“Britannia Industries Limited

Q1 FY‘25 Earnings Conference Call”

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Moderator: Ladies and gentlemen, good day, and welcome to Britannia Industries Limited Q1 FY '25 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 star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Mayank Mundra from Investor Relations. Thank you, and over to you, Mr. Mundra.

Mayank Mundra: Thanks, Neerav. Good morning, everyone. This is Mayank from the Investor Relations team. I welcome you all to the Britannia Earnings Call to discuss the financial results of Q1 24-25.

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 Manufacturing and Procurement Officer, Mr. Manoj Balgi; and Chief Marketing Officer, Mr. Amit Doshi. The analyst deck is uploaded on our website. 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. Thank you for joining the call. So let me just jump in straight off to slide number 3. Good news on the consumption front. The quarter has been -- the growths on value and volume have been about the same at about 6.6%, 6.5% for the FMCG industry. The rural growths are starting to come back, which has -- which have been lagging urban for some time. And that's something which will help us overall get better growth. So the reason for the same are obviously better monsoons, moderate inflationary conditions, as well as employment -- there's some employment data which is showing that rural employment is at an all-time high. So things are looking a little better, still not out of the woods completely, but definitely better than what -- where we were.

Going to the next slide, the performance scorecard for Britannia. We did -- our revenue from operations were INR4,130 crores, which was a 4% growth on a 12-month basis and a 13% growth on a 24-month basis. Our operating profit was at 16.5%, which was at a 10% growth on a 12-month basis and a 51% growth on a 24-month basis. So I would say good results in the current environment.

Our market share on the next slide is also looking good. Our trend continues, we've continued to gain share and we are hoping that we will be able to keep that track going. Our strategic pillars, which you're all aware of, distribution, marketing, innovation, growing adjacencies, cost efficiencies and sustainability. Let me take you through each one of these and where we stand on these.

So driving efficiencies and distribution, our direct reach is now at 28.2 lakh outlets. Our uptick in rural distribution, we've gone up to 30,000 rural distributors. And if you look at our rural performance, it's a better performance than what it is for urban, which is good. As we've seen,

there's a little revival in the rural economy as well. So we are keeping our accredo of going -- getting equal share in rural as we have in urban. As you know that we have a higher share in urban than we have in rural. So we are keeping that going.

And the next slide is about sales transformation. This is basically a complicated chart, but you've just got to remember what we are trying to do. We are trying to do real-time data for all of us in the system. What this has done is this has increased the face time of the distributor salesman, which is up 42%. So they are on their handheld and they are getting real-time data all the time. All our outlets which are directly handheld through our distributors are geo-tagged and as a result of that, the time spent in the market by our salesmen is also up.

If you were to look at what we are doing on our route-to-market which is going on with Bain, basically what we are trying to do is leverage our high potential outlets to make sure that all of our key categories and SKUs are available in these outlets. We are looking at upscaling our salesman capability in these high potential outlets. We are also looking at upgrading technology for better productivity and there will be an increase in the number of salesmen, which is mentioned as increased feet on street.

Now, we've already started -- the project has been on for about a couple of months and we've already started some pilots in the top metros to validate what is going to work for us in the long run. We are banking a lot on this project and, hopefully, this will be able to give us great results in the future.

On the next slide, which is slide number 10, if you look at our capabilities in organized channels, if you look at the first quarter, we've seen much higher growths for our adjacency business as well as our new businesses in the modern trade or the organized trade channel, the building blocks of which have been a very agile supply chain which is focusing on fill rates, a modern marketing which is based on social media, digital, etc., upskilling of our salesmen and best-in-class service levels for our customers.

Next slide, slide number 11, we've been continuously building on our business as far as e-commerce is concerned. We know that it's an important channel, albeit small for us right now, but it's a test bed for innovation and new categories. We can do precision targeting with real-time consumers, product ideas which are based on social media trends as well as consumer feedback and reviews and ratings. It's a channel which can be used by us for a lot of our current premium products as well as making sure that we do products which are actually what the consumers are looking for. And this is giving us good results. We've been seeing great growths in this channel. So, hopefully, it's -- today at -- Vipin, at about what, 4% of our total sales?

Vipin Kataria: Yes, Varun, so we are at about 4%. But I think the difference between us and other companies is that we purely focus on B2C and there's large component of B2B which other companies have. But I think that's one big differentiator that we are creating.

Varun Berry: No, absolutely. So we are not interested in the B2B business because that disrupts our distribution efforts. So we are purely concentrating on the B2C business as Vipin said.

Okay. Moving on to the next slide, which is slide number 12. We've made some sustained investments in brands to drive consumer engagement. As you know that the biscuits brand was a slightly more traditional marketing category. What we are trying to do is we are trying to make it a little more alive with more, let's say, interesting products as well as interesting marketing ideas which are more alive to what's happening today.

And we've done that with Britannia Khao, Paris Jao, on some of our brands. We also did it with JimJam Pops, where we launched the victory biscuit when the Indian cricket team won the T20 World Cup, in Bombay. And similarly a lot of other interesting initiatives, which the marketing team has led on Good Day, on Little Hearts, NutriChoice.

Next slide, some of the other marketing initiatives and adjacency areas, we've had Rusk advertising on the Jio Mobile App; we've had the Cow Corner for Winkin' Cow during IPL, which was a very interesting idea; and other IPL campaigns, which we did on some of our other products and tactical consumer promotions which we've run across our portfolio of brands.

Next slide, slide number 14. We've been recognized for the efforts because Amit and team have brought differentiation to the way we've looked at marketing and they've been rewarded by -- they got the Brand of the Year in the Shark Awards; out-of-home, we were the number one brand; in-home, we were the number two brand, etc. It's good fuel for the team that's doing so much of interesting work.

And the next slide is on innovation. We've launched Pure Magic Stars, which is a very interesting product and we've -- the jury is still out. It's just launched in the market, so it will take some time for us to tell you how it's doing, but it's been really appreciated by consumers. We've also launched 50-50 Golmaal, which is a variant of the earlier product that we'd launched. This is a Butter Garlic. And these are all doing well. The in-market products are the base Golmaal, JimJam Pops and Butter Jeera, which was done only for modern trade and these are doing quite well. We've got a very robust innovation pipeline, which will cater to the regional preferences and drive premiumization within our portfolio.

Next slide is on adjacency. We have seen a resurgence in our adjacency business. The Fudge It product has been doing extremely well. Croissants have been doing very well. Our Rusk and Millet Breads have also done well for us. Similarly on cheese and on drinks, drinks has been a good story for us, especially Lassi. So we've been doing better than what we were doing. Still a lot of hard work for us to be able to get to 1.5 times the growth of the base business, but we are working towards that.

Our international business has also been doing really well with good profitability. And Nepal is a validation of our strategy of seeding products and then establishing our manufacturing footprint in the country. This business used to be a INR20 crores business and today we are at what, Venkat, about INR180 crores in Nepal?

N. Venkataraman: INR170 crores.

Varun Berry: INR170 crores, INR180 crores business in Nepal. So we are doing well. And there are some

other countries where we are also looking at the same strategy to be able to establish ourselves, so that we don't burn the bank, at the same time, we establish a footprint in these countries through a slow and steady strategy.

On our cost leadership across verticals, our strategy remains the same, truck upsizing with full utilization, distance traveled by our products, digital adoption, renewable energy, fuel consumption and our line throughput. And in '24-'25, we will be at 8 times what we started in '13-'14. So this continues. We continue to target 2% of cost efficiencies every year.

Moving on, just to give you an idea of our manufacturing footprint, it's a very interesting footprint with 54 factories located across the country. 16 of these are our own factories, which give us 65% of the total requirement that we have across the country. We have third-party factories, which are 38. We've got 154 manufacturing lines, out of which 81 are in our own factories with annual capacity I've already spoken about.

Now we are -- we've got a mega food factory which is in Ranjangaon. We've got fully integrated factories in -- which have got four plus lines and have more than one category. And then we've got small factories which give us the ability to be nimble. So we've got a very robust and a very solid manufacturing footprint which is holding us in good stead in the current times.

Just a quick look at our Ranjangaon Dairy operations. So we are now collecting about 300,000 liters of milk in Ranjangaon, out of which 90,000 liters, and we are scaling up this 90,000 liters every month. 90,000 liters is directly through our partner farmers. These are about 3,300 farmers across 105 villages with 70 milk collection centers that are created in and around our factory.

We do a lot of developmental initiatives, which is farmer training programs, animal health camps, and we also provide quality fodder and seeds to our farmer friends. Our program results have been that we've improved farmer retention to now 95%. Our farmer yields are up 13% over the last two years and we've had improved quality of milk that we receive at our factory.

We've now got a processed cheese plant which is commercialized. We are doing cheese blocks, we are doing cheese cubes, cheddar cheese, we are doing slices. So -- and we are looking -- we've got a quick scale-up across formats. And our product quality today is much better than what it is. We are working on making sure that we leverage the technology that we put in our factory to get much better productivity than what we've got in the past. I just wanted to give you an idea of this operation because I thought it was important.

Next slide is on ESG. You know the four building blocks that we have, people, growth, governance and resources. We continue to work on these. We've been recognized as the Best 3 Sustainability Initiatives of the Year in 2024 at the Global CSR & ESG Awards, which was conducted by Brand Honchos. The key initiatives included water stewardship program, sustainable packaging, employee well-being and development, community development programs, and we also were -- we also did a Har Pocket Ab Dustbin program.

The campaign was in Q1 of this year and we continued to do a employee volunteering program, which is on plastic waste collection across our factories and across our offices. We won some

awards, which I won't dwell on, but I must compliment the ESG team from bringing us from being at the bottom of the pack to where we are today. And we hope to be right at the top in this -- in times to come.

Now, getting to cost and profitability, slide number 22. Commodity costs are going up marginally. Flour costs are up. Sugar costs are up. Palm is the balancing factor. Cocoa is through the roof. The cocoa costs are completely through the roof. Laminate costs -- so the two -- three costs which are balancing out flour, sugar and cocoa are palm, laminates and corrugated boxes. One that is not here is also milk. While milk powder is okay till now, but milk costs are up. So in times to come, SMP costs will also be up. So we are seeing a trend of prices going up marginally, but these are -- this is inflation that we can manage and we are hoping that it remains within that manageable range.

Next slide is on what we are looking at. We are stepping up investments on brand and innovation. We've actioned pricing actions wherever necessary to drive -- to make sure that we remain competitive and we've also delivered cost efficiencies across all our functions. We are closely monitoring the commodity situation and we are assessing its impact. I think it's important that we balance the commodity increases as well as the competitive pricing actions and we've done it quite well till now. Our strategy will remain to focus on driving market share and a top line growth which have been evading the Indian FMCG industry for some time.

Getting to the financial results, so I've already spoken about this. So we've grown 4% as far as top line is concerned on a 12-month growth basis and 13% on a 24-month basis with a revenue of INR4,130 crores. Next slide is on operating profits. Operating profits are at INR680 crores which is 16.5% of our net revenue, growth of 10% on a 12-month basis and a 51% on a 24-month basis. Getting to the ratios, net sales up 4%; operating profit up 10%; profit before tax up 13%; profit after tax up 14%. These are all before exceptional items and the ratios are at the bottom. Profit from operations, 16.5%; profit before tax also at 16.5%; and PAT at 12.2%.

So that's all I have for you. Let me open the doors for questions. Over to you.

Moderator: Thank you very much. We'll now begin the question-and-answer session. The first question is from the line of Abneesh Roy from Nuvama. Please go ahead.

Abneesh Roy: Yes, thanks, and congrats on the volume growth. My first question is on the cheese business. So I noticed that you have mentioned on profitable growth. My specific question is, do you need to work further on the pricing aspect? Because I remember few quarters back you had said the pricing premium is high for Britannia in cheese and you would like to reduce that. Where are we in terms of that?

Second is, would you have a market share in cheese, because really that opportunity is very high given the kind of technology you bring to the table, the huge facility you have now, any numbers you can share with us directionally, how you see market share next year in cheese?

Varun Berry: So, Abneesh, yes, pricing, we've taken a few actions as far as pricing is concerned. Now we are -- our premium is slightly lower, but we are working on seeing if there's any further possibility

of us becoming more competitive. So that quest for pricing equality continues and that will also come with the efficiencies building in our lines because we've just commercialized our lines, we are still building the efficiencies. So, hopefully, over the next three months, four months, we'll be able to bring something more to the table.

What was the other question, Abneesh? I missed it.

N Venkataraman: Share.

Varun Berry: Share.

Abneesh Roy: Market share on cheese?

Varun Berry: The market share on cheese, we are very small, Abneesh. We -- it's predominantly -- we are number two in the industry, but we are in -- just in about double-digit numbers while -- so there's a lot of bunching at the bottom with low 2%, 3% share. So a lot of players are at 2%, 3% share. We are just about in double digits. And Amul is 6 times of our share. So that's the story as far as cheese share is concerned.

So, yes, you are right, there is opportunity there. And we've got to look at now that with our tie-up with Bel and Laughing Cow, having an interesting brand to talk about, the product categories that we are in, the new innovation that we can bring to the table, our own factory with efficiencies and all of that put together, if we get everything right in the next three months to six months, there could be a lot of potential as far as the cheese market is concerned.

Abneesh Roy: Sure. Thanks. My second question is on the demand side. So in the B2C in Q1, there were two headwinds and one tailwind for biscuit consumption. One was -- one headwind was the hot beverages consumption, which went down. A lot of Indians consume biscuits along with the tea and coffee. So did that suffer? Second one was hot out-of-home travel was severely impacted. So was your INR5 pack or INR10 packs impacted in any of the brands

There was one tailwind also. Lot of election rallies. Of course, in election rallies, there is a good consumption of biscuits and snacks. So would you like to call out any of these either in terms of negative or positive, because 8% volume growth was a good number. And similarly on B2B demand, Varun, any insights, because that was a key focus area a few quarters back, QSR, restaurant, etc.?

Varun Berry: Well, B2B demand, I didn't -- did I speak about that? Not for biscuits, Abneesh, but you're right. Yes, non-biscuits, yes, we're making great progress there. But biscuits, it's not a big part of our overall agenda, but still has been going up. You're right about hot beverages. Our products are consumed with hot beverages. And if -- it's a good point that you bring to the table, we've got to evaluate this and understand if there is any correlation there.

Out-of-home, we didn't see any negative impact, although the growths are what they are, they're not where we would want to be. We would have wanted the growths to be at least 2.5 times what they are currently. And we are hoping that we'll get back to those numbers. Election rallies don't -- do not impact us that much, Abneesh. We've seen it in the past as well. It doesn't give us up

or down in any way, and we sailed through those this year as well.

Abneesh Roy: Thanks. That's all from my side. Thank you.

Varun Berry: Okay.

Moderator: Thank you very much. Next question is from the line of Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Hi, sir. Sir, with the marginal inflation that you have seen in commodity costs, how do you think -- could you share your thoughts on the FY '25 pricing growth? How do you see that?

Varun Berry: Look, we might have to take a little bit of pricing, but it will not be what we saw in the past. If you remember in the -- for about 20 months or 18 months, we saw inflation of 22%. And that's what sort of gets us off track because those are the kind of numbers which impact consumer consumption, etc. So I don't see that happening. Even if there is inflation, it will probably be in the range of 4%, 5%. And to that extent, we will have to figure out which are the brands, which are the categories where we go ahead and take some pricing, if required.

Avi Mehta: Got it, sir. So, okay, so some pricing, but depending on how it kind of pans out, but it looks benign in that sense. Got it. Sir, on the adjacent businesses, I just wanted to check, would it be possible to share where do we stand at the EBITDA margin level now? And whether that is the focus, when you highlighted that there's a focus on consolidation in this category or that margin trajectory, something that we would -- I mean, your thoughts on that one, please?

Varun Berry: We do not do a separate consolidation on an adjacency business level, but if you look at our overall margins, and I frankly haven't looked at EBITDA margins, but if you look at your net margins, they are reasonable. Cake and Rusk are in the double-digit territory. Rusk would probably be accretive to our overall margins. And bread, as you know, we used to be negative margins. We brought it to a stage where they are almost touching a double-digit margin. So that's a great achievement in a category like bread.

And croissant, the gross margins are fantastic. We continue to invest the gross margins. They are probably 25% more than what they are on our base category. Obviously, we are investing in that category and that's necessary at this stage because it's a fledgling category. And dairy is the one where we've made some investments. So there is need to look at EBITDA margins because there is depreciation there. But dairy is again in investment mode. We really want to make sure that we invest in this category and we start to see gains as far as our top line and our overall business is concerned.

Avi Mehta: Got it, sir. No, thanks a lot for this, sir. That's all from my side. Thank you.

Varun Berry: Yes.

Moderator: Thank you. Next question is from the line of Arnab Mitra from Goldman Sachs. Please go ahead.

Arnab Mitra: Yes. Hi, team. My first question again was actually on pricing. So the deflation in pricing this

quarter seems to be slightly more than last quarter. Correct me if I am wrong. And do you see that, any incremental changes here going ahead? Does this anniversarize very quickly? Or do you expect some more deflation in the coming quarters to continue?

Varun Berry: No, there is no deflation really. What -- I think what you are alluding to is the fact that we have taken price rollbacks. So, basically, if you look at it, our rollbacks have been on for some time now, but now is the time to start to consolidate. We've done what we had to. There might be a few promotions here and there, but as far as rollbacks are concerned, we've done what we have to. As we were saying, we expect 4% to 5% inflation in the coming months on the back of flour and sugar and cocoa. So -- and if that happens, we will start to take slight price increases in the future.

Arnab Mitra: Understood. Just a follow-up on this. So the carry forward effect of the year-on-year price decline that then you're saying should -- could continue even though there's no incremental price cut that you are taking or rollback price you are taking?

Varun Berry: Yes. Yes, because of the base, because it's probably not in the base, you might have a slight difference in our volume growths and our revenue growths, but it will even out. The good news is that the volume growths are now coming close to double digits, and that's what's going to keep us instead as we go forward.

Arnab Mitra: And one last question is the other operating income, there is a very sharp spike Y-o-Y, is there any bunching of PLI here and any sense of what could be the steady-state run rate here?

Varun Berry: This is Ranjangaon, no?

Vipin Kataria: Ranjangaon.

Varun Berry: Yes. So in -- this is for our factory in Ranjangaon. So, as you know, that we are qualified as an ultra mega plant, but that was subject to us reaching a certain investment. And as we reach that investment, we got some benefits from the past -- past year. So that's what's coming there.

Moderator: Thank you. Arnab, I'll request to come back for a follow-up question.

Arnab Mitra: Sure.

Moderator: Next question is from the line of Percy Panthaki from IIFL Securities. Please go ahead.

Percy Panthaki: Hi, Varun. Recently, I saw your back snacks extruded Time Pass in shop in Bombay. So is this something recent because till now, I think it was a South India kind of launch? And any kind of views you have on how you want to take this forward?

Varun Berry: This is in experimental stage, Percy. So we are doing some market tests, etc. So it's in that stage to figure out if we have a solid right to succeed. So, it's -- at this point in time, it's not like a rollout across the country or anything like that. As you know, we've put up two lines, one in Ranjangaon and one in the South in Bangalore. And both of these lines have very small capacity. We can do about 200 tons a month. And we are using these lines to do some experimentation,

figure out what works, what doesn't work.

Percy Panthaki: Varun, hasn't it been really too long for it to be in test phase, because it's been like five years plus since we first launched this product? So what is really holding us back here? The market opportunity is huge, and it works on distribution, and we are the kings of distribution. Whatever little contribution is required of a brand, that also we have. And I understand margins are lower, but it's incremental, absolute profit opportunity. So what is really holding us back here?

Varun Berry: No, there are two or three things, Percy. One is obviously the outside opportunity. See, if you look at the outside opportunity, yes, the total market is large, but you look at the number of operators in this category. There are about 2,600 salty snack operators, right? And what I hear from the market is that all of the organized players have not been really gaining. It's the small operators who've been gaining because they are giving more grams in bag. And obviously, when you give grams in bag, you have no profitability. And so all those things need to be tested.

The second is internal. The second is that internally, we've got different products, right. One is a product that sits in the shelf, which is biscuits and cake and rusk and croissant and all of that. And this is a product category which is hung outside, right. So it's an impulse category. And so our internal ability to do justice to that also has to be tested. I agree with you. It's taken longer than what it should have, but we don't want to do anything without really being 100% sure of success. So I do not worry about a little more time, but we have to be sure-footed. And if we are not sure-footed, believe me, I will not launch it. That also, I am very clear about.

Percy Panthaki: My second question is on the margins. So, for the last several quarters, we have been clocking margins of about 19% plus. This quarter, we have come to about 18.2%, and that too, with some bunched-up one-off of Ranjangaon. So going ahead, what is the sort of margin, roughly, that we are targeting? Is it going to be a 19% plus number? Or are we at this 18% to 18.5% kind of number for the next four quarters to eight quarters now?

Varun Berry: That's a very pointed question, and I can't give you a pointed answer, but let me give you what I feel. I think it's the time to drive top line right now. We, as a FMCG industry in India, have suffered the top line growths that are required. And I would not mind if my margin stays at 16% rather than going to 18%. But it's important that we drive top line, and I'm not saying that we will compromise on margins. We will do whatever is necessary to get margins as well. But the time is to drive top line.

Percy Panthaki: Okay, sir. That's all from me. Thanks and all the best.

Varun Berry: Yes.

Moderator: Thank you. Next question is from the line of Mihir Shah from Nomura. Please go ahead.

Mihir Shah: Hi, sir. Congratulations on good volume performance. Thank you for taking my question. Sir, on the pickup on volumes, I wanted to check if there is any element of higher -- higher than usual in-home consumption that you are seeing due to extreme heat wave? And also with the price rollbacks that you have initiated, do you think these volumes can sustain an inch up further

as we were thinking about, or these numbers can probably go down from here?

Varun Berry: No, I wish I had the ability to predict this, but in a country like India, getting to high single-digit volume growths should not be a big issue at all. And we've been seeing it for years and years. It's just that we've had a lull for about two years, three years, but -- and that's because we've taken a lot of pricing because of the high inflation. So the objective will be to continue to see volume growths in our business and we will do whatever is necessary to be able to get there.

Mihir Shah: Perfect, sir. Got it. Sir, secondly, I wanted to check on the other expenses bit. It seems that the costs have gone up. Is this largely due to higher ad spends or are there any other elements to it? And historically, other expenses in 1Q are usually lower as an absolute basis versus the remaining part of the year, which indicates that if other expenses inch up for the remaining part of the year, then the margins can come under pressure. So how should one think about this line in the margins on operating level?

Varun Berry: No, we will -- see, it's not -- we don't balance out our ad spends by quarter. So, there are -- this is our high quarter, right? So we did spend a little more than what was budgeted and that will get evened out as we go forward. But yes, essentially, it was ad spends that we spent on and I think we were able to get a bang for our buck during this quarter with good volume growths.

Mihir Shah: Perfect, sir. Understood. Sir, if I can ask one bookkeeping question on the other operating income side, should we expect INR120 crores to sustain or INR60 crores to -- roll back to INR60 crores of the PLI benefit? Maybe Venkat can give some indication.

N. Venkataraman: Yes. So let me answer it this way. Like Varun mentioned, Ranjangaon facility will start being counted as an ultra mega facility starting April this year. So which means the incentive that we will be eligible for will be higher. And also the units in UP and Bihar will start getting the benefits. So I'm not answering you the question directly, but these are the two -- three things that are going to help the -- help improve the operating income going forward.

Moderator: Thank you very much. Mihir, I'll request you to come back for a follow-up question. Next question is from the line of Binay Shukla from PhillipCapital. Please go ahead.

Binay Shukla: Thanks for the opportunity. Question is on focus market. Things you have been emphasizing a lot in your focus market and which is growing much faster than the company's overall growth. And I also do understand that the growth is mainly driven by the distribution, expansion or investment behind the brand building. So my question is how much there is a still gap between you and number one player in the focus market in terms of market share now versus three years back?

Second, what was the key learning for you from your focus market and those success you wanted to replicate in your weak market? So when I say weak market, I mean where you are number two or number three player.

And third and last question is what percentage of revenue is coming from your focus market, because that will give us some little direction from the future growth perspectives, given the

rural recoveries on the track and the ongoing RTM 0.2 initiative is going on? Happy. Yes, that's all.

Varun Berry: It's a very loaded question with many sub-questions in it. I'll try and answer it as much as I can. So our focus market performance has not been great. Let me put it straight across. I had expected a much better performance there. And the reason for that is that the rural markets are still coming out of that phase where rural was lagging urban. And there's a little bit of downtrading happening in some of the markets as well, where people are going to the lowest common denominator and the cheapest product in the markets. So, our performance this quarter, as far as the Hindi belt is concerned, has been average, I would say, and the endeavor will be to take it to above average as we move forward.

What do the Hindi belt markets contribute to our business? Vipin, do you know?

Vipin Kataria: Yes. So, it will be 15-odd percent. The other clarification I just want to also put on the table is that, see, there are shades of these focus markets. So in some focus markets, we are doing fairly well, whereas wherever there is a large value resurgence, that's where the struggle is and that's making the performance average. So our average contribution is about 15-odd percent. Over the last three years, five years, we've been growing at 1.5x. So the salience of these focus markets are going up every year.

Varun Berry: Yes, going up every year and -- but the resurgence that we expect has not happened this year, which we are working towards getting. And 15% Vipin and what is the industry contribution?

Vipin Kataria: Industry contribution will be almost a third because these are large markets like UP, MP, Rajasthan. So, it will be...

Varun Berry: Yes. So that's the point. The point is, for us internally, it's 15%. For the market, it's about 35%. So we have a lot of ground to cover.

Binay Shukla: Sir, how much -- there is a still gap between you and number two player in terms of market share now and when I look at three years back?

Varun Berry: No, very big. See, we are not doing a big bang strategy where we are saying that we'll go from a 10% share to a 40% share. That's not going to happen. It's a slow and steady gain. As you've seen, we've been gaining about one share point a year for the past eight years, 10 years. So we are now at about, let's say, close to 18% share. And the number one player is still at about 50% share, am I right? Or 40% share?

Vipin Kataria: Yes, yes. So the number one player is 3x our RMS. And we would be at that 17%, 18% share, but I think that's the headspace. So that's the opportunity that we've got a very large headspace between us and the large competitor. And like you said that there are a lot of these markets where we are number one and number two. So we are picking up learnings from these markets and trying to improve our distribution, our assortment, our marketing effort to go up.

The other thing which Venkat also spoke about is the investment in these states, which is, let's

say, Barabanki factory. And that will help us giving more competitive assortment to the market. So I think it's a long-term gain. I think last five years, seven years, we have done well. I think this is a phase like Varun is saying where we have stagnated a bit. But I think we are fully on and focused on that agenda. And I think next three years, five years, we will certainly narrow the gap.

Binay Shukla: Understood. Last question on biscuits side. Recently a north district-based biscuit company highlighted that they are experiencing a higher competition from the market leader through the aggressive consumer promotion. So my question is that the aggression was restricted to north and west market only or is it also -- we have done consumer promotion in eastern market? Because what I have observed that two strong regional brands called Anmol Industries and Bisk Farm, who are around INR1,700 crores to INR1,800 crores revenue size and they are also expanding their food field in eastern belts. So I am just little keen to understand about market share in eastern belts. So have we witnessed any marginal market share loss or is it more or less given the biscuit industry is growing at the same pace in eastern market?

Varun Berry: No. So, see, the growths are about the same across. I would say the growths have been anemic for some time now. What our strategy is, our strategy is to become -- act like a nimble regional player. So if there is something that's required in a certain region in terms of brand, flavor, whatever else, pricing, recipe, we are ready to do all of that to make sure that we cater to that region and that's holding us in really good stead. Now, the companies that you are talking about, some of these regional companies have been extending their footprint across the country, and hence their growths might look big at this point in time, but overall, the regional -- in the regions that they had started, the growths are pretty much the same as what you've seen for us.

Moderator: Thank you. Binay, I'll request you to come back for a follow-up question. Next question is from the line of Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Yes. Thanks for the opportunity. First question is, if I look at the pace of distribution expansion, it seems to have slowed down. Earlier, you were expanding your direct reach rural distributors by double-digit every year. Now, that number has come down to like mid to high single-digit. So is the low-hanging fruit behind? And like how should we think about the volume growth in that context over the next three years to five years, that is what we've seen in the recent past?

Varun Berry: No. So, as we just said, there is still a lot of opportunity as far as distribution is concerned, especially in the Hindi belt, where obviously, we are lagging our competitor big time and especially in rural. So while you're right, it has come down and the focus -- so we -- as we've always said, strategy is depth in urban markets, width in rural markets, right. We will continue on that strategy.

We will -- now, what we are doing with Bain is to make sure that we build that depth in our urban markets. However, having said that, width in the rural markets strategy will continue to make sure that we become more and more salient in our weak areas. And also in some of our strong areas where we have opportunities in rural, in small towns, etc., that strategy will continue.

Vipin, do you want to comment?

Vipin Kataria: Yes, sure. Okay. Vipin again this side. So, like Varun said, see, so, while numeric distribution is important, I just want to also apprise everyone on our weighted distribution. So in our urban markets, our weighted distribution is almost 95%. So we reach all close to 95% of the weighted outlets. At an overall company level, we are at about 90% weighted distribution. And therefore, going forward, it's going to be more about extraction from the right type of outlets. And therefore, this entire project that we are doing with Bain & Co., which is about identifying the ultra high potential outlets and how do we sell the relevant range, how do we sell more or diverse categories.

On the rural, while the width expansion will keep going on, especially on the focus market because like we have a large gap in our market share, there is also an immense opportunity on distribution. And therefore from a distribution perspective those focus markets are very critical.

On the non-focus markets, what we are doing is we are going and populating and extracting a lot of priority markets in rural because that is where a lot of categories sits. So I think today it's more about horses for courses and not about just keeping increasing the distribution and therefore the relevant set of geographies, you will see width increase in metro, in the large markets. Even in r, there is an extraction opportunity and that's what we are planning to do going forward. Thanks.

Kunal Vora: Understood. Second and last question is last quarter, you had mentioned that you'll target double-digit volume growth in second half and there could be 3%, 4% pricing contribution. Going by the discussion on this call today, it looks like pricing could even be slightly negative and you are aspiring for high single-digit volume growth. Have I understood this right? And if you can please clarify how you're thinking about second half?

Varun Berry: See, the revenue growth depends on how we are cycling because last -- from last year onwards, we've taken quite a bit of price decreases. But having said that, we have come to a stage where we are now getting double-digit volume growths. Towards the end of the last quarter, we were almost at -- we were at actually double-digit growths.

So we are in a position for that to happen. It's just that last year's base will put us below our revenues of last year. But as we start to get to the next quarter, we will have to also evaluate some pricing actions because of the inflation that we are seeing. So very difficult to say at this stage how the volume price equation will work. But I would say a quarter from today, it will probably even out and we will start to see volumes almost be equal to the revenues.

Kunal Vora: Understood. That's it from me. Thank you.

Varun Berry: Yes.

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

Shirish Pardeshi: Yes. Hi, Varun, good morning and thanks for the opportunity. I have a bigger question. On Slide

9, you have given the DMS application and you did some -- mention that some pilot which you are doing. So, quantitatively, after implementation of this Bain project, what is the materialistic change we have seen? Is the SKUs per order has gone up? Is the packet growth -- some indication, if you can help us to understand?

Varun Berry: Yes. So SKUs have gone up. Also, the -- and that's because the salesman is spending more time with the customer in the market. And that's our biggest objective. And I'll hand over to Vipin in a second. But the biggest objective that we have is to have depth and that means having more SKUs in the outlet. And that's what we've worked on as a part of this. Go ahead.

Vipin Kataria: Yes. So, Shirish, there are two parts to the slide. The left side is done internally. For the last five years, we've been building this backbone, which is right from our distributor management system to handheld, which is today AI-driven, then we've got a continuous replenishment system, which connects to the depot. And then there is geo-tag and geo-fence.

And then even in Rural, what we have done is that more than 60% of orders are today captured through the digital app, right. So this is what we have done internally. Eight months, nine months back, the feeling was that we have done this internally, but we need to get this outside in perspective. And that is where Bain & Co. was onboarded, right.

So, we -- so like Varun mentioned, previously it's only been two months, we have started slicing the data. We are discovering that there is a lot of scope, especially in the top end of the book, and the pilots have just started. So, today, no shift attributable to this new project has come. What we are saying is that in this quarter, next two months, three months, we are piloting different concepts and probably the tangible gains will start coming in quarter four of this year or quarter one of FY '26. So right now this is -- because this is a very large project, there is a lot of data, there's a lot of market types. So the next two months, three months is when we are doing a lot of pilots, testing out what's the concept and then blueprinting, and then we'll be the phase of scale up and getting the tangible benefits.

Varun Berry: Vipin, his question is on tech-enabled sales transformation. His question was on that, that ever since you've done that, what are the -- what is the impact that you've seen on the business?

Vipin Kataria: Yes. So on the left-hand side, like I said, Shirish, so there are tangible gains. One is what you can see is that close to two-hour of market working has gone up and that impacts the extraction from the outlet as well as increase in the number of lines or number of categories. What it also does is that it basically takes out any kind of corruption in the system. So a salesman cannot be a ghost salesman. He has to go to the market to pick orders. The entire distributor management system basically makes sure that we have got the right stock and therefore the out-of-stock instances are reduced. And all of these are fairly quantifiable, and we have got robust dashboards and tracking mechanism to make sure that all these sales and distribution efficiencies or KPIs move northwards every month.

Shirish Pardeshi: Okay. That's helpful. My second question, Varun, we have made a lot of investments in dairy and I think you made further acquisition of 26%. So...

Varun Berry: Sorry?

Shirish Pardeshi: There was some announcement that we have made some further acquisition in the Ranjangaon. So...

Varun Berry: Acquisition? No, no, no, that's solar power. That's nothing to do with dairy.

Shirish Pardeshi: I'm only saying that there is a lot of effort which we have put in, in dairy business. So in INR4,100 crores, what could be the contribution of dairy because you said you wanted to achieve around 10%. So where we are in that journey? And maybe specifically on the drinks portfolio, what would be the contribution and cheese, if you can split?

Varun Berry: So, drinks, we will end at over INR200 crores, maybe INR220-odd crores this year, which is, I would say, reasonable. Cheese growth and cheese business, what is the total cheese business, Venkat, this year?

N. Venkataraman: This coming year?

Varun Berry: Coming here.

N. Venkataraman: It will be an upward of INR250 crores.

Varun Berry: So cheese will be about INR250 crores, which is very small for that category, although that category is also not very large. But we can certainly do better there. Drinks is also crossing INR200 crores, INR220 crores now. So both these categories would be a bulk of our dairy business today, which will be about what, INR700 crores. So our total business -- dairy business would be over INR700 crores, out of which cheese and dairy put together would be about INR460 crores, INR470 crores.

Shirish Pardeshi: This is your aim to deliver in '25 or this already has happened?

Varun Berry: No, that's the run rate that we have currently.

Shirish Pardeshi: Okay. Okay. That's really helpful. And maybe if you can say that, what is the gross margin we are at this time because you mentioned that milk prices are up. So maybe if you have a ready number, what milk price procurement we are doing now?

Varun Berry: Gross margins are pretty much in line with our overall gross margins. It's just that the investments and the depreciation, which is looking at a lower net for us. But our gross margins are pretty much the same. Slightly higher, in fact, slightly higher than our core business.

Moderator: Thank you, Shirish. Ladies and gentlemen, we'll take that as the last question. I will now hand the conference over to Mr. Mayank Mundra for closing comments.

Mayank Mundra: Thank you, everyone, for spending time with us on this call today. 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 and you may now disconnect your lines. Thank you.