"Agro-Tech Foods FY09 Results Conference Call"

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Moderator: Ladies and gentlemen good afternoon and welcome to the Agro-Tech Food post FY2009 results conference call hosted by Anand Rathi Financial Services. As a reminder for the duration of this conference all participants' lines will be in the listen only mode and there will be an opportunity for you to ask questions at the end of today's presentations. If you should need assistance during the conference call please signal an operator by pressing * and then 0 on your touchtone phone. Please note that this conference is being recorded. At this time I would like to hand the conference over to Mr. Vivek Kumar from Anand Rathi. Thank you and over to you Mr. Kumar.

Vivek Kumar: Thanks Melissa, on behalf of Anand Rathi Securities I welcome you all to the conference call of Agro-Tech Foods. We have Mr. Sachin Gopal, President and CEO of the company and Mr. Hemant Kumar Ruia, CFO of the company. Along with me from Anand Rathi, Mr. Shirish Pardeshi is here. Now I will handover to Mr. Sachin Gopal for his comment on the performance of the company and business prospects. Over to you sir.

Sachin Gopal: Good afternoon everybody and thanks, Vivek and Shirish I appreciate you organizing the call. And thanks to everybody around on the call for taking the time out to be with us today. I apologize for the somewhat five or ten minute delay that is there. So we ill try and be cognizant of the time.

Okay overall I think we just like to share with you that from an overall results perspective it is been a very good year for Agro-Tech Foods, our net sales for the year reflect the continued progressive reduction of the company from trading activities and as well discontinuation of the seed crushing and the Poultry Feed Ingredient business, this has enabled an increased focus of the company and the entire management team, behind the more profitable branded foods business. As a consequence therefore we have had a significantly improved gross margin which was achieved in this process. And this together with a one time benefit of interest which we received from the Income Tax Department enabled the company to increase the total brand franchisee investments by some 122%, delivers close to 29% in growth and the profit-before-tax and a very similar figure of our 28% in the profit-after-tax. Within this we believe that the gross margin improvement is an important part of the performance of the company.

As we have outlined on prior occasions the improvement in our gross margin is a big part of our transformation away from being more commodity focused business into fully branded foods company. And we are very happy therefore that the gross margin percentage of the company and the absolute numbers have actually increase significantly. The total gross margin we calculated as net sales less the cost of the goods actually improved from something close to about 95.7 Crores in the prior year to about a 131 Crores this year. And gross margin percentage actually improved from 9.5 to about 16.9% or close to 17% reflecting the fact that we have exited some business, which were less profitable enabling us to focus on the more profitable aspects of the business.

In terms of the segment wise performance net sales of the branded foods business stood at about 625 odd Crores, this was lower than prior year by about 4%, reflecting the impact of a drop in net sales realization per unit and volume in the case of the Rath and Crystal brands. The strong focus on profitability however enabled the segment to drive the total improvement in gross margin for the entire company.

In the edible oils category, I think the company continued to work on the increasing health consciousness of the Indian consumer and significantly increase the distribution and display of Sundrop while supporting the brand with the higher level of media investments.

In the snacks category the company continues to focus on ACT-II Popcorn through a sustained national media presence for the brand a significant increased in retail distribution and increasing awareness of the popcorn category.

The other piece which was important and we believe a milestone in the company's history is that for the first time after 21 years we were able to extend the Sundrop brand beyond oils into Peanut Butter, this one in important occasion because the extension of a brand from a category which it has been limited to for several years is its key from shareholder perspective because it enables us therefore to get better realization of the brand as we extend it into categories, but extension in a meaningful manner, i.e. where the brand is appropriate by what the brand stands for is appropriate and the health benefits in this particular case for Sundrop are clearly a very, very important criteria for extension. So we entered the bread-spread category in March 2009 with the national launch of Sundrop Peanut Butter, the launch has been well received so far by consumers and the company is currently in the process of increasing retail distribution and consumer awareness of the product.

In the Sourcing and Institutional Business which would be other business segment, our trading operations in oils were progressively reduced and as a consequence the segment turnover was reduced from some 362 odd Crores in 2007/2008 to about 148 Crores in 2008/2009. This is part of the de-risking of the entire portfolio and consistent with our choice of focusing on the branded foods business.

So overall therefore net-net to summarize quickly and then we can move on to other parts of the session, I think very strong gross margin improvement which is consistent with the goals that we had outlined for ourselves. The strong improvement in margin has enabled us to significantly increase A&P investments, in fact A&P this year has touched figure of approximately 50 odd Crores and that is starting to come to a picture where it start to make a difference which is important for us and for the kind of company that we want to be. At the same time the combination of margin improvement plus the one time interest benefits that we got, enabled us to increase profit-before-tax by a figure of out 28% to 29% with the similar growth delivered in profit-after-tax. That is pretty much it from my side in terms of the overall comments, Hemant would you like to chip in from our financial perspective, you want to make any comments, you are okay with that. Vivek that is pretty from our side, if there is any specific questions and things we can take them on as we always do, over to you.

Moderator: Thank you sir. Ladies and gentleman we will now begin with the question and answer session. Anyone who wishes to ask a question may press * and 1 on their touchtone telephone. If you wish to remove yourself from the question queue you may press * and 2. Participants are request to use handsets while asking a question. Anyone who has the question may press * and 1 at this time. Mr. Kumar would you like to add any question while we wait for question from the participants.

Shirish Pardeshi: Sir this is Shirish, just couple of questions, when you say that Sundrop is still going to be a big brand for us, what are the initiatives we are taking to step up the distributions for Sundrop and is there any new strategy we are trying to deploy.

Sachin Gopal: Thank Shirish, I think there are couple of pieces to it, one is clearly as we support the top-end of our portfolio it is important for us to continually invest behind the brand and in fact scale-up the level of investment. So there was a situation about maybe two years ago when our annual media investments are only in the region of about 4 Crores or so, this we have increased significantly to go upwards of about 10 Crores in terms of media spends on the brand. That is one piece and on going investment behind the brand is critical for us to deliver longer term shareholder value both medium term and longer term shareholder value, because that is what finally will determine whether a consumer will pay a premium for our brand or will not pay that premium, that is one piece. At the same time we are also cognizant of the changes in the economic situation as it stands today and recognize the fact that for Sundrop to continue to grow and continue to get new consumers, right and therefore be able to have a steady volume growth, it is important for us to be available at more price points within the edible oils, refined edible oils market. That is the reason why about a little over a month ago probably maybe closer to two months ago we started testing the product which is Sundrop Goldlite which is another blend of oil, we is priced far more aggressively than the rest of the Sundrop portfolio. This initial test marketing was being there in Andhra Pradesh and we are on the basis of the results that we have achieved so far we had started rolling it out to other markets as well. This has significant repercussions or meaning as far as the entire company is concerned, for starters it means that the Sundrop brand is affordable to more consumers who seek the health benefits and therefore are willing to pay us somewhat of a price tuning versus their current brand. And the second is, it starts to give us traction as far as scale is concerned, we would ideally like to have Sundrop in an ideal world in every household in the country and therefore to be able to enable us to broaden our consumer base we need to be more widely distributed. So what this is doing is the launch of a more attractively priced for edible oil is enabling us to penetrate more markets than we could hassle to have done. So I would say these are two pieces as far as the oils parts is concern, Shirish, the last obviously would be the extension of the brand into other categories which are relevant categories as far as the brand is concern and have a strategic fit, these are very important piece. We, the fewer the number of brands that a company has the better the return that we can get on our advertising investments, because fewer the number of brands we have to build. And that was the reason why we chose to launch Sundrop peanut butter rather than peanut butter under another brand. And one of the reasons why it had a good amount of success. So I think these three pieces, Shirish would be my answer to your question.

Shirish Pardeshi: Thanks Sachin, just one more question, we have seen significant new launches which has happened I mean we launched Swiss Miss and now Peanut Butter. And we also have a big list of products coming from ConAgra, in the near future what you think that is the company is now trying to focus more on branded food and launch the new products while on the other hand we are reducing our trading business?

Sachin Gopal: Yes we have, thanks Shirish, that is a very, very important one; two pieces, one is that we have stated consciously that we will attempt to build a strong foods business, now foods in that context should not be interpreted as branded foods as the segment the way we reported but let say a non-edible oil business right, we need to build a large portfolio which is outside of edible oil. We need to continue to do well in edible oil but we also need to build a foods business along with, and that is why we chose to make our first entry on a national basis of peanut butter. So yes the answer would be that overtime we would expect to see a lot more products coming from the ConAgra stable as it has already evident in what we have done so far. The second piece relates to how quickly or what are the criteria by which we actually do a national expansion of any product which we actually we are able to get we get from ConAgra or otherwise we develop indigenously. What we have been doing so far is that we have been doing most of our test marketing of the new products in Andhra Pradesh, that enables us to get a better understanding of what is it that works with the consumer it enables us to understand the entire business model behind anyone of these products and depending on how the test market goes we take a decision on going national or continuing to stay within the state the first time as we have refined our business model. That makes a lot of sense for us as a company. We still do not have a gross margin percentage which would be like say in the range of many of our benchmark companies and in any case, I think when we need to be do all the due-diligence before we actually do a national launch. So the success rate we believe in having a formula where we learn, confirm and then expand is much better than we were to just do a national launch. That is the reason why so far the shelf-stable pudding and the hot-cocoa mix have not been rolled out nationally because we have not been fully satisfied with the business model that we have in place is the appropriate business model for a national launch. Once we do that then all this products become available for national launches, than does that answer the question?

Moderator: Thank you sir, the next question is from the line of Aniruddha Joshi from Anand Rathi, please go ahead.

Aniruddha Joshi: Hello sir, can I just briefly discussed about the peanut butter, means what is the market size we are looking at and whether consumers look at just peanut butter as a category or they are looking at category with lesser fat etc, so Nutralite we are competing with Nutralite etc?

Sachin Gopal: Okay thanks Aniruddha, for sure Aniruddha, peanut butter is a new category and until now was not a category which anybody in the country had invested behind, right.

Aniruddha Joshi: Right.

Sachin Gopal: Nobody had done a category building drop per say. So to that extent the category is new, having said that the category is certainly part of a broader spreads categories and that would include butter, it would include margarine, to an extent it would even include jams and conserves, right. So broader spreads category which is probably worth about 500 odd Crores or there about. And however within that we see as our mission is to drive the peanut butter category. And since we are the first people to invest behind it, for sure we will have some advantages which will come our way as the category develops.

Aniruddha Joshi: Sir but right now who would be our target consumers, because I guess the SKU which we have launch at Rs.99 is pretty expensive and those who would be shifting from let say Amul Butter etc. they would be looking at that kind of similar SKU with price below Rs.20. And so plus how do we distribute this product, because I guess for Amul Butter etc. we need a cold chain but do we need a similar kind of setup for even for peanut butter?

Sachin Gopal: Yes and that is the important piece which is the peanut butter is actually a shelf stable product. It does not require any cold chain for us to be able to distribute it through. The cold chain is required both from margarine and for butter but is not required for jams and for peanut butter, yes so that is an advantage that any shelf stable product would have relative to a product which required cold chain…

Aniruddha Joshi: Cold chain right.

Sachin Gopal: That is one piece, regarding the availability of a lower cashing your scheme that is certainly something that is under evaluation, currently as you would be aware we import this product from the US and this is the smallest pack size that is currently available from America. However as and when we move to local production of this item certainly the availability of a smaller SKU will have to be part of the plan.

Aniruddha Joshi: Okay but almost in India everybody is used to butter means a white kind of butter and whereas this is slightly different color, so do we see something launching again in let say white color kind of space?

Sachin Gopal: I think the answer to that would be no, peanut butter is a product which is, which has certain distinctive characteristics. So at the end of the day it comes from peanut. For consumers who are looking for a product which looks like butter, exactly like butter, probably margarine would be a more appropriate descriptor of the kind of product that you are talking about. But peanut butter these characteristics would remain typical of the category.

Aniruddha Joshi: Okay and as of now what would be the let say current turnover of peanut butter?

Sachin Gopal: I would not be able to share with you the current monthly turnover of the products, I would just like to say that so far and we started national rollout it was in March 2009, so far after three months more or less on track with what we had internally expected,it has met our internal expectations so far, yeah okay.

Aniruddha Joshi: Okay, thank you.

Moderator: Thank you Mr. Joshi. The next question is from the line of Sharad Ramnarayan from Pari Washington, please go ahead.

Sharad Ramnarayan: Yes can we just break your sales in the branded category between volume and value?

Sachin Gopal: Sorry, give me a moment, you want…

Sharad Ramnarayan: Overall volume growth as well as value of decline or whatever?

Sachin Gopal: Okay, alright okay I get it, okay let me give you a better picture, so I will give you number which will work well for you from analysis standpoint, if you take our total consumer sales as per AC Nielsen for the year ended 31st March 2009. Okay so Hemant what was that exact number?

Hemant Kumar Ruia: We had as per Nielsen and I do not know whether you had, shall we say a view of the results because this was something that Nielson shall we say declared it must be about a little under a month ago, right, okay where they have a done a benchmarking of different CPG companies and this is something that we also use from our perspective to see how do we stack up, relative to other FMCG companies, overall and then I will come to our particular case, overall for the FMCG sector, the growth in top-line right was in the region between 15% and 20%. So for example let me put it like this within the food business right, the value growth was in the region about 15% to 20% I think at the top-end was somebody like say Nestle which actually in AC Nielson terms grew by probably I think about 24% they also had a volume growth of about 18%, in our case we had a value growth as per Nielson of about close to 16%, right but the volume declined corresponding to this was about 9%. And that reflects the volume loss that we had during the year as a consequence of the tradeoff that we made in terms of margin and top-line and volume, does that answer your question.

Sharad Ramnarayan: You mean to say like was it because of some kind of a down trading say you see the Sundrop at this price that want to know 120 as a shelf and you will see a Fortune which is at 60, is not that kind of a down trading which is relating to this volume growth?

Sachin Gopal: There is some amount of consumers always at who may make a choice or who will make a choice in terms of a lower priced option, those options always existed with consumers so there was some of this that happened during the course of last year. And that is also one of the reasons why we have chosen to make an aggressive entry at a very competitive price point with the Goldlite products that I talked about earlier in the conference call.

Sharad Ramnarayan: Okay and just like your increase in gross margin which has been very hefty, you will have any target for increasing the margins at the EBITDA level?

Sachin Gopal: Now on EBITDA, we figure I would not share with you the goal but we once again internally we have a measure and a goal, so I will tell you where we are right now, today if you look at our EBITDA margins we are in the region of about 3.5% to 4%, right last years figure works out to close to about 4%, right our benchmark companies are all in the region of 10% plus. Okay the figures vary depending on the company that you choose, right but there will be between 10% and 15% I think is a reasonable figure as far as EBITDA is concern. So certainly we are cognizant of this and our goals also will obviously therefore we able to move with our continued improvement in EBITDA what is the specific year-on-year goal that is something I would not be able to comment on.

Sharad Ramnarayan: Okay, and will you be able to share the, what is your market share within the edible oil category?

Sachin Gopal: Our market share within the edible oils category is pretty much in line with what it was in the last year which is in the region of about 8 odd percent. So it is pretty much there in terms of unit sharing.

Sharad Ramnarayan: Okay and can you also share what exactly is the size of ACT-II as a brand in terms of sales?

Sachin Gopal: Again we usually tend to stay away from the specific as far as ACT-II turnover is concern but what I can tell you is that we continued to see robust growth in ACT-II Popcorn last year, you would have notice that this was also the first full year maybe fully invested behind the product, you would have a seen a reasonable amount of advertising investment behind it and as a consequence we got broad scale growth, we were also able to significantly increase our distribution of ACT-II, in numeric terms we must increased our distribution by about 80 odd percent, right, we were company which was largely limited to distribution reach of about 100,000 stores till about a year ago, we recognized that we need it to be significantly ramp up distribution capability and because most of our benchmark companies are in the region of about upward from 500,000 stores going right up to a million stores in the case of some companies. We recon that in a near term we need to achieve a level of somewhere between 300,000 to 500,000 stores so we are working towards that, okay.

Sharad Ramnarayan: Trading part of the business do not you see it coming to almost zero level within the next two to three years?

Sachin Gopal: Actually that is a very important point, thanks for raising it, the trading part of our business is already zero, so we are fully exited all the trading business that we were involved in so far, the numbers that you will continue to see sourcing and institutional business in balance sheet, the numbers there reflect the bulk pacts or Rath and Crystal, okay so we have 15 liter packs for Rath Vanaspati and 15 liter packs for Crystal bulk pack, both of these are what will now remain as far as the sourcing and institution business is concern, everything else is zero, the zero trading as you would have seen from our balance sheet we have recovered all of the advances that were lying with the trade and we have exited the poultry feeding business and also the seeds business.

Sharad Ramnarayan: Okay and lastly I just want to congratulate you are declaring a dividend after quite a long time, thanks a lot.

Moderator: Thank you Mr. Ramnarayan. The next question is from the line of Ravi Purohit of Securities Investment Management Pvt. Ltd. Please go ahead.

Ravi Purohit: Hello can you please provide the breakup of brand wise sales in terms of Crystal, Rath, Sundrop and ACT II, if it is possible? And second is you have mentioned that earlier you had a distribution reach of about 100,000 outlets, where is that as of today, I mean has it gone to like 150,000 to 200,000 and where do you see that going say in the next one or two years?

Sachin Gopal: I think I will be more easily able to answer the second question rather than the first, so you will have to bear with me. As far as the first question is concerned, we have now almost already doubled the distribution reach that we had. And our goal as I said is we need to be somewhere in that region of about 300,000 to 500,000 stores. I think over the next year or so we will get to know exactly what is the right figure is it 300,000 exactly 400,000 or 500,000 also sometimes you need to do more coverage and then chop off the accounts which are not profitable, that always happens in any significant distribution expansion program. So we are currently in the process of doing that. we are also currently in the process of expanding into more towns, we used to be a company which again would have been limited to say the class I towns having said that we are currently in the process of establishing the more conventional what every company uses the super distributor network to reach out to sub-distributors in small towns and that program is right now going very well. So certainly, we have already significantly improved our coverage and that part is going to continue to happen over the next year or so. Regarding the brand wise figures, I am afraid will not be able to share those specific numbers with you, right. That starts to become a little tricky and I apologize for that. Having said that, it is safe to say that an increasingly significant part of our business from the current business is now coming from Sundrop and ACT II, right. And those are the two brands with over the long term are going to drive the total sales of the company and the gross margin improvement that we need to continually see on a year-on-year basis, right. So you will notice also from our media investment strategy this is what we call out as priority brands, all our media investments are only behind these brands, right. Last year we only made one investment for a short period of time to test out some advertising of Rath for our product called Rath Lite.

Ravi Purohit: I have noticed the advertisements on Rath Lite, I have noticed your advertisements on that correct.

Sachin Gopal: That is right so we tested it out for a short period of time because we also need to see where the Rath brand is going to go over a period time, what are the extension possibilities, but the core of our media investments are all going behind these two brands currently Sundrop and ACT II and over time therefore our company will only grow stronger from a shareholder perspective if the bulk of our turnover starts to come for brands which has significant pricing power.

Ravi Purohit: Okay.

Sachin Gopal: Okay I apologize if I was not able to give more details.

Ravi Purohit: No basically the reason I asked that question is I was trying to understand where did the decline in overall sales come from in this year branded foods declined from 646 Crores to I think 625 Crores. So ACT II grew significantly and Sundrop grew significantly what declined and to what extent it declined, I mean was it like a 30% to 40% decline or what exactly are we looking ?

Sachin Gopal: Okay, I will try and answer that question and to give you a good answer. On a full year basis, the net sales figure that you see of branded foods which is about 625 odd Crores reflects a growth on popcorn and the fact that in terms of sales value the Sundrop brand continues to remain very steady. Having said that, on a quarter-on-quarter basis as the price gap versus some of our competitors have increased and we have had some volume losses which is evident also in the AC Nielsen figures that I had quoted to you. We would have lost some consumers even on the Sundrop brands for sure, right because there have been some volume losses right. So going forward that is the reason for the launch of Gold Lite which is now that we have got a good margin structure the P&L structure is starting to look better not fully where we wanted to be but looking a downside better than what it used to be right. We need to continue to get more consumers into our fold. And that is the reason why we are making aggressive entries at a lower price point okay.

Ravi Purohit: Significant portion of our sourcing and institutional business has been scaled down and you said that trading is completely out now, would that have resulted into lot of liquidation of inventory which till effect should result into higher cash flow in the company?

Sachin Gopal: Yes absolutely in fact if you would recall there was a time about 12 months ago I think we had about 23 or 24 Crores of working capital which was then invested and if you look at the current segment results you can see actually that there is hardly any capital employed left in the sourcing and institutional business, right. And if you look at the results so for sure what has happened is we exited, I think we also exited at the right time when the economy was still doing reasonably well and there was liquidity in the system so that was I think a good timing fortunately for us. And this has certainly increased the total liquidity and the cash reserves in the bank, I am going to request Hemant to provide you more details of that of where we are on that, Hemant over to you.

Hemant Kumar Ruia: Yes if you see the segment results and if you see the capital employed you will see that the capital employed in the sourcing and institutional business decreased from 30 Crores odd to less than 50 Lakhs. So effectively that 30 Crores worth of money has obviously come away from working capital into the cash reserves of the company and that obviously adds up to the kitty we have.

Sachin Gopal: I would just also like to make one more point which is when you actually look at the segment results you will find that there is similar picture though not of the same magnitude in the branded foods. So we had about close to 60 odd Crores invested in the branded foods business that is down to closer to about 47 Crores and that reflects the fact that must be starting around April/May of last year that we took a decision to significantly reduce our crude oil inventories and we actually brought our crude oil inventories to very, very low levels, just sufficient almost on a GIT basis. And I think it was just as well because that enabled us to manage mark-to-market on a better basis and also to minimize the losses on a mark-to-market basis which also I think was a big contributor to our P&L last year. So there are two pieces to that lower working capital investment in SIB, lower in branded foods, enabling more cash to be available to the company.

Ravi Purohit: Will it be safe for me to assume that in that segment wise information where you have given the breakup of capital employed the other un-allocable net assets which is I think stands at 82.6 Crores is pretty much all cash?

Hemant Kumar Ruia: It is not all cash large part of that is cash.

Ravi Purohit: Okay so can you give us some indication as how much the cash balance has, I mean the company has on its balance sheet as of today?

Hemant Kumar Ruia: No I will give it to you as of 31st March which is when one would have declared the results, and at that time it was 73 odd Crores.

Ravi Purohit: Okay. One more business related question in terms of your advertising and promotion sales expenditure that has gone up from around 23 Crores to 51.5 Crores in this year, this I think roughly comes to around 6% to 7% on total sales basis, where does the company see that I mean do you have any internal target or how does the company really, because most of your competitors have this in the north of 10%.

Sachin Gopal: Right I think your figure is absolutely accurate, to be a healthy company and which can deliver a superior share holder return over a period of time, you need a brand franchise investment in the region of about 10% to 12%. That is about what most of our benchmark companies would have, we obviously were not there earlier right, we used to be 4 Crores on whatever or 10 Crores on a turnover of 1000 Crores or 800 Crores whatever figure you take. So we were about 1%. I think we have made significant progress we are getting close to about 7% now, 6.5% to 7% so I think overtime we will progress to be closer to our benchmark companies, but having said that I think it will also have to be tempered by the margin growth, right. We need to be able to earn the money to invest the money so if you do not earn, there is no money to invest. So let us, you are right the benchmark you are giving is correct, so let us see how it goes.

Ravi Purohit: Okay. That is it for now if I have more questions I will come back to you. Thanks a lot for answering the questions.

Moderator: Thank you Mr. Purohit. The next follow up question is from the line of Aniruddha Joshi of Anand Rathi. Please go ahead.

Aniruddha Joshi: Hello sir just two follow up questions, where do we see this Peanut Butter going in maybe three to five years down the line. And even ACT II probably what are the growth rate what are the internal benchmarks we are looking at?

Sachin Gopal: We would like to enter categories where we feel that there is a possibility of scale, right or at least our investments will be channelized and focused behind categories where we feel we can achieve significant scale. So certainly the future of all these products or products that we take seriously we invest money behind, should be at least they should all be capable of being at least 100 Crores brands in the future, right. Some may get to the 100 Crores figure earlier some may come to the 100 Crores figure later but at least in the near term right as we have these calls over the next quarters and years all of them should be able to deliver at least that range. Our calculation is that it is only at about 100 odd Crores or somewhere between 80 and 100 Crores for the brand to start to become self sufficient, right. Of course it depends on the margin structure of the brand. If your margin is much richer you may do it faster, right, but you tend to get traction and scale at about somewhere in the 80 to 100 Crores level, less than that brands are unable to be self sufficient and they need investment from some other part of the portfolio. So our near term goal would be each one of these must be at least a 100 Crores brands. And obviously we would also like to have a sizable number of them so that we can have a significant food business which is meaningful as far as the portfolio of the company is concerned. Does that answer your question?

Aniruddha Joshi: Do we see that both these brands bring beyond let us say 100 Crores or 80 Crores in the next three years?

Sachin Gopal: I would say they certainly have the potential at this point in time to grow to that level and I would not comment on a specific year, but certainly some timeframe of the magnitude that you are talking about should certainly be achievable.

Aniruddha Joshi: Okay, see both these brands are such brands where there is no local competition but do we see any MNC entering this because I guess Lever had launched similar butter I guess one and a half or two years ago, but I guess it did not do well or almost they had withdrawn the product I am not able to recall the name of the brand, but do you see that this kind of business will see competition from Indian companies or any MNC competition?

Sachin Gopal: Sure, I think the brand of Lever that you are referring to is Skippy, right?

Aniruddha Joshi: Yes right.

Sachin Gopal: Skippy Peanut Butter and that was yes I guess you have the facts available. And I would not obviously be able to comment on that, what I can tell you is that for sure competition will come into any new category, that is a given right. So let us assume that we have build the popcorn category then we build the peanut butter category for sure there will be competition available some of that competition could be locals some could be multinational, right. Having said that I think the critical choice for us to answer or be accountable for is we have declared in our strategic vision that we will enter categories where we have a clear right to win, right. Our right to win could come from many areas, our right to win could come from the brands, for example one of the reasons that Peanut Butter had a very good acceptance from consumers is that it was launched under the Sundrop brand name. So the brand also communicates a certain advantage to us and to the consumer. The alternate way of right to win could be in terms of our sourcing of materials, depending on what is your competitive position in terms of sourcing of raw materials that is also a right to win. And lastly the right to win could also be from your processing capability in terms of how good are your processing techniques, the technology which you are using to be able to deliver a world class product. So one of the filters that we apply on all new products is we believe that we should have a right to win. If we do not have a right to win then in the long term again we won't be able to give a superior share holder return. And that is a filter that we apply so that is why "Popcorn" is there and now "Peanut Butter" is there. It is obviously new, its 4-months old but right now yes I think we believe that it has the potential. So there will be competition? The answer is yes. But will be the have the right to win in these categories we believe the answer is 'yes'.

Aniruddha Joshi: And very lastly on your marketing or your advertising front; are we tying up with any doctors, community etc to promote brands like lets say Sundrop? Because if some doctors promote then people certainly move to that product the way it has happened in case of Saffola. And doctors promote Saffola people go for Saffola and then they do not change the brand at all. So are we doing something like this or let us say Maggi did with children. They gave away free Maggi noodles and now we are seeing strong benefits of those initiatives. So that way are we doing something with ACTII or even Peanut Butter?

Sachin Gopal: Okay, like there were three products that you have referred to, so one is edible oil, second is popcorn and third is peanut butter. On edible oils we do some amount of doctor detailing but at this point in time when it comes to the choice from the allocation of resources we believe that right now the media does tend to play a disproportionate role so the bulk of our investment are focused behind that. Though there is some amount of doctor detailing that happens. As far as ACTII is concerned demonstrations of ACTII continue to be driver. We continue to invest behind demonstrations and that is necessary whenever you have a new category and you want to show a new way. So we all know as you correctly mentioned that several companies who have chosen demonstration as a route to build new categories. To explain to the consumer what is this category? How is it cooked etc.?

Aniruddha Joshi: Right.

Sachin Gopal: So we do do that. As far as peanut butter is concerned I think our answer is yes we do some amount of sampling as far as consumers are concerned but in terms of what are the right business drivers I think we are still understanding all of that piece right now. So probably after 3 to 6 months I will be able to give you a more literate and qualified answer on that.

Aniruddha Joshi: Okay. Thank you.

Moderator: Thank you Mr. Joshi. The next follow-up question is from the line of Ravi Purohit of Securities Investment Management. Please go ahead.

Ravi Purohit: One small question a in what has happens to Swiss Miss Snack pack which I believe you already launched or were test marketing last year. So had the company had to shelved those or is it still in test marketing mode or what happens to that product?

Sachin Gopal: Ravi we haven't shelved them at this point in time at this point in time. However we are in the process of refining our business models. So once the business model is done, its fixed then only we will go for a national roll-out. And it is basically financially driven Ravi. To test market a product in Andhra you need to spend maybe I do not know it depends on the reach but probably somewhere between 30 and 50 lakhs on media.

Ravi Purohit: Okay.

Sachin Gopal: You want to go national with the product; I doubt very much that you can do to less than 4 to 5 Crores. So you know something like ten times the amount. So from our financial prudent sense we believe it makes a lot more sense to test everything comprehensively in a small territory and then only roll-out nationally.

Ravi Purohit: But you are still testing right. I mean it is still being considered?

Sachin Gopal: Absolutely and we are still refining, we are refining the business model. We will go national and spend the money only when we are sure that we have the right result, okay.

Ravi Purohit: Basically the way you had done with ACTII.

Sachin Gopal: The way we did it with ACTII and we also did that with peanut butter. We test marketed peanut butter for 3 months in Andhra Pradesh but immediately as we got success and we knew that the business model was working for us we went national. In the case of the other 2 products its taking longer because we haven't tracked as yet.

Ravi Purohit: So over the next few years what kind of products do you think where ATF will really have the right to win as you have mentioned earlier in the conference call. What kind of product are we looking at except for the four that we have already discussed and two of them are already in test marketing and two of them are already nationally launched? So what kind of other products are we looking at?

Sachin Gopal: I would like to stay away from any specific category but I can tell you one thing that if you do log on to the ConAgra Foods website you would see a large number of products there. And certainly we are continually evaluating from within that what are the options that we can get a which can fit within the kind of brands that we have today and in terms of brand choices and where as we have a right to win and therefore can - what do you call it- can deliver a better return for us. One important point there is that we will not shy away from products where we need to create categories. Okay. So those will also be an element always of our mix because in the long term we certainly want to be in categories where we are either number 1 or number 2. And we are all aware the third player in most categories is rarely makes money. So wherever we feel we have a right to be either number 1 or the number 2 player in the category we will certainly put it up for evaluation. But if it means that we are going to be a number 4 or a number 5 player then there would have to be some other very good reason for us to break-in to that category. So that's another filter that we will apply.

Ravi Purohit: The reason I asked you this question is because I think our company has been for long depended on Sundrop and the Umbrella brand Sundrop and lot of edible oil companies are actually now moving towards providing health conscious oil as well call it Saffola, Sundrop and everything else. So as more and more companies gets added to that, that space does not really have any strong entry value right in terms of the technology. There is no such I mean great technology in terms of the purification of oil or something on that sort of. Correct me if I am wrong please. But if more and more companies do get into that space and more and more companies start producing and selling health conscious oil. We have a problem because so far we have been heavily reliant on Sundrop. We do not have new backup products. So to say which keeps us alive and kicking in that space in that Sundrop space.

Sachin Gopal: Yes. I think it is an important point always in consideration in that side mentioned earlier in the conference call that we will continue to work in developing a strong food's portfolio which is different from the edible oil's portfolio. Right, that is clearly a priority for the company and we are working over time on that. That's why you are seeing the launch of peanut butter. That's why you are seeing the testing of shelf-stable pudding and hot cocoa mixers and other products which are currently under evaluation. So that will be the case because for us to be a company which has gross margins equivalent to the benchmark companies that we have set for ourselves certainly a robust food's portfolio outside of edible oils will be a key requirement.

Ravi Purohit: Another thing is how rapidly or quickly do you change your prices vis-à-vis change in edible oil pricing because in the domestic market I believe the edible oil prices witness extreme volatility in the large 6 to 8 months. And in that regards how often or how quickly do you have to respond. I mean the market pressure or say I mean just on your own strategy point of view.

Sachin Gopal: See one part is that we certainly volatility in the commodity oil market is a reality when it comes to this particular segment that we are talking about. So given that that is so we actually started a lot of work on this and this must have been done about 12 months ago where we said at the end of the day as and when mentioned we need to deliver value to the consumer. Now value can be delivered in many ways. Value can be delivered through what you add to the product. Value could be delivered in terms of shall we say the benefits that the consumer gets which could be from a plus-plus perspective. Value is also delivered through price, right. So you say okay if I need to deliver value to the consumer at this point in time I need to reduce my price by 10% or increase my price by 10% whatever the case might be. Value is also given through volume and that is the reason why amongst many of these we chose the extra-fill promotion routes. Some I think it must have been around November December of last year. So you would have noticed in fact if you go in store you will find that for a significant period of time we continued to be able to deliver value to consumers through giving a 10 % fill promotion. Now this was the first time this was done in the edible oil industry which had some very strong benefits for us. The one was that we did not have to change our price to the trade everyday. So if you said oh okay if the commodities prices have dropped what have you done? It did not mean that we had to necessary drop the price instead of dropping the price by 10 % we give an extra fill of 10 %. To the consumer it amounted to the same thing but in terms of our price table to the trade all of that we were able to have greater stability. It has worked reasonably well for us for a period of time. So it is one of the options that we use in terms of managing price. But managing price in the edible oil market is an important shall we say management capability. So far touch wood I think we have done a reasonable job.

Ravi Purohit: Okay, can you give some balance sheet figures if it is possible? Okay. In terms of your year ending inventory I am noticing debtors and current liability in this if it is possible.

Hemant Ruia: Okay. Our net debtors fell from 34.4 Crores to 15.9 Crores.Our inventory fell from 74.5 to 44.5

Hemant Ruia: 44.5 and sorry what was the other thing you wanted? You wanted liability?

Ravi Purohit: Yes. Current liability.

Hemant Ruia: Our current liabilities increased actually from 70 Crores to 79.6 Crores.

Ravi Purohit: Thanks a lot.

Moderator: Thank you Mr. Purohit. The next follow-up question is from the line of Sharad Ramnarayanan from Pari Washington. Please go ahead.

Sharad Ramnarayanan: Yes my question is again concerning the raw materiel. The raw materials to sales has considerably eased in the last 2 to 3 Quarters and part of it is of course because of lower source in business but overall total you expect it to be, say for the next year?

Sachin Gopal: See raw material that there are two parts to your question. One is the decrease on account of turnover. Where obviously and we exit the when we exited that trading business this is obviously our consumption came down and second is a the bit about the absolute number on going concern basis you see what happens is last part of raw material is oil. Now, that follows a very as we discussed earlier in the Con-Call that it follows very volatile system. So that without what I can only comment is that I mean we will just follow the market in term of the actual consumption as it is going forward.

Sharad Ramnarayanan: Okay. So is Q4 a good representation of what the situation is currently on this thing?

Sachin Gopal: I would think so given the other vagaries in the market which we would have no control on.

Sharad Ramnarayanan: So, yes thanks.

Moderator: Thank you. The next follow up question is from the line of Avinash Wadhwa of M3. Please go ahead.

Avinash Wadhwa: Two housekeeping questions. Your interest in finance charges were -2.5 Crore so that was a net interest income for the 9 months ended December. That turned to .5 Crore expense essentially that means that there was a 3 Crore expense for the 4th Quarter FY09. Considering that you had 75 Crores of cash balance as on 31/3/09 I was just wondering where this interest expense of 3 Crores in the 4th Quarter came from?

Sachin Gopal: Sorry, which line are you picking this number from?

Avinash Wadhwa: I think in the results provided. You haven't provided the 4th Quarter results. It is consolidated, yes then one has to derive the 3rd Quarter number. That's how I have derived the 3rd Quarter number to be 3 Crores expense. I could be wrong about it but your 9-month was an income on that front to the extent of 2.5 Crores.

Sachin Gopal: Hemant is just pulling out the numbers because there is no interest payout that is why. Give us a moment. You want to do the second one and then maybe is there something I can comment on that while Hemant actually gets all the details.

Avinash Wadhwa: The second is even more mundane. I will get to that nevertheless. The non-operating income for the 4th Quarter was 4.9 Crores. I was wondering what that was?

Sachin Gopal: Okay fine. We will give you an answer to that also. Just give us a moment. Okay.

Avinash Wadhwa: Hello. Sachin I do not mean to hold you up. We could take it offline if you so choose.

Sachin Gopal: Okay. What we can co Avinash is while because the point being made is absolutely right and we continue to have an interest earning. While Hemant is able to pull out those details and do that plus and minus if we can take some other questions and return to it Hemant would that work better for you.

Hemant Ruia: It would.

Sachin Gopal: Yes, would that work for you Avinash and then we just give us five minutes we will take the next question and come back to you on both of these.

Avinash Wadhwa: Perfect. Thank you.

Sachin Gopal: Thank you though. Sorry about the delay.

Avinash Wadhwa: Not at all.

Moderator: Thank you Mr. Wadhwa. Sir we have not further questions. Sir you were waiting for to give an answer to the earlier participant.

Sachin Gopal: Okay then if I may request to give Mr. Ruia is getting the details for Avinash so if you can put Mr. Avinash Wadhwa back on the line and then I will try and close it right now and then we will give an answer this offline separately.

Moderator: Sure sir. Mr. Wadhwa please go ahead.

Avinash Wadhwa: No. I have no more questions.

Sachin Gopal: Yes Avinash what we will do is I think Hemant will need to just do that the some reconciliation right I hope you know between Quarter 3 and Quarter 4 to be able to give you the answer as far as interest in concerned. As far as the what is it called in the other income that basically reflects some provisions, excess provisions which have been there which have reversed during the course of the last quarter.

Avinash Wadhwa: Okay.

Sachin Gopal: On the interest yes let him come back to you with a more detailed answer. He will definitely do that.

Avinash Wadhwa: Perfect. Okay Sachin. Thank you so much bye-bye.

Moderator: Thank you Mr. Wadhwa. I would now like to hand this floor back to Mr. Kumar for final comments. Please go ahead sir.

Shirish Shah: Hi this Shirish Shah. I really appreciate Mr. Gopal and Mr. Hemant on the call. And on behalf of Anand Rathi Financial Services I appreciate you all joined the call. I would now hand over to Mr. Gopal for the closing remarks.

Sachin Gopal: Okay. Thanks Shrish. Thanks very much for organizing the call to you and Vivek and just wanted to say thanks again to everybody for having taken out the time to be with us on this call today. As discussed we will post the transcript on the website. And just want to reaffirm our commitment to all our share holders to continue to have a solid and sustained profitable growth as far as our company is concerned and in doing so create a strong branded food's company which can give superior returns as far as our share holders are concerned. So thank you very much for joining us and looking forward to talking to you after 3 months. Okay. Thank you. Over to you ma'am.

Moderator: Thank you gentlemen of the management. Thank you Mr. Kumar and Mr. Shirish. Ladies and gentlemen on behalf of Anand Rathi Financial Services that concludes this conference call. Thank you for joining us and you may now disconnect.