13th February, 2024

To,

Corporate Relations Department	Listing Department
BSE Limited,	**National Stock Exchange of India Limited,**
Phiroze Jeejeebhoy Towers,	Exchange Plaza, C/1, G Block, Bandra-Kurla Complex,
Dalal Street, Fort, Mumbai - 400 001	Bandra (East), Mumbai – 400051
Scrip Code: 500825	Scrip Code: BRITANNIA

Dear Sir/Madam,

Sub : Transcript of the Analyst Call held on 7th February, 2024 for the quarter and nine months ended 31st December, 2023

Ref : Regulation 30 read with Para A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30 read with Para A of Schedule III of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 as amended, please find enclosed the transcript of the Analyst Call held on 7th February, 2024 pertaining to the Unaudited Consolidated and Standalone Financial Results for the quarter and nine months ended 31st December, 2023.

The transcript of the analyst call is also available on the Company's website at https://www.britannia.co.in/data/Analyst_Call_Transcript_Q3_2023_24_77abb14285.pdf

Request you to please take the above information on records.

Thanking you,

Yours faithfully,

For Britannia Industries Limited

THULSIDASS VELAYUDHAN THARAYIL

Digitally signed by THULSIDASS VELAYUDHAN THARAYIL
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Date: 2024.02.13 11:56:45 +05'30'

T. V. Thulsidass
Company Secretary
Membership No. : A20927

Encl.: As above

"Britannia Industries Limited

Q3 FY24 Earnings Conference Call"

February 07, 2024

MANAGEMENT:	**MR. VARUN BERRY – VICE CHAIRMAN AND MANAGING DIRECTOR -- BRITANNIA INDUSTRIES LIMITED** **MR. RAJNEET SINGH KOHLI – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER -- BRITANNIA INDUSTRIES LIMITED** **MR. N. VENKATARAMAN – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER -- BRITANNIA INDUSTRIES LIMITED** **MR. VIPIN KATARIA – CHIEF COMMERCIAL OFFICER, SALES AND REPLENISHMENT -- BRITANNIA INDUSTRIES LIMITED** **MR. AMIT DOSHI – CHIEF MARKETING OFFICER -- BRITANNIA INDUSTRIES LIMITED** **MR. MANOJ BALGI – CHIEF PROCUREMENT OFFICER – BRITANNIA INDUSTRIES LIMITED** **MR. VINAY SINGH KUSHWAHA – CHIEF TECHNICAL AND STRATEGY OFFICER – BRITANNIA INDUSTRIES LIMITED** **MR. RAMAMURTHY JAYARAMAN - GENERAL MANAGER OF CORPORATE FINANCE -- BRITANNIA INDUSTRIES LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to Britannia Industries Limited Q3 FY24 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 call, please signal an operator by pressing star then zero on your touch-tone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Ramamurthy Jayaraman, General Manager of Corporate Finance. Thank you, and over to you, sir.

Ramamurthy Jayaraman: Thanks, Rio. Hello, everyone. This is Ram from the Investor Relations team. I welcome you all to the Britannia earnings call to discuss the financial results of quarter three '23, '24. Joining us today on this earnings call is our Vice Chairman and Managing Director, Mr. Varun Berry; Executive Director and CEO, Mr. Rajneet Singh Kohli; Executive Director and CFO, Mr. N. Venkataraman; Chief Commercial Officer, Sales and Replenishment, Mr. Vipin Kataria; Chief Technical and Strategy Officer, Mr. Vinay Singh Kushwaha; Chief Marketing Officer; Mr. Amit Doshi; and Chief Procurement Officer, Mr. Manoj Balgi.

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

Varun Berry: Good morning, everyone. I'm happy to have you on the call today. So let me jump into the presentation. The first slide, I think you've seen it many times over. Basically, it just talks about the economy in the country doing very well. It's the private consumption, which is slower than what it was last year. The investment in capital, etcetera, has gone up considerably. And I think it's a matter of time before private consumption comes back to an even keel as well.

Moving on to the next slide, which is our performance scorecard. So if you look at our revenue from operations for Q3 '24, it's at INR 4,192 crores with the operating profit of 17.7%. And our revenue from operations on a 12-months basis has grown by 2%, and operating profit is negative 2%. While if you look at a 24-months base, our CAGR is -- growth is 19% on a 24-months basis. And on the operating profit front, the growth is at 52%.

The next slide is about the market share. This is a slide that we've shared with you always. And happy to report that our market share trends have come back. We have been flattish, and we are now on the same track that we've been for 11 years, which is a growth in market share.The next slide is about our strategic pillars, which is distribution and marketing, lead innovation, adjacent business, cost efficiencies and sustainability, which drive profitable growth for us.

So I'll take you through these. So as far as distribution is concerned, we've expanded direct reach to 27.6 lakh outlets. We've also increased our rural distribution by appointing 29,000 rural distributors, which has gone up from 28,000 in December '22. And our focus states continue. As you'll all notice that our overall growth is small, but the growth for the focused states is much more than what it is for the country.

The next slide is about pricing actions that we've taken. We were -- it's not just us. It's every

FMCG in India. Every FMCG operator was not clear on where inflation was going because we saw a very long period of inflation. And as a result of that, we had got some estimates on where this could lead, based on that we've taken some price increases, the inflation cooled a little faster than we thought.

So to make sure that we don't continue with the same prices but bring them down in line with what the inflation of raw materials is, we've taken certain strategic pricing actions in some of our key brands. And we've also done some tactical consumer promotions to drive consumption on those products because we've seen that as far as consumption trends, especially in rural are concerned, we seem to be not doing as well as we were in the previous years.

We've also had -- on the next slide, please. We've also had a sustained marketing support to drive consumer engagement and some very exciting promotions, which have been done. All of you must have seen the Ravi Shastri advertising on 50-50. So similarly, we had a cricket-based promotion on 50-50 which was On Pack Portfolio Activation, as we call it.

We've also had Milk Bikis where it's Ashwin and his family who are promoting the brand for us. We had NutriChoice where it's Ranveer Singh and we've been very successful with our advertising on all three of these brands. We've launched Treat Cremes. We've re-launched Treat Cremes with a very different avatar. We've got a biscuit with a hole for all of our products. And it's too early to call victory, but it's had a very good response in the market.

We've done -- for all of these, we've done visibility drives. We've also done for our adjacency products. Rusk, we've had a communication and milkshakes, we had a second summer run, which helped us gain volumes and revenues. And this has been very well received and recognized because our marketing team -- next slide, please. So our marketing teams have received a lot of recognition for this. We got the marketing team of the year award from the India Marketing Awards for 2023.

We got the digital brand of the year for ET DigiPlus again for 2023. We also got Marketer of the Year, which are Clutter Cutters Awards, for, again, 2023 and Brand & Marketing team of the year for ET Brand Equity. So take a bow Amit, well done. Next slide is about innovation to fuel next phase of growth. In this we've had very good success with two of our products. Jim Jam Pops and Golmaal which have been in the market for some time.

And as I said, some of the new products that we've launched, again, too early to call victory but showing good trends, namely Treat Cremes, Tiger Coconut. Some large cake formats that we've launched. And our energy and protein bars, which are under the Be You brand name, which stands for believe in yourself. And all of these are contributing on an annualized basis, about INR 200 crores to our top line.

Next slide is about the adjacent business, which remains on a strong footing. Cake, we've had growth coming back to our base format. Rusk, again, there's a volume recovery that we've started to see after the restage. As you know that we used to do only contract packing with cake. We just had one line in the south of India. In the last year and a half, we've installed three manufacturing lines, and this is going to give us very good -- not just on quality front, but very good paybacks on efficiency front as well.

And bread, health and variety segment has been outperforming the regular segments. So there things seem to be coming back. I wouldn't say that we've had a great year, but I would say that things seem to be on the right track after this quarter. Cheese, again, we've launched differentiated formats, which are gaining traction. We have this, the spreadable cheese portions in a triangular form, which we've launched, and we've launched the INR 10 sachet of cheese. It's pure cheese, which has been launched in the traditional trade.

And we also commercialized our processed cheese line in the month of January. So we are in a good place as far as cheese is concerned. Our joint venture with Bel is going quite well. And we are hoping that we will start to see good traction as we move forward because everything takes a little bit of time to get to where we want it to, but I think this year is going to be a great year for us as far as cheese is concerned.

And we're also gearing up for the season, the summer is just ahead of us. So we are gearing up for the season for drinks as well. International has been a very good story for us this year. And even this quarter, we've seen double-digit profitability growth across all markets, Middle East, Africa, rest of international. And Nepal has been a very good story for us, where we made investment, put up a plant. It continues to do very well and continues to grow not just top line, but even in profitability terms.

One small spark which is Egypt. In Egypt, we set up a contract packing unit, and we had started to seed our products in the market. And we've grown five or six-fold in that market, and it's still a very small number. So I'm not going to make a big deal about it, but it just shows that if we bring our products to markets which are similar to India, we tend to see traction.

Next slide is on cost efficiencies. The right side shows that cost efficiencies that we derive out of our projects have gone to 7x what they were in '13, '14 and the projects are pretty much in the same space, truck utilization, distance traveled by our products, market damages, renewable energy, fuel consumption as well as line throughput.

So we've been working on the same projects, and we've been able to derive a lot out of these. And it's teamwork which has got us to get to where we are as far as cost efficiencies are concerned because the teams have worked really well together to make sure that year after year, we do the boring stuff of getting these projects together and getting these efficiencies and costs down.

The next slide is about scale and technology advantages, competitive advantages that we have today. We've spoken about 21C oven, which is patented by us. It's an oven which we can use whatever fuel we want. And that gives us the flexibility depending on the fuel prices. So we use biomass, we use any kind of fuel that we want. It also gives us cost efficiencies and it's a proprietary technology, as I had said.

Then we've also done some product technology upgrades. We've had a lot of first to India technology in all of our products, especially for our disrupt products, the capabilities that we have today. A lot of biscuit companies even worldwide don't have that kind of technology. This also gives us a superior product quality and gives us the ability to launch products which other people cannot do at the moment.

Of course, anyone can import those lines, it's not proprietary technology, but we've been fast to bring those in, experiment with them.

We've also -- if you look at what Vinay and his team have done, we moved from -- 15 years ago, we used to have small factories, where there were two lines with very small ovens, average factory output of 1,800 tons per month. From that, we moved to integrated factories, which had four to five lines. We had higher throughput average factory output was 7,000 tons.

From there now, we have moved to a mega food park, which is Ranjangaon, which is first of its kind, we have 17 lines here. Biscuits plus adjacency, every category that you can think of, plus dairy. And the average factory output has gone up dramatically to almost -- if you were to add -- Vinay, if you were to add dairy to this, it would be what 2,000 -- 20,000 tons?

Vinay Kushwaha: Yes.

Varun Berry: So probably 20,000 tons per month, and this has given us -- and obviously, we do it with the right demand centers in mind. So footprints are aligned to demand centers. We also got the distance reduced. And efficiencies, obviously, with larger factories are much greater. Product quality has gone up dramatically. Fiscal incentives, we've made sure that we've got fiscal incentives and also availed them in each one of these factories. And our operating control now is -- Vinay, what is it, 65%? So it's about 65%.

We're also working on smart factories, where we are looking at product performance management, predictive maintenance, energy management systems and also looking at leveraging AI and robotics to make sure that from a quality standpoint and from an efficiency standpoint, we are the best in class.

Renewable energy, we've had -- and I'll come to that in a bit, the ESG initiatives are moving in the right direction. We've got reliable cost and efficiency. Our target is to get to 57% renewable energy by '25, '26. We are looking at putting up solar rooftops and also accessing open access renewable energy sources in the various states that we operate.

The next slide, I think you have seen this slide before. We have four strategic pillars for our ESG construct, growth, governance, resources and people. So if you look at it from a growth standpoint, and I'm not taking you through everything because there's no point taking you through everything every quarter. So I'm just talking about some of the new things that we have done -- that we are doing on the -- around these pillars.

So we've got this campaign, which is a marketing campaign, which is "Har Pocket Dustbin," which shall be preventing littering in public spaces. Our -- S&P Global Corporate Sustainability Scores are out for the first time, and we are 49%. CDP -- which is not great, by the way, 49% is probably great from an India standpoint, India FMCG standpoint, but a lot of ground to cover there.

CDP Climate Change Scores have improved from a C last year to B. Again, we would want to be an A, and hence, some where to go. Data management tool covering high-level KPI dashboard and other reporting is under development and will be published soon. From a resources standpoint, I've already spoken about renewable energy. And we've initiated suppliers ESG assessment for the full year '23, '24, which is going to cover 100% of our suppliers and will be completed in this quarter.

And from a people standpoint, we are in the top quartile as far as FMCG India is concerned in the engagement score, so that's a great achievement for us because we've been working on making sure that we have a team which is motivated and feels good about the company. And we have 2.3 lakh beneficiaries through our Britannia Nutrition Foundation -- so -- versus INR 2 crores -- sorry, two lakhs last year and 2.3 lakhs this year.

Okay. Now moving to cost and profitability. Overall commodity costs have remained soft this quarter. Flour has been -- it's been going over -- going up over the quarters, but from Q2 to Q3 was flattish. Sugar went up, but the downside came from palm, laminates and corrugated boxes, which is clear from this side.

So what are we going to do as we move forward? Obviously, cost and profitability front, we will continue to invest behind brands and innovation. We've actioned measured pricing corrections to remain competitive. Which I have taken you through. We've delivered cost efficiencies across our functions.

Outlook will be to closely monitor stock price situation of commodities because there's been high volatility in the last two or three years. We remain vigilant on the competitive pricing actions thereof as a result of the commodity inflation. Our strategy will remain focused on driving market share. I think that remains a very critical front for us in all of our categories.

Now getting to our financial results. So if you look at this slide, you will see that our top line consolidated revenues have been close to INR 4,200 crores. There's always down from Q2 to Q3. So -- but if you look at it versus overall trends, we seem to be on the right trend, albeit with a smaller growth at 2%. However, the 24-month growth is still robust at 19%.

Moving to the next slide. Operating profit levels, as you will see, very healthy operating profit levels of 17.7% and -- which continues to be at probably the highest level that we've been at barring a few quarters, which have been slightly better than this. But I think we are certainly in the top quartile of food companies across the world as far as operating profit levels are concerned.

Now getting to the next slide, which gives a summary of our results. So net sales 2% in 12 months, 19% in 24 months. Operating profit negative 2% and positive 52%. Profit before tax, negative 34%. And the reason for that is that we had exceptional income of INR 376 crores and INR 359 crores on account of profit on sale of 49% equity in Britannia Dairy Private Limited to Bel when they came in as a partner last year.

So that sits in our base, and that's why our profit before tax is negative 34% and profit after tax is negative 40%. But if you look at it as a 24-month growth, both of these are at 50%. And the ratios at the bottom, profit from operations held -- very healthy 17.7%, profit before tax at a very healthy 18.1% and profit after tax at a very healthy 13.3%.

So that's all that I have for you. We can open the house for questions. Thank you.

Moderator: Thank you very much. We will now begin the question and answer session. First question is from line of Mihir Shah from Nomura. Please go ahead.

Mihir Shah: Hi Sir, Good morning thank you for taking my question, kindly correct me if I'm wrong on the volume growth for third quarter, will it be about 5.5%. And given that you have highlighted that the demand environment is progressively recovering, do you see the market being conducive to drive volume growth to high single-digit levels from the current 5.5% levels over the course of the year? Or do you think mid-single-digit volume growth is a more realistic assumption basically?

Varun Berry: Mihir, I think, the time is now coming where we will hopefully get to higher volume growth because it's been inflation which has been overtaking all of our efforts in the last two or three years. So I would actually say that aspiration is to get to -- get back to double-digit volume growth soon. And I think it will take a little bit of time. I don't think it's going to happen in the next quarter or so, but we are moving towards that.

And clearly, there seems to be consumption coming back. Obviously, the economy and the stock markets and all of that seems to be moving in the right direction. There's no way that consumption is going to lag so much. And so I'm very hopeful that it will get to high double -- high single digits or even double digit volume growth in the future.

Mihir Shah: Wonderful. Sir, my second question is on margins. When one looks at the gross margins and EBITDA level margins, Britannia is at its best apparently. Apart from lower raw material prices and better mix, which is a more gradual and a structural improvement story, sir, what levers can drive margin improvement from here on and tie it over the EBITDA margins over the 19% range?

Varun Berry: Well, I do think that, first of all, our cost efficiency programs are best in class. And I don't think anyone does it the way we do it. We do it extremely meticulously. Venkat leads it, all of the functional heads do their part as far as their function is concerned. Vinay has done some real wonderful work as far as the supply chain area is concerned. But it's not just supply chain, yes, it does tend to contribute a lot.

But even procurement and R&D and sales and marketing, everyone has been contributing to that. So I think that's definitely one pillar, which will continue. I do think that as we go forward, Mihir, it's going to be important for us to look at how do we keep our margins stable and grow the top line aggressively. I think that's going to be certainly something that we are going to look out for because time has come to really make these businesses -- and I'm not just talking about our business. I'm talking about FMCG in general.

With the kind of population, with the kind of upward mobility that we have in our country, I think, it will be important to grow the pie to be a lot larger than what it is. So my focus as we go forward is going to be to make sure that we grow the top line aggressively even if we don't keep growing the margins at the rate that we've been growing them in the last 10 years. So that's what my lookout would be.

Mihir Shah: Got it, sir. Sir, one more if I can just squeeze in, one on pricing. You mentioned something on pricing. Do you see more price cuts going forward? While I know that there is no business case to start taking price hikes anytime soon, but anything that you can share on visibility on where -- when pricing growth can come back. So on pricing, sir? That's all for my side.

Varun Berry: No, I don't think there's going to be a need for price hikes because as you saw in the commodity situation, they have been a little soft, but it's an election year, things will be okay for this year, for sure, but we'll have to see how this goes forward because the world situation is not what we would want it to be. The Russia-Ukraine conflict continues, the Gaza situation continues.

So we'll have to watch. The point that I was making was that we'll -- it will be a tight rope walk. We'll have to watch the situation carefully and then take actions whichever way it's required. If inflation is coming back, then obviously, we'll have to take price hikes. If not, then we will have to make sure that we grow top line very, very aggressively.

Moderator: The next question is from the line of Aditya Soman from CLSA India.

Aditya Soman: A couple of questions. Firstly, on the cheese business, you indicated that this is now sort of 10%. How large can the business be in let's say a 3-year, 5-year period? And what are the main drivers of this growth in this business?

Varun Berry: Well, it's not 10% of our business, Aditya. It's grown 10%. Now the thing is that the cheese business, I think -- see, it's a category which is slightly alien to the larger population of India, right? What's happened is that the Domino's and the Pizza Huts of the world have come and created the market for cheese in India. And it still is a very small category. But we are now participating with a product, which is international standard, and we will continue to innovate in this space. We will bring all the products which we feel have a right to succeed with the Indian population. So we are going to create the habit as well. We are not going to leave it to the QSRs to create habit of cheese consumption.

So I think -- I don't think it's going to ever become 10% of our total revenue. But I certainly think that the potential for growth is reasonably high here. And it's important that we unleash innovation, we unleash the power of Bel and Britannia into the market. We get our go-to-market systems to be the best as far as -- for a cold product, product which has to be in a cold chain like this, and we expand distribution to as many cities and towns as we can. So the objective will be to take this business from a really small business at this point in time to be, let's say, at least INR 1,000 crores business in the next 5 years. And I'm talking about the consumer business. If there is any potential to get institutional business, then that could become a much bigger number.

Aditya Soman: I understand. I think on the presentation, you indicated a 10% contribution to business. So is it

10% contribution to growth, is it this quarter?

Varun Berry: Yes.

Aditya Soman: Okay. Understand...

Varun Berry: No. What I said there -- now there what it says is that 10% of the cheese that we sell is now being contributed by the innovation products that we've launched. So we've launched the triangle, which is the spreadable cheese that we are getting from Vietnam and we've launched the sachets. Those two are contributing to 10% of the total cheese. They're differentiated formats, okay?

Aditya Soman: And just in terms of e-commerce and quick commerce, can you just indicate how large that business is -- each of those business is and how they fare, let's say, compared with the year ago.

Varun Berry: So we've seen very good growth as far as e-com is concerned. We -- the B2C part of the business is the one which is growing and which is what we would want it to be because we do not want to actively participate in the B2B business because that gets us onto the wrong foot with our overall distribution agenda with our distributors and can disrupt through pricing actions, et cetera, our entire distribution chain in the country.

So we would want it to stay with B2C, and the B2C part of the business has been doing quite well. Today, it is about 2.9% to 3% of our total business, which is not big, but if you think about it, we started from 1% a few years ago. And from there, we've come to 2.9%, 3%. And it's a business which is also profitable, and it provides the convenience to consumers and also gives us the opportunity to do innovation only in this part of the business. So we will continue to push this forward.

Moderator: Next question is from the line of Abneesh Roy from Nuvama.

Abneesh Roy: My first question is on pack versus volume growth. So earlier, you used to give the pack growth, so essentially a number of transactions. So in biscuits, obviously, customer buys a pack rather than a 100-gram or a 50-gram biscuit. So I wanted to understand how has been the pack growth this time. And given your gross margin and EBITDA margin have done so well for the industry, which is the right metric to track because you must have added back grammage given the higher gross margin? So your volume growth is a good number. So 5% is a good number. But from a health of the business perspective, which is the more important number you are tracking in terms of pack growth or in terms of volume growth?

Varun Berry: So Abneesh, with you tails you win, heads you win also. So no, you're right. See, when we are adding grammage to the packs, the pack growth will not be as much as the volume growth. So yes, you're right, the volume growth is 5.5%. This will probably be -- I don't know the exact number, but it will be in the range of 3%, 3.5-ish. So that's where it stands. But yes, that's a natural phenomena as we add weight. As we remove weight, the number of packs go up.

But I would want this volume and pack growth to go up even further. And our agenda for growth is now going to be -- and Vipin is sitting here staring at me. Our growth agenda is going to be to get a lot more growth out of our business. So we've got profitability now, we would really want to get after volume, pack growth as we go forward.

Vipin Kataria: Yes, just want to add, Abneesh, that the volume growth, I think, is the first step to the transaction growth because you are enrolling a lot of consumers, new consumers into volume growth. And once that happens, then the transaction growth will start moving up from there.

Abneesh Roy: Thanks, One related question is, in the last five quarters, four quarters have been 19% plus EBITDA margin. So will it be fair to say that now because of the premiumization or whatever cost initiatives you have taken, this is a more realistic margin because earlier this was looking like a high margin, but you have delivered quite well there.

And second question is because entire industry is also seeing good margin, if you could comment on local players, is that now coming off as a competitive intensity?

Varun Berry: No, it's not. So there is competitive intensity from local players. There's also a competitive intensity in modern trade. So all that will have to be managed, Abneesh. We've been managing it really, really well.

In modern trade, our profitability a few years ago had dropped considerably, then all of us sat together, and we said that, we've got to get this back. We've got it back to an extent. But there will be challenges. In businesses, these challenges will keep coming up. And we will have to press the right levers. So as I said, if our objective is to grow top line, grow volumes, grow pack growth for not just biscuits, but all of our businesses, I think, we will have to look at what is the best way of doing this. And how do we grow the profit, but without really focusing as much on the percentage.

So I think we'll have to do some thinking. We are in the process of doing our annual plan. And I think this time, our objective is going to be to make sure that we continue to dominate our spaces in all of the channels, and we grow our business at a very high clip.

Abneesh Roy: Sure. And last quick question on cheese. So you have around 13% market share in cheese, which used to be much higher, say, around 5 years back. So quick question is from a three years -- next three years perspective, which is a more important KRA for the dairy team or the cheese team, the 13% market share moving up or the differentiated part of portfolio moving up from the current 10%? So would you want to be like Nestle and Tetra Pack milk or you want to really become more relevant from a market share perspective?

Varun Berry: No, we would like to become more relevant from a market share perspective but with products which are best-in-class and differentiated, as differentiated as we can make them.

Moderator: Our next question is from the line of Latika Chopra from JPMorgan.

Latika Chopra: Back to revenue and margin…

Moderator: Latika we are not able to hear you. Can you repeat your question, please?

Latika Chopra: Can you hear me?

Moderator: Yes.

Latika Chopra: Hi Varun, Again, I'll just want some clarifications on both your comments on revenue and margin outlook. On revenue, when you aim for a high single digit, double digit -- low double-digit kind of volume growth, what part of this is coming from your base business of biscuits? And are you -- and incrementally, how much are you building in, in these projections or this ambition from your new businesses?

How would the salience of these new -- or non-biscuit categories, let me put it this way, not new businesses, but non-biscuit category sale is sailings going to be few years down the line? If you could talk about that. And the second bit on margins, if you clarify -- are you saying that 19% EBITDA margins look stable to you? Are these going to sustain your gross margin expansion despite price reduction is quite a positive. So how should we think about that?

We saw a sharp increase in employee costs, other expenses are lower or modest. So how should we look at the algorithm for margins? Is 19% given or your prior comments of 16% to 17% kind of margin trajectory with a higher emphasis on revenue growth should we take that as the course of action going forward? If you could clarify on the two things, that would be helpful.

Varun Berry: No. So the first one on what do we grow? Yes, our contribution from adjacent businesses has to grow much faster than base business. And that's -- I think we got stymy during COVID because adjacent businesses are more on the go, and it's sort of got us off track. But now on, we are committed to make sure that we grow our adjacent businesses at a much faster clip. I would say, at least 50% higher than what we grow our base business, which is biscuits.

So that's the first question. And hence, the contribution of these businesses is only going to go up. Second question you asked was on the margins. I would say that more of the latter. We would want the pie of profit to grow at a fast clip because of aggressive growth in the top line. And hence, I would say 19% is our peak. We've gotten to that.

That probably is something that we'll try to achieve, we'll aspire for, but I would say more in the space of growing the profit on an overall basis through more aggressive top line growth.

Latika Chopra: Just one bit. For this nine-month period, what would be the revenue share for non-biscuits?

Varun Berry: So if you were to look at biscuits, India and the rest, it will probably be 65-35.

Moderator: Next question is from the line of Percy Panthaki from India Infoline.

Percy Panthaki: Sir, just wanted to understand on the pricing. So on a Y-o-Y basis, your pricing is negative about 3%, 3.5%, whereas in Q2, it was positive by about 1.5%. So first of all, would I be right in assuming that on a sequential basis, Q2 versus Q3, you have taken a price cut of about 4% to 5%? And in context of this price cut, how is it that your margins are more or less the same as what they were in Q2.

In fact, your gross margin has actually expanded also, because if I see the commodity chart, sugar has had a very sharp uptick, wheat has had a little bit of an uptick and other commodities are benign. But looking -- just eyeballing it, overall, it doesn't seem that there is any significant commodity benefit on a sequential basis? And if the price cut is material 4% plus on a sequential basis, fact that your gross margin has expanded 90 bps is a little surprising.

So if you can throw some light on this, please?

Varun Berry: No, it's clearly the commodities, which are basically oil. Palm oil, we've seen a substantial dip in prices. Dairy, there's been a dip in prices. The packaging material, which is laminate as well as corrugated boxes, we've seen a sharp decline as far as our prices are concerned. So I think that's where it's coming through, and that's what's offsetting the price changes that we are making.

Percy Panthaki: So would I be right in my calculation of about 4% to 5% price cut between Q2 and Q3?

Varun Berry: Not 4% to 5% maybe 2% to 3%. Versus last year, it will probably be 4%. But from a quarter-on-quarter basis, maybe 2%, 2.5%.

Percy Panthaki: Okay. Okay. My only calculation was last quarter, if you see, sales was up 1.8%, volume was up 0.2%. So it means about 1.5% positive pricing. This quarter, there is a 3.5% negative pricing. So if I add that up, I mean, 1.5% positive, 3.5% negative.

Varun Berry: There are lots of moving parts in there.

Percy Panthaki: Understood. So basically, I would be right in assuming that even the input cost on a sequential basis on -- the overall basket has deflated by about 3% to 4%.

Varun Berry: That's true. That's right.

Percy Panthaki: Okay. Secondly, just wanted to understand on...

Moderator: I would request you to come back for a follow-up question. Next question is from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: Just two questions. You mentioned about market share. Would you comment which geographies because earlier you used to give the focus market share -- focus states market share also that is not given now. So that's the first part.

And second, on UP, Bihar plant, what is operational? Where do you think this plant -- I mean, how many lines? And maybe if you can give some qualitative comments, what is it that we are producing? And in the medium term, what is the opportunity which we are looking in these markets?

Varun Berry: So I'll let Vinay comment on it, but the plant is both the Bihar as well as the UP plant. Both these plants are state-of-the-art plants. We are producing biscuits and rusks. Go ahead, Vinay. Why don't you just talk to him about...

Vinay Singh Kushwaha: Our factory in UP is about four lines of biscuits and we set up one line for rusk. The factory has been designed in a way to leverage and maximize sales to UP, within UP, the sales from this factory, which is to maximize also our fiscal benefit. And UP is also a focus state for us. And therefore, this factory would play a role in not just driving operational performance but also help grow our business in UP.

We have plans this year to further expand the UP factory. We have kept provisions for expansion, and we'll be doing so through a fresh investment we'll put in the next fiscal year. Coming to Bihar, we got -- we set up one new factory, which we started of this year. It's a factory where we have set up three lines. We have plans to again expand this factory in the next fiscal. This is our second factory in Bihar.

The first one we had set up was in 2011, and both these factories are on opposite sides of Patna, which is the largest hub -- consuming hub in Bihar. We are probably the only FMCG company which actually runs its own factories in Bihar. And we have that advantage that Bihar is a market where we dominate and the factories will help further grow our business in there.

Shirish Pardeshi: Okay. And on market share, Varun?

Varun Berry: On market share, our gains this year from a geographic standpoint has been from the Hindi belt predominantly. And certain areas here else Vipin, where else have we gained share...

Vipin Kataria: See the Hindi belt, like Varun said, has delivered delta growth as well as delta share. There are a few states where there is some stress that we see. But I think that's largely temporary because -- that's because of the value resurgence. And that what we see now is that changing pretty fast, right? So I think on the focus states agenda, we are very consistent. We see robust growth, and we see delta market share coming.

In fact our numeric distribution story is fairly strong in these focus states because there is a lot of opportunity in rural as well as urban markets. So I think in a nutshell, focus states have been doing well. And even in this year, it is delta over that market share and numeric distribution story on all India level.

Varun Berry: Yes, mainly from the Hindi belt, but there will be other states where we've gained a little bit.

Shirish Pardeshi: Yes, I got that, Varun. I was just more curious that this growth is driven by Milk Bikis portfolio, the value-add portfolio or the premium portfolio?

Varun Berry: No. It's driven by our premium portfolio, mainly. We are hardly in the value portfolio. In fact, the value portfolio has not been doing well for us...

Vipin Kataria: I think value is not a robust portfolio. But, so let's say, premium cookies we are doing really well. Crackers, we are doing very well. So like Varun is saying all the premium and differentiated categories is where our focus is, and that's where we are getting good traction.

Varun Berry: Just to give you an example, Jim Jam, we put how many lines Vinay, two lines in the last tow years? We put two manufacturing lines in the last two years and we are still running out of capacity. So now we've decided to put two more lines on Jim Jam. So it's a premium portfolio, which is giving this result.

Moderator: Next question is from the line of Sheela Rathi from Morgan Stanley.

Sheela Rathi: Thank you for taking my question, just in continuity to the previous participant question. Is it fair to say that the urban growth is far better for us versus the rural growth on the basis of the comments you made that premium portfolio is doing well?

Varun Berry: Yes. Yes, that's true. We've not seen rural growth the way we've seen them in the last 10 years, let's put it that way. Urban growths are outpacing rural growths. To my mind, it's a matter of time because we have not stopped from building our rural distribution. We continue to do so despite the fact that we are not getting the kind of traction that we were thus far.

Sheela Rathi: Understood. Just taking up on the distribution reach, Varun, if I look at Slide 8, and when I look the direct distribution reach, it feels like the pace of increase in distribution has slowed down about 5% on a year-on-year basis. Is there anything else to read on to it? Or are we building more distribution around our dairy business and that's why this number looks much lower?

Varun Berry: No. You're right. The pace of growth as far as distribution, see as you go higher, you tend to have less opportunity for growth, but I would not say so. I do think that we have still a large opportunity for growth. But the focus has been on getting more depth of distribution in our outlets, getting more SKUs in our outlets while we've continued to grow our direct reach as well.

I think we still have the potential to grow this by at least one million more outlets. But yes, the pace that you saw from March '20 to March '21, where we grew from, let's say, 19.7 to 23.7 that kind of delta is not going to come through now. We'll probably be slightly slower than that, but we will continue to make our way upwards.

Vipin Kataria: So I'll just add two more points to this. See weighted distribution is equally important KPI for us, which basically means that are you reaching to all the relevant outlets. And weighted distribution for us is at a very high number, right? So therefore, you're right that you might see that there is a slowdown in the uptake of that number, which is on the direct reach. But like Varun is saying that we have a huge opportunity sitting in Hindi states, we have a massive opportunity sitting in rural, and that's where we will keep adding these outlets.

The second big initiative that we have taken in this year is that we have converted 60% of our rural business on our app or a platform, right, which basically gives a direct access to all these markets. And the intent is that 100% of our rural business now gets converted to this app so that we have a direct interface. We have a direct visibility, and therefore, we will be able to drive far better mix in rural.

Sheela Rathi: And what would be the comparable number for urban for that 60%?

Vipin Kataria: So urban, we are fully on tech. So we've got a handle through which we do the entire order booking. We got technology supporting us, which is right from geotagging and geofencing. So therefore we have systems where we can track what's happening on an online basis. So urban is fully covered. I think rural is a big initiative. And in the next three, six months, we should be fully covered in rural as well.

Sheela Rathi: Understood. This is very clear. And just one request. Maybe in future, if you could even share the distribution reach for the dairy business or the non-biscuit portfolio because that could help us understand how the trajectory could be.

Varun Berry: That's a good point. Good point. This will put some pressure on Vipin as well.

Moderator: The next question is from Amnish Aggarwal from Prabhudas Lilladher.

Amnish Aggarwal: A couple of questions.

Moderator: Amnish, sorry to interrupt, can you speak a little louder, please?

Amnish Aggarwal: Yes, yes. Sir, my question is regarding the margin outlook. For example, in 3Q, we had a very high base in terms of PLI inflows, but still our gross margins were intact, which means that we actually expanded our margin during this quarter. Now going into fourth quarter where we have one time, you can say, PLI arrears and our gross margins are upward of 44%.

So what is the medium term outlook. Like you said that 19% is your aspirational level? So should we expect the margins to moderate in 4Q and going forward in, say, year FY '25?

Varun Berry: We never give forward-looking forecast. So I will not be able to give you any number out there, but you know how we work. We always have a very tight backbone for ourselves. Our objective will be to maintain margins and grow our business aggressively. And the commodity prices are looking reasonable at this point in time.

It's an election year. There will be check and balances in place to make sure that inflation doesn't happen to an extent that we've seen in the last two, three years. So I think it's going to be reasonably even keel, I would say.

Amnish Aggarwal: Okay. And sir, my second and last question is on the competition, which I think practically every FMCG player has been citing about that there is a rising competition from the regional players, local players. So can you throw some light on that. What is the scenario now in particularly the biscuits and rusk segment? And what has Britannia done in the past few months to counter that?

Varun Berry: That is absolutely right. The fact is that regional competitors have been raising their heads. And the way they operate is on 3 vectors. So obviously, one is price. They sell at a cheaper price. Second, they make sure that they give the distributor a lot of margins and they give the retailer a lot of margins, right?

So all three of those vectors -- now in our case we have got organized distributors in this. In their case, they don't have organized distributors, so they give the wholesale a lot of margin. And so I would say that some of them have good products, reasonable, acceptable products and hence, they are making progress. But a lot of them, when they grease the trade so much, their product goes in and sits there and then they start to get to a place where the product is not moving, it starts to fly back to them.

And that's the time they go out of business. I think they are in that honeymoon phase at this point in time, where they are throwing in product, I think it will be in a few months when the verdict will be out whether they're successful. But having said that, this is a phenomena which is going to continue, right? It's an industry where the margins, the total margins that we used to make was about 3% till about 12 years ago.

So it wasn't a profitable industry. When industry becomes profitable, when the market leaders, like in our case, we've raised the total table of margins in this category. Indian entrepreneurs are very smart. They look at the margin pools and they say that this is an opportunity to get the business going.

Now what is going to work for us, obviously, is our brands. We will have to double down on our brands. Because it's important that we remember that nobody has a Good Day. Nobody has Marie Gold. Nobody has a NutriChoice, right? It's only us. Now we've got to make sure that we strengthen our brands.

What will work for us is the people that we have who understand this business so well, what will work for us is the distribution that we have, the organized distribution. And obviously, the very tight spine that we run with low costs, right? All of that will work for us, but it will only work to an extent because while our margins are 18%, those guys are happy to make a 2%, 3% margin on their business, right?

So we'll have to watch this space very carefully and make sure we study each one of these competitors and then decide how we want to deal with them without diluting our business in any way. So it's a tightrope walk, frankly. And that's one part of it. The second part of it is the whole modern trade piece, where everyone's throwing in product with a one plus one and all of that. So both of these spaces we'll have to watch. I don't feel scared of the situation.

I think if we watch this carefully, if we formulate our strategies carefully, and we do what is right for our partner, for our distributor, for our retailer, and we do it in the right way, I don't think -- and we also keep strengthening our distribution and our brands, I think, we'll be in a good place.

Moderator: Thank you very much Ladies and Gentlemen, we take that as the last question, I'll now hand the conference over to Mr. Ramamurthy Jayaraman for closing comments.

Ramamurthy Jayaraman: Thank you, everyone, for spending time with us on this call. We look forward to interacting with you again. Thank you.

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.