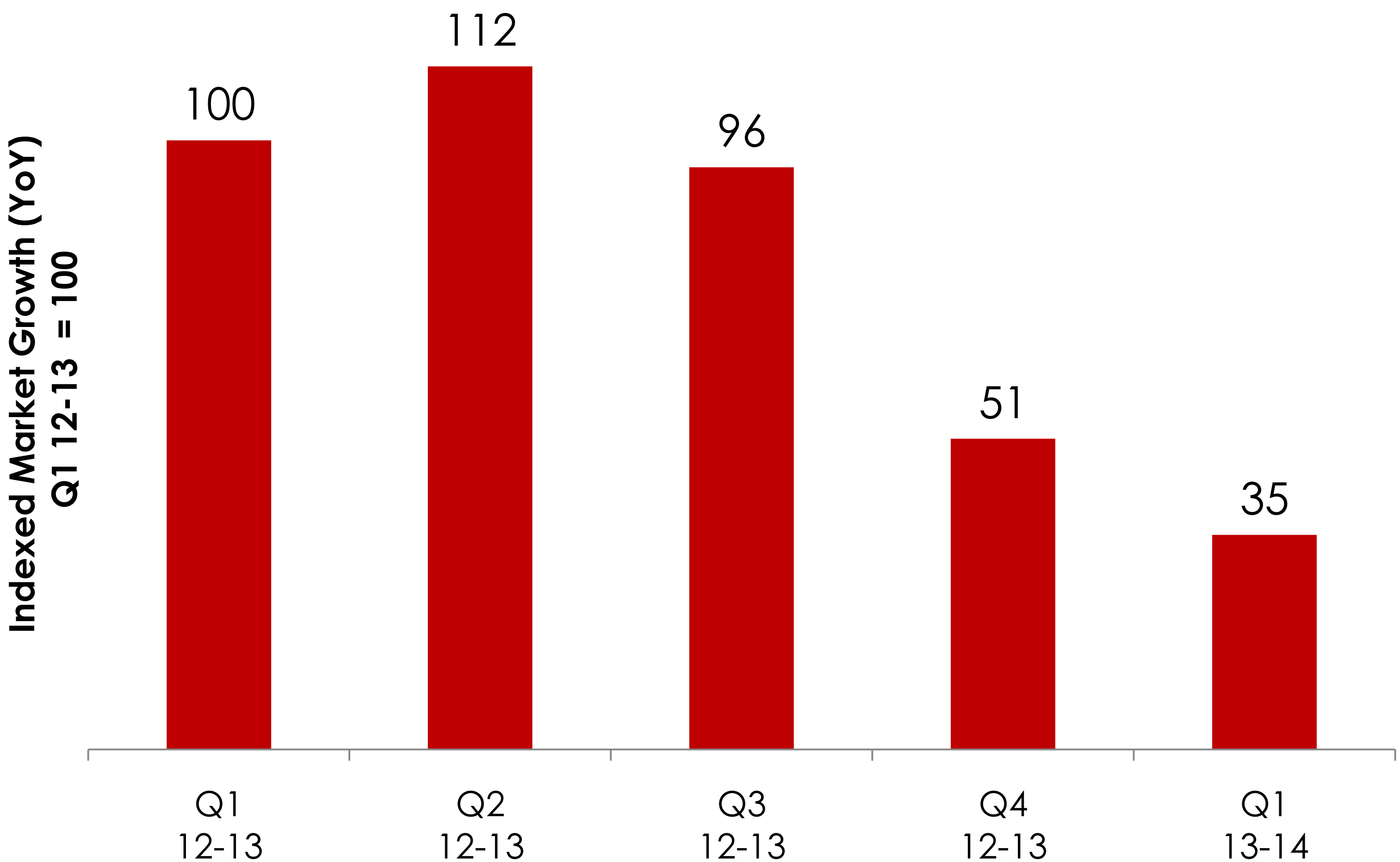
- Slowing economic environment
- Commodity prices

Nominal GDP vs Britannia Growth



Source: CSO, Analyst Estimates, Company Financials

Slow down in Biscuit category



Source: Nielsen

Amidst challenging economic situation

FMCG companies scramble to shore up demand as consumers roll back spending

VIVEAT SUSAN PINTO
Mumbai, 27 August

Dark clouds have begun to dampen the growth prospects of the country's fast-moving consumer goods (FMCG) industry. Insulated until now from the blues that hit other sectors, pressure is slowly beginning to mount.

Hindustan Unilever, the country's largest FMCG company, reported its weakest sales in three years as growth slipped to 7 per cent in the June quarter. Volume growth for the company fell to 4 per cent during the period as consumers kept away from the marketplace.

Kolkata-based ITC too reported lower-than-estimated sales growth of 10 per cent in the quarter, as people deferred purchase of non-essentials such as cigarettes. The usually buoyant FMCG portfolio, which helped ITC report good numbers in the last few quarters, was a bit of a drag as demand for biscuits, soaps and shampoos weakened during the period.

Mumbai-based Colgate-Palmolive and Ghaziabad-headquartered Dabur, while each reporting 9 per cent volume growth during the June quarter, just about managed to meet analysts' estimates. So did GSK Consumer which saw volumes rise 7 per cent in the June quarter.

Nestle India managed a respectable 9.8 per cent growth in domestic sales, but this was because of an increase in prices rather than volume. Marico posted 10 per cent growth in overall volumes for its domestic consumer business in the June quarter, but non-essentials such as hair oil saw a drop in demand. Its key brand, Parachute, grew only 4 per cent during the quarter.

Marico attributed the tepid growth to the high-base effect of the corresponding period last year and loss of sales to retail outlets in Maharashtra, an important market, which downed shutters due to a strike over the levy of local body tax in the June quarter.

On the other hand, analysts say Parachute, which did well in previous quarters, finally fell prey to the demand slowdown that is beginning to make itself visible across categories. Harsh Mariwala, chairman & managing director, Marico, says, "Slowdown in FMCG comes with a lag. From double-digit growth a few quarters ago, growth is now down to 2-3 per cent."

LOW AND SLOW

Net sales (₹crore) quarter ended

	June '12	June '13	YOY Growth %
P & G Hygiene	313.09	423.08	35.13
Godrej Consumer	1,392.11	1,724.91	23.91
GlaxoSmith C H L	758.43	890.30	17.39
Gillette India	336.49	392.96	16.78
Britannia Inds	1,354.07	1,551.51	14.58
Colgate-Palm	756.09	859.69	13.70
Jyothy Lab	281.49	319.15	13.38
Emami	338.83	383.65	13.23
Dabur India	1,471.26	1,656.52	12.59
Asian Paints	2,546.07	2,841.09	11.59
Nestle India	1,993.40	2,222.71	11.50
ITC	6,706.49	7,410.70	10.50
Marico	1,270.33	1,382.37	8.82
Hind Unilever	6,378.77	6,809.04	6.75

Source: Capitaline — Compiled by BS Research Bureau

Nitin Paranjpe, outgoing managing director & chief executive, Hindustan Unilever, says, "All categories are slowing, most notably those at the premium end and those dependent on discretionary spends. And this should continue for some time."

As consumers crimp their budgets, the first items to go out of their list are creams, lotions, packaged foods, beverages, and all those items that can be cut out of the consumption basket. V Srinivasan, FMCG analyst at Mumbai-based Angel Broking, says, "During tough times, consumers quite simply adopt drastic measures to keep their household expenditure in check. The attitude is let's try and save as much as we can."

This nervousness has been captured by market research and insights provider Nielsen in its consumer confidence survey for the June quarter. The study ranked India as the third most optimistic country after Indonesia and the Philippines for the period under review, down from second position in the March quarter. "The dip in confidence over the last six months reflects the concerns over the devaluation of the rupee and the continuing inflation for urban Indians," Nielsen India Region President Piyush Mathur said during the release of the study last month.

While discretionary spending has taken a hit, consumers are also being cautious and are controlling expenditure on essentials, he added. This cutback seen in consumption of essential items is the most worrisome aspect of the slowdown, say analysts.

In order to minimise the risks to their business, companies are looking at newer ways to shore up demand. A prominent aspect of their strategy has been to increase advertising and sales promotion expenditure to ensure there is top-of-mind recall for their products. Most FMCG companies have raised their advertising expenditure to 13-15 per cent in the June quarter from 10-11 per cent a year earlier.

As input costs remained tepid, companies could increase advertising and sales promotion expenditure without taking a big hit on their profit margins. But with the recent weakness in the rupee, which has amplified input cost, the gains have been nullified. India is the world's largest importer of inputs such as palm oil, used extensively by FMCG companies Rising input costs and weak consumer sentiment are putting the companies in a quandary. Certainly, raising prices won't be easy. Any decision on increasing prices is likely to be taken judiciously in order to avoid adding to inflationary pressures, says Sunil Duggal, chief executive officer of Dabur

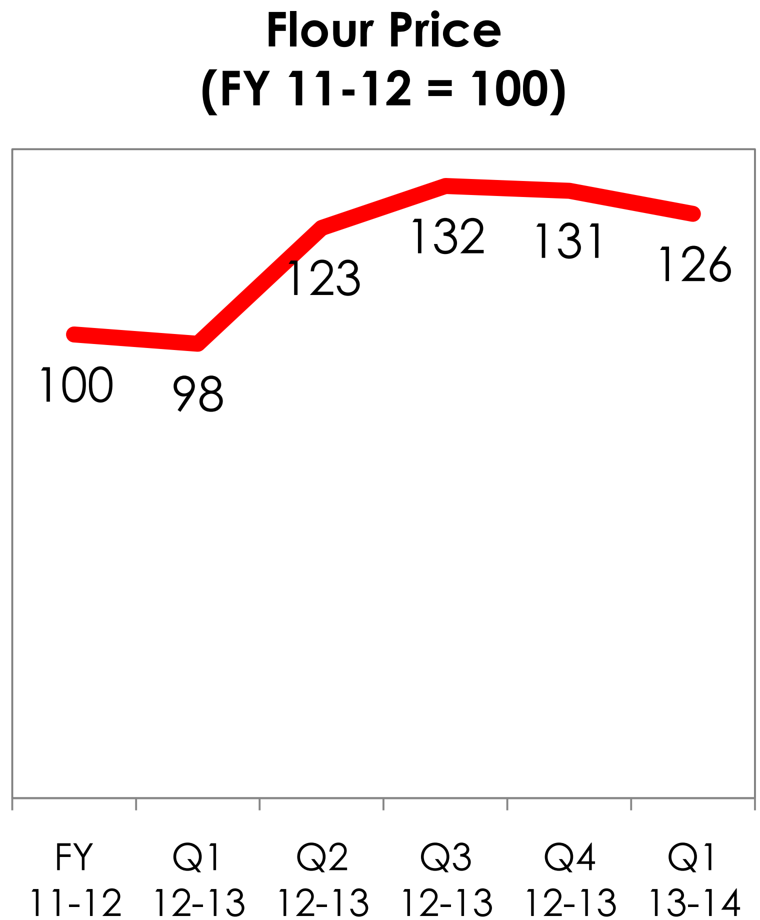
However, there are a few bright spots. Rural consumption appears to be holding on amid the uncertainty. In the first quarter of the current financial year, rural sales grew 10-11 per cent even as urban sales growth fell to low single digits for most companies. This year, with the monsoons going strong, companies are hoping for an increase in demand from the rural areas as a good harvest will leave more money in the pockets of farmers.

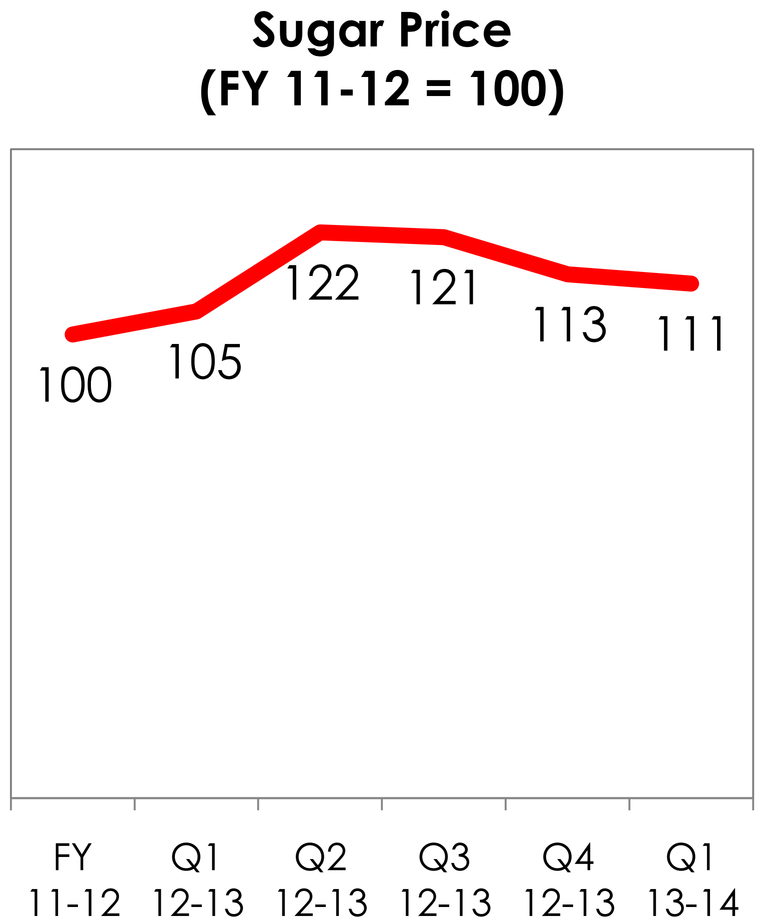
Companies are already pushing their distribution reach deeper into smaller towns. Hindustan Unilever, for instance, has trebled the distribution reach of its products in the last few years to get a bigger slice of the consumer spending in non-city areas. Dabur, Godrej Consumer Products, Emami and Colgate-Palmolive are among the other companies vying for a bigger slice of the rural pie.

Companies are also expected to push more above-the-line and below-the-line activities as well as drive more value packs to boost sales in rural areas. FMCG companies derive about a third of their sales from these areas. The plan is to take this number to over 40 per cent in the near term.

Source: Business Standard

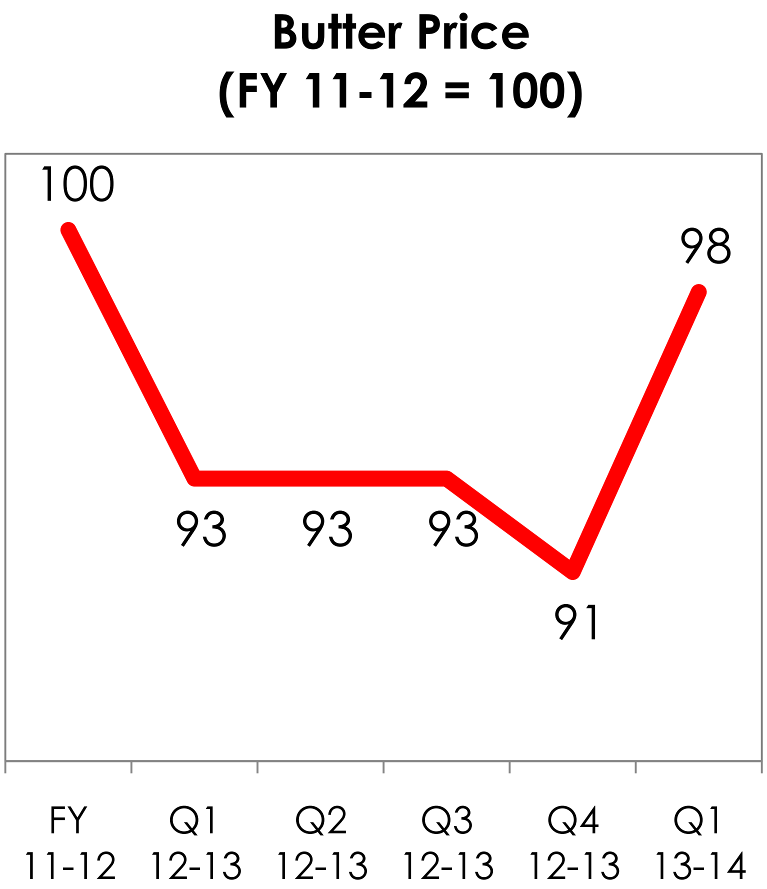
Some commodity prices remain steady but elevated

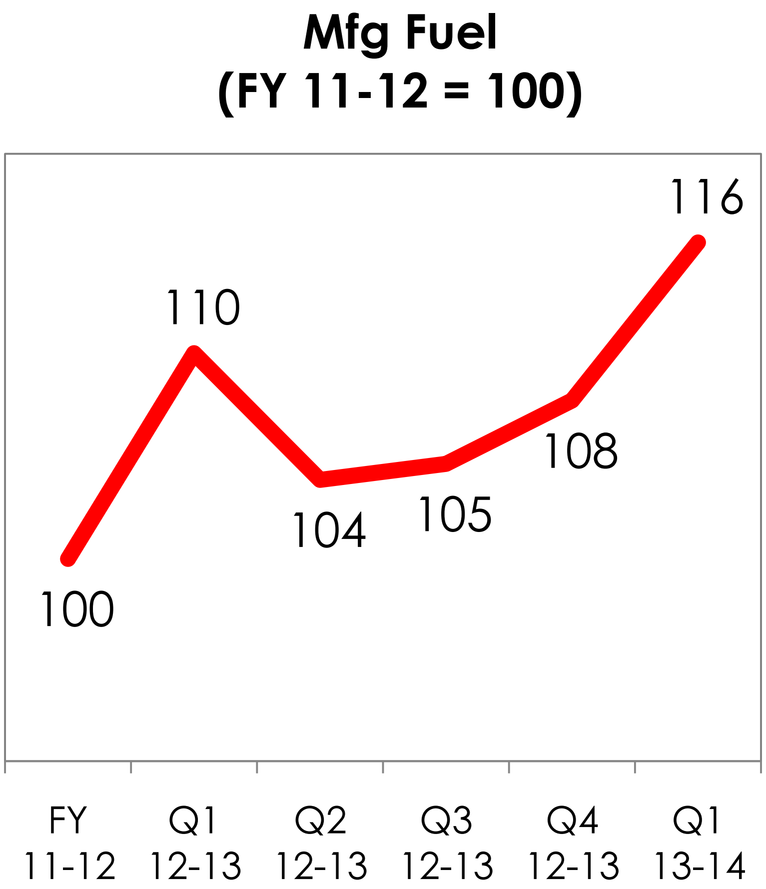




Source: Market Prices

While others are on an upward trend





Source: Market Prices

3 areas that continue to drive operational excellence

Newness & Innovation

- New delightful offerings
- Higher value realization

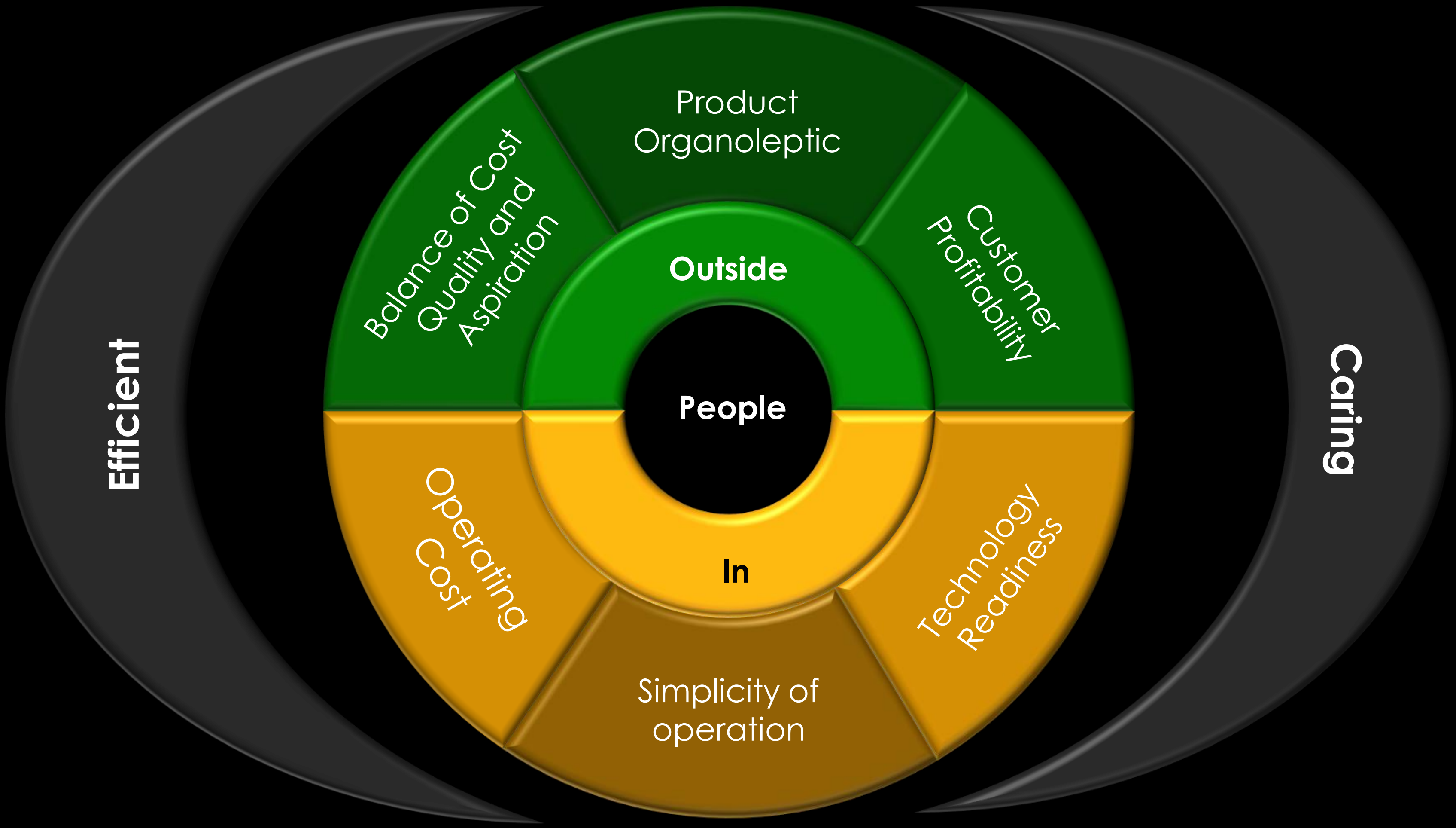
Restructuring Cost Base

- Comprehensive projects from design to delivery
- Continuous improvement in operations

Revenue Management

- Differentiated brands
- Differential Pricing

Elaborated further…



Building efficiency across the value chain: Sales, an example

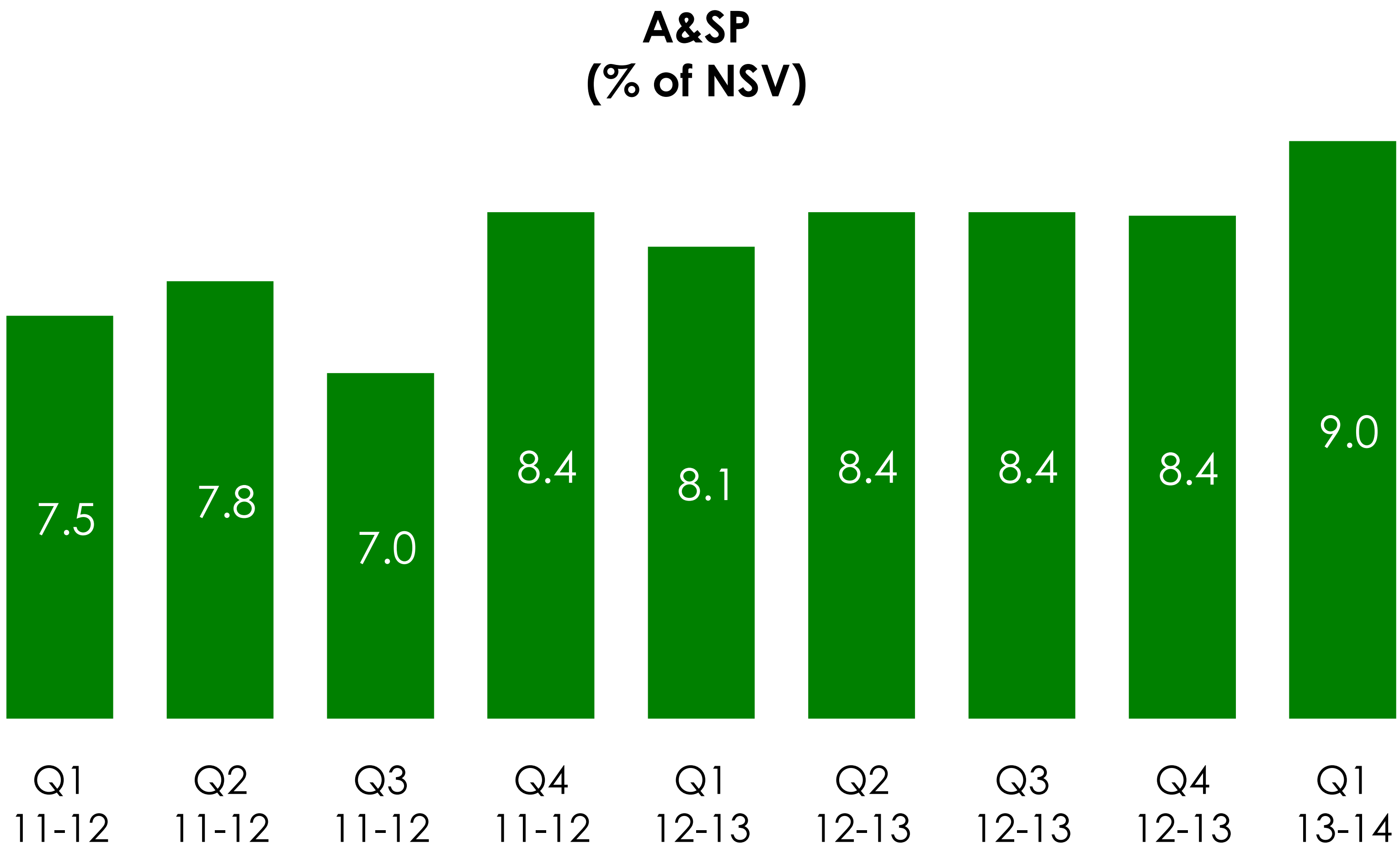
Right Skill → In Right Place → With Right Effort → For Right Result

KPI		
Retail Availability ↑	Revenue/Salesperson ↑↑	Value/Transaction ↑↑

Customer Profitability

- Reconfiguring portfolio to simplify handling
- Increasing business size
- Improving Productivity through training
- Split portfolio for more focussed selling
- Supply management to reduce inventory
- Faster settlement to free up working capital

Supporting our brands to leverage their strength



Source: Company Financials

Resulting in strong double digit growth of our pillar brands

Source: Company

Strong brands leveraged through steady investment

with a focus on the fundamental levers of operations

has powered profitable growth

in an otherwise challenging macro-economic environment

Financial Performance

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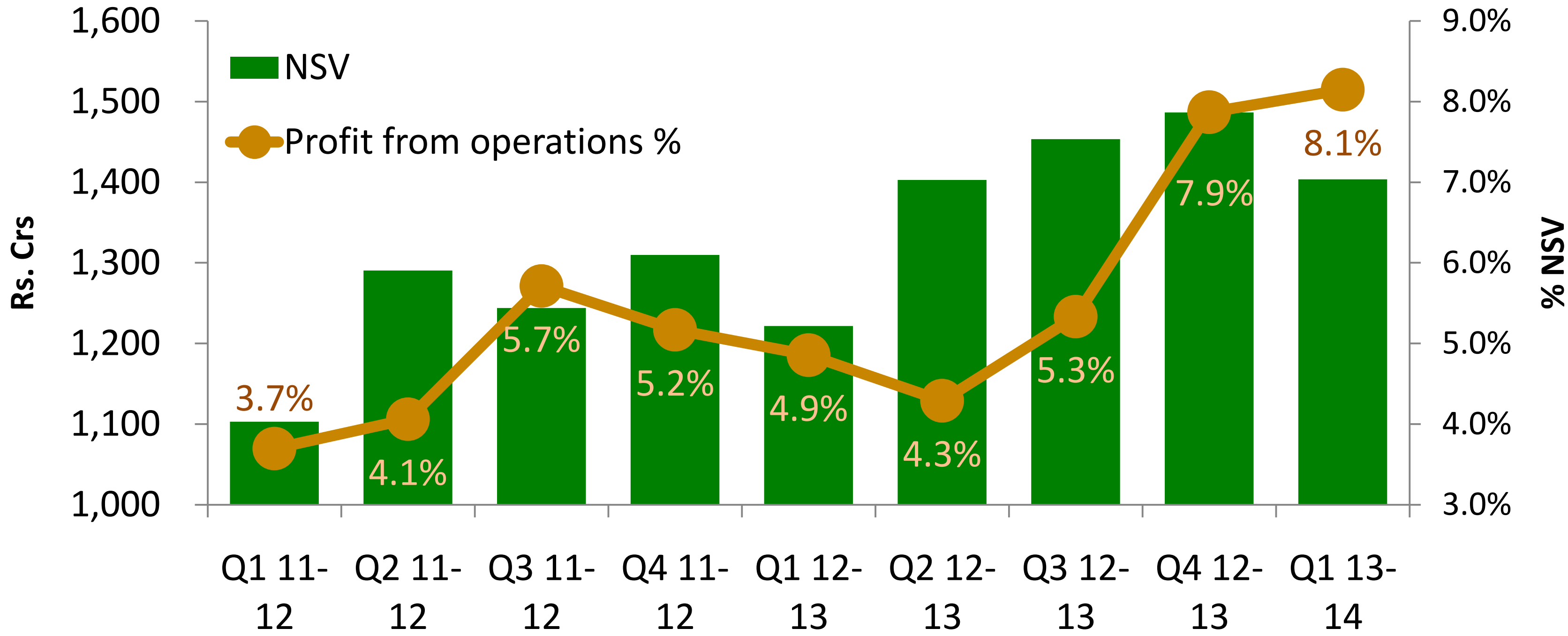
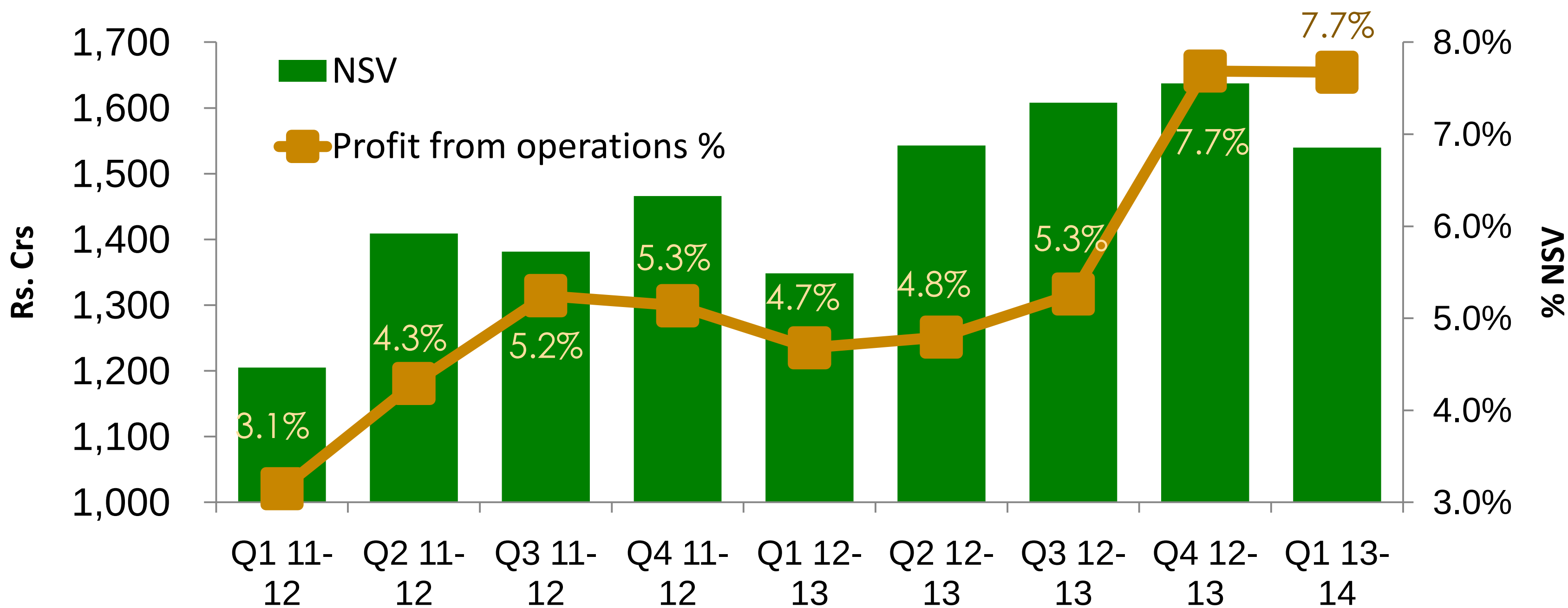
Profitable Growth – Standalone



NSV (Growth %)	21.4%	18.2%	15.6%	16.8%	10.8%	8.7%	16.8%	13.5%	14.9%

Source: Company Financials

Profitable Growth – Consolidated



NSV (Growth %)	20.9%	18.5%	16.8%	20.0%	11.9%	9.5%	16.4%	11.7%	14.2%

Source: Company Financials

Key Performance Indicators - Standalone

Particulars	2011-12	2012-13	Q1 2013-14
Book Value Per Share (Rs.)	43.5	53.2	60.8
Profit from Operations %	4.7%	5.7%	8.1%
Profit before Tax%	5.1%	6.0%	8.9%
Profit after Tax%	3.8%	4.2%	6.1%
Debt : Equity Ratio	0.8	0.3	0.0

Source: Company Financials

Key Performance Indicators - Consolidated

Particulars	2011-12	2012-13	Q1 2013-14
Book Value Per Share (Rs.)	34.3	46.1	54.0
Profit from Operations %	4.6%	5.7%	7.7%
Profit before Tax%	4.9%	5.8%	8.3%
Profit after Tax%	3.7%	4.2%	5.8%
Debt : Equity Ratio	1.5	0.7	0.3

Source: Company Financials

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Financial Performance

Stand Alone	FY 12-13				FY 13-14
Growth	Q1	Q2	Q3	Q4	Q1
Sales	⬆10.8%	⬆8.7%	⬆16.8%	⬆13.5%	⬆14.9%
PAT	⬆3.9%	⬆20.5%	⬆5.3%	⬆65.7%	⬆98.6%

Consolidated	FY 12-13				FY 13-14
Growth	Q1	Q2	Q3	Q4	Q1
Sales	⬆11.9%	⬆9.5%	⬆16.4%	⬆11.7%	⬆14.2%
PAT	⬆18.4%	⬆36.4%	⬆11.0%	⬆50.5%	⬆92.5%

Source: Company Financials

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