"Agro Tech Foods Limited Q3 FY2022 Earnings Conference Call"

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MANAGEMENT: MR. SACHIN GOPAL - MANAGING DIRECTOR - AGRO TECH FOODS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Agro Tech Foods Limited Q3 FY2022 Earnings Conference Call hosted by Anand Rathi Share and Stock Brokers. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone. Please not that this conference is being recorded. I now hand the conference over to Mr. Sachin Gopal from Agro Tech Foods Limited. Thank you and over to you Sir!

Sachin Gopal: Thank you Madam. Good afternoon everybody. Thank you for taking out the time to be with us today. So we have already uploaded the presentation for this quarter on our website, so I am hoping that you all have accessed it. If you have not you can just open the website and we start straight off with the business at hand. So our mission and vision is to be performing most respected food company in India. We believe as a management team that we are well on tract to achieve that. From a quarter three perspective if you could just go to slide #4 in the presentation, we saw a steady food growth in quarter three at about 10% with a year to date growth of 17%. Obviously this year has a lot of ups and downs in terms of times when there was COVID high basis of last year, but broadly speaking I think we are okay as far as being in line with our goals of being able to deliver at 20 to 25% growth in the food business on an annual basis. Commodity especially in quarter three was higher than we expected. Last quarter when we told you we expected a lower inflation in the back half of the year, we still do because there was a lot of inflation in quarter four of last year and that is when the commodity prices started really increasing. They started around October and then it reached to fairly high levels in quarter four and quarter one of this year. So raw material actually inflation did come down right there was some softening, but we saw more increased packaging inflation right, packaging material and that I guess is because of the price of the crude and subsequent impact of that which has some amount of a lag affect a little higher than we expected. We still expect quarter four to be lower, but as of now this is where we are. In terms of year to date edible oil, I think it is holding well at about 55 Crores. One of you had asked this question when we had told you at the middle of the year that we are on track relative to where we were prior year which is about 72 odd Crores and if we look at this number at least it seems to be tracking well to prior year, which is great. We are actually tracking very well on premium edible oil volume index also. We are about at 100 index and we will be little more than flat may be a 1% growth so this will be the first year actually after many years that we would be kind of able to hold up our volumes on premium edible oils versus the prior year and as well it looks like we can be able to hold gross margin as well and that is could because that is one big worry that is removed from our thinking right. We are obviously very worried also and this is a figure that in a sense that was leaky bucket but clearly the pricing action that we took in the back half of last year has given us the results that we wanted, so overall looking good. In terms of food gross margin is lower by about 10.5 Crores and this is really a reflex of few things, a higher commodity prices or total input cost inflation if you will which is impacting us by about 24.5 Crores on a year to date basis. We have taken price increases which surmount to about 7 Crores in the first nine months and volume growth which is registered robust. It has given us another 7 odd Crores that gives a net deficit versus last year of about 10.5 Crores. We are going to continue to manage it. We have taken pricing. We will see there is lot more conversation about margin even in this presentation which we will walk you through today, so we are focused on it but at the same time we do not want to do anything silly in terms of pricing which jeopardized the core ingredient of our 20 to 25% growth that we need on the business and have been delivering. As you all know we talked about this in late November. We exited from the crystal brand from selling ourselves into franchise model from November 1st as planned and therefore those sales are not included and we obviously fully expect to be able to make up these revenues both in terms of the food growth in fact just in terms of food growth itself we should be able to make up the loss. Year to date SGN is pretty much flat to prior year with the exception of higher CSR provisioning and royalty. There was a doubtful debt provision in the prior year of about 3.5 Crores so that kind of offset the travel cost and any other increases that we are seeing in this period and as a consequence PBT and PAT are down about 15% and 17% versus prior quarter. Okay so if you could just go now to page six this is ready to cook category so you can see here in quarter three our volume was up about 5% and value was up about 8 which reflects clearly the pricing that we have executed in the non Rs.10 pack in terms of popcorn right all the other packs which is instant popcorn at 30 to 33 and also microwave popcorn from say 70 to 72. So there is definitely some softening that we have seen in RTC popcorn growth rate. I do not think it is as much as it is reflected in the chart. We think we are probably getting about 8 to 10% growth rate now because November was very soft as it for us and many other companies in category, but it is less than what it was from the piece that we saw quarter one during the second quarter and also last year, so we think we are still in good shape as far as closing this year is concerned in terms of a good growth rate in the mid teens in terms of balance volume and definitely in terms of value as well. Our bigger concern going forward into next year is how will next year pan out because schools have now started to open, children are not going to be that much at home and what impact that has on consumption, it is something that we cannot forecast very accurately at this stage which is kind of what we expected from this year. When we made our planing this year we had maintained the mid single digit growth from a budgeting perspective which obviously came out to be much better because COVID continued for a longer period of time. We believe the introduction of our mini meal kit is very well timed to therefore sustain a strong growth rate next year. They are already at about 8 to 10% let us see how that plays out over the next quarter or so and we should be able to add the incremental basis point that we require for this category through the expansion of our mini meal kit and for now the focus is on pasta. We have introduced part time noodles as well. We think that will be a relatively small and niche play but pasta is a big winner and we have full capability to expand this category so I am going to touch upon that a little later if you see on the fourth section. We had to take some price increasing calls, so rather than taking price increases on our strategic products like instant popcorn at Rs.10 where we want to continue to sustain the growth rate that we have had over the last couple of years, we choose therefore to take out on some of the other if you will the site players in the category and we were fairly aggressive in sweet corn. We took a 40% price increase in this category from 20 to 28. We do not think actually we have lost any consumers because of it but it has probably reduced the rate of new consumer and new customer acquisition so that does not mean it is not growing, it is growing and it will continue to grow. It is probably the growth rate it would have that Rs.20 we had a lower growth rate at 28 but it will continue to be a good business for us. We are obviously working to address the GM percent attrition. We should have to address that 10.5 Crores in popcorn. We have taken some amount of pricing, but we are not going to take more pricing right now but we are also going to focus in terms of product in terms of what we can do to determine strategy and to be able to therefore given us the margin improvement that we would like next year. I talked about pasta. I think our roll out of differentiated pasta which is supported by retial demos has very very positive acceptance. So I will share with you some learning tips that we had on pasta. We initially thought it is a very large market and pasta is an extremely large market, but actually instant pasta is not that big, Instant pasta is actually from whatever we are understanding now is actually smaller than our popcorn business and we believe the reason for that is the current players the two major players in the category have actually not been very focused on the category but also in terms of product architecture they kind of applied a noodle architecture to pasta. Now it is okay to have a noodle with a seasoning sachet etc., but we do not think it works very well for the pasta. Any category is different right, so our differentiated offering which is a wonderful sauce along with the pasta we think is really an absolute blockbuster. It is actually doing very well and there is a very, very good consumer response. We are obviously fortunate that the two major competitors in this category are not focused behind the category they are more focused on the noodle work and that works very well for us. For example we were in Guwahati last month and we were doing some demos in Guwahati, near a very large bakery I forget it. Suchita bakery or something. We were there till about 8:30 at night all of us, seven eight of us and there happened to be one our competitors salesman who happened to be there and the retailer was pulling his legs you know what you do not do this activity on pasta. We are not focused on pasta, so which I think sums up in a very simplistic manner what is the opportunity. We believe we have a great retial demonstration capability. We built the popcorn business on back of that so we think we can actually grow the instant pasta business not for a lot of money, not that spending a lot of money but simply the way what we have built our RTC popcorn business and our peanut butter business and it will certainly be a very, very good contributor to growth. So from FY2023 planing perspective I think we are in good shape. We expect to be able to sustain the kind of growth rates that we have right now on year to date basis. We will be prepared for some possible softening in the growth rate of popcorn as children return to school and we will see how that goes but meanwhile we will take all the actions on the other front which includes sweet corn, which includes pastas, which includes part time noodles and very soon we will also be chowmein hakka noodle offering, so all of these differentiated offering in good shape and therefore should be able to give us the desired growth rate that we want in next year and that is the key really there has been obviously gross margin attrition this year and most food companies have seen that, but I think next year there is a room for a lot of gross margin expansion driven by volume as all of us come out of this COVID wave and two year pandemic and are able to drive volume take some actions on further margin improvement and that will give us a significant expansion of gross margin, so overall therefore looking good.

Ready to eat snacks you can clearly see the impact, actually the number here are almost mirror image of RTC business as economy woken up so we have seen a huge acceleration in the growth rate. You can see it is about 32% on a quarter three basis and 20% on year to date basis and mostly driven by RTC popcorn. So of the three categories we have completed RTC popcorn accounts for the dominant share of the revenues from the RT snack category and that makes sense because we have competitor advantage, we source a lot of popcorn. We have a national presence and we are clearly a leader at the national level in the category, so there were a number of players. There still are people particularly focused around Delhi but I say two thing have happened to strengthen our position in RT popcorn, one is the GST rates which earlier many of our competitors very changing at 12% they were forced to take it up to 18% post some clarifications from the tax department and second is that obviously COVID had an impact on all the people who were trying to play from out of home to make some money there to invest in the retial business so the combination of these two I think has put us in a very solid position and it is great. The number of box we are shipping is great today and all direct from the ship to the factory. The geometrician in this category has largely been addressed. We had lot of gross margin attrition because there is cost of product, cost of palm oil, packaging etc.., but more or less we were able to take some bold decision, we took some pricing, we took some branded reduction, and also took some packaging footprint into it, so mostly that part is done. Now further margin improvement we are going to do through value added offerings, so as we told earlier we will be working on excluded pan proposition and also protein chips which are planned for the first half of FY2023. On potato chips our learning continues. As we told you earlier potato is a tough commodity and people have lost of lot of money in the past. They are listed companies there so we are developing our business model and work is under way to leverage to low cost proposition. Flack chip category seems to be growing faster than as reflected in the recent liaison and there is some statement that they have made in the past so overall I think ready to eat snacks is doing very well. As the economy opens we expect to have continued strong momentum into the New Year as well. We have all our plants in place. Everything is looking perfect and in the core and strategic popcorn business we are obviously in very good shape. We are now working on the tortilla chips to be able to strengthen our position. There are some actions that we have taken already now and we I think look forward to some very good and heavy growth next year.

Alright and if you can just go to page 8 this will need some time, I am going to spend a few minutes on this. If you recall at the end of quarter one when we had a volume growth of 12%, and a volume growth of 15% we had called out and growth rates were looking good. Looking at the June numbers when you looked at them and talked in July we said we think we have lost share. We certainly think we have lost some share but probably it is not as much as we thought, because it looked like the category actually also did not grow as you would have liked to grow in the year so Q3 you can see our volumes are actually spread lower than last year minus three, and minus seven and there is some amount of spread growth built into that, so you can say let us say peanut butter is probably minus four or minus 4.5 or something like that right, but we have taken the necessary pricing action. It takes some time because it is a single plant we keep stock in the national level because it is a single plant so it does take some time and lot of SKU, but wherever we have executed our pricing the results are excellent right. For example in modern trade I am generally pressing sense to flow through modern trade much faster because there is much less inventory right. Stock is going directly from your warehouse to the customer’s warehouse and it is on the shelf in a couple of days right. Once by July or August when we have taken our calls on what we want to do and that is the time we are good to execute into plan by November, December the new price have started flowing through in the modern trade and in the modern trade customers and I would not give the customer’s name but includes probably a larger brick and motor customer, our largest cash and carry customer and our largest e-commerce customer. When we first corrected our size we were 8g bottle we reduced to 462, we also reduced the price to 174. Our November, December averages are almost between 21 and 33% over the January October averages right. Now that does not mean suddenly the business is going to start growing at 25 to 30% but it means the strategy is working right.

What will be the final numbers, we will see how it pans out but Q4 should look better than Q3 and after that these immediate actions will enable to us to start to get us to a good double digit growth next year, so that sluggish volume performance we have taken an immediate short term action on that but there is more to be done and I will explain why. The industry data that we got for 2021 and that is for the calendar year 2021 January to December right indicates that the category grew by about 10% versus the prior year i.e. versus 2020. However, this category growth is not very different from 2020 over 2019 which is also 10% right so that is one part and second is it actually showed us an increase in ADFHL, it is a small increase but it showing that increase in calendar year and that actually makes sense from a calendar year perspective because of our shipments while this is for the fiscal year this data. Our data for the calendar year also indicates a growth in shipment which is close to the 10% mark right so it is believable on a calendar year basis but there are two important conclusion therefore if you look at our data and if you look at this data. One is clearly the higher category funds that had no impact on growth rates. We spend about 6 Crores a year and you see from the competitive expense those chart later Hindustan Lever spent about 40 Crores a year so expense went up from 6 Crores to 46 Crores in other words almost eight times right but no impact on the growth rate right. So many of you ask this question and I answer it and it is a conversation that I enjoy having, if you know why don't you spend more, what happens more entry and I remember even at the board when we were having this conversation lets us spend more money, will the category grow faster the answer is no right. There is only way in our opinion to grow category and of course the growth and profitability which is our way which is that ready to cook popcorn we build the category, peanut butter we built the category so just coming and spending a boat load of money does not really impact the growth rate either right. And frankly does not even impact share that much because in our assessment even though HUL has spent the money by now they would have spent cumulative about whatever probably 55 to 60 Crores the return on that investment is very low because the revenue that we are generating is going to be very low right. We are in the market and we have been seeing across the country and I personally seen in towns which reigns on Surat to Hyderabad to Guwahati and it is a very limited distribution of the product, so undoubtedly it will grow but it is certainly not what I would have expected and that makes sense because I can tell you on analysis of Procter and Gamble it would be really difficult actually to make a large organization and a large sales force make successful initiatives which are very small in relative to the total size of price of all the initiatives right, so I would say overall therefore two conclusions and you can make the second conclusion more impact on growth rate of the category. You split it I think from a category growth rate you need to build distribution, get the right consumer packs in, get the consumer acquisition at the right price. The second is since our calendar shipments are not very different from this 10% it looks we must have lost share in the back half of 2021 which makes sense because it is about June or so that we figured that we had some problems as far as share is concerned so we have already taken some pricing actions and as we mentioned we are now doing further things. I am still on page 8 through our new product price architecture. We will be launching a high protein variant very soon to be able to handle the top end of the market which would be differentiated product from our current product. Our SME base we will continue to drive with mass media as we are doing right now and we have also introduced the value offering which is really offering pure value, so we will segment the peanut butter market into three pieces and attack all of them and we feel therefore that more or less we are in good shape in terms of the action that we require to take as far as FY2023 is concerned to be able to get back to that 15 odd percent growth that we require. If we require to get 20 to 25% on the total business we still require our larger businesses to keep growing, categories to keep growing at 15% so that is true for ready to cook also and that is true for spreads also and we are also addressing the peanut butter margin right because there is some margin impact of the pricing that we have taken so we are making some recipe and some poster modification. We are reviewing our performance strategy how we can buy cheaper and also the effect to get operating leverage because it is our own plant and we have a certain fixed level of cost which are associated with it so as we push through volume we will definitely get back margin enhancement. We had this challenge about four to five years ago when the 1kg pack when we had introduced it. We had followed the same strategy and we have got similar gains in operating level so no problem and overall therefore we feel comfortable. So we are gaining momentum. We spent no money really on this from an advertising perspective and do no intend to also later but the business is gradually growing month on month and is coming to reasonable size.

Alright so if you could just go to page 9 of the presentation now and we will cover our breakfast. You can see here continued strong growth of about 45% in margin, 28% year to date do not read too much in quarter and quarter figures in this particular case because the business is small and it depends on what is happening last year on the same quarter. Like for example during the first phase of COVID we probably did not ship too much into the market. We would have prioritized other product in that period so this was a new one so I would say read that from this you just read that. It is a decent odd growth, strong growth in terms of 40, 45% volume. Value growth is lower because we also get a Rs.5 offering with the shelf product which is a bit like the Kellogs chocos product. The other big thing that we are doing is we have started increase our focus on larger packs so initially our play was more in cereal snacks because we are snacks company and that is how we had advantage but now we got the supply chain smooth everything done so we started moving into the formal breakfast cereal category, so if you go into the market today you will see more box packs of us, larger packs and we are starting to play with the categories. Here the raw material inflation thankfully has not been so much as it has been in the salty part because that is influenced by palm oil, but we continue to work on margin improvement. We are now producing this in three plants and this will come to volume growth and operating leverage because obviously I have put more volume to this plant operating leverages. We are also doing a phased introduction on oats in quarter four, you will start to see that depending on where you are. The strategic content really here is, supporting our Sundrop hard edible oil franchise so once you see the execution later in the April call or maybe after first quarter we will be able to give you more detail of this, so it is not that we are spending a lot of organization energy behind it but the strategic intent includes supporting the Sundrop hard edible oil franchise. How to grow the distribution of Sundrop hard edible oil on an ongoing basis. Now our pricing is right, everything is perfect so we can be more comfortable with that so you will see that execution playing out over the next six months and also improved performance of ours. We also use oats in general and one of the things is when you buy more and more oats then our granula profitability will also increase so these two are our strategic intent other than that we will have a cautious approach to it but you can expect to start seeing it and we are on track for a very profitable business in FY2023. So that is good but as of now we do not intend to advertise because we have started test advertising of chocolate business because we feel more comfortable now about gross margin expansion in the coming year and we will be advertising chocolates next year so as of now there is no plan to advertise this category. We will get it to a decent size as we have always told you. Be it a 20, 25 Crores business at least insight to be able to do that and once we get there we will talk about it probably.

Chocolates you can see continued steady growth month on month every month our whole product proposition is absolutely outstanding and definitely meeting the average consumer need of center filled coconut chocolate. We have also commenced testing of peanut so this is not so available on a broad scale basis but we have started testing it to feel the waters. Next 9 to 12 months we will test it so that it can be a big driver for us in FY2024. For those of you brought our coconut duo bar you would have seen there used to be a grain inside it, we have removed that because that cost money, it cost about 55 to 60 paise so with all the changes that we are making there is almost 1000 basis improvement in margin through these things and that is the largest selling SKU today. Now we would expect to see further margin improvement as we scale up right. We currently have one line with the use of things that we are doing now, the amount of labor that we are going to use in the plant is going to be reduced. The second line is on the same location. The extra systems will come down. Overall also there will be less supervisory level so we are working on all of that to be able to make chocolate a profitable business. So there will be further improvement in the coming year. We expect to double the capacity from the current capacity in the first half of next year and then again double it in second half of next year so that is why we mentioned last quarter we said we will be doing almost quadruple. We started TV advertising in January on a test basis south Indian states and Marathi channel and we are going to just start refining our plan how is it working so that we can rapidly bring this business up to about 100 Crores business in a couple of years right, maybe in two years or something like that so this can be a big growth driver, what is the exact revenue how that plays out is obviously going to be dependent on the execution and how things span, but you can expect therefore from our planing perspective that in FY2023 we will be seeking to get a significant part of our growth from chocolates and we will also be investing behind the chocolate category.

If you can just go to page 11 edible oils you can see premium edible oils up about 11% in the quarter in volume and we are concentrating on volumes because value is only a function of the price increase so actually in commodity business the value is not so relevant in our type of commodity which goes up and down in terms of market pricing but it is about 11% and we have obviously exited so it is down minus 67% so Sundrop premium oil heart and super lite delivering now year to date 100 plus index reflecting impact as I mentioned earlier of the pricing realigned in FY2021 but I think you could argue have we gain shared in quarter three it is possible we have and we will see the numbers of what our competitors publish when their results are due, but I think we still want to see greater consistency across channels. Before we say okay we are growing share and we are going to get huge volume I would not detail to that I would just looking at this data it seems to be pretty much out of the woods as far as the premium oil challenges that we had in the last five to six years and we are therefore no longer in a situation that we get buried if premium does not respond like A, B or C we will have to cut our advertisement behind to we had to do for a couple of years for two years. I think part the company has now planned that bridge the company has crossed also because the dominant part of the gross margin comes from the foods business. Overall strong gross margin performance in oils with a year to date GM of about 55 Crores, last year lay out was 72 so it looks slightly around track to kind of have similar figure. Mass oil volume reflects franchising of crystal which affects in November and overall reduction of mass oil. Okay so competitive update if you could to page 13 you see that Bingo was a dominant brand we did not advertise in October, November we mentioned this to you in our November call as well that we would not be advertising in those two months and this is also so we can better mange the entire P&L and I would say that is okay however we intend to be a value added company so you can expect when we do the April review that we would have invested so just trying to balance profitability by continuing to stay very, very laser focused that we have to get 20 to 25% growth next year.

In terms of spread which is page 14 you can see again same thing Sundrop peanut butter we did not spend in October, November. Unilever actually did spend but they did cut back in December so I am sure there must be some P&L consideration there as well and overall otherwise not much to report from a category perspective. Page 15 on breakfast cereals we of course are not here because we are not spending but the good news for us is that Kellogs have started advertising choco fills which is a centre fill product and that will help us as we grow Sundrop box. It is always good to have that category at least awareness will be there so that is good for us. Chocolates competitive spend which is page 16 not much to the talk here Mondelez really remains a dominant spender in this category and everybody is definitely second. When we do the April spending you will see that our name will also appear here in the month of January. Okay edible oils that is page 17 obviously we have not been spending but clearly the share of premium edible oil is coming down as you can see that and our competitor in premium edible oil seems to be spending at a somewhat lower rate in the quarter and overall Mass Oils continued to be the dominant spender and this if you see we pointed this out to you over a five, seven year period or if you take from FY2012 is almost now 10 year period, the share of Mass Oils has grown and it will only continue to grow further. And that is our view that edible oil is a category with inherently low pricing power as compared to particularly process food not the commodity side of it and therefore you can accept this. On noodles reasonable amount of action both Nestle and ITC maintain their business page 18. I would day both Nestle and ITC have maintained their spending momentum. We see Marico actually lowering their spends so let us see how their clients are. Pasta is basically Keya which has invested some amount behind the premium that is page 19 and page 20 also really Knorr is the dominant spender they are all strong share of category and if we will update you in due course on our client which started this category in pasta. Summary and going forward therefore premium edible oil spending well to prior year confirming the impact of price reduction in FY2021 business now is about 100 on index points and volumes seems to be in decent share. We need to ensure that we make the right choices over the next couple of months in balancing growth and short term profitability. We have done some AMC cuts in quarter three but growth will really be the priority. Continue to focus on investing the inflate sheet challenge in RTC popcorn so we have to keep working on that and that is good sometimes on such high inflation it forces you to look at things which otherwise you may not looked in that much detail with the rest of intention and peanut butter. We will address the category growth from share challenges in peanut butter through the actions that I talked about in terms of the bifurcation of the peanut butter market and addressing each of those segments individually, but also if the category growth is 10% that is of concern to us because we would like this category to be growing at 15 to 20% for us to grow the business at 15 to 20%. We are working on that and about middle of next year you will see some action from our side where we would actually been able to take action to drive this category. The key really is in India we have seen continues growth comes if you offer the right packs to consumers at the right price at an affordable rates. If you sell products at 500, Rs.1000 a kilo it is tough right. You may spend a lot of advertising money but it is not going to give you any return right so we need to balance it and clearly the sweet spot in India is about 250 to Rs.350 a kilo kind of in terms of pricing but with the smaller cash in points so that is what we are going to try and see. Currently our lowest cost peanut butter offering is if you exclude the sachet packs it is about Rs.50 for 100 grams so that is Rs.500 a kilo so that is little on the high side so we are going to see what architecture we can deploy to be able to improve our offering there and we intend to close there on a profitable manner in FY2022 whilst ensuring that all the building blocks are there where our food gets 20 to 25% in FY2023 which will give us a gross margin expansion that we want. Alright that is it. Mam that is it over from our side and we are happy to take questions now until 3 clock.

Moderator: Thank you. Ladies and gentleman we will now begin the question and answer session. The first question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: Hi good afternoon Sachin thanks for the opportunity. I have three questions. Maybe first question where you ended you are expecting about 20 to 25% growth. If you can give me some more qualitative things, last one and half two years where you have built the product portfolio. You have now very solid understanding. You have a very lean manufacturing and is the best insight I would think the management would have the capability. Why would you restrict the growth at 20 to 25% especially when the markets are going to open up, schools are going to open up and I think that whole lot of activities will start reflecting into the livelihood of people? The second question is on the chocolate business. Somewhere you had mentioned on slide 9 that you are trying to build rapid business around 100 odd Crores so what are the bottlenecks you think at this point of time. Is it purely a manufacturing which you are now sorting out or is that you need to develop the product profile also and the last part you have rightfully sold Crystal but is what is that you can expect on the edible oil part in terms of not let us say the volume proposition or value proposition but how will you maintain the profitably or expand especially when the competitive scenario is going to change drastically.

Sachin Gopal: We can do more than 20 to 25% growth rate that is great right. I mean obviously nobody is going to say no to that and in fact from a capacity planing perspective honestly to deliver 20 to 25% you need to plan 30 to 35% growth rate right and the reason for that is there are always uncertainties right we make assumption about different categories. We make assumption about the environment. We make assumption about competitors and if you just budget exactly to that level you could be wrong. You may not have capacity in the items that you have. For example if you look last year our popcorn business grew by an incredible amount right 35 odd percent. If you do not have the capacity at that point there is no way that you are going to realize it, particularly as you know we deal primarily in proprietary products where we want to have some differential. We are not the believer that we will take outsource products and just spend advertising money and it will do the job. It does not do the job in fact peanut butter is a great example of that in the conversation that we had today for our competitors so the answer is yes, our capacity planing will be definitely be ahead of that but I think from a financial perspective what we have seen is 20 to 25% growth. It gives us a beautiful structure as far as P&L is concerned and we get right on track to be at that million dollar business that we like our business to be. In terms of the chocolate business we are new kids on the block. Okay we have to develop creditability. In every category each player has a creditability right, and he or she must be accepted by everybody as the actual person is a credible player. We have a lot of creditability with our customer because we have built ready category. We have built ready to cook popcorn. We have built ready to eat popcorn. We have built peanut butter so we have a lot of creditability but we need to capture that creditability in the chocolate business, also we start of very low. We start with smaller numbers because we buy a lot of used equipment combine it with some new equipment. At this point of time the challenges are more in manufacturing but you never know how much you are under selling until you reach that point. You never know that right. So we have all been sales manager so we understand that. I would say right now we are making the assumption that we need a lot of capacity and that too is a reasonable assumption because the product is a blockbuster and that is why we working to build the capacity. With the quadrupling of capacity we will have capacity to make 80 Crores to 100 Crores business right in chocolates so we are going to put that in place next year. We do not know at which stage we will reach bottleneck. We get some push back. We need to modify. Next year we are trying to spend some money. I would say first step is we are going to increase the capacity and then you see how it goes but certainly as I said many times earlier this is not even a 100 Crores business. This category is going to be at least 500 Crores to 700 Crores maybe more than that. That is our knack looking at how the coconut center filled product is there in market across the world like say the UK from whatever published information we can get and we are in great provision as far as the product is concerned. I will give you an example, our math is that in some of the modern trade customers where we sell the product and we have seen the data, our data and Bounty data we are already at about 35% odd of Bounty value and because they are more than double our price that means basically in volume we must be almost selling in those stores as much as Bounty does and that is those stores right, so clearly I think we have cracked it. It is a great product and we will do whatever is required but I would not have all the answers for you today. I cannot have it logically. In terms of the Crystal yes we chose the timing and we have chosen it such that we can comfortably recover the revenue loss from it, so while you continue to get the profit and I think in terms of the premium oils I think we are in a very happy space to be honest. You can see the quarter numbers. You can see year to date figure. Let us assume you discount the quarter growth of 11% and it is new to some, one timers and other and that is it because it is a new product so let us say if you are kind of flat versus prior year that is great because you see our competitors had good party for the last couple of years because we had to price higher. We needed the margin. We needed to invest fully in the food business which we have done, so that party is kind of over if you will and we are now in a very happy space where we are competitively priced and we are being competitively priced and with all the other things that we do on the rest of business, which is grow destruction, grow display, we are actually going to be able to actually have a nice business and as I talked about how to manage the other categories to be able to support and I think we will be in a very good shape, so that is Shirish thank you for asking the question. I appreciate it man.

Moderator: Thank you. The next question is from the line of Chirag Maroo from Keynote Capital. Please go ahead.

Chirag Maroo: Sir my question is that it is commendable to see that in last 12 quarters we are able to double our food business topline on quarterly basis and our oil business is almost stable. Sir now I understand that as we are getting into the crystal business there would be a direct impact on our gross margins and we would see a better gross margins coming forward, but as we increase our revenue from food business from 27% to almost 42% now. We are still not able to see any improvement in gross margin. I just wanted to know the reason behind it. What is the reason why we are not able to improve our gross margin? Second it is a request as now our food business has become a bigger chunk of the total topline will it be possible for you to give a separate segmental results where we can find how are we performing in food businesses and how are we doing in our oil businesses that is all from my side?

Sachin Gopal: Thank you Chirag. The first answer is I think you start to see the gross margin now. Look at it like this. In FY2021 when we had a very good growth as far as the food business is concerned. We chose that timing also to take a price reduction in oils right. So we got that huge margin expansion on the food business which I think went up from I think 70 Crores to about 108 Crores in that year but we also chose to take that impact on oils because we wanted to get that business initiative and we do not worry about it. There is no sleepless night. It is done. It is dusted and it looks like that has paid off. This year you can see that while we had relatively benign commodity prices last year this year the commodity inflation has been significant, so while we are holding on to the oils margin this year the commodity price inflation and obviously we are running to keep pace of it. We are making up a part of it. We have not made all of it and for the better part of this year we had still in our records alright but now you start to see the percentage gross margins that we were just talking to auditors and we were reviewing the December P&L with them and the percentage gross margin expansion is very visible there. So you would not see the gross margin expansion in aggregate for the total company and that is not to be taken a number for the month but for the month of December in total but I think for the month of December it was almost like 300 basis points because you have all the revenues from Crystal which are not there. You have the margin which is there by way of franchise fee and you have the other peaches of the business working okay. The third impact on gross margin in terms of percentage terms is our premium edible oil prices. Premium edible oils tend to boom up and down. The higher the price it has a deflation impact on percentage margin. As prices come down the gross margin percentage increases and you would accept that next year will be softer. Already it has become softer than what it was so that also a positive impact as far as total percent in gross margin is concerned so let us look at the results over next quarter and you should see a change in quarter four versus quarter three that should be visible and so your theoretical assumption that you said are correct and it will play out. It is just that there are different factors why it has not been visible in FY2021 because of the oils deflation and FY2022 because of the commodity inflation right. As far as food is concerned no because we have consolidate definition in fact the food will be operating segment in the company and as you know we have to disclose also to street exactly how we see it and we also see it like this. Whatever we tell you is the way we see it. The way management sees it right so we actually do not do a separate P&L for the food business and if you recall I think sometime last year I had shown you what I said was the structural P&L of how would it look right just to give an idea but obviously it is a very nice margin, it is a nice business and it steadied towards the kind of business that we wanted to be with a strong EBTIDA margin, all right. Thank you Chirag. Thank you for asking questions. Appreciate it. Take care have a good day.

Moderator: The next question is from the line of Shivank Agarwal from Perfect Research. Please go ahead.

Shivank Agarwal: Good afternoon Sir. I have a few questions. I will list all of them at once. Question one, we do know that you do not buy Nielsen data and only shared annual number, could you please share some qualitative insights on distribution reach in the number of stores for the branded food business? Question two, head wins are we facing the spread and dip category when can we expect at least 10% volume growth during the intense competition in the space especially peanut butter and chocolate spread given we are dominant and even our prices are very competitive?

Sachin Gopal: I captured two questions there one was if you will on the distribution and second one was on the spread was there a third question also?

Shivank Agarwal: No Sir only two questions.

Sachin Gopal: On distribution we hold to be able to give you some perspective on distribution. Let me just give those numbers to you. Broadly speaking we have coverage today close to 150,000 stores okay in terms of retail coverage. So these are the retailers that we cover directly. It does not include the retailers who are for the wholesale and obviously our estimates is as far as our internal reporting, our active instant popcorn would be distributed in about 270,000 stores. These figures used to be 2,30,000, 2,40,000 two years and now we think it is close to about 2,70,000 stores. Ready to eat popcorn is the net largest direct distribution. It is about 1,20,000 stores as per our internal reporting. Our total distribution of ready to eat popcorn I think will be much more. We do not buy Nielsen but a lot of it goes through wholesale so our indirect coverage actually will be very high on this right and peanut butter will be probably about 90000 odd stores okay so these would be the key distribution figures for our main line products. In terms of spreads business it should be much more than 10%. Each of our categories has to grow at 15% our base categories and the new ones like chocolates, breakfast cereals will grow much faster in that it will be able to give us that blended growth that we need of about 20% to 25%. We will be working on the kind of growth that we had in the past. We will be working to see how we can get up to that 15% odd growth and I think we will get there but it is just how much time. We have to do this pricing work and then we have to do the architectural work and then we have to the consumer acquisition work, so these three pieces of work we are underway and I think we will get there. Obviously, the main competitive advantage that we have is we have our own plant right which nobody else has. Neither of the other players have they all rely on third party, all of them. We feel that we can leverage that value. Okay. Thank you.

Moderator: Thank you. We will move on to the next question that is from the line of Aspi Bhesania from AB & Company. Please go ahead.

Aspi Bhesania: Thanks for giving me an opportunity. Sir earlier peanut butter 924 gram container, it used to be mentioned MRP 485, 485 used to be cancelled and 285 was mentioned whereas now MRP has been reduced and in JioMart it is available for 270. Now it is available on JioMart at below our two year old MRP. Have you not taken any price hikes in last two years in spite of such high inflation?

Sachin Gopal: Thank you. The answer is no actually. I think if you got to Big Basket you will find our 924 gram is 240 crossed out 228 that is what when I said yesterday, so our current MRP on the 924 gram is about Rs. 240 so what we have done the pricing in the peanut butter market yes is a function of commodity input prices and those have also softened a little bit but it is equally our strategy in pricing is how do we ensure that we maintain like a dominant share, a very strong share of the total market because the margin improvement we get because it is our own plant remember what I mentioned earlier. As I mentioned to you earlier the kind of calls that we have taken right now we have taken it five years ago also similar. It would have gone up and down. We find multiple prices in the market not only for us for other people also as everybody manage different commodity prices. The key for us is to be able to deliver the right value to the consumer. If we deliver the right value to the consumer and we continue to invest the media which is what we are doing we will get the growth that we require right and because we run it through our own plant the operating leverage that we get from that gives us the margin improvement that we want so we do not want to make the mistake of looking for gross margin percentage improvement simply through pricing because in a market like India we want that gross margin pool to grow because you get more and more consumers in your business. You continue to grow the category and as you get more volume your cost of production comes down and as your cost of production comes down your margins goes up so that kind of strategic intent with which we play the category and they are going to playing it like that because we are not going to be happy with selling 80 Crores business that is now what we are about. We need to take this business 100 Crores, 200 Crores and that we will do only if we are able to appeal to a very large segment of consumers. This is skewing somewhat in reverse manner where if you see Hindustan Lever has spent 40 Crores last year in the calendar year. They are selling at Rs.500 a kilo right, 350 grams for Rs.175 but their revenue is not coming. The revenue is not coming, so the idea that price very high, spend lots of money, Nirvana is there it flopped, it does not work like that okay and if you go back to a chart that I shared probably in the July board meeting I had shown how this plays out that if you continue to target very high prices and say I am going to spend lots of money you are actually going to build EBITDA negative business and that it could be a bigger 5, 6% business. I hope that was not a complex answer for the question.

Moderator: Thank you. The next question is from the line of Bimal Sampat an individual investor. Please go ahead.

Bimal Sampat: I had three questions but two of them have been answered. One remains at the last investor meet you had said that you will finalize the capex plans for FY2023 in this board meeting and second thing is when do you plan to start building the West Bengal plant?

Sachin Gopal: Yes Mr. Bimal Ji you are absolutely right. You had sent those questions to Jyothi and two of those get answered. Our capex plan we have initiated discussion with the board in terms of FY2023. We tend to have the first conversation normally in the board in January and then the final conversation and nailing down of the numbers is done in the April board meeting so for next year we are looking at an increased capex versus this year. This year we put it about 30 Crores. Next year our initial conversations are in the region of about 45 Crores with the bulk of the money being spent on chocolate plant and line because we will be quadrupling the capacity as we mentioned and also on infrastructure and in addition we will also start working on our larger plant meet line. Our first pilot skill plant meet line has actually reached the ports or something already, I think in some months we should be finished with testing of that and hopefully that should go well and then we will be making some investments there, but it is not at this stage final. As I said it is our first round of conversations and we will see how it goes, so in April I will be able to tell what the final thing is. It is certainly going to be more than this year. This year we had mentioned to you about a figure of 30 Crores how much more it is? I am not quite sure till we finally get a consensus on that. On the Kolkata plant that is not part of our capex standing for FY2023 because that will require an additional investment. It could be anywhere in the region of 8 to 10 Crores and that money right now is better spent on plant and machinery and also building at Jhagadia. So we have five phases of Jhagadia. We would rather build out one more phase of Jhagadia because that it will be required as we are scaling up the chocolate business. We will be going from one to four lines. Our peanut butter business will grow. Our entire pasta piece is being done at Jhagadia so we are thinking right now we will spend that money on expansion at the Jhagadia facility rather than opening one more front in Calcutta. The land is there with us. It is an adequate land to build a reasonable size plant as far as we are concerned but we will keep it in hold. We can also some meet some of the needs of that plant from the Mangaldeep plant in Guwahati. It is a reverse rig back to Calcutta so it does not cost us that much money. In terms of choices this seems to be the most pragmatic choices for deployment of capital at this point in time. Once everything is nailed down in the April board meeting we will give you a clearer idea and I am sorry I should have answered this earlier since you sent them in advance. With that Madam I think we can close. I just want to say thank you to everybody. Thanks for taking out the time to be with us on the call today and thank you for being part of the team. Look forward for an existing year. Cheers. All the best. Happy New Year.

Moderator: Thank you. Ladies and gentlemen on behalf of Anand Rathi Share & Stock Brokers that concludes this conference call. We thank you for joining us and you may now disconnect your lines.