15th November, 2024

To,

Corporate Relations Department	Listing Department
BSE Limited,	National Stock Exchange of India Limited,
Phiroze Jeejeebhoy Towers,	Exchange Plaza, C/1, G Block, Bandra-Kurla Complex,
Dalal Street, Fort, Mumbai - 400 001	Bandra (East), Mumbai – 400 051
Scrip Code: 500825	Scrip Code: BRITANNIA

Dear Sir/Madam,

Sub : Transcript of the Analysts Call held on 12th November, 2024 for the quarter and half year ended 30th September, 2024

Ref : Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 ('SEBI Listing Regulations, 2015')

With reference to the subject cited above and pursuant to Regulation 30 read with Clause 15 of Para A of Part A of Schedule III of the SEBI Listing Regulations, 2015, please find enclosed the transcript of the Analysts Call held on 12th November, 2024 pertaining to the Unaudited Consolidated and Standalone Financial Results of the Company for the quarter and half year ended 30th September, 2024.

The transcript of the Analysts Call is also available on the Company's website at:

https://media.britannia.co.in/Analysts Call Transcript Q2 2024 25.pdf

Request you to please take the above information on records.

Thanking you,

Yours faithfully,

For Britannia Industries Limited

THULSIDASS VELAYUDHAN THARAYIL

Digitally signed by THULSIDASS VELAYUDHAN THARAYIL
Date: 2024.11.15 13:54:34 +05'30'

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

Encl.: As above

Britannia Industries Limited
Executive Office : Prestige Shantiniketan,The Business Precinct, Tower C,16th & 17th Floor, Whitefield Main Road, Mahadevapura Post, Bangalore - 560048. Tel: 080 39400080 Fax : 080 25063229
www.britannia.co.in
CIN : L15412WB1918PLC002964

Registered Office : 5/1A, Hungerford Street, Kolkata - 700 017 , West Bengal

“Britannia Industries Limited

Q2 FY '25 Earnings Conference Call”

November 12, 2024

MANAGEMENT: **MR. VARUN BERRY – VICE CHAIRMAN AND MANAGING DIRECTOR – BRITANNIA INDUSTRIES LIMITED**
MR. RAJNEET SINGH KOHLI – EXECUTIVE DIRECTOR AND CHIEF EXECUTIVE OFFICER – BRITANNIA INDUSTRIES LIMITED
MR. N. VENKATARAMAN – EXECUTIVE DIRECTOR AND CHIEF FINANCIAL OFFICER – BRITANNIA INDUSTRIES LIMITED
MR. VIPIN KATARIA – CHIEF COMMERCIAL OFFICER, SALES AND REPLENISHMENT – BRITANNIA INDUSTRIES LIMITED
MR. MANOJ BALGI – CHIEF MANUFACTURING AND PROCUREMENT OFFICER – BRITANNIA INDUSTRIES LIMITED
MR. AMIT DOSHI – CHIEF MARKETING OFFICER – BRITANNIA INDUSTRIES LIMITED
MR. AYUSH AGARWAL – INVESTOR RELATIONS – BRITANNIA INDUSTRIES LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Britannia Industries Limited Q2 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 this 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. Ayush Agarwal, Investor Relations. Thank you and over to you, Mr. Agarwal.

Ayush Agarwal: Thanks, Neerav. Good morning, everyone. This is Ayush from the Investor Relations team. I welcome you all to the Britannia earnings call to discuss the financial results of Q2 '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 the remarks on the performance.

Varun Berry: Good morning, everyone, and thank you for joining us today. Let me just jump in straight to Page number 3 of the presentation. It's been a very tough environment. As all of you know, you've been through many conference calls, and I think the common theme that's coming through is that it's a tough demand scenario, coupled with high inflation. So just a few numbers here.

So if you look at what's happened to rural and urban, we've seen FMCG value growth percentages go down over the quarters and inflation on the right-hand side is sort of moving upwards. The CPI has moved up to 5.5% and the food inflation is up to 9.2%. So it's an environment which we'll have to maneuver our way through. It's a tough environment, always a sine curve on inflation. There was deflation about 7, 8 months ago, and now there's high inflation. So it's a tough environment. We'll have to maneuver our ways through it.

Moving to the next Slide, you will see that the FMCG market growth, as given by NIQ, are lowest in metro. In metros, if you look at it, they were almost at 0%. And today, they stand at about 2%. We have a hypothesis on that. Basically, if you look at what metro contributes to the total FMCG business, it's about, let's say, 30%,but what it contributes to the slowdown is almost 2.4x that. So metros are the ones where the slowdown is the maximum and let's try and understand why. Now this is only a hypothesis, so excuse us if you've already studied this.

But moving on to the next Slide, what this clearly shows is that, if you were to look at the CPI basket weight for rural and urban, one thing that comes through very clearly is the housing cost. The housing cost in urban and especially in metro areas is about 22% of the total CPI basket weight. And we know that Real Estate is -- the prices have gone up, the rentals have gone up, and that's creating stress for most consumers in large cities and metros.

On the right-hand side is a reflection of what's really happening on the salaries front. So let me explain this chart to you. So this -- the first bar that you see of 50.8%, that is the non-salaried workforce, right. So 50.8% of the workforce is non-salaried in urban areas, right. And this 50.8% has gone up to 51%.

What does that mean? If they are non-salaried, what they have seen as their nominal increase in earnings over the last 12 months is 3.4%, while the salaried class have -- their earnings have gone up by about 6.5%. So there's stress in almost 51% of the workforce sitting in urban areas. So that is the double whammy, which is creating a demand shortfall as far as urban and especially metros is concerned.

Moving on to the next Slide. Our share -- this is a share Slide that we share with you every time. Our share has been flattish. In fact, the first half, we have been flat over the last year. However, the -- in conditions like this where there's deflation and then inflation alternately, I think we are in a good place because being the market leaders, the onus of taking price increases is always on us to make sure that we show the way for other players in the market. And hence, we feel that we are in a good place in maintaining our share in these circumstances.

Going on to the next Slide, which is the strategic pillars. They are the same that you've been seeing for many quarters, distribution & marketing, innovation, driving adjacent businesses, cost efficiency and sustainability. I will cover these one by one. So driving efficiencies in distribution, our journey continues. We are expanding direct reach. We are now at 28.5 lakh outlets that we cover directly.

There is an uptick in rural distribution where we've -- our number of distributors is now over 30,000, the rural distributors. Our focus states are performing better. They're about 1.9x what rest of India is. It's not much, frankly, if you ask me, I'm not satisfied with this because rest of India is also low and so is focus states. But growth will come back. This is India, and we are confident that we will -- this is a road, it's a speed breaker, which we'll also pass by and things will get normal over a period of time.

Moving on to the next Slide. Our Route-To-Market 2.0 is going quite well. We've partnered with one of the best consulting companies in India, and our objective is to rewrite our Route-To-Market, leveraging data analytics and artificial intelligence. So the 4 objectives really are to make sure that we leverage high-potential outlets, upscale our salesmen's capability, upgrade technology for productivity and increase feet on the street.

We have currently pilots in Q2 covering 25 cities, which is 44 distributors and more than 50,000 outlets, which are showing very encouraging results, and we plan to scale up implementation in the long term to maximize extraction. We are quite pleased with how this is going. And while it's a long-term project, we are already seeing green shoots of what we can achieve with our new Route-To-Market.

We have sustained investments in our brands. We have been advertising behind Marie, 50-50, Treat, Milk Bikis and Bourbon. We've always -- We've also had some digital campaigns on Good Day, Little Hearts and also on 50-50.

Next Slide. We've also had investments to drive consumer engagement. So we've done that on rusk. We also did it on Winkin' Cow with the cricket engagement that we had. We've done an engagement on Croissant. Croissant is a very difficult word to pronounce. So we worked on something where people could try pronouncing the word, and we created a lot of engagement on that, on cake, as well as we've run some tactical promotions on our biscuit brand as well.

Next Slide. Our innovation, we've launched Milk Bikis in wafer roll formats in Tamil Nadu. That's doing quite well. We've also launched some new formats of layer cake. Tiger Coconut is doing quite well for us. And so is our Golmaal, new variant.

Next Slide is on adjacent businesses. We've been doing quite well on the adjacent businesses. Now unfortunately, it's a time when there's a slowdown, but our wafer business has been doing quite well. Even our rusk business has been seeing the uptick. Croissant has been doing extremely well. Our drinks have been showing resurgence, both in our PET format as well as the Lassi, which is in the tetra pack format.

And our international business, especially the Middle East, has been doing extremely well as well. So there is the momentum that we require on the adjacent business, and we are hoping that we can keep that up as the base business also starts to grow much faster than what it is currently.

Next Slide is on digital adoption. We've taken up digital adoption for -- sorry about this, I got a bad throat, digital adoption for enhanced efficiencies. And this is on sales. I've already spoken about what we are doing on analytics for assortment planning as well as AI-enabled merchandising platforms, also our go-to-market, Route-To-Market. Marketing, we've started to collect first-party data for direct marketing. We've got a center of excellence for e-commerce.

In supply chain, we've got integrated Transport Management System. We've got robotics for process automation. And on the procurement side, we've got supplier collaboration platform, also a procurement decision alert system. All of these are working quite well for us, and we are making sure that we adopt these and use these and leverage these to get more efficiency into the system.

Our cost leadership across verticals is going quite well. You've seen this chart, so I won't spend too much time on it, but we are running really, really well this year, and we will probably overachieve our cost efficiency programs versus what we planned for ourselves. So we are doubling up on this because of the environment and because of the inflation, and that's giving us great results. And I'll come to this -- hold this thought. I'll come to this in the end.

Now on the ESG, we have ongoing initiatives, which is a software platform for digitized sustainability data collection, which we recently launched. We've also got an e-learning module for our own employees. We published 2 reports. We published our fourth sustainability report and also our first TCFD, which is the Task Force On Climate Related Financial Disclosure for full year '24.

We've also got a reasonable recognition. Our S&P Global rating has gone up from 47 to 52 this year, and we've been awarded for our sustainability initiatives by the Golden Peacock Award.

So we are happy with how this initiative is progressing. It's very important, very close to our heart, and we are doing whatever we can.

Now coming to the tricky piece, commodity costs. As you see, the warm is only moving upwards in most cases. Flour, we've seen quite a bit of inflation. Now what you see in these slides is with our strategic covers. If you were -- if we didn't have these strategic covers, the story would be very different. So just to give you an idea on palm oil, you are seeing a slight inflation in palm oil in Q2 '25. Actually, the inflation is about 45% over Q1and the reason for that is import duty of 40% and also a demand and supply situation, which is creating some kind of shortage in the countries of origin, which is Malaysia and Indonesia. So there's a 45% increase. However, we had some strategic covers. So it's not showing in our graph. But -- and similarly, in flour, the inflation is more than what it's showing in this graph because we have strategic covers.

And cocoa is looking quite bad. Even laminates and corrugated boxes are showing signs of inflation. So this is a scenario that we'll have to manage and how do we manage this. So on the cost and profitability front, next slide, Slide 21. We've initiated focused pricing actions to make sure -- because, frankly, in a situation like this, we do have to take a certain amount of pricing, which is by channel and brand.

We are doubling up on our cost efficiency and value engineering projects. We've also made sure that we make appropriate investments to support brands. And if there are any areas which we can cut back on, we do that. As far as the outlook is concerned, we are closely monitoring the commodity situation and taking steps on a day-to-day basis.

We are very vigilant on the competitive pricing actions as well because we understand that being market leaders, you have to take the lead, but we do not want to be uncompetitive in the market. And that is something that we are keeping our eye on. And our strategy will remain focused on driving market share while sustaining our profits.

Now getting to the financial results. We've achieved INR4,566 crores, which is a volume -- the volume growth is almost 18%. It's -- sorry, 8%, sorry, what am I talking about? So volume growth is 8%. The 12-month growth on revenue is about 4.5% and the 24 months is also similar at 5%.

Operating profits at INR707 crores, which are on a 12-month basis, 12% below. On a 24-month basis, 7% above. And even if you look at sequentially versus Q1, we are slightly ahead of Q1. Q1 was INR680 crores. We are at INR707 crores. So I feel that in these circumstances, these are great results.

Getting to the key financial lines. So we've already spoken about this. Net sales up 4.5% and PAT down 9.6%. And if you were to look at the ratios at the bottom, profit from operations is still 15.5%, profit before tax is 15.7% and profit after tax is a very healthy 11.6%. Now just a point here, as I end this presentation. We -- actually, at Britannia, we are very proud that we sell product, which is probably a food product, which is probably the most affordable food product in the world, right?

Just to give you an idea, the average price of the product that we sell in India is INR115 a kilo. Today, even tomatoes and onions are at that price. And frankly, we have extremely tasty products, which are -- there are hundreds of R&D people working on it, tremendous amount of marketing efforts, sales efforts.

We are getting to 7 million outlets across the country and selling a product which is INR115 a kilo. But we are also delivering profits which are top quartile for any food company across the world, right? It's not just in India. It's top quartile profits across the world, right? This is a dream for any company, if you think about it, right?

Getting to people who are in every segment of society at the right price with products which are affordable and available at arm's reach and also able to have a P&L whereby you keep your costs low, where you have efficiency programs driving costs every year and you're able to deliver profits which are top quartile for any food company anywhere in the world.

And I would urge you guys to compare us to any food company across the world, and you will find that this is a model that people would die to have. So we are very proud of this model, and we hope to see that the demand situation changes, and we are able to drive this business even harder. Thank you very much.

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Abneesh Roy from Nuvama Wealth.

Abneesh Roy: My first question is on the volume growth. So last 3 quarters, we have seen good volume growth from you in the range of 7% to 8%. So my question is, how do you see in terms of outlook next few quarters, given base is high?

Second, there is a good inflation in many of your raw materials and at INR5, INR10 you'll have to cut grammage to pass on. So that also means that, that will have an adverse impact on the volume growth. So would you say that now it will be a healthy mix of pricing and volume? So -- plus there could be some down trading impact, right?

You did speak on the urban and very good Slides, I'll say. It has really made us understand the urban slowdown a bit better. So because of the down trading, the volume growth number, could there be some negative shock in the next few quarters?

Varun Berry: So, Abneesh, we are trying to make sure that we balance this. We understand that the demand scenario is not as robust as it's been in the past in India. So we are trying to balance it. Frankly, we are here for the long term, Abneesh. We are not operators who look at a quarter and a quarter and a quarter. We want to have a robust, solid business in the long term.

So if we feel that the volume is under stress, and we need to be a little careful about our price increases, we will do that. We will try and balance both. So I would say, yes, there will be some impact on the volumes, but it's a short term thing, Abneesh. As I've told you in the past as well, it's these sine curves in inflation that we are wary of. If there is a regular, let's say, 3%, 4%, 5% on year-on-year, it doesn't bother us because we plan it and we execute it properly.

It's just these sine curves when they come, when we have to be a little careful. So we will be careful. In the next 6 months, 9 months, we are going to be very careful about how we treat price increases, how we route for volumes, et cetera. So we will balance it well, and we will make sure that we do the best from a volume standpoint as well.

Abneesh Roy: Varun, one related question is, if I see last 4 quarters, out of that, the operating profit has declined for you on Y-o-Y basis. Now I wanted to understand, given the base because favorable, at least on the margins and profits, if you could tell us on an RM basket, how much is the inflation? And if I see that with a soft base, how do you see profitability? Is that going to be in a tight range? I'm not asking for any guidance. I'm just saying that out of 4 quarters, 3, there's a negative Y-o-Y. But how is the RM basket on an overall basis, if you could tell us, currently?

Varun Berry: No. So inflation is high. Inflation -- as I've said, the big inflation on palm oil is because of the import duties which have been levied by India. Now if -- I would think that, that would have a limited shelf life. So if that goes away, things could become better. Wheat, it's a fundamental issue as far as wheat is concerned because the crop has been lower, the government is holding less stocks. And hence, the release of stocks has been lower. But it's 1 year.

Now we are moving into the next year soon. And hopefully, the crops will be better because as the prices go up, more farmers start to look at that crop. So we are hoping that acreage will improve, yields will improve on wheat next year and things will get better. But having said that, for the time being, we will be careful. I don't think it's going to make a very large impact on our profitability. I think we will maintain our -- the quartile that we operate in. And I don't think it's going to make a huge difference at all, but it's a time to watch out and balance.

Abneesh Roy: Sir, my second and last question will be on the Total Global Foods' Company mission, yesterday also, you have spoken on that in the earnings release. Here, if I see what are other FMCG companies doing, for example, ITC, Marico, Tata Consumer, Zydus Wellness, all these 4 companies and even other companies have done organically. They have gone into protein bars. They have gone into healthy snacks.

So now I'm asking, will these become a missed opportunity for you because these 4, 5 companies already have a well-established B2C brand, and now they can scale that up. So what will be your thoughts on these specific protein bars and healthy snacks, which currently, I think, is not there in your portfolio?

Varun Berry: We do have some bars. We've launched on a test market basis in e-commerce. But yes, these are all areas that we are seriously looking at. And while they are very small and they are not going to move the needle on the overall -- the total business that we have, but yes, we are looking at these and making sure that we are ready to launch these.

In fact, we've launched bars. We've got cereal bars as well as protein bars that we've launched in e-commerce under the Be You brand name, which is Be You stands believe in yourself. So we've launched that, but we haven't done much activity on those, but we will scale them up as time goes by.

Abneesh Roy: So thanks, that's all from me side.

Moderator: Next question is from the line of Avi Mehta from Macquarie Group.

Avi Mehta: Sir, my first question is on this RTM 2.0. Could you help us better understand the likely benefits and more importantly, by when do you expect these to start to materially flow?

Varun Berry: So the benefit -- so about 8 or 9 years, Vipin here with me, so I'll let him talk after I have given a short speech to you. So basically 8, 9 years ago, we started on a split model, whereby it was a geographical split model. So we would choose a geography, let's say, Mumbai or Bangalore or Delhi or whatever. And we would say this distributor has got high potential outlets, and hence it's important that we split this geography into 2.

Now unfortunately, what happens is that in that geography, be it Delhi, there will be high potential outlets and there will be smaller outlets. So there was wasted energy in going to smaller outlets with split routes because they were not -- they didn't have the potential to buy the right product. So what Vipin team have done, they've taken the decile approach.

They have broken the market into 10 deciles. And what this shows is that the first decile, let's say, 1/10 of the market, it's 14 lakh outlets, which have been broken into deciles. So each decile has 1.4 lakh outlets. And the first decile contributes to, Vipin, about 53%?

Vipin Kataria: Yes.

Varun Berry: 53% of the business. So that deserves a very differential treatment from route-to-market standpoint. So this is just one example. There are lots of other things that we are looking at. So we -- what -- the objective is to give the outlet its pride of place. If the outlet is big, and he has the ability to buy, let's say, 2 times a week and buy large quantities of every possible category that we have, then we should give them that kind of service. And if the outlet is small and only buys once a month, then should give them that kind of service. So that really is the story as far route-to-market is concerned. Vipin?

Vipin Kataria: So a couple of more points. So obviously...

Moderator: Sir, sorry to interrupt you, you're sounding a little distant.

Vipin Kataria: Yes, so what you saw in all the charts is that there are 29-odd lakh outlets where we service directly. Now 50% of that is urban and the top 3 deciles is basically what Varun was talking about is a gold mine because that's almost like 80% of our urban business. Now the concept is that this is where the right shopper and the consumer goes and they have the right kind of income, they have the right kind of disposable income to buy the premium products as well as the adjacent categories.

And therefore, we need to align our service, which is basically the salesmen going and booking the order and the delivery which is basically going and putting the product into the market completely to this entire potential. So I think that is the basic concept. What we are also doing is that we are sourcing a lot of external data, which only enriches this entire stratification and that really unlocks the potential. So that's the project.

The other thing that we are doing is that amongst these multiple salesmen, what should the right combination of brands, what is undersold, what has a huge potential, right? And therefore, all these 3, 4 things are coming together to make sure that we really extract most out of these top deciles.

So till now if you see we update you every quarter on the increase in our distribution, so that is more about the width. This project is about extraction and depth and selling the right kind of brands into the relevant outlets.

Varun Berry: And this will take -- from a training perspective, it will probably take 12 to 15 months to fully be embedded into our system.

Avi Mehta: Okay. Got it, sir. Got it. Very clear on this. Sir, the last bit I had is on the focused pricing actions that you indicated. Could you give us a sense on the likely quantum and the flow-through in realization that it could entail going forward? Basically, I'm trying to understand by when volume and value growth should start matching each other? That's the -- I'm just trying to kind of understand that, but that was the only thing. That's all from my side.

Varun Berry: So there will be about 4% to 5% price increase in the next 2 quarters. So that we'll have to take, and we will do it strategically in SKUs where we haven't taken a price for some time. But if we have to take 4% to 5% on our entire portfolio, it tends to hit the large SKUs and large brands. So we are in the process of doing that.

Avi Mehta: Okay, sir. Perfect. That's all from my side. Thank you very much.

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

Aditya Soman: Really, thanks for going into depth on your route-to-market, I think that was super helpful. Just on the route-to-market, a question there. What would be the cost of this project? And is that one of the reasons also that we are seeing an increase in cost? And the second question, can you just give us a sense of your sales split by channel and maybe even growth by channel, if that's possible?

Varun Berry: The cost is -- there is a cost to this. Obviously, there's a consultant cost, there's a team that we've set up within the company. But that's not -- it's not a materially large cost, which is going to impact our overall cost structure. So it's not going to make that kind of a difference. And what was the other question?

Aditya Soman: Yes. The second question was on the channel split of sales and the growth for the channels?

Varun Berry: So we've been seeing very good growth as far as quick commerce and e-commerce is concerned. Even modern trade has been doing reasonably well. Although the competitive scenario there is pretty tough, but we've been doing well, and we've been gaining share in both quick commerce, e-commerce as well as modern trade. It's the traditional trade, the GT part of the business, which is growing slower currently. But I think that's our big muscle, and it's -- the rural is coming back slowly. So as rural starts to come back to the kind of double-digit growth that we were seeing in the past, I think we should be in a good place.

Aditya Soman: And maybe just a follow-up on that. I mean in terms of rural recovery, if one looks at the Nielsen numbers, then the recovery is actually fairly sharp and now on a tough base as well. So 2Q '24 -- FY '24 also had a tough base. So we are seeing a fairly strong recovery on that. I just want to understand why the overall sort of recovery in FMCG consumption has been a little bit slower or at least not to the same extent as the Nielsen numbers suggest?

Varun Berry: So that's what I attempted to talk about in the presentation in the beginning. It's the metros and the large cities where there is an impact because of 2 reasons. One is the whole housing cost and second is the wages that the nonsalaried individuals -- the raise in the wages that they've got or the increase in the wages that they've got. So that's what I attempted to explain. Yes.

Aditya Soman: Yes. No, my question was on the rural specifically on -- if the rural growth itself has caught up, but with what Nielsen is reporting?

Varun Berry: No. See, rural is doing better. Rural was doing worse than urban until about 2 quarters ago. So it's doing better, but still, it's in mid-single digit kind of growth for FMCG. So that's not what it used to be, let's say, 4 quarters or 8 quarters ago. For us, it was -- we were growing high double digits as far as rural was concerned. So it will come back. I think it's starting to look much better, and we are hoping that things will get better with the rural economy continuing to do better than expected.

Moderator: The next question is from the line of Percy Panthaki from IIFL Securities.

Percy Panthaki: I just wanted to understand whether biscuits really has an advantage as a category in an inflationary scenario. Reason being that -- I mean, permit me for saying this and don't take it in the wrong way, but biscuits is a little bit of a Giffen good in the sense that when there is a lot of food inflation, it's a very cheap source of calories.

And therefore, people shift a little bit of their calorific requirement towards biscuits during times of inflation. This is especially because compared to the CPI inflation that we've seen, biscuits has actually seen a Y-o-Y kind of a deflation. So would you say that rather than be worried about inflation, this is sort of a good time or this is an opportunity for you actually?

Varun Berry: I didn't understand your question at all, Percy. I'm not clear on what you're saying.

Percy Panthaki: Okay. Let me just rephrase that. So what I mean to say is that while there is an overall CPI inflation, there's a price deflation in biscuits, and it becomes a cheaper source of calories versus several other food products. And therefore, do you actually see a positive kind of impact on your business because of this?

Varun Berry: No, no. There's no deflation. You are just comparing the volume growth with the revenue growth. Yes, we have taken price increases, which have been reversed and this -- the situation of higher volume versus the revenues, it's only for this quarter, right. Things are -- so it's not like that at all. Yes, biscuits is -- it's an important part. Yes, 100% of households -- we are available in almost 100% of households, so it's almost a necessity today. And the consumption does happen. And I don't think we are positively impacted by deflation or there's deflationary trends. I don't know where you're getting your data from, but no, I don't think that is true.

Percy Panthaki: Understood. Also, just wanted to understand in terms of when the price increases come through, let's say, you're going to take 5% kind of price increase. Typically, if you have a historic model or if you have any kind of insight as to how much this affects your volume? So is there like a 50% pass-through to the overall sales, like a 5% price increase happens, then 2.5% overall sales growth will improve or any kind of rule of thumb you have on that?

Varun Berry: There's no rule of thumb, Percy. It's very difficult. You're asking very difficult questions today.

Percy Panthaki: Fair enough. Last question is on margins. So how do we look at margins going ahead in terms of a band? Would you say that the margin that we have posted this quarter it should hover around that because the price increases will probably just go towards fulfilling cost inflation? Or is there any leeway to expand margins on a full year basis higher than what we have done this quarter? And just one hygiene question on the accounts for this quarter is that salary cost is up 45% Y-o-Y? So what is the reason behind this? Just these two more questions.

Varun Berry: No. So the band of margins, we try to operate in the same band. So it's not going to be dramatically different, and the salary cost is because of the stock appreciation. Phantom stocks being revalued on the basis of the share price. That's what it is.

Percy Panthaki: Is this like a one-off thing? Or do we see the salary cost, which we have seen this quarter to more or less continue for the coming quarters?

N. Venkataraman: So what happened was the share price of our stocks moved up from about INR4,900 in March to about INR5,475 in June, and then to INR6,300 as of 30th September. The valuation is done based on the closing price of shares in these periods.

Percy Panthaki: Okay. So as long as the share price remains constant, there will not be any of that additional cost. And on a quarterly basis, salary cost will be lower than what you've reported last quarter. Would that understanding be correct?

N. Venkataraman: It depends on the share price.

Varun Berry: Yes, you're right.

Moderator: Next question is from the line of Mihir Shah from Nomura.

Mihir Shah: Just wanted to check on the innovation and new launches. Over the past few quarters, the innovation new launches were doing significantly well growing at 2x on the growth rate. Can you talk a bit more on the saliency of that piece? How much is it contributing to our overall revenue now? And how -- has that momentum sustained or given the urban weakness that momentum has tapered off?

Varun Berry: Yes. So innovation, as we read the innovation, we -- any product which is launched in the last

24 months is considered as innovation, and we are running at about 2% of revenue on that. We also look at how these products sustain in the longer run, but that's not a part of the innovation bucket. So right now, we are running at about 2% on innovation, 2% of revenue. And some of the innovation that we've done have done extremely well. There -- obviously there are some which sort of lag behind as well. But on an overall basis, it's giving us a 2% of revenue.

Mihir Shah: Sir, I missed the earlier comment in margins [inaudible 0:44:46].

Moderator: Sir, sorry to interrupt. Sir, there's a bit of an echo from your line. Let me disconnect and reconnect your line. Ladies and gentlemen, please stay connected. Ladies and gentlemen, thank you for your patience. We have the line for the management reconnected. Mihir, Please proceed with your question.

Mihir Shah: Sir, I wanted to just check on the margins once again. I might have missed your earlier comments. If you can firstly jog our memory, is there any difference in margin profiles in second quarter versus the earlier quarters? Are they usually weaker on the gross margin level? Should one expect margins to bounce back to the historical levels given the price hikes of 4% to 5% that you have already put into the market?

Varun Berry: So for sure, the price hikes will make the margins better. But as I said on the commodity side, the inflation is also a lot bigger than what we had expected. And we had some strategic buys, which will probably continue for some more months from our strategic buys. But the inflation is genuinely reasonably high. So we expect to maintain margins rather than increase margins, balance inflation and make sure that we are able to keep a stable margin profile.

Moderator: Next question is from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: I have a broader question. If you strip out, I mean, in the beginning, you said that the metros is struggling. So do you have any quick number, the top 10 metros contribution? And what is the growth in top 10 metros versus the overall volume growth what you have reported in 8% for the company?

Varun Berry: No, we won't have it right -- available right away, Shirish. But if you connect separately, we can look at those numbers and give that to you.

Shirish Pardeshi So I'm more curious because in the starting, you gave that number of housing and other things. So there is an inflation which is there. To my thought and experience, the food inflation really has a problem with the rural folks. But surprisingly, rural is doing better. So maybe if you can help me what -- if that 8% growth is for the company, what would be the rural growth, if you can strip out?

Varun Berry: The rural growths are reasonable, I would say, slightly high single-digit kind of growth. They're not the kind of growth that we've seen in the past, but there will be high single digits --Vipin

Vipin Kataria: Yes. So it's -- so the rural growth at 2x of urban. And when I talk urban, urban will include e-commerce, modern trade, right? And like Varun said rural is right now at mid-single, high single kind of range. And these are all very relative numbers. So rural we were growing at high double-digit and then rural started tapering, while there is a sequential recovery, there is much more which is wanted from rural.

Shirish Pardeshi: Okay. Just one follow-up here. In RTM 2, you mentioned that we are doing this exercise in top 25 cities and 44 distributors. So if that pilot is successful, say, 1 year time, you will cover at least 1/3 of the market in India?

Varun Berry: So we will cover almost 450,000 outlets.

Vipin Kataria : Yes. So we will go to almost about 100 cities. It will cover 4.5 lakh outlets, which is almost like 80%-odd, 85%-odd of our Pareto sale.

Shirish Pardeshi: Okay. My second and last question on the snacking portfolio. Varun, you used to say that there are gaps in the snacking and we have also tried Time Pass, and we have also tried the Nutri bar and other segments. In between, there were media reports that we were also looking for acquiring some snacking companies. So is that something which is on the card that to fulfill that product gaps, we will look at the M&A angle?

Varun Berry: No. If required, we will. But the snacking business is a very different business from what we do because we currently deal with the shelves inside the outlet. The snacking business is all about air displays. So first, we've got to make sure that our distribution system is ready to be able to run this business. And that's why we've been running these extended test markets just to make sure whether both these businesses can coexist inside the shelf and air spaces.

If you remember, there are companies which have tried to get their beverage and snack business together, and they were not able to do that because they are very different and require very different kind of skills and different kind of merchandising. So we just want to make sure that we have the right distribution capabilities before we look at scaling this up.

Shirish Pardeshi: Okay. Just quickly on the capacity part, I think our Bihar capacity is on stream. And maybe if you can update what are the new capacities which you are expecting in the next 2 to 3 quarters?

Varun Berry: No. So we've got 3 new factories, which are already in play. But UP, in the north we've never had a factory which is large and it provides us all that is required. So we had 1 plant in Uttarakhand, which was done about 12, 13 years ago. Now we've got a UP factory. We've got a new factory in Bihar in Bihta and we've got a brand-new factory in Tirunelveli.

We've also expanded our factory in Ranjangaon. So from a capacity standpoint, we are in a good place. There might be a few product categories where we need some enhanced capacity, which we are working on in any case. So we have no issues as far as capacities are concerned.

Moderator: Next question is from the line of Harit Kapoor from Investec.

Harit Kapoor: So just on the pricing bit. Given the current commodity inflation, you believe this 4.5% to 5% is sufficient currently to take into account what you're seeing in terms of commodity inflation right now, also adding in your covers, etcetera.?

Varun Berry: No. So there are some price increases which we've already taken. So this is going to be in addition to that. So yes, it's sufficient to cover that.

Harit Kapoor: Got it. And the second thing was on the competitive activity. So over the last 2, 3 quarters, you've seen heightened competitive intensity in terms of scheme, grammages, cetera, across biscuits, across companies. I just wanted to get your sense of do you see this kind of abating a little bit in the wake of high inflation? And is that a kind of market share gaining opportunity?

Varun Berry: Yes. No, absolutely. You're right. See, what happens during inflationary times, some of the small players, they completely go under. See, the situation is we've never had this double whammy kind of a situation where demand is stymied because of various reasons that we've discussed and there is an inflation in the market. So in times like this, there will always be a few players who want to drive demand, who don't want to take price increases.

Then they realize that their entire profit has gone to hell and hence, they will then take some knee-jerk reactions and go out of the market. So what we've seen in the last, let's say, 6 months or so, what we've seen is that because of the demand situation, there was some amount of hectic activity from players, but that did not give any player an advantage by throwing money at the market. It did not give them advantage in terms of growth, right?

The only players who've grown in the current scenario -- are players have grown, let's say, higher than us in the current scenario, are players who were operating in 1 territory and they've now spread their wings and they are going to 3, 4, 5 territories. However, in their current markets, they are suffering very badly.

So that's a very short-term measure that these players are taking and they will feel the repercussions because they don't have that muscle to be able to extend their selves to multiple markets. So I think there will be some amount of cleaning up that will happen in the short term and the long term.

And we have been completely above board as far as our dealings in the market are concerned. We've not dumped any product. We've kept our system absolutely clean so that we don't have excess stock, which starts to come back at us. We have product, which exceeds the shelf life and all of that. So we kept our system absolutely clean, and we will see the benefits of that as we go forward.

Moderator: Next question is from the line of Amnish Aggarwal from Prabhudas Lilladher.

Amnish Aggarwal: I have a couple of questions. My first question is regarding the volume growth, although we have indicated 8% volume growth, can we share how much is the number of pack size growth? For example, how many more packs of biscuits we have sold in the quarter?

Varun Berry: It will be similar, but we can figure that out. We'll give it to you. Go to your next question.

Amnish Aggarwal: Okay. The next one is the onetime staff cost, which is in the form of your Phantom stock options. So what could be the impact of that in this particular quarter?

Varun Berry: It will -- it depends on the stock price. So very difficult to say.

Amnish Aggarwal: No. But in the concluded quarter, we have provided some amount in the staff cost. So how much was that quantum in 2Q?

N. Venkataraman: That's about INR50 crores.

Amnish Aggarwal: INR50 crores. Okay. And sir, my third and final question is that as you indicated that you have got some strategic, your buying already in wheat as well as in palm oil. So if we have to look at the current raw material scenario, so on an index basis, how would be the current scenario in 3Q vis-a-vis what was in the second quarter of the year?

Varun Berry: Yes. So that's why we need to take price increases, and that's why we are going ahead and taking a 5% price increase on our entire portfolio. So yes, the inflation will be more than that. But if you look at the charts carefully, you will see some numbers there on the commodity side, where we are indicating what the market will be.

Palm oil will obviously be bigger than that. Palm oil prices have gone a little haywire. But I think they'll come back. The government will take the right measures. I think the import duty of 40% will, at some stage, be withdrawn and hence, things will get better. The pack size growth is also about the same as the volume growth.

Amnish Aggarwal: Okay. And sir, just a follow-up on that. In terms of your 5% price increase, will it be gradual over the next 2 quarters or most of it will be taken by, you can say, the end of December?

Varun Berry: No, it will be gradual. But yes, wherever we can -- the price increases are -- if it's a direct price increase, it will be taken right away. But I will say December, January we'll be done.

Moderator: Thank you very much. Ladies and gentlemen, we'll take that as the last question. I now hand the conference back to Mr. Ayush Agarwal for closing comments.

Ayush Agarwal: 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.