"Agro Tech Foods Limited
Q2 FY2024 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to Q2 FY2024 Results held for Agro Tech Foods Limited Conference Call hosted by Anand Rathi Share & Stock Brokers. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Ajay Thakur. Thank you and over to you Sir!

Ajay Thakur: I welcome you all to Agro Tech Food's Q2 FY2024 results conference call hosted by Anand Rathi Share & Stock Brokers. From the management side we have with us Mr. Sachin Gopal, Managing Director and Mr. K P Srinivas, CFO. Now without wasting much of a time I would like to hand over the call to Mr. Sachin Gopal for his opening comments and followed by Q&A session. Over to you Sir!

Sachin Gopal: Thank you Ajay and good afternoon everybody. Thank you for taking the time out to join us today. We will follow our standard process where we will walk you through the presentation. We have had one or two comments saying that we might be running shy in terms of we need more time in terms of Q&A so I will request Ajay if you could just let us know if we need to give another 10 minutes or something like that for more questions.

I assume that all of you have have got access to the presentation that we have posted on our website and as well as with the regulator so if I could request you please we can go straight to page four of the presentation. Overall I would say it was a soft quarter for us. We did not have any foods growth related to prior year and this is below our expectation and we saw strong margins in staples, so we will walk you through and deconstruct of what exactly is in the business and therefore what are the actions we are taking and what do we expect. So to start with soft quarter with no foods growth most likely due to 2:05 unusual phase in that quarter and prior year. Q2 last year for foods was higher than Q3 by about 7% which is very different from the pre-COVID time right so there is some amount of I would say ups and downs in our bases that does not mean that the growth is what we want. The answer is no but the trend between Q1, Q2, and Q3 was different last year as compared to the pre-COVID years. So overall we think it is probably better to look at six months data rather than three months data right okay because the longer the data points the greater the accuracy that you have and today's foods volume growth therefore is about 6% which is about 4% in value. This is probably more representative of current growth rates. Now we clearly need to get into double digit very quickly because our CAGR is in the region of 18% to 19% in foods so we will talk you through what are the actions that are currently underway. In terms of gross contribution this was actually quite good net sales plus RM-PM this came out to be about 40% for the total company and foods is still now pretty much back at the 46% odd level which is the level that we have had historically. That is a good gross contribution because as in the foods business the best in class today is Nestle which hovers between 48% and 52% depending on the quarter and that includes the nutrition and coffee so clearly 46, 48 and 49, these are kind of very, very good, very good gross contribution figures to look at. They indicate that the core of our P&L is right. Now we have to see how to manage our expenses within that in terms of manufacturing supply chain SG&A. The strong GC improved our gross margin as we reported by about 500 basis points so we have moved up from about 19% to 24%. We generated an incremental Rs.4.5 Crores and this incremental gross margin we largely invested in A&P across four categories. This was also the first quarter ever that we actually had advertising being invested in all the four categories of ready to cook, spreads, breakfast, cereals and chocolates and it is a kind of a sort of vision or a painting of the future that we see ourselves as a multi category and multi product line company which is able to support advertising profitably across categories. The increase in other expenses is largely due to higher freight and travel right and Q2 profit before tax and PAT are lower than prior year because we did earn margin but we also invested a significant amount in A&P right and therefore ours is lower and year-to-date PBT and profit after tax are higher significantly higher than prior year but that is obviously because Q1 of last year was a very low base because of the commodity price inflation that we saw. In today's presentation we will not spend so much time on margin. We will talk to you about margin and EBITDA progression when we talk to you in the November analyst call if you remember or meeting. If you remember last year we had talked to you about how are we going to get to Rs.1000 Crores of foods and this year we are going to spend a little more time on what is the road map to get into that 15% to 20% EBITDA margin which we feel structurally we have because we have a good gross contribution but we will walk you through what are the actions in that when we meet in November okay.

So if I could request you to go to page six now on the ready to cook category this is the core of our business right and as you can see in in Q2 of this year we had a volume was almost flat at about 1% and value was down 4%. On a year-to-date basis this low single digit revenue growth or what this comprises of is a low single digit revenue growth in RTC Popcorn which is driven by a mid single digit volume growth both in instant popcorn and some pricing in microwave popcorn. The reason why I am break or deconstructing this for you is that obviously this is the largest part of our business and we need to see this growing at about 8% to 10% in terms of our overall growth algorithm and the good news is that instant popcorn which is the mass product is already in that 5-6% range in terms of volume growth right so that means we are coming out of COVID and therefore if we keep doing all that we are doing just continuing to invest behind it, expanding distribution we should get back to that 8% to 10% level right and in microwave popcorn volumes are actually flattish but we have some pricing so that is giving the combined is that in ready to cook popcorn we are getting a low single digit revenue growth. What has happened however is that we spent a lot of energy in the last 12 months because our popcorn business was not growing and we spent a lot of energy to put it back and we diverted a lot of retail demo resources so on and so forth and away from non-popcorn businesses and that was a conscious choice that we have. One of the consequences of that is that if you look at point number five in this chart or point number four you can see the non-popcorn businesses are currently trailing prior year by about 49% that includes basically sweet corn & pasta these are the two big ones and so now that we have got the popcorn business kind of going towards growth algorithm we are going to start increasing focus on that part of the business as well. Meanwhile, coming to point number two we are investing steady levels of media and you will see that in the competitive spend charts behind instant popcorn. Microwave popcorn will also benefit from the launch of the pop-up box this is already in market in some parts of the country and will be fully national probably in about 10 to 15 days and it is an interesting concept. Basically it increases the consumption of microwave popcorn. It is not game changing that it will suddenly change and everybody will move from a microwave bag to a microwave box but because we also have a tub but the tub has certain supply chain challenges which this pop-up box helps to address, so it is certainly going to be new news for the category and to that extent it will help our overall performance and in terms of the non-popcorn business we are once again putting efforts this winter or coming ongoing festive season in winter behind these products and we expect to be able to turn that around. Later in this presentation we have a chart on historically how our different product categories behaved as we build them and you will see therefore that these businesses tend to go a little up and down in the early stages till we get our full business model right for that category. We have also told you that we will be launching plant meats & cocoa-based products in Q3, this is on schedule and in the next probably couple of weeks we will be rolling out these products and when we meet in November you will actually be able to touch and feel them in the meeting so that is it on the ready to cook category. Overall headline base of the category which is instant popcorn now at mid mid single digit volume growth, revenue lower because we have taken pricing up last year we did some corrections as the commodity prices soften because we wanted it to be correctly priced to be able to secure our ongoing volume volume growth objectives and basically the category being dragged down by the non-popcorn business.

If I could request you please to go to page seven. Overall on the ready to eat category all looking good getting a growth of about 23% to 24% in volume and value, it is very ready to eat popcorn which is driving the category growth and across pack sizes and across challenges and across channels. Sweet snacks continue to make very good progress. Today sweet share of RTE is at about 8% compared to 4%. If you recall in the back half of last year it had gone to 11% obviously because as winter comes in and festive seasons come in the sweet part has a greater advantage and we expect to continue to make progress on this one. We are also rolling out gift packs to leverage our sweet portfolio so that is starting this Diwali and this is in the market now. We are also strengthening our Rs.5 portfolio and I want to make a mention of this because there are large parts of consumers in this country who really for whom Rs.5 is the main price point for snacks and therefore it was very important for us to create a snacks portfolio between snacks, breakfast cereals and chocolates which would enable us to have a profitable Rs.5 portfolio so that part I think is more or less under development right now but we made a lot of progress in the last couple of months and as we move therefore from we have the coverage of a little under half a million stores. As we move from half a million to 1 million stores we expect this to be a very critical driver. It could be new areas, it could also be new stores within our current coverage this is in the current beat but either way a strong robust Rs.5 portfolio is important. That does not mean we want to be Rs.5 company but we do need it to support the expansion coverage plan and we will continue to leverage the scale of savory & the margin of sweet to create a profitable sweet & salty snacks business. Overall the category is doing well both in volumes, margin improvement is also very, very significant in this category as we get a better portfolio and a more profitable portfolio so all looking good here. No specific actions that we need to talk to you about. In terms of spreads & dips as we indicated to you probably two or three quarters ago that we were possibly losing some share in this category because the volumes were not coming as we wanted them. We have taken the actions here over the last I would say three to four months. We have launched a 300 gram pack at Rs.99 which is very good. That consistent is the strategy that we followed in the large 924 grams to 1kg pack where we really I would say dominate the category and we are now going to do the same thing with this 300 gram pack in the midsize pack and therefore any loss of share that we may have had 100, 200 and 300 basis points whatever the number might be we think we should be able to address that and then again get this also in a nice growth in the midsize pack segment. The rollout of the new Rs.10 blister pack is underway as we mentioned to you this is the first I think blister pack in peanut butter outside of North America it is the first time any company or country is doing it and acceptance is very good. This month for example in terms of transactions it is probably in our general trade because it is still to get fully listed in the modern trade that process is underway. We probably have more transaction on the blister pack than we have in any of the larger packs in the general trade and it is only two to three months in the market so this will do very well for the business because it will enable us to get new consumers. Some people may stay with it, some people may come to a bigger pack but this is a very, very strong acceptance and as you can see from the photograph on this chart it is located on the counter very often, it is close to chocolates so it is really perfect, it is a perfect vehicle for us to drive consumer acquisition and bring new consumers and grow the category. You would see from the competitive charts that our significant spending competitor has spent about Rs.140 Crores so far. This is obviously on rack rate so if you take whatever discounts they have you will have to reduce it by that much whatever that number might be but it is a fairly significant spend by any circumstances. Now we had as you know a few options what do we deal with it and we have such a large corporation coming into in what is relatively a small category and willing to spend that much money. We could have tried to compete with them on advertising dollars but we chose not to do that because that would have meant a lot of money invested shareholder money and so we chose to compete on price so we have taken some hit on margins on peanut butter but the strategy is paying off. For the last three years our CAGR on the peanut butter volume is 17%. Now as you know if any business grows by 16% per annum the CAGR in four years that business doubles right now this is up to last year. Obviously this year it is not coming at the same rate at 17% right now it is minus 2 we will get it into positive space but if it is not 17% the four year CAGR could be 16% or 15% right so bottomline is our exit volume four years after the launch of HUL in peanut butter will be about 2X of our pre-launch volume. In other words whatever was our volume when they launched the peanut butter our volume first four years will be double of that so that puts us in a happy situation because after that these spends are clearly not sustainable because on Rs.140 Crores spend our estimate is they have got revenues of about Rs.20 Crores maybe Rs.22 Crores to Rs.23 Crores but not much more than that so it is not paying. It is not paying and it cannot pay for them. The strategy cannot pay for them. We are in a very, very strong situation. We are already there in the 1kg pack. Many of the packs I think have been delisted in some of the customers and we are not meaning the large pack I think. It is not customers of course but maybe in some stores so I think we are in very, very powerful situation and once we get this share back in the midsize pack and we expand with the small pack we are in good situation. As and when the the high level of spending stops it will give us a pricing opportunity which we will then apply to volumes which are double of what they were four years ago, so some impact on short term margin but overall strategically absolutely the right thing to do. We we continue to work on the protein segment for peanut butter. We are working with gyms so on and so forth. Chocolate spreads we are getting our act together. I am going to refer more to chocolate spreads when we come to the category of new businesses on the go packs and dips and certainly I think although we have not really cracked the dips business so far but I think there are clear indicators that some of the things that we are doing on the peanut butter business if applied to dips will actually give us a good position.

With that I would request you to please to go to page nine breakfast cereals. Here again like the ready to eat snacks business going well 40% odd growth 45% growth. Popz center filled cereals clearly powering the growth for ATFL and we are benefiting from the RTE snacks supply chain. From a supply side chain supply side actually the sense of supply side is common right because of facilities. I would say when we think of scale probably as we have always said we need about Rs.200 Crores odd business to get a good margin in a category. Probably in this case when we look at cereals we could combine cereals with snacks and that would be the the desired level from a scalability perspective. Our rewired architecture for popz shells has been well accepted and total cereals distribution is therefore reflecting steady growth. We had four months of continued investment behind popz which is now completed June to September and we are launching two new products in Q3 and Q4 which will complete our portfolio in breakfast cereals so we believe that we can continue delivering strong category volume growth and achieve segment leadership in center filled cereals. As you know we have Kellogg's there in center filled cereals and we also have Tata Soulfull but we believe we are uniquely placed in this category. We have a distributed supply chain. We have three plants across the country so our freight is good; our product is outstanding and frankly very difficult to compete with so we expect to continue to see good growth in the category.

Page 10 chocolates so chocolates looking a little lower than what we would have liked it to be but we did have to test out to see how far we can go without advertising support so we had mentioned this to you if you recall two quarters or three quarters ago and so Duo continues to steadily gain distribution. We started that for media, we could see that there was some tapering without the advertising so we started media investment in the month of August to support the task of consumer acquisition. Rollout of the Rs.5 pack is also underway to further expand distribution. We will build on this and we are working to increase our share of the Rs.1000 Crores gifting market with the Moments pack which is priced at Rs.100, so gifting is a big part of chocolates. Depending on what data point you use the number of the share of the gifting market at consumer price will be valued anywhere between Rs.800 Crores and Rs.1000 Crores or Rs.1100 Crores. It does not really matter for us these are large enough numbers for us if we get a reasonable share of it so we are I think close with, our most aggressive gift pack so far at Rs.100 and I think it should do well. At the time that we launched actually there was only Cadbury's had Rs.100 gift pack and I believe they have also moved up pricing right now so they may revisit their pricing depending on looking at our move but I think it is a nice pack and we will test it out.

Obviously the mastering the gifting business takes time but I am sure we will get there and we are on track for capacity expansion in FY2024 which is capable of supplying volumes for Rs.100 Crores business plus. It does not mean we are going to Rs.100 Crores next year but we want it to have the capacity for that type so that gives us some flexibility. Chocolates are a difficult product to make. As I mentioned to you very often a single insect in a plant lays 250 eggs over a period of four days, if one of them lands in your product you have got a challenge that is why it is a highly profitable business. You can survey and access through MCA the P&L statements of Mondelez, of Hershey's and Mars you will see it is a category with 60% gross contribution, 58% to 60% is very much part of the course, so everybody would like to do it but to be actually able to build the manufacturing capabilities and to build a supply chain which can handle that is incredibly difficult. I think we have done a large part of it and we know that we need to be very, very careful because we have a lot of things at stake in the future on this category because if we want to drive our gross contribution from 46% to 48% to 50% then chocolate has to play a very significant role on that so we just need to be very careful as we progress this but in good shape overall.

If I could request you to go to chart 11. Now this is a chart which is useful and may help to answer a lot of questions as you think about new categories. What we have done is the last year in each category is FY2023 so year 15 for peanut butter is FY2023, year 12 for RTE popcorn is FY2023, year 5 for breakfast cereals is FY2023 and year 4 for chocolates is FY2023. Now you can go backwards and arrive at whichever is the year. We just want to give precise data in volumes in terms of revenues because that I think would not be good from a shareholder standpoint but we wanted to give you a perspective on how long it is taking for us to build new businesses. This is a comment or question actually that is often asked to companies by the street because everybody wants to know. I saw a recent interview with one of our investors that they asked somebody from Tata Soulfull this question. They say that you are building these businesses but they are very small and she correctly answered the question. She said look these businesses are small today but we need to have multiple businesses which are going to grow so that when the time for investment is right we can invest behind this business and she is absolutely spot on. If you see here in the case of peanut butter we crossed the Rs.15 Crores mark somewhere around year 7 and year 8 and you can see in the early years it is probably under Rs.10 Crores approximately. We do need to know the precise numbers. Oddly in RTE popcorn also it happened around the same time. It happened about after about eight years we crossed the turnover of Rs.15 Crores and if you see the prior five to six years the first few years it was hovering now what is that number? I would not be able to recall exactly well let us say in the region of Rs.4 Crores, Rs.3 Crores and Rs.5 Crores something like that and somebody once asked me this question I remember on chocolates see Sachin that you know this is such a small business what are we doing with it. The answer is that we need to continue to manage these small businesses, refine it, and address the product issues that we are having. It could be anything, it could be recipe, it could be fat, it could be sugar, and it could be ingredients. It takes time to figure out businesses. They do not come out of an excel worksheet with the linear formula apply. That is why the CAGR is the CAGR it has a mixture of many things so you can see here we crossed the Rs.15 Crores mark in RTE popcorn around the eight year and in breakfast cereals it looks like we have crossed the Rs.15 Crores mark in about five years and in chocolates it looks like we crossed it in about four years, so overall historically we were doing Rs.15 Crores in about seven to eight years and now we are doing it in about four to five years. Now come to the Rs.50 Crores mark. If you look at peanut butter as per this chart we crossed it or reached it probably around year 11 and if you look at RTE popcorn also we reached it about the same time year 11 and year 12 so what this means is that each of the new businesses that we are building up we are building faster. The earlier ones took us if it took us 11 years to 12 years to reach Rs.50 Crores in the case of peanut butter and popcorn we certainly look like we are going to do a lot faster when it comes to breakfast cereals and chocolates. Part of that could be due to the fact that our distribution reach is now much wider. At the time when we launch peanut butter our coverage was probably less than 100,000 stores today we are at about half a million stores. Part of it also could be that are our bandwidth our manufacturing bandwidth and portfolio bandwidth is far greater today than what it was 10 or 15 years ago, so overall these trends are looking good. Having said that they definitely need to be much faster because as our revenue grows to have an incremental growth in our revenue we need the new products to grow faster and faster, in other words if we are at Rs.15 Crores we are doing in year 5 today or 4 to 5 we should probably be able to do it in two to three years, but having said that it has to be done profitably so if I show you some examples going forward money is not necessarily the answer, so if you look at our competitor in peanut better they spent Rs.140 Crores already and probably that turnover is in the region of Rs.20 Crores to Rs.25 Crores that is our estimate may be it is right or maybe it is wrong we do not have access to make some data and so is it by our model a profitable business the answer is no right. Similarly if you look at one of our other competitors in breakfast cereals they spent Rs.40 Crores already and after a couple of years the business is still probably in the region of Rs.5 Crores to Rs.10 Crores so we certainly do not want to have an unprofitable business because we need to build our 15% through the EBITDA margin business and we are building it from scratch but we need to do it faster so the good news is the newer businesses are growing much faster than the older businesses did and obviously we do not have to be satisfied with it and we should seek to do this even faster but this will also help to answer that chocolate spreads question which was asked to me some quarters ago which is yes some of these businesses are going to be at Rs.3 Crores to Rs.4 Crores or if you look at pasta we got to a 7% to 8% share of category in the stores that we work but we had to change our resources and put them behind popcorn so is it these businesses are going to be initially at small levels, we will gradually get the business model right and then we have to wait for those opportunities and those opportunities come. You can see in peanut butter the opportunity came suddenly in year nine, boom there was a huge jump. If you look at ready to eat popcorn the opportunity came between year 10 and year 12 so there is an old I think Chinese saying in this that the opportunity will come but you have to be prepared for that opportunity. You should have done all your homework and be ready and that is exactly what how we are working to be ready and then in time we will have multiple businesses which will be touching Rs.15 Crores to Rs.20 Crores but the good news is we will not have to then acquire money and spend money to buy businesses to drive. We would have already those tree saplings would have been planted and there will be smaller trees by then and ready for ALP support. I hope that has helped to answer many of your questions on new products.

I request you to go to page 12 total staples volume is flat to prior year supported by mass staples and adjacencies. Roll out of oats & almonds continue. We also did some roll out of honey but we had some product issues so we ended back and we just regrouping and we will put that out. Adjacencies these adjacencies of oats & almonds support both increased efficiencies in procurement and the health of our distributer network and we have significantly mitigated the impact of lower edible oil prices on total ATFL and distributor revenue. Distributor revenue is important for us. One of our investors asks us the question you said that you will exit mass staples or bring it down to about 5% it is in region of 5%, 6% and 7% of our business but we do need to ensure that our distributor health is important because in India the most difficult thing is to build up a distribution infrastructure and you need to manage it very carefully because that is the future of the company.

Alright I would request you now to go to page 14 of the presentation snacks competitive spends you can see here we are spending steadily about Rs.1 Crores a month and therefore we are spending in that Rs.9 Crores to Rs.10 Crores region. Last year also we spent about Rs.9 Crores the year before that is about Rs.10 Crores. There is one interesting data point that is coming out from this chart. If you look below the yellow diamond level in this chart Cornitos, Too Yumm, Balaji, Bikaji, Haldiram, Pipo, lot of zeros and even somebody like Too Yumm who used to spend a lot more money very little money right now so this is a trend that we are seeing in multiple categories and I am not sure what is the reason for this but it is clear that basically the smallest players I think in each segment are not spending the way that they used to do. What could be the reason for that over time I am sure we will better understand but there is some method which is here but overall from our side we have continued to spend at the rate of Rs.1 Crores per month.

If I could request you to go to page 15 you can see competitive spends here. Obviously the spend is dominated by HUL with Kissan Jams and Kissan peanut butter they continue to spend at a very aggressive spend. We continue to have steady spends at a much lower level but again here across segments lower spend smaller players are less visible so if you look below let us say the Dabur Honey level you see it is a sea of zeros. There is one 14 million Rs.1.4 Crores which Hershey's spent in April, otherwise everybody is off so there is clearly some stress in the system and we will as I said we seek to understand this better. In breakfast cereals primary spending continues to be by Kellogg's but we have obviously started our spending in June this year and we spent about Rs.2 Crores, the September figure is not here but we spent another Rs.50 lakhs there. Nestle has moved their advertising investment they spend Rs.40 Crores in total but they moved their investment from Koko Krunch which I think is the brand they use in Southeast Asia for Munch which is a chocolate brand so presumably that is to try and get some benefit of the Munch brand and we will see how this goes but overall I think the primary spender still in this category remains Kellogg's and we will continue to invest at our levels to be appropriate. In chocolates competitive spend primarily dominated by Mondelez by far the leader in this category. We have started investment behind Duo and again across segments within chocolates also smaller players are less visible so if you look at the spends by people like Hershey's, if you look at even to an extent Ferrero, if you look at Mars definitely spend levels are are lower are lower rates you see a lot more zeros there including when you look at the last two rows. As I said some messaging there which is indicated, at least at this stage you can see people are not spending that much, why they are not spending that much is something that we will seek to understand. In edible oils pretty much this quarter at least on zero spending by the premium edible oil share. We were already at zero but Marico also now at zero as per this chart and compared to 100% a decade ago so when we told you in earlier years that look this whole premium edible oil business is not a great category and that is why we want to build up the foods business. Many of you told us that well we do not really agree but the proof of the pudding is in the eating today. When a category has zero share of spending then the answer is in your face. The bottomline not a great category and I think we did absolutely the right thing to be able to focus on foods.

So overall summary therefore Agro Tech foods volume growth reduces to 6% due to a soft Q2 all the actions are in place particularly in ready to cook and spread so that we can get back up to double digit levels. Gross contribution starts to reach 40% levels for total company but more importantly foods at a historical level of 46% and that is the one that we need to track because that is the one over time we need to get migrate to the 48% to 50% range. Impact on lower edible oil prices partly offset through growth in foods, adjacencies in premium staples and higher shipments of mass oils and we are working towards enhancing the foods growth by executing required actions particularly in ready to cook and spreads, so that I think completes the overall review by category. You would have already seen the P&L results which I touched upon I think in slide number four. If you look at the details of the P&L there is some increase in employee benefits but I would say not that significant and advertising and promotion certainly we have increased versus prior year so you can see the impact of that. Like last year for the half year ended September 30, 2023 if you look at this chart our results it is showing Rs.10.92 Crores which is about Rs.11 Crores which has now gone up to about Rs.15 Crores odd so we added about Rs.4 Crores and a lot of that is in this quarter and yes on a year-to-date basis profit before tax and profit after tax is up but we have covered that in the quarter specifically Q2 go down. So I think with that Ajay completed hopefully we have not taken 40 to 45 minutes of the total call time so since we managed it in 35 minutes I think maybe we can close at 3 O'clock but Ajay over to you and whatever you want to do. Thank you.

Ajay Thakur: We can open the floor for Q&A session.

Moderator: Thank you very much. We will now begin the question and answer session. Ladies and gentlemen we will wait for a moment while the question queue assembles. The first question is from the Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Good afternoon Sir I have three questions. The first one is this quarter we have seen a sharp jump in ad spend and in one of the earlier calls you have indicated that because of the P&L constraint our ad spend was around 4% to 5% which eventually we would take it to 7% to 8% of our foods business so I think we are roughly in that range so should we expect this kind of a 7% to 8% ad spend to remain and does it also mean that the incremental gross margin will get plowed back into the add money and a question related to that is if we spend more money on the advertising does it mean that whatever historical growth that we were having around 17% to 18% CAGR will it add to that or we need to spend this money to kind of get to that 18% to 20% growth so that is my first question, second question is the chart that you have depicted which was quite very informative as to how many years it takes for the product to go to Rs.15 Crores and Rs.50 Crores so in this lifecycle of a product how does it typically work, after a certain critical threshold do we see any hockey stick effect and whether the threshold is Rs.50 Crores or Rs.10 Crores any thoughts around that and any observations from your experience you can share and the third question is on oil business so oil business we were clocking around Rs.70 Crores gross margin on a yearly basis and we had said that we would want to maintain number around that but only quandary that I see that is that if we are going for maintaining the gross margin then essentially we become slightly less competitive to our peers and then we lose volume, then if we lose volume then again getting back that market of shell space is very difficult so is it not a catch 22 situation where it becomes difficult to cling on to a steady state gross margin in a commodity business so these are the three questions?

Sachin Gopal: Thank you Dhwanil. They are all awesome questions. I want to compliment you for your thorough understanding of the business so well done and by the way some of these questions are also what the Board of Directors asked me yesterday and the day before full marks to you man. Why do not we do one thing maybe we will take it in the order that you get. If you look at our year-to-date A&P spend it is in the region of about 7.5% if you take six months data, for Q2 it is a little higher but six months it is 7.5%. We remain committed to say 7% to 8% is what we require that is the range that we have always given you for the last many years and it remains our range because we will never make an EBITDA margin out of 15%, out of 12% to 13% A&P business it is just not possible and there is enough data you can look around at other companies it does not work. The underlying assumption is here is that our P&L should be able to support it so when we talk to you later in November we will talk about this which is that we feel 7% to 8% is a reasonable range for us to support that 18% odd growth that CAGR of 18% so that answers the third part of your first question. It is required because remember as we become larger the impact of innovation as a percentage of the total is **(audio cut) 37:48**. Today when you are a smaller business you can do an innovation let us say Rs.5 Crores or Rs.10 Crores it will make a delta impact right but when you are Rs.2000 Crores business Rs.4 Crores to Rs.5 Crores business is not going to make any impact, so you are going to need to spend those advertising dollars. Probably over a period of time our share of business coming from media which is advertising driven relative to share of innovation will change. Today it is about 50:50 but we cannot expect that at Rs.2000 Crores or Rs.4000 Crores it will be 50:50 but that is why we are building up all these other small businesses which by that time will be Rs.20 Crores, Rs.30 Crores so they are already advertising great businesses. An example could be chocolate spread and example could be pasta whatever. The key underlying assumption however for us to maintain or the key risk to our ability to maintain the 7% to 8% is what is happening on edible oil margin. As you can see right now our edible oil margin is pretty good and we are definitely tracking higher probably than that Rs.70 odd Crores number 70 plus or minus number that we gave you but it is a commodity at the end of the day it is a single commodity so it is going to have challenges and therefore wherever we have got if you look back historically whenever we had the opportunity the first thing that we did was we invested in our brands but that does not mean that there are no risk if edible oil margin comes under pressure it is possible we may not be able to afford the 8% level or 7.5% level but let us see touchwood so far so good. I will go to question number three because that is related on oil since we are on oil and then we will come to that threshold level question. On the volume impact very much absolutely this is our exercise on a day-to-day basis that we keep doing which is okay what is the volume impact and how much margin because at the end of the day it is not a market which is only Sundrop oil there is a lot of competitors in the market and as you can see many of them send big, big advertising bucks, of course they are all the mass wise category but they are spending money maybe they do not see themselves as mass maybe they see themselves also as premium so we have to keep an eye on it and it is an ongoing work in progress. I think the only answer to this is for our foods to dominate the total gross margin contribution, once foods contributes to 7%5 to 80% of our total gross margin then I think the impact of that edible oil margin will reduce so that is the answer to your third question which is we just need to keep growing the foods, invest behind it, grow distribution, make it 75% to 80% of the business because that edible oil risk is always going to be there it is never going to go away because it is a commodity and lastly on your question on threshold so this is a question actually that **(inaudible) 40:49** we shown the similar chart of course in the Board meeting we had all the detailed numbers but it was the same chart in the sense and he says so what is the story, what do we expect at Rs.50 Crores, what do we expect at Rs.100 Crores or Rs.200 Crores and my answer was say I think at Rs.50 Crores a business starts to become viable it is no longer losing money but it has crossed the threshold of where the company is investing a lot of time and money. The margins start to come through everything obviously for the same categories when we were discussing at the Board we had the margin data also so we were looking it from that context and then as I have always said at Rs.200 Crores the businesses are incredibly profitable at Rs.200 Crores they are incredibly profitable so ready to cook popcorn business is there, excellent business, a great business and so Rs.50 Crores I think is the first milestone where you say okay I am now out of the if you will the base investment phase I think I have got my business model right and everything is working and Rs.200 Crores where it probably is a great business and that is why at Rs.1000 Crores we need to have about businesses of about Rs.200 Crores. Now for them for some we may choose to consolidate like I said. On RTM cereals maybe if I want scale on these two categories since the plants are common maybe I will combine these two for calculating the scale at Rs.200 Crores and etc., etc., so it will not be as simple as black and white but it will be there and yes I think that hopefully answers the question. That does not mean that from Rs.50 Crores to Rs.200 Crores is always a smooth ride. On popcorn one side we have 40 competitors like we right now seeing on peanut butter we have a competitor who spending a lot of money but we have also done our math. We know that so long as a volume is doubling every four years we are okay because nobody can spend money indefinitely when the money spending stops. We will take up the pricing our margins will come back to where they were so I would say yes Rs.50 Crores the first milestone, Rs.15 Crores is another important milestone because you remember many of you have asked me at what level do you start to invest some media behind the product and Rs.20 Crores is the number I have always given you so if you see both chocolates and breakfast cereals are heading towards that it is in the Rs.20 Crores odd mark so that is why we have started investing. We will not be investing in brands at Rs.5 Crores or Rs.10 Crores like chocolate spreads right now. We will get our business model right, we will grow them, we will have a decent distribution and then we evaluate what is the stage at which media support is required. I hope that answered many of your questions but thank you they were very good. Thank you.

Dhwanil Desai: Thank you.

Moderator: Thank you. We have our next question from the line of Vivek Kumar from Bestpals Research & Advisory LLP. Please go ahead.

Vivek Kumar: Thanks Sachin. I also have three questions. The first is like our foods growth is as of now I am not talking about when we are at Rs.2000 Crores or Rs.1000 Crores but as of now it is dependent on spreads and ready to cook popcorn growth so first is this may be a wrong assumption but ready to cook popcorn is it because of the COVID days that we are having a small growth or is it there are some new competitors and we have to like what we are doing in spread we are thinking of other things and restrategizing so that we will get our growth back that is my first question on the ready to cook popcorn because if it is because of just COVID growth and because it is the most distributed product among all our food products so when will we start seeing the growth because foods growth is mostly dependent on that also moving the needle, second is when will we start having that flywheel that you are trying and you have been explaining for the last five six years of how you are introducing, why you are doing it at Rs.5 Crores product, Rs.15 Crores, Rs.50 Crores and when do you think will we become a company where I think you slightly answered in the previous answer of that foods gross margin is becoming 70% to 80% then we have a fly wheel that we have a continuous at least the basic growth would be 10% to 15% and good times will grow 25% to 30% and what factors do you think will lead us there if you can give some picture on how company should look like for us to have that so those are my two questions?

Sachin Gopal: Thank you. You are spot on and this is a comment that Jim who is our Chairman made day before yesterday when we were discussing the financials. He said obviously the new categories are going to build up over time but for now you are very dependent on ready to cook on spreads where do we go from there, so I will try and give you a number if it helps because I cannot give you the exact but if you look between April 2019 so there is a big COVID base impact here and then I will talk what are the conversations of what Jim and I had during COVID. April 2019 and you look at today our ready to cook volumes have doubled so over a four year period we have got a doubling of volumes which means it is a 16% CAGR because 16% means you double every four years. Now as COVID hit most food companies had a choice, we were sitting on elevated consumptions and therefore it produced more profit and at that stage we had a choice do we allow that profit to flow down to the shareholder or do we recognize the fact that these are elevated bases and they can come down dramatically if we do not actually expand our consumer base in that period and for that read investment in advertising and read investment in distribution although distribution during COVID was difficult to invest in there was so much work from home that obviously we were not in a position to drive that completely and that is exactly what we did so Jim and I talked about it and we said look I think you are going to invest and a lot of CEOs in North America did not do that. They say no we will allow the profit to flow in but the consequences are clear. We have got a business which is today double of what it was four years ago and by the way if you look at our competitive spending charts on Act II you will see that in FY2020 we were at Rs.4.5 Crores on Act II, go to the snacks page and in FY2019 we had come down to Rs.3.8 Crores because there was a lot of pressure but I was telling Anil just now about the edible oil margin, etc., etc., and we took that advantage and up the spend to Rs.10.4 Crores if you look at FY2021, Rs.10 Crores in FY2022 and Rs.9 Crores in FY2023. This we believe has enabled us to actually continue to grow meaning have this CAGR of 16% to 17% and avoided possible falls in consumption because we were able to expand our consumer base and our read is that for companies who did not do that and who did not invest during COVID and this is very visible. A lot of examples in North America the volumes are actually down today so that is why we are very comfortable. That is why I talked about the instant popcorn growth. I said look I needed to deconstruct that chart for all of you that it is at 5% to 6%. 8% to 10% is what we need so if we just keep investing we should be okay. We need to understand this for ourselves as well so that as management we know we are making the right decisions. On spreads I think it is a very simple chart explained very simply. You have seen the numbers. You have seen that Act II launch. It is a significant launch and significant investment by somebody to spend Rs.140 Crores in a category which is just 200 Crores and we have to take the best management actions that we could take which we have taken. I believe we have come out very well and honestly if we double our volumes pre their launch our manufacturing cost structure will be much better. We will have a good share and we will be able to therefore take some pricing. When exactly do we stop spending that is a question I cannot answer. I wish I could so it could take more time and a lot more time let us see how it is. On your comment on the flywheel if you will I think to an extent Anil's question also was in the same space as you also mentioned. I think look a meaningful I have said a meaningful size of category for us is about Rs.200 Crores. If each category is worth about Rs.200 Crores I think each one of them is very self sufficient so multiply by five here in five categories that is Rs.1000 Crores. Now it will not happen exactly because ready to cook is already that much larger. Peanut butter and ready to eat are also larger than chocolates and breakfast cereals so we can make projections but broadly I think five time Rs.200000 Crores is where the whole piece should fit in. At that level if you assume Rs.250 Crores oil business for example that means about 80% of our business is foods. At 80% that also ties in with Anil's question that we are much less reliant on the oil business for margin and also for overhead absorption for SG&A absorption so we will talk more. I think in November when we talk too about what is the roadmap on EBITDA to get to that 15% to 20% range which is structurally we have a business for that. That is the time we can ask more of these questions thank you. Thank you Vivek for asking.

Moderator: Thank you. We have our next question from the line of Bimal Sampat, an Individual Investor. Please go ahead.

Bimal Sampat: Good afternoon. I have sent the questions by mail. If you have received them it will save that much time.

Sachin Gopal: I think Mr. Sampat I am going to have to be respectful to everybody else on the call so I will read out Mr. Sampat's question.

Bimal Sampat: No I will read out it out for you.

Sachin Gopal: On chocolates on seeing the highlights I find there is practically no growth in the segment? Are we on track with our capex plan and are we still expecting to get to Rs.100 plus Crores so the answer I think I covered this. I thought I covered it but obviously I did not to your expectations.

Bimal Sampat: Because I put it before the presentation that is why?

Sachin Gopal: No worry so obviously we have got a year-to-date growth of about 20%. We had said earlier that we will see at what level if this needs advertising support because the business is already there in that Rs.15 Crores to Rs.20 Crores range and that is why we started advertising. As far as the capacity expansion is concerned that will take place that does not mean we will do Rs.100 Crores of chocolate sales next year it just means that we will have that capacity and then we will be able to meet the growth effectively. Building out the supply chain does take time particularly for this complex category. There are lots of people who would like to enter chocolates. Anybody would like to enter a chocolate with a 60% gross contribution but to make it work is not so easy. It is extremely difficult so we just want to make sure that we do not stumble in a hurry and we are building out the capacity. We may be obviously running in the early stages at lower capacity utilization but it will allow us that we are never under pressure, we do all the right things and obviously as we invest more it is a great category for us. Breakfast cereals growth is it is not due to just placement I think overall the portfolio sees it there are times there are good and there are bad times in any business. You can see even in those 15 year charts. There are good years and there are not so good years so the question is overall are we on track for those Rs.50 Crores and Rs.100 Crores levels and I think the answer is yes. Naturals yes certainly the visibility of naturals is probably less today because we are also focusing on building up the brand on the mass segment side. That enables us to get multiple price points and also if you know you are aware of we do pay Conagra royalty on the use of that to brand so we expect in our mind that there is a certain minimum margin that we would make on anything that is going to be branded act too. If not we are always going to exercise the choice of moving it to Sundrop because it has to make sense for everybody. It has to make sense for our parent and it has to make sense for us. Thanks the natural the Act II natural is not as visible and ready to cook; I think I have already talked about this pasta and sweet corn. You can see from the RTE popcorn there it takes time to build out but once your business model is correct you are through and spreads also I think we are able to. I think the answer is are we able to match Amul in pricing the answer is much more. We are very, very strong in terms of **(inaudible) 53:45** to Amul so really we have talked about what is our strategy to achieve the 20% growth and on mass staples I think I covered it in my conversation that we are not moving back to mass staples but we do need to take care of our distributor revenues and that is important for us. Thank you Mr. Sampat.

Moderator: Thank you. We have our next question from the line of Saikiran, an Individual Investor. Please go ahead.

Saikiran: Thanks for some of these detailed questions. Just want to ask you for the last 10 years the gross margin of the company has not seen any growth rather it is more or less range bound I appreciate that the composition of the foods business and the gross margins have moved from 20% to probably around 55% to 60% now but as we see in the last 10 years we have not seen any gross margin growth coming at all, how do you see this if you have to look backwards and how do you expect this to move for the next five years probably especially on the gross margins grow that is my question number one and question number two if I also look at the operating cash flows primarily there is a meaningful capex which has gone in for the past 10 years again primarily building up seven to eight plants and then all that stuff and there is reasonably not CWIP which I can see FY2023 as well so what is that you have in your mind when you generate the cash flows and how do you expect these to get utilized for the next again maybe four to five years?

Sachin Gopal: Thank you Sir. Spot on as far as the gross margin is concerned and we have covered this in our annual report also in the Directors' report. I think it has been in the region of about Rs.170 Crores to Rs.180 Crores thereabout for some years and the reason is what you said exactly that which is that we have chosen to move away from the edible oil business and to focus our energy on foods because that is a great business and that the business is where we can get to 15% to 20% EBITDA margin. We do not think any oil business can give you a 15% to 20% EBITDA margin so that is a change. Now what will be the trigger for the increase? The trigger is really when the dominant share of foods is actually where food starts to dominate the share of gross margin along with that growth rate you will automatically get the gross margin so of course this year also you are seeing gross margin improvement but a lot of that is also due to oil this year. Probably if I look at the gross margin improvement this year it is about two third oils and one third foods, but over time obviously it will have to be more and more foods and it will be foods okay so I would say that could be the first answer to your question. On the cash flow see we work on assumption that on capex we spend in the region of about Rs.45 Crores so that is about the number that we have been spending and we feel that is adequate for us. Remember we have not gone and had a huge capex in one year. We have spent whatever Rs.500 Crores over the last 15 odd years and we built out. We built out large plants, we built out six facilities, we built out close to half a million square feet of plants, put in a lot of categories at a very, very low cost so now we just see this as continuing at that level so I would say if you work on a Rs.45 Crores capital expenditure every year probably that is a reasonable number to work with. Thank you Sai thank you for asking the question. Appreciate it both very both questions and things that we also have to keep asking ourselves at least the gross margins.

Saikiran: Thank you.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants I now like to hand the conference over to management for closing comments.

Sachin Gopal: Thank you Akshay and thank you Ajay and thank you all for taking the time out. We look forward to talking in more detail when we meet in the end of November in our analyst meet and I would say clearly the foods growth is less than we expected. We are cognizant of that and clearly the two areas that we are working on and working hard on are the ready to cook and spread. The others I think we think are in good shape so we will update you more not about the quarter in November but at least about the question on profitability. We will certainly answer. Thank you so much. Thank you for joining us.

Moderator: On behalf of Anand Rathi Share and Stockbrokers that concludes this conference. Thank you for joining us. You may now disconnect your lines.