



THE BRITANNIA PROMISE

BRITANNIA  
Eat Healthy. Think Better.

Analyst Meet  
**Kolkata**  
5<sup>th</sup> August 2015

## *Disclaimer*

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The Economic environment is becoming challenging with slowdown being witnessed across the FMCG sector...

# FMCG's Run may Decelerate Further

## STOCK TAKING ON D-STREET

Except for a few like Britannia Industries and Emami, 2014-15 was a slow year for FMCG companies as high inflation eroded demand. But most preserved their margins as prices of raw material softened; besides, many pushed through higher prices in the early part of the year. The first quarter of 2015-16 will close on a dismal note with monsoon forecasts adding to the uncertainty. Companies like ITC and Nestle India are facing strong regulatory and operational risks; fears are more companies may come under regulatory scrutiny. It's not good news for investors of FMCG stocks. No wonder valuations have come off their peaks touched last year.

### BRITANNIA

The best performing FMCG stock since January, Britannia has continued to gain in volumes and market share under the new management. The stock hit a new high on strong show for the fourth quarter. Focus on key brands, scaling up of the dairy business and expansion of overseas business would be drivers of growth going ahead.

OUTLOOK: POSITIVE

### EMAMI

The outlook is positive for one of the best-performing FMCG stocks. Recording strong volume growth, it has bucked the overall industry trend. Its latest acquisition - Kesh King, though expensive, is strategic to its portfolio. The deal would support the stock's EPS.

OUTLOOK: POSITIVE

### COLGATE PALMOLIVE

The oral-care leader managed to keep competitors at bay, but overall slowdown in the category and aggressive competition from HUL and P&G continue to threaten the company's performance and growth prospects.

OUTLOOK: NEUTRAL

### DABUR INDIA

Managed to grow its volumes in the range of 8-10% in a challenging demand scenario. Its niche herbal positioning and one of the most diversified product portfolios give it an edge.

OUTLOOK: POSITIVE

### GODREJ CONSUMER PRODUCTS

While volume growth is a challenge in the domestic business, currency fluctuations have been impacting its international business. Despite this, the company improved margins with lower raw material cost.

OUTLOOK: NEUTRAL

### HUL

The performance of the largest FMCG company has been characterised by poor volume growth. While the company has been able to protect its bottomline growth, it has to post strong double-digit growth to retain investor interest.

OUTLOOK: NEUTRAL

### ITC

Regulatory clamps on smoking and fear of more clamps have cast a shadow on ITC's main business of cigarettes. Since its other businesses do not have the scale to match the earnings of the cigarette division, it only adds to the concerns regarding the company's growth. The stock hit a 52-week low on Thursday.

OUTLOOK: NEGATIVE

### MARICO

Hit by low volumes and muted performance of its international business. Since more than half the revenue comes from hair oil, fortunes are linked to prices of copra, the key raw material.

OUTLOOK: NEUTRAL

### NESTLE INDIA

Punitive regulatory action is the most critical challenge to impact the near term performance of this foods company. Even before the controversy, Nestle had been reeling under the pressure of declining volumes since past several quarters on account of slowdown in urban consumption.

OUTLOOK: NEGATIVE

### TATA GLOBAL BEVERAGES

Poor growth in its tea business (which contributes 75% of its revenues) as well as slow ramp up of its JVs - like Starbucks and water beverages - could delay growth in the near term.

OUTLOOK: NEGATIVE

## FAST & NOT-SO-FAST MOVING

FMCG Stocks	Returns (%)			P/E	FY15	
	One Year	YTD*	3 months		Net Sales Growth %	Operating Margin (%)
Britannia Industries	188.76	40.97	17.45	44.95	13.8	10.9
Colgate Palmolive India	37.19	6.27	-8.76	46.70	11.6	20.8
Dabur India	35.64	10.23	-6.74	42.17	10.7	16.8
Emami	138.03	35.20	4.20	50.17	21.8	24.2
Godrej Consumer Products	33.99	16.47	-4.79	42.17	8.7	16.3
HUL	30.32	8.48	-15.58	41.25	9.3	17.3
ITC	-9.53	-17.82	-10.84	25.16	9.9	36.9
Marico	70.16	30.62	10.65	47.70	22.3	15.2
Nestle	24.38	-4.65	-18.44	46.52	8.2	20.7
Tata Global Beverages	-10.48	-8.40	-13.13	34.39	2.8	8.2

\*Year to date

Source: ETIG Database

Text: KIRAN KABTITA SOMVANSHI

# WAITING FOR ACHHE DIN

Consumer economy experts like to keep a close watch on the performance of Hindustan Unilever Ltd (HUL), the largest packaged consumer goods company by sales, to derive their conclusions on India's consumption story. Going by the quarterly results of the Anglo-Dutch fast-moving consumer goods company, India's consumption story is still not back on track.

The company reported a minuscule 0.22% increase in net profit to ₹1,059.14 crore in the three months ended 30 June from ₹1,056.85 crore a year ago. Domestic consumer product sales, including that of its soaps and detergents, shampoos and creams, and soups and sauces, increased 5.35% to ₹7,782.82 crore from ₹7,387.48 crore.

Surprisingly, even the additional 22% expenditure on advertising and promotions during this period could not help HUL. And growth was slow in the rural markets.

The company's chief executive officer Sanjiv Mehta said on Tuesday that although the rural markets used to grow at 1.5 times the rate of urban markets, "now both urban and rural are growing at the same rate".

Rural markets account for one-third of the company's total sales.

It is easy to see why rural consumption is not robust. The demand in rural markets has been tepid owing to several reasons. For starters, rural incomes have been declining. According to a *Mint* report dated April 24, fewer rural households are claiming wages under the 10-year-old Mahatma Gandhi National Rural Employment Guarantee Scheme (MGNREGS). In 2014-2015, there was a 50% decline in households that completed 100 days of wage employment, the minimum guaranteed under MGNREGS, according to the rural development ministry website. The rural employment programme helps in boosting rural incomes as it guarantees up to 100 days of unskilled work in a year to every poor rural household.

The purchasing power of the rural consumer was also affected owing to deficit rainfall in 2014. In 2015, untimely rains in the months of March and April dented rural incomes as they affected the rabi, or winter, crop just ahead of the harvest. The rains damaged crops in 19 million hectares across 15 states. Foodgrain production was also expected to decline 5.3%.

The demand for goods and services tapered off as rural incomes ebbed.

## mint COLUMN

Ankur Bisen, head of retail at consulting firm Technopak Advisors, said unseasonal rains affected pockets

in rural India, causing a dip in demand. Construction material, home and personal care products, two-wheelers and gold—products that are a good measure of rural consumption—did not show signs of brisk sales. That demand for gold hasn't picked up even at such low prices shows the state of rural spending, he added.

Consumer demand in urban India is muted, too. According to Kannan Sitaram, partner and chief executive officer, consumer goods, India Equity Partners, urban consumption has been slow for a while. High inflation over the last few years destroyed demand as product prices increased. People are clearly delaying spending in urban markets, he said.

Interestingly, an IMRB Kantar World Panel report, which looks at household purchases of consumer products, shows no growth in urban markets in total purchase volume of packaged goods including personal care, household care, and food and beverage products. The data is for a full year up to May 2015 compared with the same period last year. However, in rural markets, both personal care and household care show a 5% increase each in purchase volume, while the food and beverage category declined 3%.

But that is really not saying much for these under-penetrated categories. "Personal care, which should be growing at 15%, isn't growing at that rate even though the market is far from being saturated," said Sitaram. Besides, even though inflation is down, it still needs to be managed and the macroeconomic environment is not inspiring confidence, he added.

Consumer demand is more uncertain than it is negative. The euphoria around the Bharatiya Janata Party government that took office last year and sent the stock market zooming is over and people are waiting for concrete steps that will dispel the air of ambiguity.

All eyes are on the Parliament session in the hope that the government will eventually get down to business and roll out fresh measures to boost demand.

Of course, companies are not expecting miracles in the next couple of quarters, with spending continuing to be muted. It will be some time before the consumption story is back on course.

Shuchi Bansal is *Mint's* media, marketing, and advertising editor. *Ordinary Post* will look at pressing issues related to all three. Or just fun stuff.

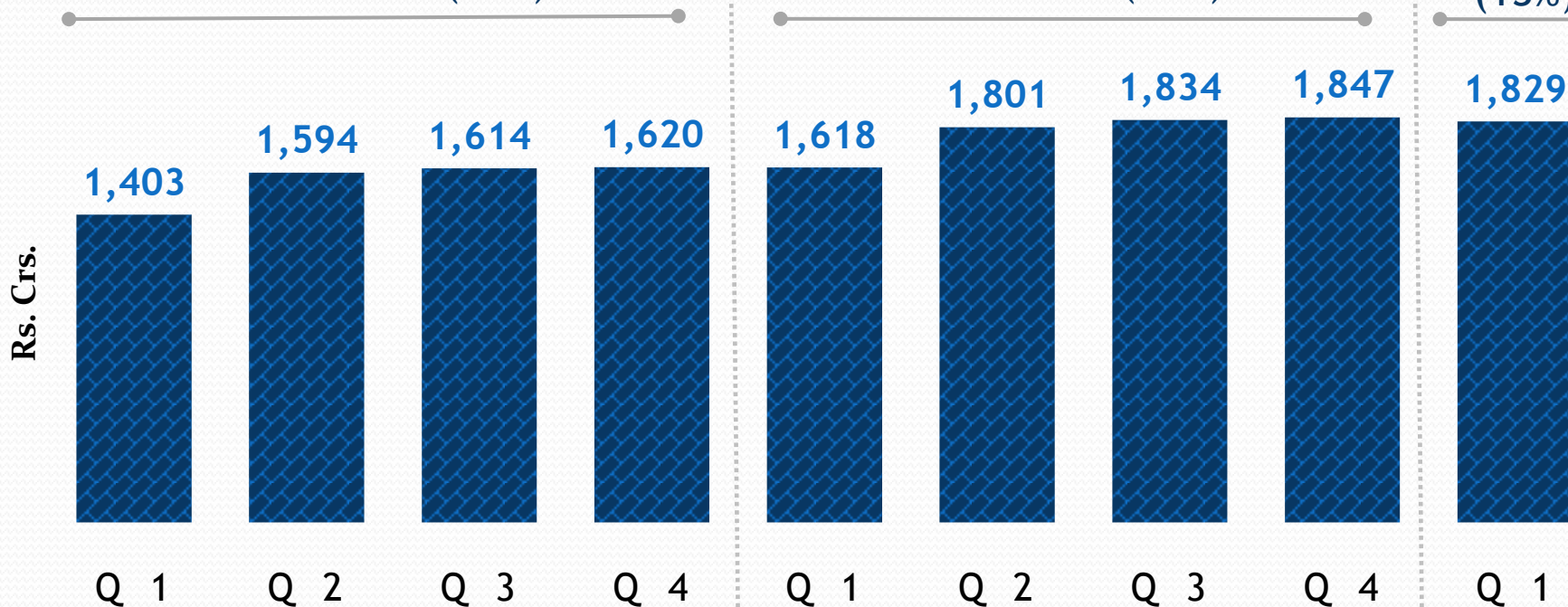
# However, we had a robust topline growth...

Standalone

FY 13-14 (12%)

FY 14-15 (14%)

FY 15-16  
(13%)



	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
Growth%	15%	14%	11%	9%	15%	13%	14%	14%	13%
24 months growth%	27%	24%	30%	24%	32%	29%	27%	24%	30%

## By Strengthening our Go to Market Strategy...

Expanding our distribution in terms of direct reach  
[~80k outlets added in Q1]



Focusing on expansion of Route to Market Strategy  
[Implemented in 13 cities in Q1 with ~20% NSV from RTM AWs]



Driving Sales Efficacy through hand held devices  
[No. of Salesmen with PDAs doubled from SLY]



Sustaining structured channel programs  
[Loyalty & other programs to drive rural & urban extraction]



## With Significant Opportunities yet to be realized...

Scope to Increase our share in the rural business  
[Our Rural MS is only  $\sim 2/3^{\text{rd}}$  of our Urban MS]



Scope to Increase our Numeric distribution  
[Our ND is at  $\sim 2/3^{\text{rd}}$  of our nearest competitor]



Scope to strengthen position in our weak states  
[Gujarat, MP, Rajasthan, UP  $\rightarrow$  "Hindi Belt" where we are  $\sim 1/5^{\text{th}}$  of the market leader in terms of MS]



Scope to strengthen position in the Value segment  
[Value segment constitutes  $\sim 45\%$  of the total market and we are  $1/5^{\text{th}}$  of the market leader in terms of MS]



## By Focusing On Brand Building & Visibility...

Association with marquee properties



Britannia GoodDay ahead of key sponsors of IPL in terms of Top of Mind Recall & association with IPL



Over 1.2lakh entries for the consumer activation





# And By Continuing To Focus On Innovation



POSM & Counter Top Display

MT Visibility – 850stores

Window Displays – 12000 stores

Sampling – 1 mn consumers

ATL



TV



Print

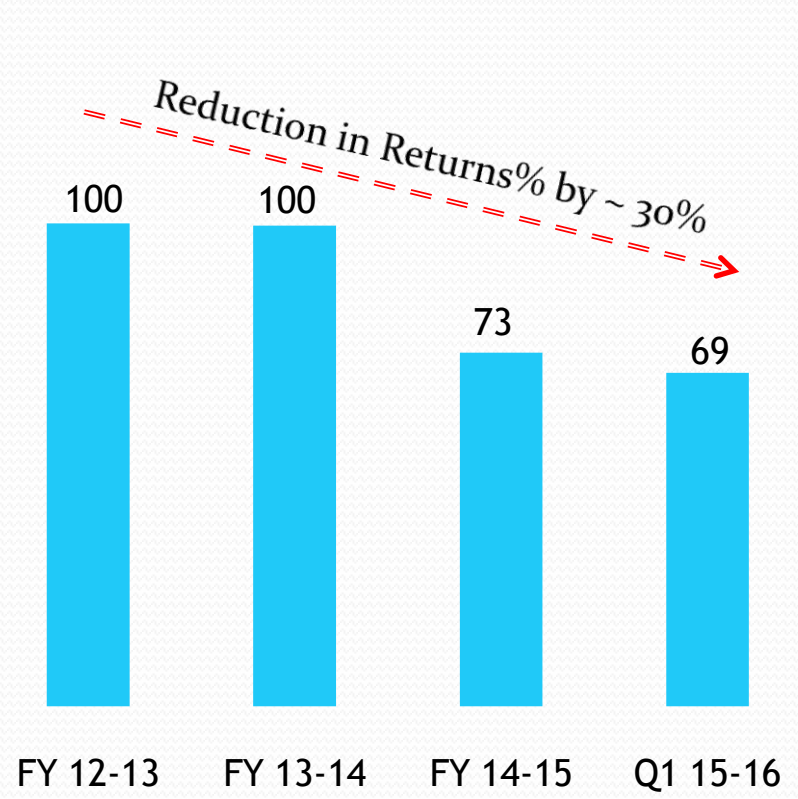
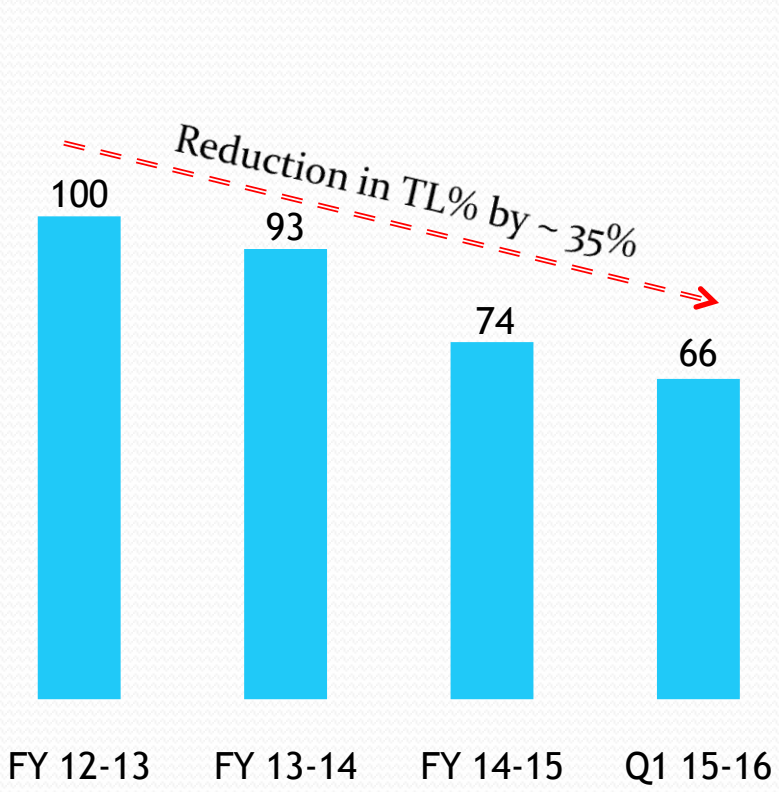


Outdoor



Digital

# With Increased Extraction From Trade Spends & Reduction in Market Returns



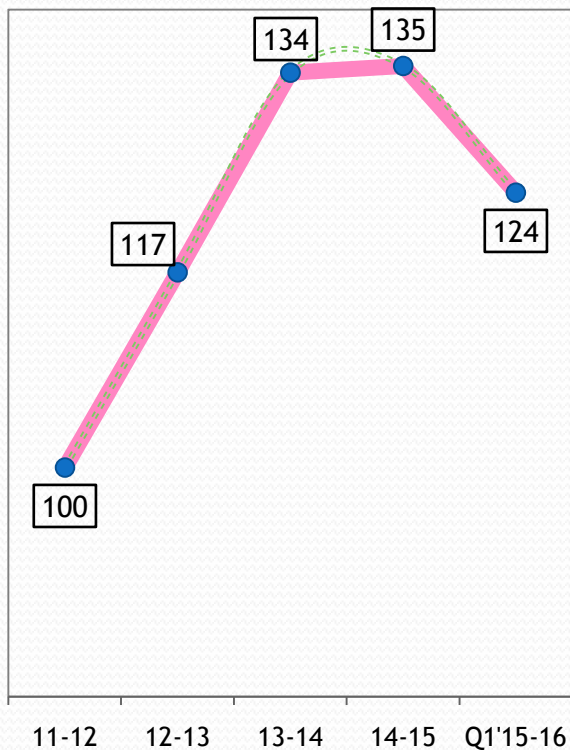
FY 12-13 TL & Returns % indexed to 100



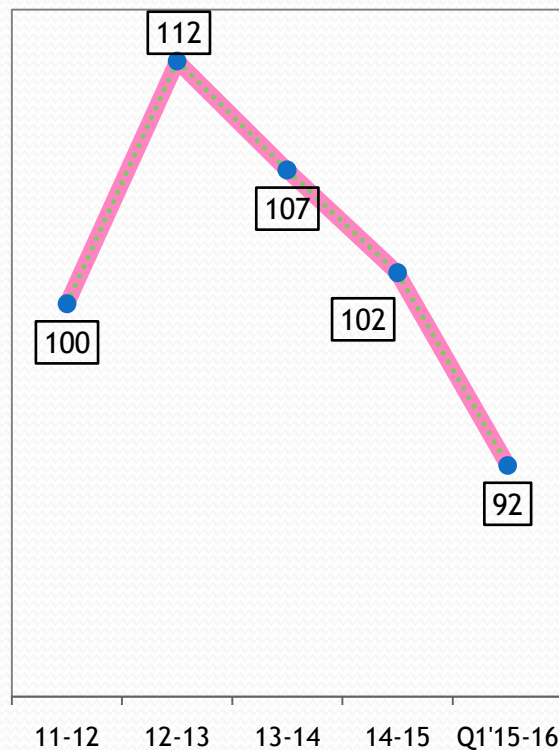
Meanwhile material prices have  
been benign...

# With Prices of Key Commodities declining...

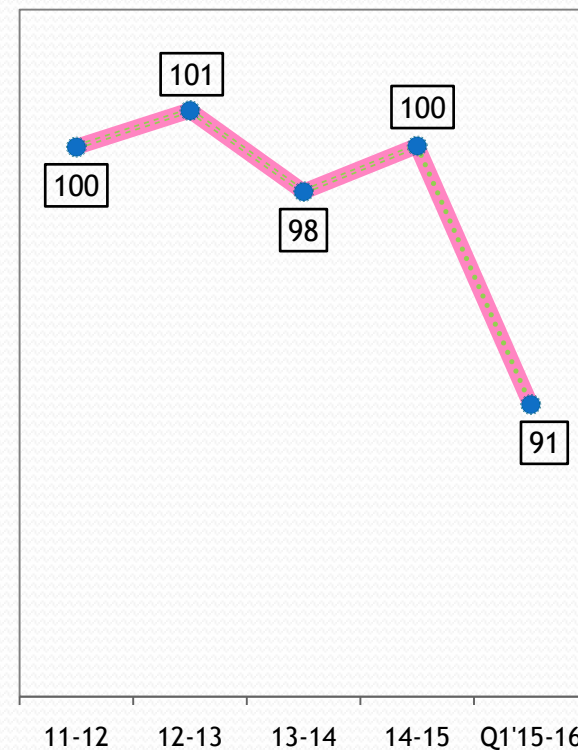
**Flour Price**  
 (FY 11-12 = 100)



**Sugar Price**  
 (FY 11-12 = 100)



**RPO**  
 (FY 11-12 = 100)



We have passed on the benefit to our consumers to ensure competitiveness





We have also maintained relentless focus on cost competitiveness...

## Through the following measures ...

### Manufacturing efficiencies

[Through TQM, Kaizen, Lean etc.]



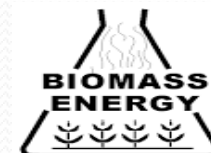
### Reduction in wastages

[Through recipe optimization & tighter operating norms]



### Energy optimization

[Energy efficient ovens; ~40% of the production basis alternate fuel]



### Larger & technologically superior factories

[Factory in TN to come up in Q2 & in Karnataka in Q3 ]



### Reduction in distance travelled

[10% reduction planned in CY]





And we are building capability to ensure future readiness....



# People

Senior Leadership team with diverse experience



Larger role for young & dynamic professionals



Leaner, accountable & motivated team



Culture of competitive spirit



Cross Functional team work



# Research & Development

State of the art R&D  
facility planned  
[Will come up in Q4 CY]



*To continue delivering superior organoleptic products.....*

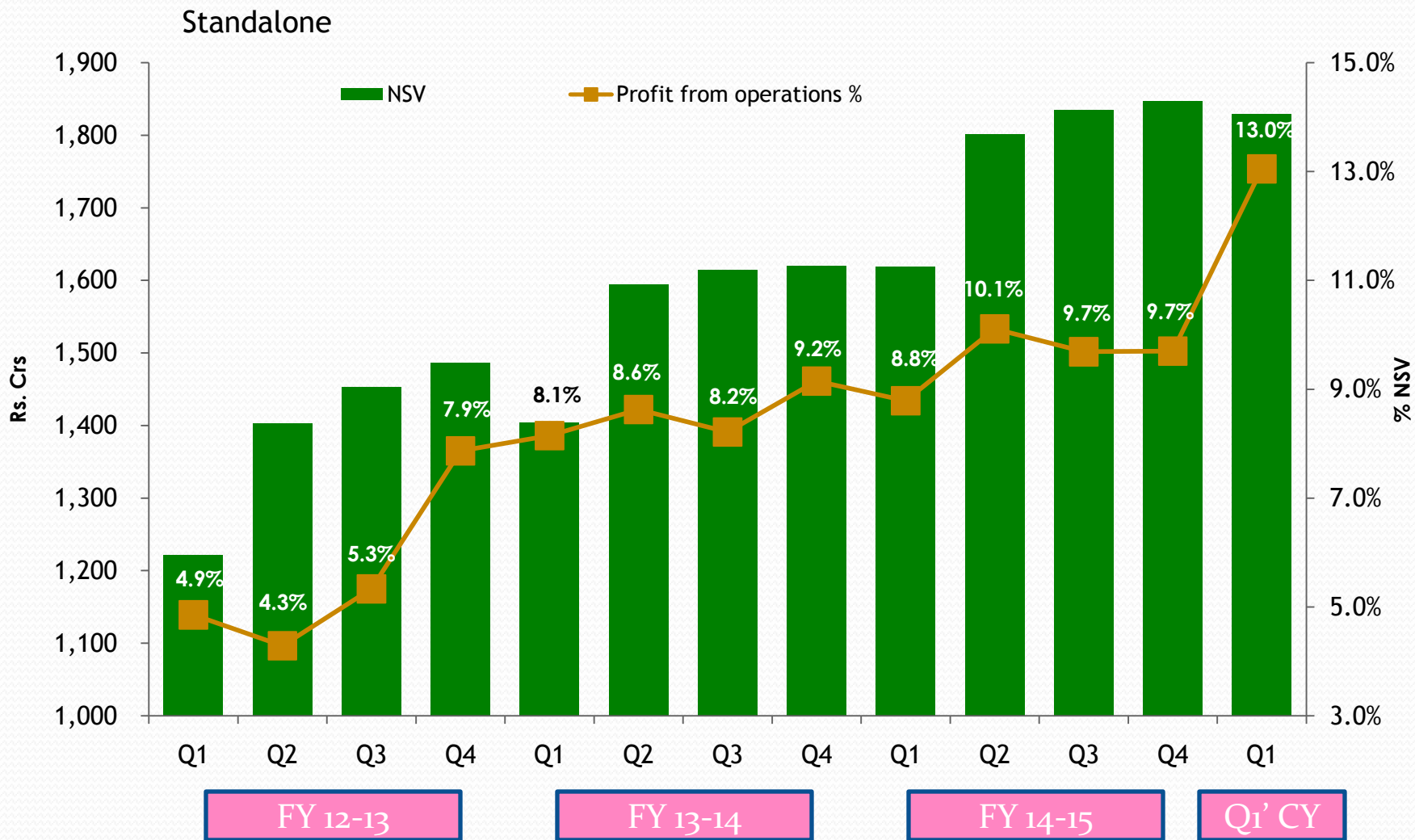




As a result of these efforts....



# We Have Delivered Strong Profit Growth & Profitability





We are also confident that we would be able to exploit the significant opportunities that lie ahead ...

# Significant Opportunities Ahead ...

## Biscuit Market

Huge potential in terms of Innovative products, Premiumisation of Categories etc... Yet to be exploited..

### Dairy

Organised  
Market size  
~Rs. 75K Crs



### Cakes

Nascent  
market...  
Huge  
potential to  
grow..



### Rusk

Nascent  
market...  
Huge  
potential to  
grow..



### International

New  
geographies  
yet to be  
tapped...



### Adjacencies

Macro  
Snacking  
market ~Rs.  
30K Crs



*And we continue on the path of excellence...*

**.....To become a Total Food Company**



THE BRITANNIA PROMISE



# Financials



# Key Lines - Standalone & Consolidated - Q1

Rs. Crs.



Particulars (Standalone)	Q1 2015-16	Growth %
Net Sales	1,829	13%
Profit from Operations	239	79%
Profit Before Tax	257	68%
Profit After Tax	168	56%

Particulars (Consolidated)	Q1 2015-16	Growth %
Net Sales	2,003	13%
Profit from Operations	261	90%
Profit Before Tax	278	76%
Profit After Tax	190	67%



# Key Performance Indicators - Standalone

Particulars	2011-12	2012-13	2013-14	2014-15	Q1'15-16
Profit from Operations %	4.7%	5.7%	8.6%	9.2%	13.0%
Profit before Tax%	5.1%	6.0%	8.7%	12.4%	14.0%
Profit after Tax%	3.8%	4.2%	5.9%	8.8%	9.2%
Debt : Equity Ratio	0.8	0.3	0.0	0.0	0.0



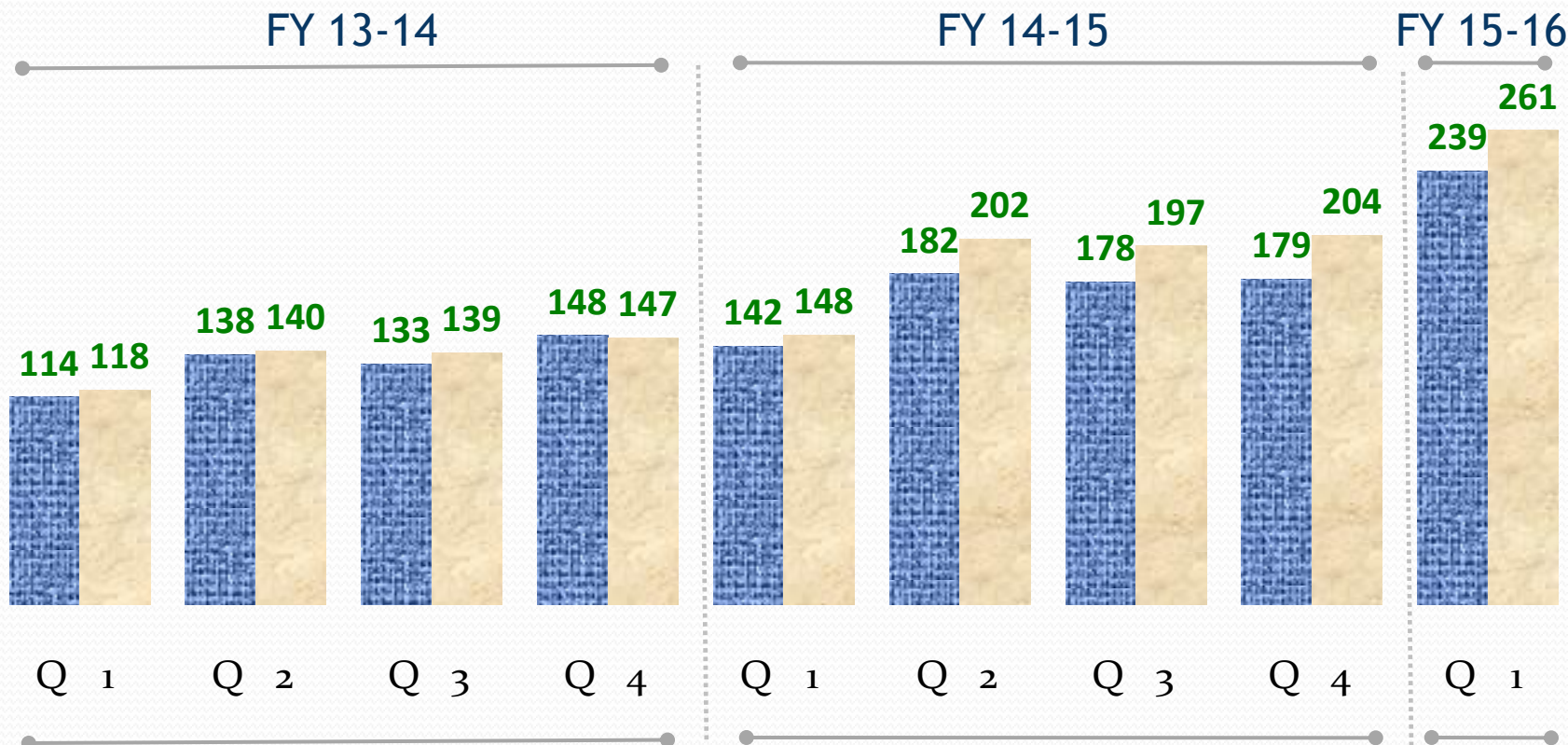
# Key Performance Indicators - Consolidated

Particulars	2011-12	2012-13	2013-14	2014-15	Q1'15-16
Profit from Operations %	4.6%	5.7%	8.0%	9.3%	13.0%
Profit before Tax%	4.9%	5.8%	8.3%	12.2%	13.9%
Profit after Tax%	3.7%	4.2%	5.8%	8.9%	9.5%
Debt : Equity Ratio	1.5	0.7	0.2	0.1	0.1

# Improved Subsidiary Profitability

## Profit from Operations

■ Standalone    ■ Consolidated





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