"Agro Tech Foods Limited Q2 FY2022 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 and half year ending September 30, 2021 financial results conference call of Agro Tech Foods Limited 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 an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. Mehul Desai from Anand Rathi Share & Stock Brokers. Thank you and over to you Sir!

Mehul Desai: Thanks Sujitha. Good afternoon everyone. On behalf of Anand Rathi Institutions I would like to welcome you all for Q2 FY2022 conference call of Agro Tech Foods. From the management side we have Mr. Sachin Gopal, Managing Director and Mr. KPN Srinivas, CFO of the company. I will hand over the call to Mr. Sachin Gopal for his opening remarks and then we can open the call for Q&A session. Over to you Sir.

Sachin Gopal: Thank you Mehul and good afternoon everybody. Thank you for taking out the time to be with us today. We will walk to through the Q2 results. We also had emphasis on how half way, because that is how we have a good idea is the larger timeframe and to provide a perspective therefore on what we think to happen in the balance part of the year. We have already uploaded the presentation on our website so I am on page one. So moving to the second page, what is the company strategy giving, becoming the best performing and the most respected food company in India. We definitely think we are on track to become that and we will explain to you a little later why we think so.

So what is the key performance highlights, moving on to the next page for Q2 and therefore for the half year. We saw continuous strong food growth of about 14% that is less than the first quarter but as we mentioned earlier when we did the Q1 call with you, we told the growth in ready to cook was higher than that we had expected in Q1 largely due to the fact that there was second wave of COVID and there was greater in-home consumption definitely benefitted ready to cook. It benefitted in the RTC business last year also, so it is there in our base as well, but again it was there as far as the Q1 is concerned. With increasing normalcy, more and more people going back to work barring those pretty much who are only in white collar jobs or working in office with air conditions and having poor ventilation, the life has return a lot more to normal as of now, albeit cautiously. So we ended up with a growth of about 21%.

Going forward, we certainly need to be cautious in terms of how we manage the ready to cook business because there are going to be more people outside, albeit in a phased manner. Fortunately for us our advertising investment absolutely intact for last year and for the first six months in this year as well. In fact last year we improved significantly, so we know that whatever as the changes now we really need to do any changes in home consumption rather than any action as a consequence of action that we have taken ourselves and overall I think we are in a good state. We reduced COVID-19 third perception in all food categories other than ready to cook, ready to eat as you would have seen from the data is actually bounced back nicely, chocolates and breakfast cereals are also doing well, I will talk more about this separately.

In peanut butter if you recall even though our business had grown by about 15%, this is the good rate of growth, strong rate of growth last quarter, but at the end of the week possibly lost some share and we can see the monthly numbers in addition to the quarter and we had taken actions, we have flagged up. You recall that we need to enter certain price points between 100 and 200 and have a better closing stock because a lot more brands of peanut butter are available as compared to what there were earlier and we have taken those actions that we can see that you look at the monthly trends it is looking that actions are giving us the results that we want, but nevertheless whatever would have been the share loss, that would have had an impact and therefore the growth although it is very moderate to 7% odd. We will talk more about each category later.

Premium oil volumes are up by 4% this is in line with expectations. You have asked me earlier where do you think we can get and I said about mid single digit and there is a lot of ups and downs in the data and there is a very inflated consumption last year in base of Q1 and that explained also in Q1 figures, it is a kind of coming back in line. The critical thing of course is that we want to have an assurance of margins, at the end of the day when we started a journey in FY, we had a gross margin of Rs.71 Crores and last year we closed at about Rs.72 Crores, but in the middle we took it up. If you look at our annual directors report, annual report for this year also it is Rs.71 Crores went up to about Rs.150 Crores that is the time we were using that money wisely to invest both in capex, we spent about Rs.200 Crores on capex and Rs.200 Crores on medium and that is obviously created a foods business, it is completely different profile altogether. So right now we are back in the Rs.70 Crores odd and I think we are getting that kind of margin and we feel comfortable that it is not a meeting buffet as far as we are concerned then there is lot of focus on the foods business which is our strategy going forward.

So overall that part is also looking good. Earlier the Food GM is Rs.3 Crores, so I am going to spend some little time on this chart. So those of you who are not on page 4, please do go there because there has obviously been a lot of noise around the last week or so commodity cost so on and so forth so I will walk you through what is the status as far as the first six months are concerned. So when you look at our weighted average cost of raw material impacting the material and it varies by the way across the five food categories that we compete and we are getting an average input cost inflation of about 15%, so that is the total value of raw material and packing material that we are buying was about Rs.100 Crores, we get a Rs.15 Crores material impact in the first six months due to higher commodity prices and that is weighted, so it is weighted for each category so on and so forth.

Within this there is a broad range, our largest food business is also our older food business, instant popcorn business of course not that, that is also only about 15 years old, actually had an increase of 20% and then the category like breakfast cereal which hardly saw any increase at all, so this is an important point which is that we are consistent argued and said that we would like to have a diversified food portfolio, because if we have diversified food portfolio chances are always we would be able to manage commodity headwinds fairly easily, so all the commodity do not necessarily go up at the same time, so right now for example, edible oil is obviously the very, very large, this is the large increase in edible oil cost and that is impacting industry after industry, but equally sugar has not seen the same increase, equally milk powder has not seen the same increase, coco has seen some increase because of some change in duties, so the most diversified our portfolio is the lower the effective commodity inflation we are going to have at any point in time that is the underlying philosophy of where we have been coming for and therefore the need for having competing in a large number of categories.

So our assessment is probably right now we are very heavily weighted towards salty snacks, but if our business has been the kind of business today that we are building it to be probably our input cost inflation would not have exceeded 10%, obviously we do not have the exact number, but 15% would translate probably into 8% to 9% and that is the great phase to deal. That is the great phase to deal because if we have portfolio which is so well naturally hedge, we automatically have the rule to continue to grow gross margin because as you can see even in these six months we have taken pricing, we have taken cost pricing, in the low cash points, 5 and the 10 we would be more cautious about it and in the upper ones we have been more aggressive in terms of cashing it and in some cases actually we have also dropped prices like in peanut better where we wanted to be more competitive, but overall we have taken prices of about Rs.4.5 Crores, so we have taken pricing and that is consistent with the fact that we had a large portfolio which competes a different price one, it is not that we had a quality snack business which has 95% of turnover coming from Rs.5 price point where you have very limited option, so we had products of multiple price points and other is actually because of the volume growth that we had 20% we have incremental volume growth margin to volume of about 7.5%, so in total for the first six months, we made of about Rs.12 Crores into cost inflation of about 15% that make leaves us with the gap of Rs.3 Crores, again I repeat as we build up to the kind of business that we are building it to be, it should be the kind of business even if you have broad commodity inflation in the country, it should be moderate for our portfolio and then pricing and volume should more than compensate for it and keep growing the food gross margin which obviously puts us in a happy state in terms of total P&L then we can continue to deliver profit growth and we will talk more about it, we will talk too on what we are doing in terms of the portfolio and how business has started to look so good.

In terms of commodity prices where are we today because there has been a lot of sort of noise in media about it. Our math is this is the commodity cost that we have now experienced in the first two quarters. We are up about 10% versus the second half of FY2021, because the inflation started in second half it actually really the graph started going vertically upwards lot more sharply actually in Q4, but definitely the average of the second half if you compare with current commodity prices where we are right now is of about 10% versus the second half of FY2021. So we expect therefore narrowing of inflationary impact plus of course we expect to figure positive impact of increase in pricing and of course volume growth, so I thought that should be mentioned there. So overall I think our take is more that we expect to see the inflationary situation worsens, looking at the data of how spend for the first six months, we actually see that input inflation should come down versus Rs.15 Crores and it will take a simple figure of 10% it should be Rs.10 Crores, let us see obviously we have a provision do credit exact commodity prices, but let see how it progresses and we will know by the end of the year how we have ended and we should definitely get more pricing, because we have taken price increases, we have taken more price increases even in Q2 many of it would not fully come into our books because it takes a little while to come in, so we expect it to go up and I am sure that we will continue to grow volume and therefore get net positive benefits on that.

So I hope that I have given some perspective in terms of the input cost inflation and I think as we work towards being more and more diversified food company, we can expect to see that we really have a very powerful mot and strong portfolio which can enable us to handle future events of the kind that are happening right now, this is not going to be the last year and there will be spikes in commodity prices may be they will come down, may be they can go up, again probably not in the near future, because they are very high price we will see. Here today SG&A is largely flat to prior year, because we have had higher sales, we also have a high royalty payments to our parent company and also travel has opened up, so travel expenses are a littler higher. Comp and benefits is up a little bit probably by about Rs.50 lakhs, offsetting that is a one-time credit into the P&L of approximately Rs.2 Crores, so when you look at the P&L at a high level at gross margins terms on we are down Rs.12 Crores that is oil is down Rs.9 Crores and food is down Rs.3 Crores that is the total of Rs.12 Crores and then there is approximately Rs.1 Crores benefit which was like so net impact of this one time credit and just come to one time credit plus whatever is the increase in the SG&A and other parts of the P&L will deliver Rs.11 Crores lower figure in profit before tax.

I am just commenting on oil so I am going to talk a little bit about that. You can see food business is very closely to last year gross margin, about Rs.9 Crores is coming from edible oil and that is largely because in the first half of last year we had very elevated consumption particularly in the first quarter of last year and also we took the price correction in the second half of last year. We started to correct our prices as you know we would have been about 25% to 30% more expensive than competition, when we go Rs.200 the competition was Rs.150 Crores, we over the period once the first half of the year and over we had a good reasonable expectation of where we want to close the year, we took that price correction that we needed on edible oil, it has not been possible earlier, because we certainly need the money to be able to build the food business and therefore if you actually look at the first half, gross margin of Rs.35 Crores is trending pretty well to the prior of Rs.72 Crores or even FY2018 figure of Rs.71 Crores so I think we had kind of in the ballpark obviously we will get to know the fine picture only at the end of the year, but it looks like we are trending well, we have some stability in oil gross margin and it is no longer a leaking bucket. So to sum it up, the gross margin near by Rs.12 Crores, Rs.9 Crores in oil, Rs.3 Crores in foods, Rs.12 Crores close down the PBT with the exception of Rs.1 Crores, Rs.1 Crores is built up with Rs.2 Crores positive as far as the one time credit to the P&L is concerned and less than Rs.1 Crores increase in the SG&A and other SG&A expenses I should say.

Rs.2 Crores positive in the P&L is driven by the fact that we terminated our office lease in DLF diversity with DLF and we took the opportunity because which is obviously appropriate or committed period in which fixed period, locking period was over and we therefore terminated our lease with DLF and we have now entered fresh negotiations with them and we have a new lease in place now. So as you know what was happening was that when you had a lease over a longer period we had to charge into the P&L in any period during the period of the lease, the average rental that would have accrued over the period, since we had accrued extra rental in the last few years we took the credit of that and that is where there is a 2 Crores credit which is coming to the P&L. Overall there is a PBT and PAT, 39 down, 39% and 40% diversified. So entirely a gross margin gain and as we go forward as I said edible oil looks like doing well to prior year which is down Rs.3 Crores but we expect lower inflation in the backup, we expect to see more pricing and we expect to continue with volume growth less margin.

I will move to page five of the presentation. Obviously there has been no change in this, we have not really given new data on this relative to last time and we will see at appropriate time when we get the right information. The main point I think here is category number five which is chocolate industry, I would like to park in your minds that actually that market is worth about Rs.15000 Crores and we will come to that a little later. So coming out to each of the individual category, the ready to cook snacks are lower COVID-19 consumption with softening of RTC growth rate, we will continue to be watchful of it, but it does mean that we need to be able to drive other adjacency and we have entered two adjacency we entered already sweet corn, we entered pasta and between the two we found pasta is actually a great category for us and there will be a right to win, we will differentiate it offering, so I will come to that and therefore with the focus to be able to maintain this RTC growth rate and built it up further. We had executed pricing on premium popcorn and sweet corn to partially offset the higher commodity prices, the full impact of this pricing, we will see in the second half of FY2022. Out different set of pasta offering has received a very positive response, so scaling up of production is now on the way, it is still a manual process though we are now semi automatic, but effectively manual, but we have also ordered more automatic lines coming from outside the country because our expectations for pasta is very big for the second half for FY2023 and the product has received very well.

We believe we are very positive about it because we have differentiated offering and as we go to the last point on this page, we believe that in addition to the differentiated offering, we have tremendous retial capabilities. We have a large fleet organization, we have coverage of more than 400,000 stores and our field organization is very capable in doing demo, in-store demonstration and sampling. Our entire popcorn business has been built up on the back of that. We have used it effectively in sweet corn also and in microwave popcorn and instant popcorn with pressure cookers so on and so forth, so that is the key capability that we have of skill set and we have done for experimentation using the skill set on pasta and it works beautifully, it works absolutely beautifully in fact the demos had such a high impact that in some of the stores that we did in a store and people will come and say here is some few rupees please make some pasta, this is a very nice statement, nice situation to see, our consumer came back as we were closing please do for me again I wanted few packets of pasta and the reason is simple I think we entered the market with a very different product, everybody sells pasta and lots of people, out of Rs.2500 Crores pasta market, our estimate is almost 50% of commodities, the pasta which we buy in one kilo, 250 gram packet so on and so forth, the balance 1200 close to 1500 in the ballpark, is basically seasoning but we have taken at a very high level and also at a different level, we are getting a sauce with the pasta, so it is actually if will provision somewhere between buying ready to cook pasta which is sold by our competitor and actually ordering pasta from a restaurant. It is in between that and therefore it is very, very well accepted. So we are in the process of scaling it up, it is just taking up a little time, but that part is happen. We continued to drive sweet corn, but between the two if you see the pasta market price is much higher and it is a much more value added offering, offering is much more up the value chain, so we will be putting well focus on pasta, and you will hear us talking a lot about that and not so much on sweet corn which will continue as this grows. So that is on ready to cook and I request you to please go to the next page which is page seven, ready to eat snacks we have seen a clear recovery with the lower COVID-19 impact. Here the value growth reflects a stronger performance of popcorn with the higher net sales realization and changes to go to market in July last year. We have done some price increases on the bigger packs and grammage reduction is under way, this is market and category assessment, so where we see we have a big competitive threat it could be in a market like Delhi where we have a large number of players or even Hyderabad, we will offer a different promotion in that market, where we have lower set perception we might offer a higher level of promotion. So we are just refining this and it is all underway.

On value added offering for margin improvement, we are ready to snacks is the conveyer belt for us it is a very important conveyer belt because it competes in a large market in fact I think Rs.35000 Crores, the ready to eat snacks market and this conveyer belt should not be a drain on our resources, it should be profitable or at least not be diluting in terms of absolute margin, it is very important for our distributor, but it is important for us to, so we are working on more premium offerings within chips, within extruded and within our nut and seeds portfolio and those will have to be visible I would say we will report that may be progress in Q3 or in Q4 of this year and mainly continues on potato chips, the business model has been developed, it is a big category, but it is a very tough category and we want to be careful that we do not dilute our attention unnecessarily but at the end of the day, it will be good category for us because it will again enable our distributors and distribution system, it will enable the conveyer belt line.

I now request you to go to page 8, which is spreads and dips, so you can see the quarterly growth actually lower than the Q1 growth as we mentioned we think we lost some share and we think the loss of share in terms of between Rs.100 and Rs.200 price point we were not very strong, we launched peanut butter, the Sundrop nuts and peanut butter 350 gram pack at about Rs.115, we will start to see that in the market place, because we have been watching it now for more than six weeks I would say, nearly two months and we have also dropped the grammage on 508 gram to 462 gram and that also enables us to have at present at about Rs.175, so this was the area of opportunity for us and we fixed it, we have come into the price point and therefore if we look at the monthly trend we hey are happy with it. Under our premium offerings we have a more comprehensive presence across, there is another segment which is developing, more expensive per kilo probably pack etc., and it also enables companies to meet customer expectations with the customer profitability. It is not the way to build a billion dollar business, but at the same time one cannot ignore these so therefore we will be doing work on this and we will report that probably by Q4 we will have some views on this.

Total category value growth at a volume due to higher realization of **(inaudible) 23:44**and differentiated almost offering has been well accepted and will continue, one of our investors had asked us you have said you would have one more dip by now and answer is yes, but we wanted to manufacturing to focus on the pasta offering, so we said listen guys just focus on this and we will probably come back with that launch, these are all offering of the same manufacturing profit. Then on breakfast cereals, you can see the growth it is about 36% on Q2 and 35% year to date, we definitely would have lost some stores in Q1 in this year, we lost some stores on breakfast cereals and the reason is simple that our market is working came down, we asked people to stay at home and we have very limited market working particularly during April, May months when the second wave was there I think our people lives were more important at that point in time, at any point in time it is more important and we took those calls, so we did lose some coverage, I think even coverage dropped a little bit, we have been about 4.4 lakhs by way of retail covering, it would have been dropped Rs.4, but we have made that up in Q2 and we are working on getting more distribution in breakfast cereals, now that we are gradually coming to full market scenario.

Our center filled cereals are certainly MP grade. They are capable of delivering a double digit EBITDA profile and we will be evaluated category for end to support in FY2023, as overall gross margin improves. The thing is that as we enter next year we see a very positive stage because our base next year is going to be very high commodity prices, so last year in Q1 I was telling we need to be conscious what is Q1 of next year it looks like and as now we are going to enter Q1 of next year, we are going to see a very high rise in commodity prices even if they do not come up, so long as you maintain our volume growth momentum, we will get a strong growth, we can expect to see a significant expansion in terms of absolute gross margin and if you think leaky bucket of edible oil then all of that we can expect to slowdown. So let us see how it goes but in terms of priority chocolates will have higher priority, I will come to chocolate just now and again I think the question I had been asked we had a couple more breakfast cereal items are ready for launch, but we have put them on hold, because the first half if we do a good job with what you have so those products are waiting in the queue and as and when we feel comfortable that we are back to normal market working, we are able to drive distribution of cereal because there is a lot of work we have to do here then we will release the other products.

In terms of chocolates, this is really very good part of a chocolate. We completed the product price as we explained earlier in terms of Rs.5, Rs.10 and the bag snacks offerings and I get Rs.20, Rs.30 and also gift pack at a higher price, so far we are really possessing on the Rs.10 product, we have been doing our revenue of little under Rs.1 Crores, Rs.90 odd lakhs every month and we are actually not able to produce to market demand right now. All indications are this product can become our lead distribution SKU, the category price is large, Rs.15000 Crores category, our offering is differentiated because there is no coconut offering in this price point and significantly more expensive and it is imported. We have got a great price point, we have got a offering at Rs.10 again are currently introducing the Rs.5 because there is no capacity and therefore we are focusing on Rs.10 SKU and therefore our focus on maximal production including SKU prices and we had already taken board approval for a second line in the last board meeting in October and yesterday we took board approval for another two lines. So we basically initiated quadrupling of the capacity what does that mean that means that basically is we are running today at about Crore a month on this business, we think that this would be Rs.50 Crores odd next year that is how we want to build up the capacity, obviously exact capacity figures vary depending on which pack size you make so on and so forth, they are at a high level, we are looking at a capacity instillation of close to Rs.50 Crores, it takes a little time for these events to come because significant parts of them are imported and they will take time to build up that.

So that is why we are going ahead with this. We except to have this additional capacity in place by sometimes Q1 of next year so that we can have a really good year and also probably be able to deploy some advertising support for the category, limited, but in our own way we will be able to do it effectively. Certainly I think let us say to come up third category to advertise and we are not able to do justice to it, we will looked at that for few years, but in terms of priority, this is clearly yes. Europe business we are very nervous about how to manage the supply chain because it does give a certain amount of fluctuation but I think more or less it is available and we are able to stand transport for both in refrigerated and non refrigerated depending on the temperature conditions and our product structure and portfolio actually augurs that very well. So this would be one of the best that we will make for FY2023 so therefore we need to prepare capacity right now, all of our products are differentiated, so it is not that we can just go to the store with such capacity, we need to build it ourselves and we are also going to build up pasta to almost at a similar level of about Rs.30 Crores, Rs.50 Crores and if you can do that then we still itself can be very significant chunks of growth obviously nothing happens exactly to plan right, there has also been a variation come up, come down, but we can look forward to a very nice business next year.

I will go to the next page which is edible oil, this is page 11, you can see here edible oil premium oil came up to about plus 4%, we know the value growth because that is the function of pricing, price do soften as they have soften right now, relationship between value and volume function that is not necessarily in our control. What is in our control, that should be how the volume is doing and reduction mass oils is in line with overall planning and we are on track for franchising which you will see in the second half of FY2022 as and when we will do we will make announcement. Total oil is about Rs.35 Crores is trending well to the prior 72 Cores so whether it is exactly 72 or 71, it is obviously very difficult to call, but it is in the right stage and doing just good. I think it is pretty fast, normally pricing take between a year to two years to three months successfully accomplish given also the fact that we are not advertising category, so I was expecting a slightly longer outlook of about 18 to 24 months but it happened faster and it is a nice provision to do it. It is very nice because as I said we are back almost to FY2008, we are not advertising and we are not made the business so profitable and I can remember at times when Mustaffa joined the company I think it is 2007 and I think between Rs.78 and Rs.80 and our closest competitor to subsequently became 30% of so we did. So we moved up, we took out all the money, now we are back and it should be in a reasonable space.

I will move on to page 12, which is competitive update as of September 24, we have not got data for the last week to September so that qualifying this data to say that when we give three updates then the numbers will be a little different because they will have the full Q2 as compared to one week less. So if you can just turn your attention to page 13, we will have to wind up quickly in 45 minutes so there is some time for Q&A. You can see we have been spending fairly consistently this year as last year, but we have made a note that we made some difference in the second half, it is partly due to IPL and IPC now back to back and also the fact that we do not get the good value from media, but it also given the fact we did not see how these will pan out and how those go and I think we have done very good justice almost 18 months we are just there applauding there, it should be just coming and actually came back and spent a lot of money in this quarter including on burrito so that was the biggest change.

If you go to page 14, you can see spread in terms of competitive spread, Hindustan Unilever continued to spend on premium butter, they have spent about Rs.40 Crores of peanut butter now which is about what we spent over the period of our life, but it showed the robustness of our model because we are able to continue to hold the position and it is not so easy in the food business just to put in money and to get the volume expectation, so let us see how they perform, they have mentioned that they are gaining momentum, let us see how it goes and it still lot of money to spend and other than there has been an increased in the intensity of honey, so you can see that lot of spending on honey, Saffola is spending, Dabur is spending, because when you compete in a commodity chances are the only lever is really that you have is advertising, you have to keep spending more, but it has been difficult to maintain a good EBITDA for the category after all that kind spending as we told some time ago which is why our model we believe is better and it gives a lot. Breakfast cereals page 15 you can see here actually the spending has come down in this quarter. We think that possibly some of the players will have invested more in the other category so possible that the reason for lower spending in this category, we are spending money on other category for the quarter.

Chocolates, Mondelez continues to have a huge presence, if you look at the spending of Rs.217 Crores for the quarter, Mondelez has spent about 80%, it is a really fast in provision, way ahead it is a one company spending 80%, but that is okay, it is not an issue for us, we have a differentiated offering, we have gone in with coconut offering which Mondelez definitely does not have globally and therefore we are in a very, very strong position and that is why we believe we are getting the traction right and being able to build up this domestically. In terms of edible oil page 17 of the presentation, you can see we are not spending any money. Saffola spends a little less money as compared to the last quarter, they have also been investing in our category. Fortune, became the largest spend, they spent almost twice of either Saffola or Emami approximately. I think it is consistent which is that in the oil category even edible oils are likely to see a smaller and smaller share and therefore in the future, a smaller share of market which are hypothesis, has been a hypothesis in the beginning and the larger players who are willing to operate at lower EBITDA margins are obviously going to have larger share.

We go to page 18, this is more as of academic at this point in time that we will be launching noodles so we would like to keep track of it and noodle spending is also down significantly, down lower than Q1, you can see Nestle has most spending and both Sunfeast and Saffola are spending money, albeit at lower level probably what they were doing in the last quarter certainly not more.

If you go to next slide which is page 19, which is pasta, you can see Maggi spent a lot of money in pasta about Rs.8.5 Crores, it is quite a change versus earlier I am not sure what are the dynamics of it, in Q1 they had not spent that kind of money, last year I think we are spending has been there in the category. Then last on soup which we intend to enter at a future point in time. Knorr remains the dominant spender here and has been even in the past. So in summary, going forward we are maintaining a strong growth in foods, we are maintaining and we will continue to maintain a strong growth in food, without being delayed by commodity headwinds that is clearly the clarity for us. We should not be derailed by commodity headwinds and make wrong choices either in terms of pricing or advertising cutting or anything like that, we need to be able to keep delivering strong growth, so that really does very well for the future and for us to become a large, for us to become a billion dollar company, we need to sustain the growth rates of 20% odd, so we will see and we will take actions and modify as we go along. Second, our expectation are reduced impact of commodity cost, we have already talked about increased pricing and volume, there is a margin improvement, edible oil seems to be trending well to the prior year, confirming that price reduction that we took in FY2021 are reaching a point of gross margin stability I cannot say it is stable. We would not be able to say that until it is stable, but as we stand of reaching in the ballpark so that leaking bucket at least the hole is not that big as it used to be. Media spend has been maintained in the first half, we may have to take different decision in the second half because travel cost is coming back, a lot of money that we deployed last year in the price, so that we did because travel was very low and we really squeezed it but now travel needs to be in the market, because we would not be able to drive new categories like breakfast cereals, chocolates spread, packing on peanut butter unless we are in the market almost now back to normal so that have a positive impact so we will just see how to do it and we believe they are on track to deliver foods in a profitable manner in FY2022. So that is it I think I have walked you through almost the entire P&L already, so I will be ready for questions. Moderator over to you.

Moderator: Thank you very much. We will now begin the question and answer session. The first 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, you know that you do not have Nielsen data and only shared annual number, could you please share some qualitative facts on distribution reaching number of stores for the branded business. Question two, food growth Y-o-Y has been slow down, we understand that last year was high based due to COVID related demand, can you see us moving that to 20% plus branded food growth rate in coming times. Question three, can you share some color on steps taken to arrest loss of market share in peanut butter and win given so many brands in this space?

Sachin Gopal: Thank you Shivank. I will answer your question. On Nielsen data, yes we do not take Nielsen data if you recall I mentioned I gave some numbers, I will just recap them to you. Our retail coverage as per our internal calculation is about 4.4 lakhs so that little under half a million stores and we can grow this regularly every year. Our widest distributed brand as per our internal sales, so that excludes any wholesale, any distribution to wholesale which for sure will be there, I think instant popcorn which is about 2.7 lakhs little under 3 lakh and our chocolates today will be distributed in about 55000 stores and our breakfast cereals will be distributed in about under 70000 and 67000 stores, so when we say that we can go up when we need item for distribution, it does not mean that demonstration, it does not need sampling , it is all on its own, you replace the displace and it is very happy for retailers, we have seen happy to take it, so we think we do have the potential actually we will be able to across our instant popcorn distribution and growth and after that become the lead distribution driver for the company. Obviously we are not going to invest a couple of 100 Crores on capacity immediately, so we will get take it bit that it, we are quadrupling capacity right now, when we have been effect after that and then we may accelerate and make further investments also. In terms of food growth, I think the base, as we mentioned last year also, certainly our base of last year there is a little impacted because of COVID and certainly in all consumption some impact has people return to normalcy, so if you go into the market, the markets are open, the roads are traffic jam, it is only really white collar jobs who are still working from home and of course impact of schools, because in many cases, schools have not opened or have opened partially so we see some impact on that and we were certainly cognizant of that. If you remember when started, we had a very muted expectation of ready to cook because we already have a large base of course we have invested in that days last year we just increased media spend and knowing that if we did not do it, we could actually have a declined situation. I think we come out pretty well of that we have to be cautious in terms of what we expect from ready to cook popcorn and that is why we are focusing right now on the existing sweet corn pasta, it is particularly on pasta, so it is really a function of scaling up. I think we have a great offering and we are able to scale that up that could help us to be able to maintain the ready to cook momentum, so that as a category it continues to grow at a robust rate so that is answer on ready to cook. In terms of peanut butter I think we talked about it. We have made significant changes in our portfolio between Rs.100 and Rs.200, we have two more offerings with Rs.120 and Rs.175, we have continued to invest behind the category so that is very important. We may not be spending as much as we were, but we are still the dominant peanut butter brand. There is no question about that, so that part is there and as I mentioned we will look at how to handle it. Thank you for asking the question. Moderator over to you.

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

Percy Panthaki: Good afternoon. My questions all at once. Firstly, if you can just give some idea on the digital and e-commerce part as far as foods is concerned, so firstly what percentage of your foods ad spends are via digital and secondly what percentage of the foods topline comes out of e-commerce websites. Second question is this capex in chocolates to quadruple the capacity, how much capex will be required to do that and thirdly, the peanut butter market share loss that has happened you mentioned it is happened in a particular price point, but would you be able to give some idea as to which brand you have lost the market share to?

Sachin Gopal: Peanut butter loss of market, share of digital and e-commerce, these are the three things.

Percy Panthaki: And capex on chocolates.

Sachin Gopal: And capex on chocolates I apologize, thank you so much. Let me come to that. On digital e-commerce, the amount that we spent was relatively lower at this point in time, we have noticed that we have just initiated our handle Sundrop and we will also be working to get it. The spends on social media of course we do invest in banner ad so on and so forth when it comes to let us say folks like e-commerce website that spending is there, but I would say still the total will be low single digit, 4% to 5% probably not more than that. Over time that will go up, but for now that is where it is and we believe television is the right medium for us. If we have big job to do in terms of expanding distribution. I talked about doing premium offering in terms of in peanut butter as we do those, those will probably have a disproportionate share of omni digital that is where we will need to behave like small entrepreneur with limited resources who is not focusing broad scale distribution and there we will be spending a little more on digital. In terms of the e-commerce share of food business it is about 7%, so very much parts of the course, we are no different, even our parent company is in the range of 7% to 8% and for us also we feel that is right, it should not be too high, it should not be too low. We also need to ensure going forward that our traditional trade, the distributor business, the HFS business continues to grow rapidly because that at the end of the day is the mot that we created. The biggest mot in the FMCG business is that you have with the power of distribution, today we have half a million stores there are too many companies we are at the half a million mark level, there are not too many and that is the huge competitive advantage so one of our investors growing faster basically too many private equity firms are competing in the market and do you see that as a set investing in smaller companies and we said no, because they will be irritant for us that we will not be a threat because they will always struggle to get up. If you want a distribution of half a million stores, you go to seriously invest behind our retail coverage model, so we are quite comfortable with this 6%, 7% odd contribution that we have to do. Last was on peanut butter. I would say we do not have recent data but we doubt pretty much that Kissan which obviously spend a lot of money, they have just gain more than a single digit share of the market after all despite all these spending, so there will be there then there will be some other guys who are competing, these are lot of manufactures of peanut butter, so it is quite fragmented, so that is what we feel confident with the steps that we are taking and we can see that in the monthly figures, they are giving us the results that we look forward to that. Does this answer your question Percy?

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Capital. Please go ahead.

Shirish Pardeshi: Good afternoon. I want to ask you fundamental questions. So what I was asking that last year you guided that we will be trying to break in more capacities and try to cut the distance between the distributor and the companies, we have also said that we will look at the geographical expansion and we will be exploit neighboring countries, but I think given the COVID wave which is now behind, is those plans are still now burning or it is still the backend that is first question. Second question is that I think what I wanted to understand what kind of manufacturing we do inhouse and what is the outsource and why it is still has the hesitation not to do the outsourcing and manufacturing and focus on the marketing and distribution and the third angle is that the cost synergy is what you have been guiding saying that the inflation is one part, but we have also done benefit analysis why we are manufacturing, so is that the right way to look at it going forward for the new category which you are planning to enter?

Sachin Gopal: Thank you Shirish. On the capacity also I missed out one part that Percy has asked about chocolate capacity, so the answer is Shirish, we continue to work on capacity expansion, but in a steady and moderated manner, as you know we do not do huge capacity in one year and then nothing in the next year, so right now for example we have been investing, we talked about it, we are probably doing about Rs.30 Crores odd in the current year and fairly significant part of that has gone into and we will be going into chocolate, so that you know to be able to produce that revenue that we need of about Rs.50 Crores. On an average we get about or we would like to get about two terms on investment if you however want to check, how much is we really spending on this if you look at the revenue and divide it about two you will probably get an idea what kind of expansion. In terms of geographic expansion, yes, I think between Bangladesh and Sri Lanka, certainly Bangladesh is a much larger market and also economically doing a lot better than Sri Lanka, so we have also set up a plant there, we are in the process of expanding that business obviously Bangladesh as you know had a longest COVID lockdown closure. We have started opening in fact only in early October this time and so as we open up we will be working on expanding our business there as well. Sri Lanka, I think will be a lower priority than Bangladesh. You must have read in the newspaper that actually sort of I think half a billion dollars lease facility from the Indian government for purchase of petroleum, so I think it is going to be tough all as far as Sri Lanka business is concerned, but Bangladesh continues to be very robust, it is a very good country to operate in, but we will take it steady, we are not going to spend, lose a lot of money and we need to focus on India, but at the same time, we need to keep building balance. In terms of manufacturing inhouse and outsourcing, I think our position remains. We want to sell products that we make because how we will have differentiated offering. If I go to somebody and say okay you make this for me it could be pasta or noodle or something like that and I sell that what is the competitive advantage that I have. If I can ask him to make it somebody else can also ask him to make it too, tomorrow the customer can ask them to make it too and it will be a private label business, so we will gain competitive advantage, pricing power and the right to win only and only if we have differentiate products, so that is out take on pasta and noodles. We are not selling just pasta and we are not selling just noodles, but we are happy to buy pasta and we are happy to buy noodles then stick it together with the sauces and sell it to the consumer or as a snack to the consumer, we have no problem with that, but if we just buy a item just for the sake of increasing turnover that is not a high quality snack food business. We want to build a high quality snack food business something where even if there is inflation, even if there is competitive attack the mot is so strong, it is very difficult for somebody to breech that, so Shirish to your point if I go to somebody else and say by the way now make pasta for me and let me sell it and I put Sundrop pasta or Sundrop noodle made by Shirish Pardeshi & Company, I do not see any advantage of that. I made at some turnover on the data because Rs.20 Crores, Rs.30 Crores but it will be a EBITDA negative business, you can take that as writing from me and happy to discuss it whenever we meet face to face I will show you the examples. You do not need to ask me if you look at our presentation, look at the competitive strength and tell me where is the proof. The proof of the pudding is in eating. It does not give any take off, it does not fly. You may inflate revenue temporarily, but it is not a profitable business and it will come to a halt one day when the base business is unable to sustain this business that is being supported by heavy investments in media. Now, but we are happy as I said to buy the pasta from outside and we combine it with our sauce. Because now we are making something or selling something they only make or only we are doing today, so we are doing that, so to your question, we do not make the pasta inhouse, it is outsourced, similarly in pasta and noodles, we do not make the noodles inhouse, we buy the noodles from outside, we are happy to do that, but it has to be combined with something that we hold the ace, we have competitive at that and last is cost benefit of course, we are obvious cost benefits as we scale up and we are running at a relatively low levels of capacity utilization, so those peoples are there and you do the operating leverage, we saw last time we picked up 100-basis points, but you also added new plants along the way but of course there are no new plants being added right now, but last year we added plants and we thought that in the period when we added the plants our manufacturing cost of the percentage of sales growth and then it drop by about 200-basis points after that, but overall gross margin is the function of multiple factors, it is a function of what is the gross contribution of the items that you are adding what is the focus of growth, what is the manufacturing profile of the different categories, but there is over and above 100% there is operating leverage. Thank you Shirish. We have time for one last question.

Moderator: Thank you. The next question is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Good afternoon. Sachin, three questions. First is, slightly strategic, what is currently happening on the peanut butter side taking that as an example just wanted to get your view, so for category that we create which can become really big and while we are putting entire category and putting out lot of hard work and the new guys come in and spend lot of A&P and try to take away market share that has happened probably in peanut butter and can happen in future for other categories also that we want to create, so how do you guys think about it and how do you handle the situation, any thoughts around that?

Sachin Gopal: Okay and second and the third?

Dhwanil Desai: Second question is you mentioned about our year to date gross margin of food business of Rs.35 Crores, but I was looking at the Q1 numbers, the gross margin in Q1 in all business was Rs.20 Crores, so Q2 essentially is Rs.15 Crores so on run rate basis we are actually lower than Rs.72 Crores numbers, so I mean how do you see the trajectory and why do you think we will be at least able to match the margins in terms of absolute numbers for FY2021 and third question is the gross margin on the food side. Now, the entire thinking around which you are working is that edible oil is the business where it is a very difficult to pass on price, you do not have any pricing power, there are entry barriers, now in food business we are in a situation where we are reasonably diversified product basket, so going forward when such kind of commodity inflation happens, do you think it is possible to pass on this kind of price changes even with three, six months lag or it is always that we have to take some hit and we cannot pass on everything to the end consumer.

Sachin Gopal: Thank you. They are all very good questions, so I will try to answer them before we close the meeting so we will take the permission of everybody to take a few more minutes. On the peanut butter, it is a good example and we entered after **(inaudible) 58:59** but yes the category situation was entirely has been done there and our assessment and data point is that we have been able to hold in our market share and that is for the data also shows in the region of about 305, 35% is our market share, so we see the category, we see new entrance coming into this category. We do not think there is a answer on just spending money, so just spending money in our view is not the answer. We also tried it many years ago on instant popcorn which has been the real large amount of money it does not pay out, because the consumer buys food products for their taste. So peanut butter is an example of a category where there are two subsegments emerging within that category, one is taste and second is protein. A person who buys for protein is not so keen about taste and the person who buys for taste, will only buy it for taste. So what you are doing effectively is our offering is also catering to do this. We will continue to drive recipe and taste which is our peanut butter. The offering that we had at Rs.115 is a NutsPlus peanut butter which has actually different ingredients and still has the same promise of protein, so if you will as a category grows and you know there are fewer barriers to entry because obviously peanuts are made in India and number of peanut butter manufacture available in Gujarat today. We were subsegment the category, we will keep promoting and driving our recipe, but we will also play in the mass market in the protein space because we need that scale. So we were not to play this game of multiple categories, it is not a new game. For example even in edible oil we have premium oil than then we have mass oil, so we have played in but only difference is the edible oil, we do not have the plants to circle, so we do not have that capital, but in categories like peanut butter, we have our own plants and we need to have a presence in both. We do not see this necessarily as a threat in every category that we built because that was the driving force behind your question. So let me take an example of chocolates. Now we have got a coconut center filled chocolates. Our cost structure is so efficient and the price at which we sell and we still make a good gross contribution on it, we find it very difficult to compete of either actually hurting us in this either somebody coming and spending a lot of money, because they do not have the cost structure that we have right to be able to attack those price points or somebody else. As we go forward you can expect that and as we use the network effect of business products, you can expect that our entry will be more and more difficult for people to replicate that is what it boils down to, but can we guarantee that it would not absolutely not happen I think the answer is no, we cannot guarantee that and in those circumstances we will just have to play it again kind of what we are doing on peanut butter. Second is on your question on oil gross margins, yes, you are absolutely correct, so I will urge you also to look back on last year gross margin, so last year we did you correctly said look Sachin you have done Rs.35 Crores but my math is you did Rs.15 Crores in Q2 and that is absolutely correct, but now you have to compare Rs.15 Crores of Q2 with the last few quarters of last year that becomes a pretty quick comparison point. How was the exited Q2 in terms of last year, last year if you go back to our recording, we did Rs.72 Crores in the full year and Rs.43 Crores in the first half of the year that means in the second half of the year we did Rs.29 Crores. If you divide 29 by 2, you get a figure of Rs.14.5 Crores, so you have to look at the Rs.15 Crores both in the context of the Rs.20 Crores of Q1 and in the context of what happened in the second half of last year and obviously I do not have a crystal ball and I cannot tell you that, by the way 14.5 and 15 it is going to happen easily, nobody can answer that easily but I think we are tracking well and therefore I would say I think we are tracking well to be in the range of about Rs.70 Crores. Is that help to answer your questions I hope. Anyway we are out of time now. I think we can close the meeting so I just like to say thank you all for taking on the time to be with us today. I hope that we were able to answer your queries and take care, have a great day. A very Happy Diwali to all of you and your family. Stay safe. Please do not let your guard down, a lot of people in North India let they guard down during March at the time of Holi and I think that was a big spreader. So please do stay safe. Have a great day.

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