"Agro Tech Foods Limited Conference Call"

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Moderator: Ladies and gentlemen, good day, and welcome to the Q2 FY15 Earnings Conference call of Agro Tech Foods Limited, hosted by Anand Rathi Share & Stock Brokers Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Aniruddha Joshi of Anand Rathi. Thank you and over to you Sir!

Aniruddha Joshi: Thanks Mallika. On behalf of Anand Rathi Research, we welcome you all to 2Q FY'15 results conference call of Agro Tech Foods Limited. We have with us Mr. Sachin Gopal, President and CEO; and Mr. Hemant Kumar Ruia, VP and CFO. Now I hand over to Mr. Sachin Gopal for his comments on the quarterly performance. Thanks and over to you Sir.

Sachin Gopal: Thanks very much Aniruddha and good evening everybody. Thank you for taking the time out to be with us in the call today. We will take you through the highlights of the P&L and effected in a manner that is easy for you to understand and then open it up to Q&A.

I will cover of both the quarter and the half year obviously the half year is important because that gives us a longer picture of time but wherever there are comments which are acquired in terms of the quarter I will put them in, I have been you are free to ask questions.

So pretty much if you look at the quarter, quarter two and it is a fairly similar trend for the half year we were sort of flattish net sales in total. For the quarter it was about a 197 Crores and 195 Crores and for the half year it is about 375 Crores and about 378 Crores.

That is pretty much has the following two important components of it, which is typical of our business. We had a strong growth in our foods business that increased from about 18% of our business last year to about 22% of our business in the first half of this year.

That represents approximately at 24% growth in the topline as far as the foods business is concerned. So if you do a rough we did average calculation you will find at about 20% of the business if you take it is about 24% growth that is close to 5 points of increase on a weighted basis for the total company and that is pretty much the index as far as the total oils business is concerned, because the total oil business at roughly about a 95 index for this year first half of the year as compared to the same period last year.

So about 5 odd points 4 to 5 points loss as far as the oils business is concerned and about 4 to 5 points gain as far as the foods business is concerned. This probably the first time actually that in a declining edible oil market we have seen that the total topline is flat because normally what happens is the weighted average share of oils is so significant that it tends to depress the total below the 100 mark but I guess that is also representative of the shift in the portfolio whereas the foods business starts to become have a greater weight in our portfolio and also continues to register strong growth then it offsets and overtime more will should more than offsets any volatility in commodity prices.

Within the oils business I will give you a quick breakup in terms of what is the trends as far as Sundrop is concerned and as far as Crystal is concerned. So on Sundrop we had again total value index in the region of about 95 odd and with a volume index of about between 91 and 92 so a that is a lot better than what it was the prior quarter reflecting some of the impact of the A&P investments that we have made which I will come to a little later but still value tracking ahead of volume which has always been the case with Sundrop.

On Crystal the reverse is true the volume was actually higher in the first half of this year as compared to last year. It is about 110 and the net sales were about 97. So give out take a bit my interpretation of this would be overall kind of 95 index as far as the oil business is concerned with a different volume value or reasons between Sundrop and Crystal but net results is pretty much remains the same.

I will now try and breakup the growth of the foods business for you so this 24% growth that we saw in the foods business really has three drivers of growth the first is Peanut Butter. Peanut Butter grew by about a 167 index. We actually now sold more Peanut Butter in the first half of the year than we sold in the full year last year. That of course exaggerates us a little bit because in the last two three months when we would have had supply issues probably the base is understated but nevertheless I think the 167 index is real so it is a good progress.

The second component is the wending business our institutional business that is at about a 193 index so that has contributed about 10% points so Peanut Butter is contributed about 5% points of the 24% about 10% points contributed by the wending business and last of obviously very important piece is our consumer business of Act II that is the retail packs of popcorn, Ready to Eat Popcorn, the bakes products which we have launched running at about a 111 index so contributed to about 9 points of total growth.

So the breakup of the 24 is 5 coming from Peanut Butter, 10 coming from the wending business and 9 coming from the consumer business. So that explains the total 24 and contributes therefore to the food share of the business moving up from 18% of the topline to about 22% of the total.

So that is as far as the net sales is concerned in terms of gross margin the gross margin defined as net sales plus cost of goods. We saw an improvement in gross margin in the first semester, fairly significant improvement up from about 24.7% last year to about 26.5% this year. So that represents a decrease of about a 180 basis points, that is clearly the impact of both some softening in commodity prices which has a favorable impact and also an increasing share of the foods business which is a solid profitable business as far as we are concerned.

So overall I would say good progress as far as gross margin is concerned. For the quarter itself actually it will be even higher because we saw some benefit of that even in quarter two but overall I think it is reasonable to assume now that we are in between the 26% and 27% range in terms of gross margins.

Coming now to the investments as we had told you last year our P&L choices this year would be different from those that we made last year and that is something which we told you more than 12 months ago. So this year we have invested fairly heavily behind advertising and promotion. We spent about 20 Crores or little over 20 Crores 21 Crores on media, on advertising so our total A&P budget actually moved up from about 4% of in net sales in last year to about 8% in the current year. So as this what we have told you we see a 7% to 8% as a reasonable kind of level for our business there will be times when you know the business will come under pressure and we may not be able to do it but certainly we felt that this was the right time and we will also give you the breakup later by categories from a competitive third party data perspective so you will have a better contextualization of that.

Now how did we finance this 400 basis points of increase in terms of the A&P, 180 odd basis points as I mentioned earlier came from gross margin, which is good actually because we also incurred higher manufacturing overheads probably in the region of about a 100 basis points so if you take gross contribution before manufacturing overheads because on the startup of Jhagadia which is a fairly significant onetime impact in the base I think it is overall a very, very good performance in margins.

SG&A was marginally lower than prior year at about a 99 index so give or take a bit you can read it is about the same; however, as you would have seen from the data have a significantly lower tax rate. Our tax rate at 11% compares with 24% in the prior year so this helps to fund a higher A&P by almost about a 100 basis points. This is obviously something that is true for this year but will not be true for next year where again it will change because the benefits of the Kashipur plant that we currently get will end on the March 31, 2015 but nevertheless it is a valid contributor to the total A&P increase and last therefore PAT was lower by about 3.7 Crores so that contributed to about a 110 basis points so another words out of the 400 basis points improvement in A&P to raise it to that 7% to 8% level 180 came from margin, 100 came from tax and 110 came from lower PAT. There is a bit of saving in the SG&A as well that let’s just round it off at this point in time.

So that kind of I would say summarizes our commentary and thoughts are in the P&L so hopefully that should give you a good understanding of what the P&L looks like. We will now take a look at what were the external indicators on our business look like and then give you whatever we feel is the most relevant news before we move onto the Q&A session.

As far as the oil business is concerned on a year-to-date basis as far as Nielsen is concerned we have a retail share of about 43.9% that compares at 45.3% last year. So we are lower by about 1.4%, 140 basis points. This largely reflects fairly high spending continue high spending in the market. So to give you a context we have spent this year on Sundrop Heart as per Nielsen about 4.4 Crores. Our competitor Saffola has spend over the same period about 15.8 Crores and Fortune Rice Brand is lower than what it was last year the spending rate has come down. It is spent about 10.6 Crores.

So I would say some change in the sense that we seem to see a lower rate of spending as far as the Fortune brand is concerned; however, as far as Saffola is concerned we continue to see the same fairly higher rate of investment that they have been doing. Last year spending I think in total was about 35.6 Crores for Saffola and 5 Crores for us. So we kind of almost doubled it but since we still lower, we have a lower share of spend and that is good system with the choices that we are making.

In the snacks category, now as we start to become a more meaningful player in the next and compete in more categories, we will try and give you a perspective also on how we are doing although we do not buy Nielsen for the total snacks category we do get media spends so we will try and give you some context on that.

On a year-to-date basis now on Act II we spent about 10.2 Crores so that is pretty good because last year we spent again as per third party reading about 7 Crores so we have spent already in five months much more than what we did last year and that is obviously showing up in our numbers as well. The largest spender this year on this snacks category the salty snacks category is Bingo with close to about 39 Crores of spending. It is followed next by Kurkure at about 27 Crores and then Lays at about 24 Crores and then all the other players put together all the different snack food players are at about 13 Crores. So really today I think we are about the fourth largest spender in terms of the snacks, the salty snacks category is concerned and that is reflected as well in our increasing share of the market.

In terms of spreads, we had told you that this would be the year once we had started local production of Peanut Butter that we would start investing behind the category. This is showing great results. You are seeing it in the primary numbers but I am sure if you walk into a store today as we often do you can see that there is a large amount of Peanut Butter spreads really in the category. It is a pleasure to see. So in some customers actually we are now the third largest spread after Kissan and Dabur and growing so it is coming along really, really well. We do not buy Nielsen for this. I would not be able to give you shares for this.

In terms of media we would probably be in this first five months as per Nielsen would have spent about probably 3 Crores and Kissan would be the largest spender at about 8.5 Crores for the first five months. We will refine all these figures as we go along as we start to compete in multiple categories.

So that is the look as far as the outside view of our business is concerned. Some information which is relevant, some from business perspective basically corn has been taken off if you will the more restrictive sort of list that existed and that happened about two three weeks ago. So now we are free to import without any canalizing agencies but on payment of 50% duty corn if we choose. So that is one part of easing up of corn supply. So that is good news from the sense that it means that there is a more assured availability of corn on an ongoing basis; however, there are still some court cases pending in terms of actual user licenses so on and so forth on those we do not have clarity at this point in time.

What this really means is that from a corn supply perspective there is it looks like it should be easier proposition than it was earlier; however, it comes at a certain cost of a higher duty rate. What will be the implications of this or how the government will manage the actual user condition under which it was allowed to be imported without duty is something that we will get resolved as the courts look at it so I would not be able to comment further on that.

The other part is that we started our fourth food plant in Unnao, so we had two last year when we started Jhagadia in Gujarat and that is three and now we started our fourth food plant in Unnao which is currently making the bakes product. This is our first plant which is actually completely collocated with the oil plant and it is actually very good because it enables us to use, if you will brick and (inaudible) 15.21 model from a supply chain perspective, which should be a competitive advantage for us going forward over a period of time.

I do not think there is anything else, maybe one line item in the balance sheet that you will be looking which is trade receivables which has gone up from over 21 Crores to 27 Crores the largest part of that is really just CSD, which has gone up I think by from about between 4 and 4.5 Crores so nothing significant and that is more to do with the ongoing size of the business what it was there and what it is now.

That is over from my side and we can go onto the Q&A now.

Moderator: Thank you very much, Sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Raunak Agarwal from Catamaran Capital. Please go ahead.

Lakshmi Narayanan: This is Lakshmi Narayanan here. I have a couple of questions. One on the reach expansion how many outlets do we actually reach our products and if you can just explain us to how many outlets would actually definitely stock both Sundrop and Act II or is it like it is mandatory that or not mandatory or in most of the cases it will be both Sundrop as well as the Act II gets stocked together. That is the first question and second is on Peanut Butter what kind of SKUs we actually have in terms of price points are we planning to bring it to a lower price point and the last is in terms of corn inventory what kind of inventory we actually normally hold and where it is now?

Sachin Gopal: The question is in terms of our coverage from the data there are two sets of data on this right. There is data which we have which is our internal data and there is data from Nielsen. So our internal data shows a coverage of somewhere between 200000 and 250000 stores so that is one piece of data. Internal data is always subject to validation because at the end of the day a lot of it is manual reporting. We are gradually moving to smart phone users. We have got something like I would say probably close to 275 or 300 smart phones being used today but we will have a 100% accurate fix on it only when we actually get to about 1100 or 1200 smart phones if you will. So however if I look at it from the other side of Nielsen there is Sundrop which would probably be available in about 75000, 80000 stores and there will be Act II which will be available in over a 100000 stores probably110 something like that. If you look at specific SKUs the different SKUs will have different numbers. So I would say broadly, there will be some commonality on it but all of it will not be common. How much is common and not common that Venn diagram that we have not done with Nielsen you can get the Venn diagram but it comes at a cost, so overtime as we get better data our own data becomes more smarter if you will using the smart phones for immediate recording of sales we will be looking we will be getting better at it. So that is one part. On peanut butter the specific SKUs price point on this we are currently available with the following three SKUs which is 462 grams, 200 grams and 100 grams and these are available at Rs.250, Rs.110 and Rs.55. We will also be rolling out very soon sachet of Peanut Butter which will be priced at between Rs.5 and Rs.10 so you should see all the three SKUs and this would obviously enable us to get attractive significant number of new users into our franchise. Last is on corn inventory. I would not be able to give you the exact figure not because we do not know it but because we do not give it, but we normally go long on corn and we go like almost a year so if that is the case and we are getting a we are going to start getting in fresh shipments now you can assume that we have got corn well into FY16. So we keep adequate cover because we are aware that there are going to be fluctuations and changes in all of the users.

Lakshmi Narayanan: My next question is on your ad spends I think we cumulatively spent close to around 32 Corers and you gave a splint in terms of Sundrop Heart, Act II and local Peanut Butter it comes to around 4.4, 10.2 and 3 so am I right or am I missing something I am just trying to understand how do you break that 32 Crores by product?

Sachin Gopal: The 32 Crores includes both advertising and sales promotion so I will answer this question now but it is more that I have to come back. So if I need to include both advertising and sales promotion let us work it you can assume about 21 Crores is advertising and about 8 Crores in the sales promotion that is about 29 and the 32 will be the balance difference between US GAAP and Indian GAAP if you will. So I just give you the figure for Act II a little more it is about a 125000 odd Crores that is where we are today.

Lakshmi Narayanan: Thank you.

Moderator: Thank you. Next question is from the line of Rajeev Berlia from Edelweiss. Please go ahead.

Abneesh Roy: This is Abneesh here. Thanks for the opportunity. Sir I have got two questions; one is you mentioned the marketing spends in the Rice Brand Oil category by the first year has reduced. Sir my question is has that category now come of eight because this is the second year and marketing spends will come of first year obviously it will be quite high or has it now kind of become one of the so many oils so has it become ingrained or has it not really worked? Sir my second question on the Peanut Butter of the price point which you will come out with in terms of sachet will that become the main stay and who are the people who have currently consuming if you could elaborate that part because it is much more expensive than the current spreads, that is all Sir?

Sachin Gopal: Thanks very much, Abneesh. I would say certainly spends are considerably lower so if I look at it in FY13 in a single quarter spend was 20 Crores. In FY14 through the whole year it was about 36 Crores and in FY15 in five months it is about 11 Crores. So certainly it is scaling up and that is to be expected because when you actually look at the ROI it is obviously difficult to see the ROIs when you look at it closely if you look at just that particular brand of oil so that was to be expected and I think that is good news. Having said that the rice brand category is there to stay some investment has been made so I think overall it will be good for the category but really anything at these levels it is not sustainable by anybody so it is just a question I guess for us and as for anybody else in this place to actually write it out. Regarding Peanut Butter yes the smaller packs are the once to actually attract new consumers but it is the usage of Peanut Butter is starting to become very, very broad when I go to even small stores today I was in a small store the other day in Dwarka and he had bought I think bottles was both the 200 gram and the 100 gram and he had already sold two of the 400 gram bottles that he had bought so I would say Peanut Butter as a category has arrived. I think the bet was right and I do not know if you have observed but even Parley has just launched Peanut Butter biscuits under Monaco. So that is the nice sign because if we have more activity in the category, there will be more hopefully more buzz around Peanut Butter and clearly being the pioneers of the category therefore we should puts us in a happy place. So I think it would be a mixture, Abneesh. There will be people coming in straight through the sachet, there will be people coming in through into the bottles but really it is a good category. The fact that it is a third largest spread in some of our customers already and larger than Nutella is a very, very good statement to make.

Abneesh Roy: Thanks a lot.

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

Percy Panthaki: Good evening Sir. First just a couple of housekeeping questions; firstly you have given the sales split for first half between value and volume for edible oils and also the foods business if you can do the same for Q2 that will be very helpful? Secondly if you can also give us what tax rates on income tax we should built in for the full year FY 2015, 2016 and 2017 so that is the first housekeeping question? Secondly on edible oil if you can just throw some light with the base getting very favorable in Q3 I believe you had a double digit volume decline last year in Q3 how confident are you that going forward that is Q3, Q4 and also into FY 2016 that the volume decline that you are seeing in edible oils that will halt how confident are you on that?

Sachin Gopal: Could you give me the other question also Percy so I can answer all of it or it is that is it?

Percy Panthaki: That is it for now.

Sachin Gopal: The picture is not so different. I would say overall on most indices quarter two is better than quarter one but it varies right because the shorter the period that you look at the less reliable becomes a data so the answer is yes the trends are pretty similar for Q2 as well in the case of Sundrop we had roughly about a 3 point difference between about a 3 odd point difference between net sales and volumes and Crystal was also very much the same it was the same trend volume was higher than sales and that is to be expected because in a downward cycle in the commodity market we are now we tend to draw back and deliver value to the consumer through promotion on Sundrop which we are doing even today and in the case of this will be necessarily have to drop prices since basically a commodity oil brand.

Percy Panthaki: Sir you would have seen 8% to 9% volume decline in Sundrop in Q2 also just as the case of H1?

Sachin Gopal: I think I had given the Q1 numbers so if you look at it cumulatively in Q1 it was about I think I gave it to you in Q1 it was ending at about 89 index and Q2 has ended at about a close to 91, 92 index so there has been a significant movement between Q1 and Q2 in the upward direction right. So it will be that much better but I would say let us look at it over a six months period that is obviously more helpful and realistic. In terms of the tax rates I would not be able to give you a figure on FY 2015.

Percy Panthaki: The sales split up on foods if you can just give that because I recall I think first quarter you had said it is a 30% growth and first half you are saying 24 so is Q2 less than 20% growth on foods?

Sachin Gopal: No Q2 on foods that figure I can certainly give you it is about a 119 index so yes the answer is it is a 19% on foods.

Percy Panthaki: Can you just throw some light as to why it has been a little weaker on foods especially since you have Peanut Butter launch, you have Act II Bakes launch also and you have vending doing very well?

Sachin Gopal: So I think the read into this would be that last year at this point in time we would have been at the peak of our cumulative media activity. We would have significant media activity and we actually reduced our media investments in the second half through April, May, June and we will report that we are continue to invest fairly significantly so that is the reason why we will see how Q3 and Q4 develop.

Percy Panthaki: I did not get you because your ad spend is higher in Q2 versus Q1.

Sachin Gopal: Alright but it is also a reflection of the fact that in the back half of last year, we had not spent very much money on media. So what happens is it all takes time to build up back in terms of momentum. So you have to compare this with investments in the prior period. If you go back to the conference call of the same period last year, the question was asked and I would have given this answer then that it is the effect of the cumulative investment that we had made in the back half of the year before and the investments that we had made in the first half of last year.

Now coming to your next question on tax rates, I would not be able to give you a figure for FY 2015 because we will have to see; however, I can tell you the principle for FY 2016 and FY 2017 is that in FY 2016 the current benefit that we are getting on tax we will get, we will come back, because we will not get the benefit of the Kashipur plant we will continue to get the benefits of the R&D facility that we have at Kashipur so at Kothur so to give you a perspective prior to getting the benefits of (inaudible) 30.33 we were running at an effective tax rate of 31%. Once we got the benefits obviously it has come down significantly so I think it is reasonable to assume for the purposes of calculation and forecasting that you can work on a 31% tax rate as far as next year and the year after that are concerned.

Percy Panthaki: This year also Q1, Q2 has been so different that it is difficult to forecast Q3 and Q4 so any guidance you can give on that?

Sachin Gopal: You see it is a function of how much profit the Kashipur plant is making and how that compares with the total profit of the company so that is obviously impacts the tax rate if the total profit is lower that has a disproportionate impact if the total profit is higher that has a less than proportionate impact. Now as far as the edible oils category is concerned, I would not like to comment on the base because the base piece is nice for analytics and is often used by economist but does not always work out so well in business. So I think yes it is fair to say that we are seeing a good momentum in the business Q2 is fairly looking better than Q1 but it would be I think improper to say that now it is going to change in this direction by so much let us see how it goes. We are doing all the right things as far as the business is concerned. How we perform is the function not only of what we do sort of the competitive scenario what other people do. So right now I think it is good the margins are looking good we are able to invest behind the business, the tradeoffs, I think that we are making have worked well for us so I would say it is good but let us see how it goes, how is the commodity price table moves over the next six months and how we are able to manage it.

Percy Panthaki: Sir I have one more question maybe you can take it up in the end if you have time. Would you be able to give us some clarity whether the foods business overall that is all the brands Peanut Butter, Act II Bakes, Popcorn everything put together is the foods business sort of breakeven at EBITDA level after allocating all your corporate overheads etc., or not?

Sachin Gopal: Let me comeback to you then Percy it would be fair to everybody.

Percy Panthaki: Thanks.

Moderator: Next question is from the line of Prakash Kapadia from iAlpha Enterprises. Please go ahead.

Prakash Kapadia: Thanks for taking my question. Sachin, is it fair to assume that the free grammage on popcorn, edible oil and baked snacks would be roughly around Rs.80 million so roughly 8 Crores which is part of the ad spends is that a fair calculation because you said most of the ad spends were in advertising so 10 Crores was advertising and balance was due to some difference which you mentioned in your opening remarks and even that better to accounted in terms of cost of goods sold rather than promotions because most of the cross selling or the free grammage in terms of edible **oil ke sath** what we are giving the Act II popcorn or even on your baked snacks or part of your own product so should not that technically or to give a true picture of your gross margin be part of our cogs and not part of A&P that was the first question? Secondly on the commodity prices any thoughts of price reductions in the second half going forward given that corn and edible oil prices are falling across the globe? Thirdly if you could give us the ground level situation in AP post the Telangana bifurcation any power issues logistic issues so those was the broad three questions?

Sachin Gopal: First of all as far as the free grammage is concerned, I am sorry there is a work going on in the office about this, so you may get something. As far as the free grammage on what we give on oils or on popcorn that does go into cost of goods. So the A&P spends that we are reflecting here in this P&L, they do not include the free amounts because the free amounts just gets charged into cogs and therefore into gross margin. That is why I mentioned earlier that up to 32 Crores about 21 Crores was media and production about 8 Crores was sales promotion and the balance would just be some minor differences between Indian GAAP and US GAAP. That is the right way to do it. In terms of commodity prices, yes I think edible oils obviously clearly softer and you know all that data is visible to all of you. On that corn piece, I am not sure because yes it is lower but if we have to pay a 50% duty on any amount of corn that we bring in over the next five to six months then the negative impact of the duty would offset the positive impact of lower commodity prices due to a supply being bigger than the demand at this point in time. Having said that as far as edible oils is concerned, we have also started moving towards giving edible oil free. One of the things that the law requires and some changes were made awhile ago that you could not in the same pouch or in the same can given extra fill so we had to reconfigure it but now then we have a better edible oil prices we are definitely passing it on by way of value to the consumer. So you see more of our promotion actually with 20% right now you will see if 20% free in the market place. That should also help to mitigate volume losses and while enabling us to continue to maintain our profitability. In fact since you mentioned it will just make a brief comment that this free oil in part explains we think and this is hypothesis at this stage one of the difference is that we have seen a Nielsen data coming our versus whatever is reported to the financial market by other traders because what happens is Nielsen typically tends to under call the amount of volume that goes under promotion and if it does that then the volume that goes up free is also under called. So it could impact reasonably significantly one of the gaps some of the gaps that you guys have been asking me about other players trying.

Prakash Kapadia: Got it and any thoughts on that price reduction and the Telangana situation or AP?

Sachin Gopal: I am sorry. I did not answer that question. My apologies for that. I would say nothing significant yes there have been some power issues in Telangana but nothing more than that I think the government will settle down. All new governments take time even new plants take time to settle down. I think we start. It just because of the government it does not mean they do not have the right to settle down we take our own time sometime often. Now I would say nothing it is we continue to do business as usual things are good and I think we will obviously continue to see a lot of activity as well in Andhra Pradesh now so let us see how it goes.

Prakash Kapadia: Maybe if you could answer this once you are done with all questions in case time permits is it fair to assume in our journey towards double digit EBITDA we should be there once we are at 40% of sales contribution from food business is that a fair assumption to over the long run, maybe if you can answer it a later?

Moderator: The next question is from the line of Rajat Budhiraja from Banyan Capital. Please go ahead. Sorry the line got dropped. As there are no further questions from the participant I now hand the conference over to Mr. Anirudh Joshi for closing comments.

Sachin Gopal: Madam, I have a couple of comments for the questions which remain unanswered. So there was one question from Percy regarding the foods business on as far as the profitability of the business is concerned at the EBITDA level. So yes the answer is definitely yes because if we are getting our tax rebate or a tax benefit of the Kashipur plant, which makes popcorn then the answer is yes. We are already there for making profit on Act II at that level. So the answer is yes it is already profitable and obviously will become more profitable as we are able to manage the mix of products right. However Peanut Butter is not going to be in the same case because Peanut Butter at this stage we will be producing a lower volume from a plant with a considerably higher capacity so it is going to take the charge as far as manufacturing overrate is concerned it is gross margin will claimed as capacity utilization improves but we will see that higher level of gross margin once we are up to a higher level of capacity utilization and at this point in time obviously we are also spending the money. Our spend levels on Peanut Butter as a percentage of sales will be significantly higher than was they are on Act II popcorn so I think it is going to be a journey for each of the brands that we have got so there is Act II where at a point in time which is very, very similar to Peanut Butter the trajectory that we are seeing right now so therefore moving to the area of profitability and but the similar picture today on Peanut Butter similar to what Act II was some years in there.

Prakash to your question on will 40% contribution from sales give an EBITDA of 10% that seems to be reasonable we it should enable us given the right level of spending in terms of both A&P in terms of SG&A to be able to get us to that 10% mark. Let us assume a 7% to 8% A&P spending and then let's assume an SG&A of a 12% there about so certainly should start to should be well knock of that figure actually.

Alright madam that is it from my side.

Moderator: Sir we have two more questions in the queue may I take that. Thank you. Next question is from the line of Percy from IIFL. Please go ahead.

Percy Panthaki: Sir if you can throw light on the Back Snacks business that you want to become big and you have launched this Act II Bakes how that is doing? Also we have a product of Instant Popcorn since quite some time but it is not yet ramped up to healthy level of sales so what is really the impediment in making Instant Popcorn really a large driver of revenue and apart from Act II Bakes is there any other product in pipeline in terms of launch in the next six, to twelve months in the Back Snacks business?

Sachin Gopal: Let me start with the Instant Popcorn business this is the pleasure cooker business which I think is obviously the key end product.

Percy Panthaki: I mean Ready to Eat not instant Ready to Eat which is basically do not have to do anything you just open the pack and eat it?

Sachin Gopal: Ready to Eat Popcorn and Back Snacks the rest of the Back Snacks which is baked, I would put under one category. The Ready to Eat Popcorn category is a complex category. It is not one which many big corporations have been successful at tracking and the primary reason for that is the shelf life is relatively low. We now have a shelf life of about three months on the product but a shorter shelf life means that actually you need to be much closer to the market, closer to the market for two reasons. One is your freight costs are lower and second is because your ability to service the market frequently is of a much higher order quality. So I think was where we are, is that we have seeded Ready to Eat Popcorn. We recognized however that it is not going to be the area that we are going to invest lots of money because our investment from a margin profile of the company is going to continue to be behind Ready to Cook Popcorn. So what Ready to Eat Popcorn seems to do well is as well within a larger portfolio of Back Snacks it can do well, it does well either way if you give at natural at a very localized level it can do very well. So what we are finding therefore is actually as we rolled out the larger range of Back Snacks we were readily concerned earlier that will that actually negatively impact Ready to Eat Popcorn but that is not been the case actually it tends to benefit from that. So I think going forward what will happen is we will be successful in Ready to Eat Popcorn; however, it is going to be a longish journey it is not going to happen in a day, it can happen in a day but then we need to spend a significant amount of money which we do not believe is well invested. So it will do well as a larger portfolio of Back Snacks and that is how it is planning right now. We are both in Salted Popcorn and Sweat Popcorn. We have a strong position in the category. The category will definitely grow. As I said earlier my estimate is that at a global level it is as large as Ready to Cook Popcorn. It is not bigger but we are just going to have to manage it almost like a small entrepreneur would do building it brick-by-brick and in area-by-area. Coming to the rest of the Back Snacks business which is the Act II Bakes, I would say that is doing very well we have got offerings at multiple price points now and now it is just again a function of being able to expand distribution on a steady basis. The role of Back Snacks is very important for our company because as a portfolio it enables us to have adequate transaction for our distributors, adequate box size for our distributors so that then as we expand distribution we are able to get the right value and they are able to make a profitable sales for it. We will have to do in a shorter period of time we will have to achieve a faster growth if you will then let us say when we have of the local competitors have done but we think we are in a happy space as you saw earlier we are probably the fourth most highly advertised snacks brand if you will as total so that gives us a strong brand equity. How we leverage it in terms of the different parts of the portfolio is something that we will also have to learn as we go along, but we are certainly in a good place. The other good thing that happened on Back Snacks is that we are basically started off simultaneously in almost three plants so we started Hyderabad, we started Unnao now and the Jhagadia plant will go live very soon probably in the next four to six weeks. So we actually have reduced the average non-weighted freight from if we had a single plant in Hyderabad our average non-weighted freight if you would use Google Maps would come down from about 1200 kilometers to about 600 kilometers with three plants. This obviously comes down to about 300 kilometers when you move to southern plants but the beauty is that we have started off right in the category so that we are not spending money on freight today and we will start to get the benefits of efficiencies in manufacturing and other pieces as we would scale our production. Thank you for asking the question on any other business because I have promised you I think three calls ago that by the end of the half year we would be in two new products and one of them obviously is bakes but the other one is still to be launched so there are a couple other products which should have been launched by now but we are just in the process of completing the manufacturing scaling up of those in some cases we were waiting for regulatory approval which has now come so I would say probably running one quarter behind as far as those are concerned we should be in a better position to give you more information when we come to the quarter three conversation.

Percy Panthaki: Sir would you be able to give an idea what are your aspirations in terms of revenues for the Back Snacks and the peanut butter business over three year horizon?

Sachin Gopal: That is something, Percy we will come to I think I had promised you last time in the quarter one call I had said that after this call we would set up a time when actually we would meet investors in Mumbai and try and share our thoughts on what the next three to five years is going to look like so we will be in the process of setting up that call we are working with Aniruddha to have that meeting and it would probably be in the first week of November.

Percy Panthaki: Thank you.

Sachin Gopal: Madam I think we have one more question before a day closes.

Moderator: The next question is from the line of Bimal Sampas from Sunidhi Enterprises. Please go ahead.

Bimal Sampas: Good evening. I just read that ConAgra has launched Hunts in Brazil that is sauces and all these things. India also this market is growing very fast so are we looking at that market condiment sauces etc.?

Sachin Gopal: No the answer is not right now. We want to be in categories where we have a strong competitive advantage, high right to win so at this point in time sauces is not a priority because we do not see that type of competitive advantage that we would say see in Peanut Butter as compared to our sauce and another condiment. Now it is not that there is no money to be made. I am sure there is some money to be made in many of these but right now we are pretty much we have sufficient opportunities which are very strong and which we are also already invested in capacities which you see as rolling out in the next twelve months so the answer is no. I think it is obviously the right move as far as the Brazil market is concerned. But entering into sauces and ketchups in India right now we do not see such a size of price. There are two very, very strong player is Unilever and Nestle and there are enough local players as well. There is another multinational player who has been there for several years who actually has not made much inroads so the answer is not ketchups at this point in time. Is that a market for other sauces like pasta sauces the answer is yes, but we just have to weigh all of these in terms of the portfolio as it is today, the opportunities where we need to prioritize and invest our money both are financial resources and our human resources behind they are below so I think the answer is yes like many other things but not right now.

Bimal Sampas: Thank you.

Moderator: Thank you. I now hand the conference over to Mr. Aniruddha Joshi for is closing comments.

Aniruddha Joshi: Thanks Mallika. On behalf of Anand Rathi Research, we thank all the participants' for being on the call and also the senior management of Agro Tech Foods Mr. Sachin Gopal as well as Mr. Hemant Kumar Ruia. Now I hand over to Mr. Sachin Gopal for his closing comments. Thanks and over to you sir.

Sachin Gopal: Thanks very much Aniruddha and thank you for organizing the call. Thank you all for taking the time to be on the call with us today and look forward to the next call but also in between I guess we will have the opportunity to meet as I said when we set up the meeting in Mumbai. Thank you again good night.

Moderator: Thank you very much, Sir. Ladies and gentlemen on behalf of Anand Rathi, that concludes this conference. Thank you for joining us. You may now disconnect your lines.