7th November, 2023

To
The Secretary,
BSE Limited,
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort, Mumbai - 400 001
Security code: 500825

The Manager - Listing Department,
National Stock Exchange of India Limited,
Exchange Plaza, C/1, G-Block, Bandra-Kurla Complex,
Bandra (East), Mumbai – 400 051
Symbol: BRITANNIA

Dear Sir/Madam,

Sub : Transcript of the Analyst Call held on 2nd November, 2023 for the quarter and half year ended 30th September, 2023

Ref : Regulation 30 read with Para A of Schedule III of 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 2nd November, 2023 pertaining to Unaudited Consolidated and Standalone Financial Results for the quarter and half year ended 30th September, 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_Q2_2023_24_079c9bb1d0.pdf

Request you to please take the above information on records.

Thanking you,

Yours faithfully,

For Britannia Industries Limited

THULSIDASS
VELAYUDHAN
THARAYIL

T V Thulsidass
Company Secretary
Membership No. : A20927

Encl.: As above

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"Britannia Industries Limited

Q2 FY '24 Earnings Conference Call"

November 02, 2023

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 MODERATOR, 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. MAYANK MUNDRA – INVESTOR RELATIONS TEAM – BRITANNIA INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Britannia Industries Limited Q2 FY '24 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. Mayank Mundra. Thank you. And over to you, sir.

Mayank Mundra: Thanks, Rayo. Hello, everyone. This is Mayank from the Investor Relations team. I welcome you all to the Britannia Earnings Call to discuss the Financial Results of Q2 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 Moderator, Sales and Replenishment, Mr. Vipin Kataria; Chief Marketing Officer, Mr. Amit Doshi; and Chief Procurement Officer, Mr. Manoj Balgi. 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, everybody. Welcome to the Britannia Analyst Call. So let me just jump into the presentation, if you get to page three that gives a quick overview on what the GDP growths have been. So if you look at it, the green bar signals the real growth and the red one shows the inflation. So you will notice that inflation is down. And in this quarter, nominal growth is at 8%, out of which the inflation number is only at 0.2%. So things are coming back to normal, as you'll notice that full year '21, '22 and '22, '23 were at a very high number, as far as inflation was concerned.

Moving on to the next slide. This gives an idea of where we play in and what is the total market that we are playing in. So if you look at the categories that Britannia plays in, it's about INR 1,00,000 crores, and the 5-year CAGR for this category has been 11%. If you look at the total branded F&B category, that is at INR 9,00,000 crores with a 5-year CAGR of 12%.

The total F&B is at INR 40,00,000 crores, which has got a 5-year CAGR of 11%. And then if you look at the GDP, which is at INR 235 trillion -- it's difficult to calculate lakhs and crores but -- which has got a 5-year CAGR of 9%. So the numbers are looking pretty good.

If you look at the right-hand side, you will see that the -- if you look at the average F&B consumption occasions per day, that have gone up. If you look at the 2010 number, it was at 3.9; and that has gone up to 5.1 in 2023. And the biscuit consumption occasions during the year, they used to be at 303 in 2018; and those have gone up to 370 in 2023, so overall looking good.

If you look at the next slide, which is a very interesting slide. Basically what's happening is that we are getting to a situation of nuclear families, so size of the family is reducing. The number of women who are participating in the workforce is going up. And as a result of that, there is a need for packaged food and convenience; and that's why the growth that we are seeing, as far as branded F&B is concerned. And obviously this is coupled with the fact that the per capita income is also growing pretty well in the country.

Moving on to the next slide. This gives a breakup between the urban and rural, and you will notice that there is more urbanization happening. Urban as a percentage or as a contribution to the overall economy has been growing. It's gone up. Let's say if you were to take -- in the last 2 or 3 years, it's gone up pretty substantially. And so that's good for us because we have predominantly been urban distributed, a stronger urban company. However, for us the growths in the last, let's say, 10 years have been much faster in rural because we've been gaining more distribution and making our presence felt in more villages and smaller towns.

So our -- if you look at the bars on the right. Our market share currently is also more urban centric. Our market share is heavier in -- is 1.3x what it is in rural, in urban. And similarly, our numeric distribution is also 1.2x what it is in rural, so for us, the slowdown in rural is something that we can counter with our distribution growths, which will continue. And urban growth is obviously helping us because that's our area of strength. There are more details on this, but I will leave that for you to read through.

Moving on to the next slide. This gives the growth potential for categories other than biscuits. So if you look at biscuits, we have a penetration in households of about 94%. So biscuits, bread and rusk has pretty high penetration ranging from 82% to 94%, so there it's going to be a consumption-led growth that we are looking at. And the reason for the same is that, one, as far as biscuits is concerned, per capita consumption in India is only about 2 kilos. And if you were to factor in the number of consumption occasions, which has gone up from 303 to 370 per annum, the number of biscuits that are consumed is just about 1 biscuit per occasion. And that can definitely go up, so it's going to be a consumption-led growth here.

And if you were to look at it by categories. While there are categories like Glucose, Marie and some of our cookies which have got reasonably high penetration between 40% to 60%, there are lots of categories where the penetration -- where we have less than 20% penetration in households, so there is a big opportunity for us to grow penetration in those categories and drive consumption thereby of biscuits.

There are other categories, like cake, dairy, drinks, wafers, cheese, croissant, where you'll notice that the penetration into households is very, very low. And there we will be looking at a penetration-led growth. Croissant is an absolutely fledgling category where we have to drive penetration into households.

So that's how we look at the potential for the future. The next slide is just about we are in a good position with a good portfolio to leverage all of these opportunities and to continue to enhance our capabilities as we move forward.

Now just a quick capsule on what's happened in the last 10 years. So if you look at the last 10 years, our distribution has gone up 4x. This is on Page 9, by the way. Our direct reach has gone up 4x. Our rural distributors are up 7x from what they used to be in 2013. We have 4 brands in the INR 1,000 crores-plus category, and these 4 brands contribute INR 9,700 crores to our total turnover. Innovation has contributed 10% of our revenues.

Categories and geographies that we've entered into, we've gone into 4 new categories and 4 new geographies outside of India. And we've had 2 very solid partnerships, joint ventures that we've gotten into. One was for croissants, which was with Chipita. And second was just this year with Bel for cheese. So pretty good progress there.

Next slide. If you look at our own manufacturing, we are now at about 65% own manufacturing. We have set up 11 new plants in the last 10 years. And we have a mega food park in Ranjangaon, where our total investment is going to be INR 1,500 crores-plus, with very handsome incentives from the Maharashtra government. Cost efficiencies has been a very strong pillar for our profit growth. We've had more than INR 2,000 crores of cost reduction during this period, and that continues to be a pillar for us even in the future.

Digital. We have spoken about it in the past. We've gotten into SAP HANA, S/4HANA, which is giving us great dividends. We are rapidly evolving as a digital marketing company. We are leveraging digital to flourish in e-commerce as well. We are leveraging all of the digitization that we've done internally to make sure that we have all the data for us to take very intelligent decisions. And we have a transformation across functions to drive efficiencies with this information.

On the sustainability front, we are amongst the top 30 India's most sustainable companies. We've had 100% plastic neutrality. And we are now pretty -- doing quite well even on the international circuit, as far as the Dow Jones index -- sustainability index is concerned. From a people standpoint, we've been rated as a top 15 best employers 4 years in a row. We've been awarded best organization for women in 2023. Our gender diversity from -- in our factories has gone up from 28% to 45%. And we have a -- very agile and resilient teams to navigate through the turbulence that we've seen from an inflation front and from a global scenario, right?

So moving on to the next slide. This is what we achieved last year. That was our turnover, a CAGR of 10%. Our operating margins are pretty healthy at 16.3%, which have even gone up further this quarter. And our CAGR on profitability stands at 25%. Our long-term value creation has been pretty good, with a CAGR of 32%.

Next slide. This is just something that we feel that it's very basic, but I think it can give us very good dividends. We worked on fill rates. We were at a reasonable rate on fill rates on modern trade and e-commerce, but we've moved up pretty rapidly. We've gained, almost from 75% to 90%, as far as fill rates is concerned; and this will hold us in very good stead as we move forward.

We are relooking at our route to market now with a portfolio which is very solid. We are looking at how do we make sure that we leverage our portfolio even better. And coupled with data analytics and artificial intelligence, we are looking at making sure that we become cutting-edge, as far as this is concerned.

Now moving on to the performance update for the quarter, page 14. Our revenues have been flattish. If you look at a 12-month growth number, we've grown only 1%, but our 24-month growth is at 23%. Operating profits have grown on a 12-month growth rate at 21%, a very healthy 58% on a 24-month growth path. Our shares: We had sort of got stagnated a bit for the last quarter, but we have seen a very good exit rate because we've made some corrections which were required from a pricing standpoint to stay competitive in the market. And that's looking good as well.

Now getting back to our strategic pillars which we've spoken about every quarter: distribution and marketing, innovation, adjacent categories, cost efficiencies and sustainability. I will cover each one of these in a slide.

So as far as distribution is concerned, our direct distribution has gone up. In March 2019, we were at 2.1 million or 21 lakh outlets covered directly. This has gone up to 27.3 lakh in September of 2023. Our total distribution has gone up from 54 lakhs to 66 lakhs, but as you'll notice, bulk of this growth has come from direct distribution. And indirect has stayed at about the same number.

Our focused states' growths have been continuously pretty good. These are the last 4 year numbers. You will notice that these have slowed down this year, but that is a result of the whole rural scenario becoming a little slower than what it used to be. However, these growth rates are still healthy. And we are hopeful that, as we move through to the next quarter and onwards, these will come back to double-digit growths as well.

Moving to the next slide. We've stepped up our investments, as far as brands is concerned. These are all the brands that we've really supported: Good Day, 50 50, Milk Bikis, NutriChoice, Jim Jam. Jim Jam is doing extremely well. We've also launched Jim Jam Pops, which is adding onto the Jim Jam franchise. And Bourbon, which has been renovated and is doing extremely well in the marketplace.

Similarly, on the adjacent categories, there's been quite a bit of activity on cake, rusk as well as on cheese. We've also done some consumer promotions to make sure that we remain competitive and continue to gain share, which we've done continuously for the last 10 years.

Innovation. I spoke about Jim Jam Pops, which is doing extremely well, very exciting product and very well appreciated by consumers. 50 50 Golmaal, which is again a very intriguing and interesting product, doing extremely well. We've also launched makhana in 3 flavors. We've launched the portions, which is the triangular portions, the laughing -- under the Laughing Cow brand name; and cheese sachets, which are INR 10 sachets. And all of these innovations are running towards annualized number of about INR 200 crores.

Moving on to the next slide. Adjacencies have been on strong footing. Surely, there is more work to be done there. There is competition coming in, in all of these categories, which is good in a way because, when you have more than one player, it always creates more demand.

So on cake, we've had some very interesting innovations. Rusk, we've not done as well on the top line, but I think we've rationalized. We've got our recipes up there now. Bread continues its profitable growth trajectory. Cheese has been a double-digit growth contributed by base and all the differentiated formats. Our cheese plant is commercialized for making cheddar cheese, processed cheese; will start by the end of this year, this financial year. And we've already started to supply our whey powder, in addition to the SMP and SCM and -- which is being consumed by our biscuit business.

Middle East and Africa is growing double digits with improved margins. Egypt continues to perform well. We've set up an operation in Kenya, which is having its teething troubles, but things are looking like we have a good future there as well. Nepal is a spectacular growth story and continues to be a good -- on a good trajectory both from a bottom line as well as a top line standpoint.

Our cost efficiency programs. We've spoken about these. These are the structured programs that we drive. It's about making sure that we have truck utilization which is at the highest level, distance travelled to be reduced, market damages to be reduced -- renewable energy, fuel consumption and the line throughput and efficiencies. And these cost efficiency programs have gone from 1x to 7x in '23, '24.

The next slide is about our factories. In this quarter, we've commercialized Bihar. This is our second factory in Bihar, and we have 3 product lines in the first phase. We've also recently added UP, which was commercialized in the previous quarter; and Tamil Nadu, which are operating at desired efficiencies. And we are looking at adding some more lines to our Ranjangaon factory, which is really our flagship factory which is delivering 15% of our total capacity requirement.

The next slide is on ESG. As you're aware, we have 4 strategic pillars, as far as ESG is concerned. And these are growth, governance resource and people. Under these 4 pillars, we have 8 levers which are basically around social responsibility, global total foods company, our responsibility towards the country and the people, packaging, supply chain, food waste, resource efficiency and people.

And under this, we have 26 programs which we continue to drive very meticulously. And the numbers that you see on this chart give you some of the achievements that we've had under these 26 programs that we run, so I will not drain this chart. It's there for you to go through it and read it, but all I can say is we've made great progress on the ESG front as well.

The next slide is about the Britannia Nutrition Foundation and what it does. So just to remind you: Britannia Nutrition Foundation operates in 8 states, with 450 villages which are covered, 500-plus schools, 650-plus Anganwadis. And there are approximately 220,000 beneficiaries out of this program.

In this quarter, we've launched a My Plate, My Nutrition initiative, which is along with the government initiative of -- the Poshan Maah as it's called, which is nutrition month. We've had concept champions who are propagating this. These are executed through change agents around the community that we work in. And these are augmented by creating 20,000-plus nutrition gardens in all of these states and the Anganwadis and the villages that we operate in, and this has been a pretty exciting program that our people have been running.

Now getting to costs, if you look at commodity. Flour, which is a pretty large component of what we use, is -- has been -- there has been inflation, as far as flour is concerned. Palm oil has been deflationary, and that is giving us some benefits. Sugar has been flattish, slightly inflationary, while packaging is positive. However, if you were to look at the world scenario, I think it's important that we watch out for commodities as we go forward because things could escalate. And hence, we are being very, very vigilant on making sure that we keep these costs under control.

Moving on to the next slide. So what are we going to do? And what are the key strategies for us as we go forward? We will continue to invest behind brands and innovation. Cost efficiencies will continue to be a very important pillar for us. We will make sure that we take measured pricing corrections wherever necessary if the commodity situation remains positive. As I said, we are closely monitoring the stock-price situation of commodities with the strife that we are seeing in the Middle East and Russia. And we will remain vigilant, as far as this is concerned.

Getting to the financial results. Our top line growths, as I said, healthy for 24 months, low for a 12-month growth number which is 1%; sequentially up from where we were in Q1. So we've achieved INR 4,370 crores in this quarter as our revenue.

Next slide, profit. This is looking pretty healthy. Our operating profit has grown by 21% to INR 801 crores, which is 18.3%. And if you look at it on a 24-month growth basis, it's at 58%.

Next slide, which gives our 12-month as well as 24-month growths; net sales, as I've already spoken about; profit, operating profit, already spoken about; PBT and PAT at 21% and 19% and on a 24-month growth at 53%. If you look at our ratios, they are looking pretty positive.

So it's, I would say, good results. I would still make sure that I focus and the team focuses on getting our top line to grow much faster. And I'm confident as we go through the balance of the quarters this year, and therefore, we will see growths coming back.

So that's all I have for you. Let's open this for questions, please.

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

Abneesh Roy: Congrats on good margins. My first question is on the innovation in terms of the makhana better snacks. My question here is, under better snacks, will we see a much bigger plethora of products in the medium, long term? Second, makhana is a -- very commoditized, so how are the margins here? Why do this? And third is, will this have a very wide distribution? Or this is more of a -- bigger outlets and more of the top 20 cities kind of a market.

Varun Berry: Yes. So Better Snack Co is basically a brand that we will try to leverage for products which are healthier snacking products, so definitely this is going to be a platform for us for the future. Makhana is -- I wouldn't say it's commoditized, Abneesh. It's -- I think it's a very small category, and we are not looking at distributing it widely. This is going to be a modern trade e-commerce launch only, and till now we've seen reasonably good results on that. Does that answer your questions?

Abneesh Roy: Yes, it does. And a slight related question in terms of the salty snacks which you have been trying given your very strong experience in the previous company. You have also tried that under Britannia past few years, so will that work in a way with the better snacks? And any update, if you can share, on salty snacks? How is the scale-up?

Varun Berry: Abneesh, that's a very tough category. And we want to make sure that we get all the data required before we do a wider launch, so even at this point in time, it's in a test market. And as we have gone through the months, we've realized that there are so many things to learn from these test markets. And every month, there are new things coming up, so only if we feel absolutely comfortable with a marketing mix and we feel that we have a strong right to succeed will I go -- will we go ahead with a national launch.

Moderator: The next question is from Avi Mehta from Macquarie. Please go ahead.

Avi Mehta: Sir, I just have two questions. One, I wanted to understand your comment on market share gains a little better and whether you believe this suggests that the price-based competition is largely behind us. Would you see it this way? Or I would love to hear your comments on that one, sir.

Varun Berry: So the trend, if you were to study trends in most categories, most FMCG categories. What happens is that in inflationary times there are these smaller players who just go out of business, right, because they cannot get there with the cost structures that they have. And their cost structures are mainly around giving much higher margins, giving bigger discounts, so with all that put together, it becomes very difficult for them to make ends meet, but once the commodity prices start to come down -- and I've heard this commentary from a lot of FMCG companies this quarter, but once the commodity prices start to drop, they again start to give big discounts and big margins.

And they start to come back to play in the market. And that's what's happened with most FMCG categories this quarter, so you've got to be vigilant. We can charge a premium, obviously. You've got strong brands, so you can charge a premium to all of these players, but the premium has to be within a band. If it goes beyond that band, then they start to hurt you in pockets, so that's what you've got to be careful about. And that's what we've done.

As market leaders, it's always -- the onus is always on us to take the prices up because no one will take the price up if they don't see the market leader move up. And so that is a disadvantage for the market leader because we move up the first. And then people start to take prices up, and then when the commodity prices soften, then people start to cut prices again. So that's what's happened, and we've taken the right action. It's not that we are not at a premium to these players. We are still at a premium to these players, but the band has to be defined.

Avi Mehta: Sir, maybe I'm not very clear yet, so maybe I can rephrase the question. Is the premium now at the mid end of that band that you see, at the lower end or at the top end? How do you see that...

Varun Berry: It's still at the top end. We don't -- it's still at the top end of the band. It's not -- so let's say we define the band to be 20%. If it goes -- the premium goes to 30%, then you'll start to get hurt, so we want to make sure that we keep that within that band of 20%.

Avi Mehta: So -- sorry, sir. You think there is still room wherein this could be a cause of and we have to be vigilant. That's how I should read it. It's not yet behind us.

Varun Berry: No. It's -- I don't know what you're saying. I don't understand...

Avi Mehta: Sir, maybe -- I mean is -- what I meant is this competition is just price based. Would you say that the worst of it is over or not? That's what -- was my question because we are now seeing in the last quarter that, the trajectory on market shares, that has reversed. So that is where I was coming from...

Varun Berry: Yes-- that's why you're seeing the results.

Avi Mehta: Okay.

Varun Berry: Yes, but we have to be vigilant as we go forward with that, yes...

Avi Mehta: Okay, sir, perfect. Sir, the second bit I just wanted to understand was on the margin side. The first half margin performance, would you -- given this first half margin performance, do you see a need to revisit your flattish EBITDA margin guidance for FY '24?

Varun Berry: We don't give any guidance. Which guidance did we give? Did we give any guidance on EBITDA margins?

Avi Mehta: Okay, so there -- okay. Then -- okay, sir. Maybe then I misunderstood the earlier comment, but -- what was given last quarter, but would you say that this is the level that one can kind of continue? What could be risks for this EBITDA margin trajectory in first half to come off, especially because the employee cost reduction has been too stark? So I wasn't sure this quarter was a one-off performance. Or how should I look at that? That is what was basis.

Varun Berry: We don't give a guidance, frankly, so I don't know how to answer your question, yes. I think we should move on, thanks.

Moderator: The next question is from Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Just two questions. In the beginning, you mentioned that focus state growth has come down, so would you be able to give some more qualitative comments what's happening in UP, Bihar? Because these are -- my understanding is strong glucose market, so maybe qualitatively we can add. And maybe, what is the contribution of these four focus states to our revenues?

Varun Berry: So okay. So let me answer your first question, first. See, what's happened is, as I was saying in the beginning as well, the rural -- these markets are predominantly rural, right? And the rural growths, which were at about 2x urban growths till last year, are now lower than urban growth this year, right? So rural growths have come down overall, right, and that's the reason why these growths have come down.

Having said that, I don't think there's any fundamental issue. I think it's about the overall growth in the market. And we are still, I would say, growing faster than what the overall market is growing at in all of these states. And I personally think that the hard work that we've done in the last 10 years of building a very strong rural distribution is going to keep us in good stead. And as the markets start to come back as the rural economy start to come back a bit, things are going to be much better as we go forward, so if you're asking me have we lost share in these markets: No, we haven't.

Shirish Pardeshi: Yes. Because normally you used to give the market share numbers. So that's why I was a bit worried...

Varun Berry: No, no, no. You don't have to be -- so we've just changed the format. We've actually gained share in all of these states.

Shirish Pardeshi The reason why I'm saying -- because normally you used to give in the beginning what is the packet growth. And this number, you have not given this time, so I was wondering whether a volume loss is primarily because of this. So maybe, if you can share, what is the packet growth you have seen in the quarter?

Varun Berry: The packet growth this quarter has been flattish, Shirish, so -- yes...

Shirish Pardeshi: Okay. My second and last question, on the ad spend. Most of the FMCG companies has upped the ad spend in the recent quarter. So would you quantify what is the ad spend number which has happened and where it will settle in next 2 quarters?

Varun Berry: So we have also -- between the consumer promotions that we are running and all of the advertising that we are doing behind our brands, we have raised the ad spends -- well, not ad but total advertising and promotion spends, by about 1.5%, but it might not show in the P&L because some of the promotions which are grammage-based will not show in the numbers. So -- but the total spend on advertising and promotions has gone up by about 1.5%.

Moderator: The next question is from Aditya Soman from CLSA. Please go ahead.

Aditya Soman: So firstly, you highlighted this whole branded F&B category being INR 9 trillion. Would you -- I mean, how much of a play can Britannia make in that category? And any specific categories or subcategories within that, that you want to highlight where you feel that Britannia potentially has the right to win?

Varun Berry: So that's a great question. Now we are, I would say, probably the most focused company in terms of what we do. If you were to look at other FMCGs in India, their diversification sometimes is pretty varied. And they get into a very, very -- a variety of categories. What we've stayed true to is to make sure that we move in concentric circles. So we've tried to cover the bakery, first; and obviously, dairy, which is a play for us, so we are basically in the bakery space and dairy. We are doing some experiments with salty.

We have -- we are looking at some of the other categories as well, but we are staying close to the knitting so that we don't go too far from where our strength lies. Now dairy is also becoming a big play for us, and we will make sure that we play much harder there. Having said that, there are lots of other categories which are interesting. So the large categories that we don't play in which are in the branded F&B space are salty snacks, are chocolates, all of these categories. And we know that, at this point in time, we don't have a right to succeed.

Even companies which have gotten into this have struggled. Even companies with very deep pockets have struggled, so we just want to make sure that -- we first make absolutely sure within the team that we have a right to succeed and then we move forward. As I've said in the past, we would want to stay in the snacking space, predominantly in the baking -- baked snacking space, for the time being then move to other snacking areas and -- which is basically not in the middle of the plate. At some stage -- we are doing a lot of other -- R&D is working very hard on other categories as well, but we will move into those only when we are absolutely clear that we have a right to succeed.

Aditya Soman: No. Understand, very clear. And just a follow-up on this: I mean you mentioned that maybe in some of these categories, at this point, you don't see a -- sort of any natural right to succeed, but how do you get to that point where you're confident that, "Look. We are likely to succeed?" Let's say chocolates, right, I mean, hypothetically. Would that be like test marketing and then taking notches off or at what point would you just dismiss the strategy?

Varun Berry: So we -- so there could be various ways of doing it. So one is if we look at what we are doing in salty. We've been in test market for the last 3 years. And we continue to do it so that we can fine-tune our product before we are clear about where we are going. Similarly, chocolates, obviously we could look at getting into this and test marketing it.

We could even look at alliances, joint ventures, so there are various ways of doing it. I'm just talking from the top of my head right now. So there could be various ways of doing it and we will -- we have been in the process of evaluating all this. And I think we will -- we are not clear whether this is the right -- these are the right categories for us at this point in time.

Moderator: We take the next question from the line of Percy Panthaki from IIFL. Please go ahead.

Percy Panthaki: Varun, firstly, just a couple of hygiene questions. Firstly, if you could give the volume growth or decline for this quarter; and secondly, if you could explain the big Q-o-Q drop in the employee cost, that will be very helpful. And my main question is on the growth. So the poor growth that we have seen this quarter, could you break the reasons up into two or three parts?

So one is that there is a high base. Second is there is a general FMCG demand weakness. Third is that there is this local and regional competition which is getting active. So if these three reasons put together were, let's say, 100, what part of that 100 would you allocate to each of them?

Varun Berry: That's a very complicated question, Percy. I don't -- okay, let me answer your first question. Your first question was volume growth. It's flat. It's just about 20 basis points, right? So yes, volume has been flat. The second question was on employee costs. There are some base issues. Otherwise, there's no real change in employee cost. There were some options, etcetera which were in the last year, so there's no change. Employee costs have been reasonably stable. What was your third question? You'll have to rephrase it, 100 and all of that. I didn't understand...

Percy Panthaki: Okay, fine. What I wanted to understand is that there are, as I can see, 3 reasons why the growth is weak. One is that there is a high base effect. Second is that there is a general FMCG weakness. And the third is that there is increased local or regional competition, so which of these 3 reasons is relatively the larger contributor? Which of these is relatively a small part of the answer? That's what I'm looking at...

Varun Berry: Okay. I got it. I got it. So now obviously there is a slowdown, as far as FMCG is concerned. What we are seeing is a clear slowdown in rural. And despite our continuing to get deeper into rural areas, getting into more villages, etcetera, we've started to see the rural economy to splutter a bit. However, these are macro issues which companies like us cannot sort out. We continue to go on our agenda of building distribution because we know that -- while we've had a weak monsoon and the agriculture economy has not been the greatest this year, we know that this will come back.

And when it comes back, we will benefit from that. Second, we have had a very high base. So last year, our growth was 22% in this quarter, so that also is contributing to it. Third, on the regional players, I think we -- I wouldn't say that for the full quarter this has been a big issue, but yes, for the first, let's say, month, 1.5 months, this was something that was an issue, so we did take some pricing actions. And we will continue to be vigilant on that. I think that's something that we can manage. I think it's the slowdown in the demand which is something that we have to look out for and hope that, that corrects as we go forwards.

Percy Panthaki: So in this context when the volume is weak, demand is weak, what is the reason to sit at such a high margin? Shouldn't we sort of pass on more to the consumer, maybe operate at a 17% to 18% margin rather than 19% to 20% margin and bring the volume growth up?

Varun Berry: No, you're right. I think the agenda for us is to make sure that we grow our volumes much faster, but in times like this, Percy, even throwing money is throwing money at the wall, so we've got to make sure that the demand corrects before we start to do that. My sales head and my marketing head are delighted to hear your comments to -- but yes, the target for us will be to make sure that we grow top line much faster than what we've done this quarter.

Moderator: The next question is from the line of Jay Doshi from Kotak. Please go ahead.

Jay Doshi: Yes. A couple of bookkeeping questions. What's the cumulative price cuts that you have taken at the portfolio level from the peak pricing that you may have seen 6, 9 months back?

Varun Berry: Venkat, would you have some number for that, 3, 2.5%? So about 1.5%, I would say.

Jay Doshi: If I understand correctly: Your cumulative price increase in the inflationary environment was about 22%, 23%. And from there, you've reduced by 1.5%, 2%, so it's still 20% above...

Varun Berry: Yes, yes.

Jay Doshi: Right. Now see. In most FMCG categories, what we have seen is companies cut prices proactively even before there is full recovery in gross margin. At least that's what we've seen in the cycle. You've managed to maintain your market share quite well and also gained 250 basis point gross margin expansion over pre-pandemic levels, so do you expect that, for the category and for Britannia, gross margins of 42.5%, 43% is a new normal gross margin? Or you have intention of sort of taking it down to somewhere midway between there, 40%, where it was pre pandemic; and 42.5%, 43%, where it is right now.

Varun Berry: No, that's a very tough question in the current environment with the Middle East in flames; and Russia, Ukraine going at each other. We don't know where this situation is leading up to, so we've got to be very watchful. I would say we -- first of all, we don't give a guidance, so I won't be able to tell you where we are headed, but I would say that it's reasonable to assume that we'll be somewhere around what you see as our margins.

Jay Doshi: That's helpful. One last one. Wheat flour, the chart that you've shown indicates Y-o-Y inflation, whereas our interactions with other large buyers of wheat indicate that it's broadly at similar levels as last year. So what is the cost of inventory for you? Did you procure it at the beginning of the year, so you are not affected by the recent inflation? And second is if the chart -- if you can explain the chart...

Varun Berry: No. So we do buy covers. We do some strategic buying, which helps us neutralize some of the inflation that others see. So Manoj is here. If you have a question for him, he will be very happy to answer.

Jay Doshi: Sure. So the chart you are showing is more like spot price, right? It's your cost of consumption -- or your procurement cost of bit -- covers that you have would be much lower, right? So you would not be witnessing any inflation. Is that right understanding?

Varun Berry: Those are internal numbers.

Jay Doshi: I see, okay. So that is -- this is our chart of your procurement costs, understood...

Varun Berry: Yes.

Moderator: The next question is from Kunal Vora from BNP Paribas. Please go ahead.

Kunal Vora: Firstly, I wanted to understand the INR1 lakh crore Britannia flavor market size which you are talking about. How much is biscuits? What part of dairy you considered is -- and bakery, whether it's mostly organized or includes unorganized? And also if you can give us indicative market share in each of the categories?

Varun Berry: That's a very tough question. We'll have to do a chart for you, but biscuits would be, what, about 35,000 crores? 40,000 -- so biscuits would be about 40% of it. And then all of the other categories, bread, cake, rusk, dairy, all of that would be the rest, so -- but I will not be able to answer which categories, how big and what is the market share in each one of those categories.

But if you want any specifics on cake, rusk, etcetera: Cake, we have about a 35% share. Rusk, we have about a 23%, 24% share. Dairy is -- cheese is a small share, much smaller at about 13%, 14%. So that's how we've calculated it, but it's a good point. Maybe we'll construct a chart for you the next time.

Kunal Vora: That will be very useful. And second and last question if you can talk about your acquisition strategy both in traditional space as well as D2C brands in the food space, if there's anything which you would like to consider. I'm also thinking about, like, categories like cheese and mayo spreads. Are there any interesting opportunities there?

Varun Berry: From an acquisition standpoint?

Kunal Vora: Yes, acquisition, thought process on both traditional as well as D2C brands.

Varun Berry: Direct-to-consumer brands. Well, we've just gone into a joint venture with Bel. So first, we would want to make sure that, whatever Bel has in their portfolio, we look at bringing those into India. They are obviously dairy experts and they understand cheese very well, but yes, all of this -- mayo, maybe not, because that's not really dairy. But a lot of other cheese categories, whether it's cream cheese; or cheese spreads; or the one that we've launched, which is that -- the sachet, the INR 10 sachet, which is also a spread, these kind of things, we would first like to bring into the market. And then I don't think there are enough innovators in the dairy category in India which are ready for acquisition. I think we'll have a much better portfolio, with Bel as our partner.

Kunal Vora: Okay. And growth will be mostly organic. And inorganic is not like really a consideration right now.

Varun Berry: Not in the dairy category.

Kunal Vora: Overall at a company level?

Varun Berry: Company level. If there are opportunities which give us entry into categories which are adjacent to the ones that we operate in, we will be happy to look at it. And if there are interesting opportunities around us and in countries around us, we'll be happy to look at that. And we are evaluating some of those. So we will continue to do that, but we will not do it. We will not break the bank on any of these opportunities. They have to come at the right price. And I think private equity money is drying up, so there might be opportunities in the future.

Moderator: Next question is from Tejash Shah from Spark Capital. Please go ahead.

Tejash Shah: So there are two dimensions of inflationary, deflationary environment. So one which all FMCG company would have highlighted this quarter is that the competitive environment is heating up because of unorganized players, getting more aggressive, but the other dimension is how consumers behave. And usually we have been taught by FMCG companies only that, during inflation, they down-trade, but in the deflationary environment, there is more incentive for them to up-trade or premiumize, so why is that not showing up? Or will it take time for premiumization to come back again?

Varun Berry: Premiumization. See, within our portfolio we are a reasonably premium portfolio, right? And what we've seen even in the last 6 months is that it's not affected -- if you look at the mix: The mix has only moved towards the premium brands. It's not like the popular brands or the cheap brands are jumping up in every portfolio. See, even the B players, they -- while they would have gained in certain pockets, I don't think it adds up to the base of the pyramid becoming much larger than what it was. So to that extent, I don't think it's -- I don't think there is downgradation happening in the market.

Tejash Shah: Got it. And then second and last question. So you spoke about snacking. We have been trying for 2 years, so just wanted to understand: When we get into a new category, which is the best synergy or the top synergy that we look for, which is distribution synergy or brand synergy, that you prioritize?

Varun Berry: Well, it was -- the way we looked at it was that if -- snacking, as you know, is basically transportation of air, so we were looking at a model whereby we could set up nuclear factories all across the country and have a smaller radius of distribution and hence have an advantage over all of the larger players who have a limited number of factories. So that's what we are trying to do, but frankly, I don't think we are -- the jury is still out. We are still not 100% confident about whether this is going to work because differentiation is also very important.

While we have launched certain differentiated products, the issue with snacking is that, the local players, they give -- despite the fact that they might have costs which come out of replenishment, but -- they still have very high margins, very high discounts, etcetera. So only if we are able to counter all of those with the mix that we are bringing to the market will we move forward.

Otherwise -- see. On one side, you've got the larger players who are obviously much stronger brands, but they are losing out to the smaller players because of the price play and the grams in bag, etcetera. On the other side, you've got these guys who are throwing money in the market, so we don't want to be caught in this logjam. Only if we find a way to balance and make money out of this will we move forward.

Moderator: Thank you very much. We will have to take that as the last question. I would now like to hand the conference back to the management team for closing comments.

Mayank Mundra: Thanks, everyone, for spending time with us on this call today. We look forward to interacting with you again in the future.

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