“Agro Tech Foods Limited Q2 FY2023 Earnings Conference Call”

October 20, 2022

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Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY2023 Earnings Conference Call of Agro Tech Foods Limited hosted by Anand Rathi Share & Stock Brokers. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ajay Thakur from Anand Rathi Share & Stock Brokers. Thank you and over to you, Sir!

Ajay Thakur: Thanks Steven. Good afternoon everyone, on behalf of Anand Rathi, I welcome you all to Q2 FY2023 Results Conference Call of Agro Tech Foods Limited. From the management side, we have Mr. Sachin Gopal – Managing Director and Mr. KPN Srinivas – CFO of the Company. We are going to start with opening remarks from the management and followed by Q&A session. Now I will request Mr. Sachin Gopal for his opening remarks. Over to you Sir!

Sachin Gopal: Thank you Ajay. Thank you Steven. So good afternoon everybody. Thank you for taking the time out to join us in today's conference call. We will try and walk you through the highlights of the results and then we can take the Q&A as you said. So I request you just to go through the presentation which is already uploaded on our website and go to page three of the presentation. So company mission and vision we were the best performing, the most respected food company in India. Page four key performance highlight for quarter 2, food revenue grew by 124 Crores, so this represents a growth of about 13% versus the prior year but in June in the first time we have clocked close about an annualized sales rate of 500 Crores right so that is a very, very good milestone as we see it. When we started the business we had a food business of 10 to 15 Crores and over the last 15 years with CAGR of 19 to 20%. It is a nice feeling to be able to get to close to 500 Crores annualized running rate on a quarterly basis. We will share with you now that we got to close to the 500 Crores mark what will be the building blocks for us in the next few years so that we can get to perform 500 to 1000 Crores, but that is something we will take up in the analyst meet in the month of November. Our non RTC businesses really drove the Total Foods with a 33% revenue growth this includes ready to eat snack, it includes spreads, it includes chocolate and breakfast cereals. It is a fairly complex piece to be able to get this kind of growth on a diverse portfolio because it is large number of commodity, lots of packing materials, multiple plants, but it came out well and the ready to cook business as you see later actually continue to be lower than prior year. Certainly, there is impact of COVID 19 as far as this is concerned, but we always like to be a little careful so we will see what else we can do to be able to bring that into positive volume space soon. Our food gross margins really improved from Q1 as we told when we entered Q1 there were lot of headwinds but they were all reseeding. I used the word I think tidal wave and we saw the wave reseeding and you can see the impact of that in Q2. We are not yet back to where we need to be. We still have a long way to go but it is a significant increase and we will continue to work on improving the margin for us and really this is a result of softening of commodity prices, some amount of it is already in. The P&L in Q2 some of it is still to come in the Q3. Impact on whatever pricing actions here taken and volume growth in the non RTC business. The edible oils GM was about 16 Crores. I think it is about 15.6 Crores but within the broad desire range of 70 Crores plus minus. We will continue to balance volumes with gross margin in a volatile business, but it is not that we are going to forsake gross margin for the sake of volume. We are not going to do that right. We will balance both of them and margin will remain important consideration for us given the role of portfolio in our business. The Q2 media was marginally below prior year. We also needed to be able to manage the P&L appropriately so this need some correction going forward and we will see how to do it. We always said that we want to be in 7 to 8% AMC spent. Obviously, there are many period of time where we have not been there because of the pressure on coming from the oil portfolio, but as that recedes and the materiality of oil business in our business comes out we will be able to make the right level of adjustments. As a consequence our gross margins increased, but our Q2 SGA was higher than prior year by about 3 Crores. There is some amount here due to employee benefit cost which you would have seen in the advertisement but also the large elements are really travel and secondary trade. Travels because there is lot more travel now. We are almost back to the pre COVID level but not exactly right so I think currently our travel is clocking at about probably 2.5 Crores a quarter. Pre COVID was more in 2.6, 2.7 range so it is coming back and this is an investment that we need to make because this is an investment that we need to be able to drive our business to make sure that we continue to get the growth rates that we want, but we see this as like in a sense a correction in the first year of COVID our travel cost came down by about a million dollars now in this year they are going up that correction will happen and then meanwhile obviously our gross margin will continue to grow and secondly trade largely because of lot of growth in this year has come because of ready to eat snacks which are more freight intensive as compared to other categories again some amount of this is all balancing. Over time it will be correct because if the ready to cook starts to grow, ready to eat is currently benefiting from the opening of the economy. Those benefits will not sustain on an ongoing basis so there is lots of movement up and down and the travel and the secondary freight are only one part of that which will hopefully settle down during the year and therefore the profit before tax and the profit after tax was 4 and 3 Crores, respectively.

Let us got to page five, the food categories that we focus on are ready to cook, ready to eat western snacks, we do not include Indian snacks in this, spreads, breakfast cereals and chocolate confectionery. In total that represents a total addressable market of about $8 billion and so from our standpoint that is large enough for us to get the growth that we want to at least in the near term right and we continue to focus on these five categories. Let us go to page six ready to cook snacks, so the impact of the price increases that we have taken in pop corn and sweet corn particularly is very high visible in this value versus volume, value is moving into positive space. There is some impact in this mix also because pasta, noodles, these are also very good in terms of revenue per ton, so the non RTC popcorn business, the growth is being led by pasta which shows steady progression. However, there is volume gap versus prior year due to COVID 19 in the base and this is more than we would have liked to see. It is minus 4% so this is something that we need to address and this we are working on as management because there could be an impact of COVID. Certainly, there is an impact of COVID, but we do not want to be complacent about it so we will putting more force and energy in the latter half of the year on this right. So this is a big part of business and if this goes rightly all things will fall into place because it helps margin, top line growth all of those. We had mentioned to you some time ago that we will be introducing a pizza and pasta sauce so the commercial production of this is underway that is happening as we speak and it is looking good and the development of plant meat continues. The work is under way on texture for the right sensorial experience so we are working on this. We have all the necessary tools and the machinery. I think it is just a question of the time which will be taken for the development. There is a lot of action in this place. There are lot of players but we feel we have a strong competitive advantage because all the players who have introduced are not getting consumer demand. That category is still small. Even in the US it is kind of scattered but it is a very important category because going forward the role of protein is only going to increase. We are seeing that in peanut butter that will happen in plant meats also. The only thing in this subcategory if you will and depending on how it is marketed is going to be the people who have the capability to create categories. A company which does not have the capability to create categories cannot win in this and in our reading actually we are the only ones who have the capability to create categories. We have the ability to create categories. We have done it with ready to cook popcorn. We have done with peanut butter so we have that capability particularly from a consumer contact perspective so we will just get it right during the course of the year and we will keep you posted. So whether we are able to complete the development in the current year and launch it in the current year or what is the status that we will update you as the year goes by.

The next category which is page seven is ready to eat snacks. Strong growth continues. Obviously, this is benefiting. This is the mirror image of RTC where this is benefiting. Plus there is a lot of strengthening in the RT popcorn business so what is the consumer trend on this is difficult to call, but there is a very positive strong momentum on ready to eat popcorn and we are obviously the biggest beneficiary of it since we are amongst the largest players. There is a fair improvement in margin driven by price increases, grammage reduction and packaging footprint changes. All of this happened last year with all the pressure that we had and it is benefiting us today. So overall the margin on the category is improving and sweet snacks are starting to gain momentum. So you know sweet snacks as we have probably mentioned to you but we have not clarified, the savory snacks have no sugar, so sweet snacks will have no sugar. They will also have a less packaging material per ton of SG and they will have less freight per kilo or per ton as compared to savory snack. So right now we have Caramel Bliss Popcorn which is relatively small part of our portfolio. We launched the Duo Crucheez which is a pan product which is doing very well wherever we put it and which is currently being supplied from one plant but very soon starting this month we will start getting supplies from two plants, one in Kothur and one in Unna and then subsequently also in more plants as we progress. Work is also under way in value added RT including protein we have talked about this earlier and going forward we will drive increasing shares of sweet and value-added snacks to drive margin improvement for sustainable growth so we told you several times the savory snacks or ready to eat snacks is a very important portfolio because that is the conveyor belt for the company. That is what enables us to open more stores to get up to the kind of coverage that we have today of about 450 odd thousand stores. We need it to be profitable. It should not be that we are losing money and therefore hesitating to grow that should not be. The incorporation of the sweet part within the RT snack portfolio is very important I would say steady growth for us because it will enable improvement and profitability as well and we then we will never be hesitant to say we need to ship this product 300 or 400 km. It will ship because the freight is not going to be problem for us that is very important for us.

Then next page which is page eight spreads and dips you can see return to very strong growth. We have a volume growth of 30% and we have certainly taken that share so as we mentioned to you about a year ago we thought we were losing shares. We think whatever we have lost we have got it back and maybe a little more and right now we are absolutely rocking that is evident in the numbers. In fact we are very close to capacity now our add capacity some capacity increase work is under way and that will show up in the next couple of months. Our strategy to protect our share has really paid out big time, competition has been really close to replace the stock and trade. They have spent a lot of money. There are lot of competitors there. There is HCO and multiple others and they spend money right. HCO for example have spent close to 80 Crores on this which is probably more than what we spent on our plant purchasing and for advertising or at least equal to it right but they are having to replace stock and trade because the stock is dated, it is not moving so the impact of AT is very visible in terms of freshness of stock so that is something which is excellent and you can go into the trade and have a look at it yourself. Check the rates of ours and competitors and you will know the answer to the question. We have also introduce a new high protein variant Peak this was introduced now in Q2 and the roll out is underway. This is an important sub brand for us because over time it will become the leader as far as the protein play is concerned. Today it is lead as far as peanut butter is concerned tomorrow it will be for protein bar etc, etc., right. So this is being introduced now and we will be rolling this out with the necessary modifications also in our field architecture so that will include having salespeople, calling out gym, getting the right endorsement from the people who are going to the gym, getting the trial done there etc. It will be a long game this whole protein thing but it will ensure that we are in rock solid position on this part of the business and we have also launched a choco peanut spread which was launched in Q2 to complete the nut-based chocolate spread range. So in the nut-based chocolate we have hazel nut-based chocolate, almond based chocolate and peanut chocolate so this completes the nut-based chocolate range that is also progressing well and as I say it will be inline and is one of sort of many samplings that we are planting as we grow now which at some point in time will get to the 20 to 30 Crores mark and then will be ready for advertisement support in the years to come. We had also told you that we will be launching salsa, so commercial production of salsa is under way now and you will see that also in the market soon in the next month or so depending on the result. Coming to the next category which is breakfast cereal which is page 9. We had steady growth driven by distribution. The category is reaching 100,000 mark in terms of distribution. As per are records we are in about 95,000 stores. That is a good place. It is a little bit of back slip during COVID because our market was not at the level that we would have like to be that was naturally visible in our travel expenses as well and we were trying to safe guard the entire organization but the post opening of COVID now driving very fast and I think we would be amongst the now lead players in term of total breakfast cereal distribution right so as you know we do not bag on it but our management assessment is that the number one player in breakfast cereals will be Kellogg's. We think their distribution will be somewhere in the range of 400 to 450,000 stores right and if anybody has data at any point in time please do share that with us. It will be useful for us. We think the next more slightly distributed breakfast cereal will be Marico Saffola, masala oats probably in the region of about a quarter of million stores that is our judgment. This is our core business and then we seal the other companies which is Quaker

Oats which is large player but mostly only in big tag so that will be deterrent in terms of getting merit distribution. Tata Soulfull would have been less but with Tata they have rolled out a lot, but I think also they are facing a lot of challenges from the off take from the stores so we are seeing how they are able to sustain their distribution. We think that will also be in 1 lakh stores maybe it is more and maybe will give some information on their call and then we can look at it and discount for whatever is the incremental stock on the trade so we think one and two are Kellogg's and Marico Saffola masala oats and three, four, and five is going to be between us Tata Soulfull and Quaker and we will see what the outcome of that is. The other thing which is important to us we are at very strong position in cereal snacks. Likely we have the highest distribution of center filled cereals. What our market booking tells us is that we are no doubt the most widely distributed center filled cereal snack. So in other words Kellogg's will have a wider distribution than us but in center filled snacks we think we have a wider distribution than them. We feel that they have a bigger turnover than us. We think that center filled cereals is about 3% of their turnover of about 1300 Crores so that is about give or take 35 to 40 Crores but a lot of that could come in that case from large stores whereas in the small pack once they come to it we have a distinct competitive advantage. So this is important because a lot of future of cereal snacks is going to rely on center filled cereals. Center filled cereals is clearly different consumer experience right and it also caters to a slightly older age group. If you google Crave and Kellogg's you will find that it is actually said that young people 16 to 24 are more crave as the Kellogg's in terms of center filled in the UK and the US because they are prime users and that is me because they will say I do not want to buy Chocos now I have grown up I want something else or as you become older you consume more cereal snacks so this is a great position for us to be in and it is something that we will leverage so this will be our key growth driver. The introduction we have introduced a hazel nut center filled pops which is very, very well accepted so that is doing well and one more variant is scheduled for Q3. We are not telling you what is right now, but you will see it and then in January call we will tell you about it. We have also started commercial production of value added oats, masala oats we told you that the regular oats, the plain oats we will put under staple because we do not think that they have 30% gross margin potential at best it will be 15 to 20% so it fits well with premium status and we will work on that so obviously masala oats is a small part of the business so the people who have masala oats and regular oats, our estimate is that masala oats is 25% of the business. This is again our estimate from whatever we get from our field and whatever information we get from CSD canteen stores department but we think it is a reasonable estimate. As far as this part of presentation is concerned we are focused on that 25% which is the masala oats and we will see what other value add we will do in the future. So game plan really under way for under development for a bigger and stronger position in the breakfast cereal so if you go into a retail store and you look at Kellogg's it is like a wall. You look at breakfast cereal it is a wall. It is Kellogg wall. Now there may be other players on a regional basis for example if you go in north India you will see a little more Bagrry's. If you go in maybe Bombay and Bangalore you might seen a little Yoga Bar etc, etc., but the wall is Kellogg's, it is a Kellogg's wall. There is nobody else who comes close to them so our task is how to break that wall and that is something that we are working on and that is why we said a lot of work from our side will be how do we execute our shelf business in the category so this is work under way it will take us time but that is the key and with that we will have a much bigger presence in breakfast cereals in the category. Also finding and addressing unmet consumer need. We still feel that our unmet consumer needs in excluded breakfast cereal which is where our strength is and we are working on this but at this point we cannot share those details with you but you will see it when you see it in the market.

In terms of chocolate continuing strong growth in the business driven by distribution. Once again this is about 100,000 mark. It is about 95,000 stores category distribution. You can see there is increase in price realization which is visible in value versus volume growth right. Our consequent improvement in margin as well. First phase of capacity enhancement has been completed so we have said we have put up a second line which we have done and so we will not talk so much about lines because we will be releasing more confidential information so going forward we will share this information with you on consolidated basis, but what we do we want to tell you is that work is currently under way for about 100 Crores plus capacity for FY2024. This will not happen by March. It is also not required because April, May, June is summer month and the business does come down. It will happen by the time the new season and the next monsoon etc., comes in. So we will be at looking at completing this and this we will complete in one shot. One shot meaning phase between now and June of next year and when you see there is obviously in any category which you are building like this there will be lot of ups and down, output will change depending on how much size we are producing on a day. What is the kind of packaging work that we are doing, but broadly we are looking at 100 plus Crores capacity. This is in line with our thinking that in the next three to five years a very large part of growth is going to come from chocolates. Chocolates and ready to cook we believe will be the two major increments that will come helping us to take from 500 to 1000 Crores. We had one advance question from one of our investors so this answers that question as well.

Coming now to staples, premium staples which is basically premium oils and includes some amount of oats right now but very small. It certainly reflects softness because we have significantly higher consumer prices related to prior year. I have seen lot of commentary from more than one more company saying that we are making down inventory as whole.

They will take the loss from that to be able to protect volume. We are not going to do that. Whatever is the pricing we will move in line but we will be protecting margin okay because that is the role of the category for us to give us margin on a sustainable basis. Execution of strategy is also underway to make premium staples more broad based while providing performance scale to foods. So roll out on oats have started and additional staples are under development and I would say the roll out of that will also happen in due course in the coming quarter and we will talk you about it and each one we will explain to you what is the role as far as deployment is concerned. My staples largely reflect the exit from crystal. October will be our last month where we have crystal in our base after that that will disappear and the comparison of prior year will become a better fairer comparison but right now that is the way it is. All right so that is the key points on the categories.

I am going to just try and answer those that came in the mail. One of them was that in one of the con call you have mentioned we have achieved 10% dispatches through full truck load. I am not sure when this was done but this would be a while ago I guess for the ready to eat snack right. About 90% of our ready to eat snacks are shipped to full truck loads so only 10% of our ready to eat snacks go through depots because there is lot of incremental cost in terms of loading, unloading, additional freight, more warehouse space etc, etc. We think this is a good number. Most commodity players will have almost 100% but other companies which are in the branded space like ITC will have mostly through depot but we have this happy balance I think between best of what the commodity players are doing and what best branded players are doing so that answers that question. One question that we had from an investor was will your cyclicity improve in the summer month we will give you the answer to that as time goes by I do not want to give a straight answer. I cannot give you because for example ready to cook popcorn is lower in summer, people tend to eat pure snacks right similarly chocolates has environment heat increases in summer months so it is more difficult, volume always come down in the summer months. So the chocolate people mostly their peak season starts around rakhi and then goes till February so you are taking about six months and you see if you analyze the advertising spend for a month which is there in our presentation you will know what the peak months are okay so let us see how our portfolio develops. Ready to eat probably does not have that much cyclicity. We also had a question on palm oil it has gone up in the last few days. There is lot of volatility in the market and it all depends on what is happening in Ukraine etc., but overall I would say from our edible oil perspective we have seen a softness in the palm oil prices and in some of the other oils as well and I would say like we were in the last quarter we told we are positive as far as our expectation of what will happen in Q3 and Q4.

So coming back to page 13, in comparative update basically you can see here that Frito Lay on savory snacks really dominated the spending and the other highlight was DSM Foods which is I guess in the process of being delisted now has actually increased their spend significantly so that is the other big change other than that we do not really see too much change. The next slide is 14 which is spread. Here I think the key is Kissan has continued to spend so if you look at row number two which is Kissan PB which is Kissan peanut butter take the FY2021 spend is 20 Crores, FY2022 that is 50 Crores, 70 Crores, 80 Crores they have spent close to 90 Crores so far and you can make a judgment on how good or bad that is if you go into the market and see how the product is doing. We continue to spend in line with us. The person who spend a lot of money this quarter is Veeba, they did this in FY2021 including front page ads in Times of India in Bombay and Delhi. They spent a lot of money but then you can see they did in FY2021 in FY2022 they did not spend any money so let us see what happens now. In the honey I would say reduced level of competitive intensity right you can see that for example Saffola Honey not really investing any money this year. Even Patanjali spends money in one product not in the next and Dabur is fairly consistent. In chocolate spread you can see Hershey's starting to spend money and Nutralite has actually started advertising chocolate spreads for the first time which is great for us and we will be playable to leverage all this spending in terms of expanding our distribution particularly for our entry level packs which will come in this quarter and our spends are broadly in line with the prior year. In breakfast cereals really here the dominant spender is Kellogg’s which has been the case. You have to give them full credit for building this category and Nestle has actually discontinued support so you can see here Nestle Koko Krunch last time the spend was FY2021 so you still see the product but I would read this as not an exit not therefore meriting support and Saffola has continued to spend as well as Quacker. Tata Soulfull has spent amount of money in last year in 13 Crores, 9 Crores in Q1 but after that we see a little subdued let us see how this part goes and we will have to watch them as we go. Parle has spent some money. Parle tends to do this. They come and spend money and they will go away for a while and then come back again. All right chocolates really major players remain same but all others are spending money and as I told you if you read the month you can see that actually quarter two is a big quarter for them so if you look at this from a seasonality perspective you can see in quarter 1 the total chocolate category spending was 226 Crores. In Q2 it has jumped to 563 Crores so that is a huge amount right and Q2 and Q3 really are the big quarters for the category. Edible oils basically it is the max share of spending. If you look at premium share which is Sundrop Heart and Saffola it is becoming smaller and smaller by the day right as a percentage to total it is really the mass oil players now who have dominant share. So from a premium oil category perspective that is not good news, but that is to be expected I think we have always told you that is going to be the case and as you know we have not spent any money and our focus will remain on protecting our margins in a sustainable basis. In terms of noodles, Nestle is really dominating the spending with lot of pricing as we are speaking to leverage the price gap so the price gap is becoming large now as Nestle has moved to the Rs.14 price and there is a lot more action there in terms of companies like ITC, Wai noodles so on and so forth. Pasta which is page 19 not much, almost nobody is spending I guess everybody’s energy is going behind the noodles category. Page 20 soups, Knorr really remains the dominant spender excellent product they have in their portfolio and really at this stage leaving no room for anybody else so we will have to see how to crack this as we go along. So overall I would say at about 124 Crores this quarter has come to annualized revenue of about 500 Crores. Margins has really improved from Q1 they still need to go up right and we need to work on this and work is under way to guide further improvements through operating leverage. Many of the categories are very small for us right now chocolate, breakfast cereals so as we get scale in these this will improve. Portfolio management, how do we manage the portfolio across categories and within each categories to manage pricing so on and so forth and last is pricing as appropriate for that category. I think the Q2 food revenue provides creditability and confidence. We said that we will be the best performing most respected food company in India and the fact that we built up a business about 500 Crores means that it is not huge, it is not 2000 Crores today it will be but it shows we are capable to getting to our ambition one day being a billion-dollar business in India and the great news is that the building blocks are very clear. For example, the building blocks for the next 500 Crores is very visible to us. We have multiple levers of growth. There is innovation across all those categories and the great news is none of it is third party source it is all in house right so we are able to transfer capabilities from one category to the next. We are only going to get better as far as the operating leverage is concerned because in many cases our capacity utilization is low, so this building blocks are very, very clear to us and that is great proposition for us as we think and say okay how will our 1000 Crores business will look like in the near term and subsequently even bigger so with that I think we close the presentation. I just like to make a few points. Yes you can see the revenue growth and the revenue decline figure if you look at it and that is largely driven by mass staples like Crystal which is in the base. In Q3 we will have one month of Crystal in the book, after that it will disappear. Employee benefits a little higher but on year-to-date basis still flat versus prior year. Depreciation not much changed and advertising and sales promotion expenses a little lower. We would have like this to be higher. Ideally there is a food growth of close to 15%. We had 15% growth in ANP that way at least we are holding our ANP percentage, but it has been a challenging quarter. Q1 was very, very challenging. Q2 also obviously the trajectory is great, but then you have to live with July the way it was and September the way it was and therefore the profit before tax was 4 Crores. There is one other element here which is under other comprehensive income. You see there is a charge of 3.5 Crores and then also about 90 odd lakhs on account of tax on account of that. Basically we just restructured the entire pay structure of the company. In the new pay structure, we are now 100% compliant with whatever we anticipate could be the possible changes in the labor court as far as whatever we have seen from the draft labor court or whatever information has been given to the public so that part is taken into account. However, as a consequence of that there is a onetime charge in other compressive income because gratuity as you know is a payout which is based on years of service and on the salary at the time when the person leaves the company right. This is up to date it is sometime in the future so on the basis of actuarial valuation we had consultation with our auditors. We have recorded a charge in other comprehensive income of about 3.5 Crores. There is not a lot more. Obviously, the travel and the secondary freight expenses that I talked about it will be visible to you in the other expenses so going forward we continue to seek aggressive increases in margin and hopefully navigate to through the year well. So Ajay that is from our side and we are open to questions till 3 o' clock.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the Dhruvesh Sangvi from Prosperotree. Please go ahead.

Dhruvesh Sangvi: I have three questions slightly qualitative one. So today as the see company's journey we have many product, more plant, more reach, more SKU and of course more competition and basically things are getting more complex for us to evaluate to not as savvy as business manager then I ask myself okay why am I invested in this company, the one big reason is certainly you, the way you explain, the way you strategize your thinking very long term having very big vision and considering this the only problem of evaluation comes when promoters are completely different and the bet for us in our mind is you. If you can talk a bit more on your thoughts, you incentives in the company of course on the qualitative side how you think and where do you find some satisfaction and your relationship with the promoters and how they think here so that is number one that will give us a little bit more comfort as the company structure becomes more complex because understanding market share gains a quarter here and there is very difficult for us that is one. Second is considering the oil staple business when I say 230 Crores revenue, 125 coming from foods so remaining is the oil staple business can we say that this broadly 400 Crores yearly revenue is what you think can be maintained considering all the edible oil related noise so many new people entering and getting commoditized but can we hold that 400, 500 Crores revenue base and get 40 to 50 Crores cash flow out of that business is that broader understanding correct. I am not talking about quarterly I am talking about a couple of years so it gives a fuel for marketing and building the food business much faster and lastly can we say that the chocolate business in the next 2 to 3 years can probably give us 200 Crores revenue again this is forward looking but just a guess work on your side that how aggressive is this number in terms of assumption or more than 100 Crores is very difficult over the 2-to-3-year period.

Sachin Gopal: So on your first question yes it is complex. You wanted to know my thoughts. See I am a slave. We all are slaves. We are not slaves it is 20 years of slave or 12 years of slave I do not know that but at the end of the day we are paid to create shareholder value for the promoter and for all independent shareholders and that is why our approach to the business is extremely transparent right you can see that. You do not really need to possibly ask a lot of questions in the call also. It is good you are asking the questions and we appreciate it right because we need dialogue we also learn from these calls and we get feedback also which we have to take positively right but there is a lot of information which is available. You virtually have the entire P&L of the company visible to you. You have every element of it by the time we post the investor highlight page so I would say the focus of the management team which is all of us in the company and even all the management in the company is at the end of the day to create a great company right. We think that people are motivated by money and greed that is not really the answer. People are motivated to do something great do something great with their life and not everybody is like that but over time you create a team which is motivated towards building something so that is how we happened that is how we have gone 10 to 15 Crores to 500 Crores that is how we will go from 500 to 1000 that is we can go from 1000 to 2000 and that is why not just me the entire team is thinking right now what are we going to do because to think about 1000 what are we going to do at 1000 Crores you need to start thinking today because lot of saplings have to be planted right now. It may appear very small but the time we get to 1000 Crores we should not be looking for new growth opportunities all right otherwise we will be first to make acquisition. If you look at the cumulative record of acquisition are not only the best return as far as the shareholder is concerned especially for a growing state like India and you are talking large sums of money. For example if you take a look Tata consumer just got incorporated the smart food of their business which is coming out of Sri City. Total asset incorporated was 395 Crores. If you go into MCA filings over last year the turnaround of that company was 11 Crores, I think 38 Crores business sold for 150 Crores and these are probably the right choices for those companies. I am sure because they are all smart people running the company but we do not want to be at that stage when we are that size. We want to be able to leverage the work that we today so the saplings of today are all 20 to 30 Crores at that point in time and within house production so that all the growth can be leveraged because otherwise we will reach the point and then we will feel what is going to come from it and then we do not want to do silly things like overspend on advertising and other thing so our vision has to be long. Our vision has to be very long and there is huge potential for growth right. Let us face it. There are not too many companies today at the top of the pyramid and honestly we must be one of the very few 500 Crores company which has the portfolio that we have, but these are not built for today. These are built for 5, 10. 15 years' time. The other part is oil. I think revenue is very difficult to call on oil. One of the reasons we exited mass staples is that there is revenue share. When we sold rusk to Kargil many years ago and the price of rusk being sold is three times but it could down tomorrow also so that is the same thing with edible oil so revenue is very difficult. From our perspective what we focus is can we get a steady gross margin so we called in our presentation 70 Crores plus minus it could be 65, it could be 70 it all depends so we need a right gross margin and we need to ensure that it is sustainable. It is not that it will come one year and it will not come the next. That is why they took the price reduction two years ago when we took the advantage of lower travel cost we took it behind oil pricing right because we said we wanted to be a sustainable within a range obviously, so focus will be on margin not so much revenue because the revenue exposure we want to get out and the last is chocolate, yes I think it is going to be a big business. It is visible. If we are thinking of setting up a capacity of 100 Crores plus next year we are certainly thinking of 250 to 300 Crores business coming in the next two years. Exactly how much who can tell, I cannot tell you that answer but what we do know is the 15000 Crores category. What we do know is actually is that we have a great product. You do not need to know it from me go into the market and see where our stores are selling and ask the retailers how does Agro Tech Sundrop do they will tell you, so you just have to figure out the business model for that but there is enough scope in this category. So let me give you an example historically you would not have seen many gondola taken by us because you know gondola are those shells you take at the end of gondola and sometimes close to check out as well because if we put a gondola in the popcorn the revenue will not pay for the cost to the gondola, but in the category like chocolate it does. You spend Rs.5000 in the ad you can get 35, 40,000 of revenue so these are great categories they create distribution strength. We have a great sales organization which is the backbone of the company along with manufacturing. The answer is it is going to be a nice business and that is why we are investing on it.

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

Shirish Pardeshi: Hi good afternoon Sir and thanks for the opportunity. My heartiest congratulation of doing good effort to deliver a very strong growth. Three questions. You have not mentioned anything about international and this is what for quite some time we were talking so maybe if you can give some clarity. Second question is that on the investment of 100 Crores what we have spoken about chocolate how are you going to fund and third question is the entry into the high protein variant, the question here is that how is the big market and what are the growth rates and some quantitative back up if you can share with us?

Sachin Gopal: Thank you Shirish. Thank you all for the questions. Shirish on international for us is basically Sri Lanka, Bangladesh. Sri Lanka you would know as much I do. I have not been for Colombo for a while. It is dealing with its own share of problems. I am sure the country will come back. So right now there is not much transaction happening on Sri Lanka. We have an entity there and we continue to retain it. We will watch for circumstances and as it recovers which one day it will all countries do. They go through their turmoil and we will be there and the thing is to be there at the point. Obviously if there is some good acquisition opportunity we will evaluate it but as of this point in time it is just time. In terms of Bangladesh is also having challenges but the business is doing fine and our focus is clearly India. India is going to be where the biggest size of price is. One should always be in these markets so we know what is going on. We have a plant in Bangladesh. It is also a sourcing place for us. Even today we source some popcorn for Bangladesh. We import. We pack and we bring into the country and is also therefore a supply chain alternative for us and that is important for us from a strategic perspective right so Bangladesh has a strategic role both in terms of supply chain perspective and in terms of being a large market with good potential right. Sri Lanka has importance in terms of being a good neighbor and therefore part of it however it is a much smaller market and is going through turmoil so at this point of time we are not engaging too much energy or even investment in the market. As and when things turn we will change it. Maybe I was not clear on the chocolate slide. I just want to clarify that when we said 100 plus Crores capacity it means capacity for 100 Crores of revenues so that is why Dhruv asked a question about 250 Crores. We are looking at building a capacity next year only which can generate about 100 plus Crores of revenue and yes the answer to that is how that capacity how is it being funded that is being funded through our cash flow. I mean it is funded right now through all internal accrual as you know our entire gross block over the last 16 years has been funded entirely through internal accruals right. We got 334 Crores and all that is due to the money that we earned from the company. We took some risk. We took some gambles as far as the oil business is concerned but today we have built a nice food business which is clocking close to 34 Crores of gross margin a quarter so I hope that clarifies that part of the question. In terms of the high protein variant, I do not have a lot of data for you but the trouble is even the data you get let us say from private equity is very inflated because they do not mark down the discounts and etc., so the gross merchandise values that are often quoted are not at all comparable with net sales of our companies because they may have 30 or 40% trade discount which is good from a valuation perspective, but does not provide a good picture as far as for us to concern. What I can tell you that protein is very important. It is important in peanut butter. It is going to be important because of plant meats. It will be important in bars. So if you do a Google search you will see Mondelez just brought Clif Bar. Clif is one of the major player in US in this area in protein bars and Mondelez I think paid close to a billion dollars for it so I am sure they are going to introduce Clif in India as well right. Clif will be our competitor to Peak and they are both in kind of in the similar space and it will be important. How big it is I am afraid I do not have the data but we try and get that for you at some point of time.

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

Chirag: Thank you for the opportunity. First of all congratulations that we have reached a target of 500 Crores in food business. I have four questions, first is related to gross margin. We feel that on Y-o-Y basis that we have improved our gross margins from CAG of 72% to 68% but if I see on quarterly basis we are still in the range of 68%. Even if our food business as a total of total sales have moved from 44% to 52% and it has started giving a higher contribution plus our mass oil business has reduced drastically still I am not able to understand that why our gross margins not able to improve my first question is that. It would be very helpful if you can give us a financial highlight of how gross margin is spanning out in those two vertical like food and oil. It would be really helpful to understand and take the numbers in better way. My second question is related to the distribution change. I see that we have reached the mark of one lakh in multiple vertical of our food business itself, but I just wanted to understand that what kind of difficulties are we facing to increase our distribution reach like reaching from 1 lakh to 2 lakh. We have to pan out in entire India so it would be very helpful to understand that how are we panning out and what are the difficulties that we are facing to increase on a year-on-year basis. My third question I just wanted to understand relating to the competition perspective. It is great to see that we are firing all the cylinders in food business and every business is growing well but just trying to understand on ground we are also starting to see more of competition taking place may it be organized, may it be organize market so what is our competitor edge within our food categories which is helping us to stand out in our competition and my last question is related to understanding like how our ad spends will move. Like as we are increasing our product portfolio and we are focusing more on multiple verticals may it be RT may it be chocolate and it would require some promotional activities so as a percentage of gross profit which we actually look at it has been really stagnant like 8% of gross profit we spend it on ads and promotion so should we expect that going forward it is going to increase the ads we are planning into new products. Thank you.

Sachin Gopal: All right. All very good questions. Thank you for asking them. We do not look at the way you do. Obviously, you are taking it from the ad in terms of net sales across the goods but let me try to tell you from the way we look at it in terms of gross margin. See our food gross margin used to be in the range of about 26 to 27% something like that before COVID and when COVID happened, we had disproportionate increase in ready to cook business that you can go back to those numbers. It actually crossed well ahead of 30. It went it 32, 33% range and then of course COVID then there was a huge commodity on slot right and you do the math scenario investor highlights you can see if you divide the gross margins that we mentioned in the bottom of financial highlights where we call it performance highlights we divide 28.7 by 124 and you get to a margin about 23%. In Q1 I think it had dropped down to under 20% because this whole commodity on slot was there and we had to navigate through it so that the important thing is that we are building this business quarter on quarter so that we navigate it through and we had to convince our parent company also about it and as we navigate it through so that we exit the year well and then our journey continues. That CAGR of 19% continues. Obviously in one year it can be little more another it can be little less but it must continue so I think right now what is happened from the 25 to 26, 27% we came down sub 20% in Q1, we have already recovered to 23 and as I said earlier you can do the math you are all smart. If you look at the trajectory Q1 was an average of 20 and Q2 was an average of 23, the graph is upwards. Our first task is therefore to just get back to that 26, 27% and then work out with operating leverage with the right mix, ready to cook will also start growing, how do we get that 30% gate where we always called out as our minimum expectation. Less than that we do not believe you can have a business because it is not going to be profitable double digit EBITDA business. In terms of distribution chain difficulties. There are tons of difficulties. Every day is a difficulty and it is only going to become more challenging, but that is great. That is only going to be challenging but that is great because that is only going to become more valuable. Today as you said there are lot of competitors because there is so much private equity money which has come in but most of them are in the internet space. The moment they start coming in, the private equity money has to fund distribution expansion particularly in the traditional trade that is reachable. Now the good news and the bad news is that the only thing that you need is you need to be willing to slog. Use that distribution in India by slogging. You get to work at 9 in the morning, you work you make calls, 35, 40, 45 calls report back to the distributor points make sure the delivery happens the next day if it is an order booking and you slog and you slog and you keep doing that. One year does not make a difference, you do it 5 years, 10 years, 15 years that is mode that Hindustan Levers has. It is a different issue because of their size they are not able to handle something like peanut butter right but that is the mode that they created and that is the mode that we have today. How do you get distribution you get it by slogging. I can remember a time I was in Chennai two weeks ago and I can remember a time in Chennai where we used to go and we used to get an order for one line. One line means one scheme from that retail store. The least number of line orders that I got in any store in Chennai in a small store was 11 lines. There was small store ordering 11 lines on us. Stores ordering 50 lines that is the power of the portfolio. You see the critical thing for distribution is you have to think about the distributor, one of the reason why we have the portfolio today is of course these categories are attractive and they are all growing but the other reason is for our distributor, he is now targeting five categories in new geography. Maybe he is just selling instant popcorn he will be targeting one category one part of one category so his ability to get revenue or her ability to get revenue from a small area is much better when we are competing in number of categories right so the answer is only slogging. You got to keep doing it you obviously invested in resources as well but right now we are not adding more people because our expectation is within our 4.5 lakh stores if we got coverage we still have a long run rate for growth. Breakfast cereals you can take up to ITC levels right, to popcorn levels that is 2,80,000 stores. I think the point will come in the next few years our expectation in case our sales director and I our expectation is that chocolate with cross popcorn because you know size is so large the category size is so large. You need to be willing to work hard and you have to add the portfolio. If you do not have both of these there is nothing you can do. If you say you know what Sachin do you want to work really hard and drive distribution but if you do not have the portfolio you do not do it. Then I was talking to somebody you set up a plant in Kashipur and he said my product is very good, but I do not have a portfolio for distribution so that six cross of the sales organization is youth and that is comes to the third point that you raised which is competition. Competition is there and it is useful. The current play of the internet and giving some additional margin to the modern trade is useful; but it takes only up to a point to actually when in India there is brilliant people you need widespread distribution right. You will create some business you will sell it out to somebody else but it is very hard so this distribution that we have now built of half million stores is great and I think if you have to build that distribution work today, it will be very, very expensive. It would be extremely expensive and frankly I think almost impossible to do because I do not many other companies who even are showing signs that they will be able to do it that is one and obviously the other part is differentiated products so either you have differentiated products through which you can gain shares so for example our coconut Duo is a very differentiated product now you can say by the way Sachin I think Bounty is a better product and maybe that could be a valid personal view but the fact is that Bounty is not relevant in India right. We are available in close to one lakh stores, Bounty is available I do not know in how many stores may be 5000, 10,000 stores and very expensive. Similarly our peanut Duo is a great product it is great value right. I was in Chennai the other day and it was a small store and I think it was 20th of the month. We said we go and find out in the last 20 days what is our sale and what is Snickers sale. Snickers as you know has spent a lot of the money in this category. The Snicker sales was 31 pieces in that store ours was 36 without spending a single dollar on advertising right so that is the power of great product, great packaging and a great sales force. We have a great sales force so there are different products. There the product are not so differentiated then you necessarily have to price competitive you have to bring value and that is why it is important. I had pyramid and maybe I will touch on this in the November analyst meet right which I hope will be in person. You need the full portfolio. You need the value products at the bottom which sell to 250 to Rs.300 a kilo and then you need the products at the top which is Rs.700, Rs.800, Rs.1000 a kilo but you cannot do without either of that you need all of them but if you have all of them you will have control. Last is ad spend, 100% I would say our ad spends are less than desirable but there is a reason for it right. We are at this cusp where we are reducing the dependency of the edible oil business and we are transforming. It is visible to you. It is probably more visible to you than it is to me because for you can see it from a distance when you see a child who is growing after a year or two for us we are in it, but it is transforming right oil is becoming a smaller share of business. This is part of pain of that but that is okay. Every transformation has its pain nothing comes for free. Actually we all believe it is a great food business that we have today. Annually it has run rate of 500 Crores, five categories. We do not need to think where the growth is going to come for. There is no debate at this point. The only debate is okay what will be the cost of that growth that is all. That is a nice position to be in. It is like we do not really now days make start plans that we use in volatile world but I do not think it can get better than that. Thank you Chirag for that question and Ajay thank you very much and Steven we will close the call. I apologize to those who have unanswered question and we will look forward to the next call. Thank you all for taking your valuable time out we really appreciate it.

Moderator: Ladies and gentlemen on behalf of Anand Rathi Share and Stockbrokers that concludes this conference. We thank you all for joining us and you may now disconnect your lines.