"Agro Tech Foods Limited Q1 FY2023 Earnings Conference Call"

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ANALYST: **MR. AJAY THAKUR - ANAND RATHI SHARE & STOCK BROKERS**

MANAGEMENT: **MR. SACHIN GOPAL – MANAGING DIRECTOR - AGROTECH FOODS LIMITED**
MR. KPN SRINIVAS - CHIEF FINANCIAL OFFICER – AGROTECH FOODS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q1 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 an 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. Ajay Thakur from Anand Rathi Share & Stock Brokers. Thank you and over to you, Sir!

Ajay Thakur: Thanks Michelle. Good afternoon everyone, on behalf of Anand Rathi, I welcome you all to Q1 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 then we can start with the Q&A session. Now I will request Mr. Sachin Gopal for his opening remarks. Over to you Sir!

Sachin Gopal: Thank you Ajay and thank you Michelle. Good afternoon everybody. We will try and walk you through the results of Q1. I am sure you already have opened the presentation that we have uploaded on the website. So, we could just refer to that. The first slide is ATFL results update for quarter one.

We will move to the second slide what is the company strategic vision that is to become the best performing most respected foods company in India and we are 100% on track as far as this vision is concerned and we will share with you why.

Quarter one key performance highlights: Steady foods with a very high input cost inflation. So obviously from an input cost inflation standpoint, it was a bit like, the one has been a bit like standing on a beach and you have a tidal wave which is coming in and you are struggling to stand upright, and but those waves have started washing away now and we have to take the right calls in the quarter to ensure that our growth plans as we mentioned to you in last quarter's presentation our growth projections do not get delayed by the temporary spike in inflation that we saw particularly in Q1.

Some of it is there, but overall I would say it is a lot lower today than what it was, and the second piece of relevance to the business was the fact that in the last year in quarter one of prior year there was obviously a large amount of people who were sheltering in place in home and that certainly had given an elevated consumption for ready to cook particularly popcorn which is a dominant part of that category and that is in our base. So we are a more normal economy today and it is difficult to say obviously how do you define normalcy, but let us assume that we are today at about 80%, 85% normalization as far as people coming back to office and going out and leading a normal life, quarter one last year would probably have been in the 15% to 20% then maybe 25% range. So, the delta between of normalcy was very high in quarter one.

Going forward our expectation is this delta of normalcy is going to reduce as we go by. Things of course will become even more normal in the current year on a quarter-on-quarter basis, but last year would have been seen as significant spike in normalcy post the second wave. So that has an impact. The ready to cook business accounts for about two-thirds of our sales. So that is why if you go to our investor highlights page you can see that 33% of the business grew by about 40% so that is about 1300 basis points of growth and then the two-thirds of the business declined by about 4% so that is about 200 basis points of growth so net-net the business grew by about 11%. So, this given the nature of magnitude of the second wave means that we are in good shape we have always said that we need to grow our food business by about 20% to 25% and this clearly indicates that we are on track to be able to deliver that.

In terms of gross margin, our quarter four gross margin was lower by 3 Crores. The breakup of this is really there was input cost inflation of about 4 Crores the dominant part of that is palm oil, which fortunately has corrected significantly post quarter one and also there was some volume impact in terms of softness in RTC popcorn but there were some negatives of about 2 Crores. That was offset by pricing. We took pricing across all categories barring peanut butter where we had dropped our price last year, which is showing excellent results now and volume growth in the non-RTC popcorn part of the business that kind of breaks up the gross margin on the food side.

I would say going forward the input cost inflation is already moderated now already in our books even in for July and we would expect the delta of RTC popcorn to improve how much that is very difficult for us to call, but there is no real hard data available for that and we will continue to see pricing and volume growth in non-RTC platform; however, probably it will come more in chocolates as compared to RTE snacks which was the dominant driver as far as quarter one is concerned.

In terms of edible oil the gross margin came out a little lower 15 Crores we have always told you that we think the 70 Crores plus, minus is a kind of achievable range and so I would say this came out okay given the huge time that we saw in Sun Flower prices edible oil prices are still too moderate, I mean, they have come down a little bit, but not that much.

So I think we would expect that going forward we need to continue to navigate with focus on margin and whatever is the resultant output in terms of volume we would have to take that impact broadly I think looking at the commentaries from other players in the category I doubt that we have lost any share in this category we might even have gained we will get to know as more detailed results come out for all the different companies because as you saw in premium edible oils our values are down about 12%.

So, we will have to see how other people's results are and how they are performing to understand what has been the shared performance, but at this point I think it is reasonable to assume that our share is probably just at least the same and if not better that we will see later results. We would have seen that A&P spends are broadly in line with prior year so not much change there and as we told you earlier we will continue to invest this year behind the business we need to continue to exit with very, very strong growth rates and so we will continue to do that we will not cut back any brand investments despite the inflation in input costs; however, given that we need to prioritize whatever spending we do behind the RTC category and peanut butter these are the two we are continuing and we are not increasing advertising spends on any other category in the near-term. Once we see all these the food business once again that in terms of margin the desired makes everything else then we can evaluate whether this money in the P&Ls has to support, but right now we are getting good growth even without any A&P in the others, and our quarter one SGNA was higher than prior year by 2 Crores which was value due to travel and secondary trade. So, there was very low level of shipments of ready to reach snacks in FY2022 quarter one so there was a spike in secondary sales and travel also everybody is traveling a lot more we need to travel now to be able to get the business. So, the travel has increased and this was offset partly by you would have seen in the advertisement that our employee benefit cost was actually a little lower than last year. So really profit and profit before tax and profit after tax just about keeping our head in the water and coming in at this level of 24 lakhs.

If you could just go to the next page which is the highlights by category we can skip that page and then just go to the page that says ready to cook snacks. So you can see here that we have a volume decline of 5% and a value decline of 4% this is after about a 200 odd basis points of growth coming from pasta, from the non-RTC popcorn part of the business. On the RTC popcorn business actually it would be higher, it would be about a 6% decline. So clearly there is the impact of the second wave going forward you will see how is this delta of normally going to help this growth rate, so that it also comes back into possible space. This is whatever in-store data we have and also this is data whether we have collected from many of our modern trade customers who do share data with us.

Our estimate is that of the instant pasta market we have already got about between 3% and a 5% share. That is excellent and it shows the power of a differentiated product. Our product is absolutely super. It is well differentiated we are not spending any advertising money and we are gradually gaining share. So that is really good news and it reflects really our capability to build and gain share and categories which is more innovation driven as compared to writing out a big advertising check.

The other learning that we had over the last six months after we entered the pasta sauce, pasta market is that while the pasta market itself is large the instant pasta part of it which is the Rs.25 to Rs.30 pack is much smaller and in fact the pizza and pasta sauce market is more than twice that of the instant pasta market between 2 and 2.5 times, so in other words the packs that you see for Maggie and Sunfeast those packs Rs.25, Rs.30 of Bakefield as well if you combine the total revenue of that the size of the pizza and pasta sauce market is much bigger I think it is estimated at about 400 odd Crores.

We have a great sauce in our pasta pack so we are now rolling out and extending that out as a pizza and pasta sauce so you will start to see that in the market in the next four to six weeks and that is excellent because there is nothing else required from us the manufacturing guys are already underway in fact we have also done to close the automation of the line which we have talked about I think probably two or three quarters ago and so that will give us additional legs to be able to drive up the total RTC index to where we would liked it to be and last but not the least I think we have a lab scale plant filled extruder that has been installed so it is a low capacity one because we need to crack it and we have working so trials were commenced so I think somebody had asked at the AGM when even that time we have not yet installed it where will you do in this year, I said will possibly we will do it this year. So I think post the initial trials it looks like it then definitely be a launch of this for sure.

Here our objective would be and I think the person who summed it up the best on this was Suresh Narayanan of Nestle who said that for plant needs to succeed in India they will have to be, I do not know the word he used, but I would use the word democratized. It will have to address the mass market. Today most of these plants made offerings are very high some are Rs.1000, some are Rs.390, some are Rs.300 you do not build big businesses in India at those kinds of price points.

So our objective would be to come out clearly at a sub 100 price point I am not sure where it will land ideally if you could do something like Rs.50, Rs.70 it would be good so let us see but that is kind of where our thinking is and if we do that then we will probably be the first people to be able to make a very, very attractive entry point for consumers into plant made and as we all know in India that is very, very important. So we will keep you posted you may not hear too much from us because I just wanted you to know that trials are underway but now obviously there is other work to be done in terms of development and so on and so forth. So pretty much ready to cook we see some softness in popcorn, we see of doing very well in pasta extension into pizza and pasta sauces and hopefully by the end of the year our entry into plant meat all of it together should give us a decent growth rate as far as the category is concerned.

In terms of ready to eat snacks that is the next page you can see here the volumes are up 65% revenue is up 79% so this is a mirror image, it is a mirror image of the ready to cook business because people were not the people were all at home in this period so naturally the volumes and the revenues are very high but additionally I think we have got a lot of strength in the RTE popcorn business, we are clearly at a national level in a very powerful position now. We have also had a clear improvement in gross margin we have taken a loss I think in this category last year we have done granular reduction we have taken the shock of that and actually it went through pretty well I would say and even things like packaging footprint changes because those cost money in terms of laminate, corrugated patterns, freight all of those so you could try and get those to as low level as possible. We continue to work on potato chips this is going to be a long haul as we told you. We do not want to be pushed into doing anything quickly on this we will learn because potato is a very tricky commodity and we need to manage this very tightly, so we are doing that.

The manufacturer of our pan product has commenced in July 2022 you will start to see it in the next quarter you will have the back shots which I am sure you will see it in the market before that. Rollout in quarter two at FY2023 and this will help to support margin improvement because it consume less packaging material, less corrugated, less trade, so it is basically more and a higher revenue per ton, so it performs well there that is underway on hoping snacks this is still, it is going to be a small business initially that we will keep and as we told you I think we would expect to launch this in FY2023 and continued focus on the right combination of full truckloads, AFTL stands for full truckloads with distance from the plant the longer the distance from the plant the more attractive product mix that you need in terms of margin, the shorter the distance from the plant the less effective mix that you can make due in terms of margin that this balancing is important because at the end of the day this is the business which is the conveyor belt of the company for us to keep driving distribution.

Overall maybe a strong comeback but driven a lot by COVID so obviously these percentages will also moderate as we go forward because the same delta normalcy that applies to RTC also applies to RTE albeit in an inverse manner.

Next page is on Spreads & Dips you can see here we have done a very strong growth with pricing realignment in FY2022 with a volume growth of 28% and a value growth of 10%, and every time I look at this chart I am reminded of a very it is an outstanding quote there used to be a Professor of MIT, Rudi Dornbusch. He was a German Professor. I think he passed away some years ago and the quote was in economics things take much longer to happen than you think they will. So you expect things to happen and they invariably take more time to happen than you think we will and that is true for our peanut butter business also. We realigned the pricing starting second half of last year it took some time for the entry in the trade retailers are making choices etc., etc., but in the last I would say six, eight weeks it is completely very, very powerful strong growth and the second part of Rudi Dornbusch quotation is so the first part is in economics things take much longer to happen than you think they will and when they happen they happen much faster than you think they can. So when they happens, happen much faster than you think they can and that is what is happening on peanut butter right now.

I think we have come back very, very strongly certainly completely back in the driver's seat and our whole combination of value, advertising, products these are all doing exceedingly well. We I would say will definitely be gaining share right now from our competitors we do not buy data but I think that is where our head is and they would include all manner and shape and form of competitors, it would range from Hindustan Unilever to private equity funded players, smaller players anybody we would be taking shares from them right now. So very good comeback and then we would now expect to see the games coming from operating leverage as these volumes start to grow so that we are able to offset the impact of the price reduction that we took in FY2022 and then obviously drive forward.

New high protein variant development is underway. We have talked about it we wanted to announce this in quarter one but we had to do some further refinements in terms of the protein content and so if this will happen in quarter two I think probably in August itself it will happen. We have also initiated the single serve cups for all the spreads so for example you must have seen these cups of Kinderjoy they have these cups over Rs.20 so we will target a lower price point from that and so this would help to drive price so we will launch these probably by quarter three it is not going to be better with driver and volume but it will help us to acquire new consumers.

Soft light spreads generated sales net sales of about 1 Crores in the quarter so price increases are also underway with support of peanut-based extension and we will gradually grow this business. The name of the game really will be we like to expand the category so we are good at building categories so we are going to continue to work on this and we have also got a launch of salsa, which is scheduling quarter two, we have launched but I think we do not have rate in this category then you need a certain minimum rate. So it is there it sells through some stores that is very good off and on so we will add salsa to add some weight to this category and that will also happen in this quarter itself. So by my next quarterly call you will actually see a slightly boarder presence in this.

Then if I could request you to go to the next page which is breakfast cereals you can see here a growth of about 54% in volume and 58% in value somehow this growth is similar to RTE stacks not all of it some of it is driven by core distribution and display but somehow and also a greater entry in the mainline breakfast cereals category i.e., some of that is also due to the fact that a significant part of our consumption of Cereal snacks our snacks or breakfast cereals is as a cereal snack meaning is a snack on the go, like the ready to eat snack and that part obviously was down last year so that one's base is also sort of a little low so we will see how this pans out during the quarter, during the year, but overall I think we are progressing well. The growth is not as explosive as it is in chocolates but it is there and it will continue to grow and we will be building this business up to a level of Srinivas had mentioned 20 Crores, 25 Crores then we think we can spend advertising when behind it so let us see when that happens.

The roll out of the hazelnut variant is in Centerfield is underway. It is happening right now and also schedule for the launch is a cookie and crème variant, cookie and crème is gradually making inroads in India that is really largely driven by Oreo. So it is a very nice product that we have and we will do our national launch of value-added Oats which is scheduled as per plan for quarter two. So just remember what I mentioned that this will not be claimed. So the 5% GST Oats will not be included here but this will be the value added Oats and we will make a soft entry and then we will build it soon so on track for a profitable business in FY2023. If I could request you to go to the next page which is chocolate so you can see here the volume growth moved up to 18% pricing of 252 because we did grammar deductions last year we held the price of 10, Rs.5 comes at a higher price per kilo etc., etc. so continuous strong growth in the business significant improvement margin as we gain scale. The installation of the second line has been delayed by approximately six weeks. So in fact when some of our investors asked us this question and I take this opportunity to answer that but if you recall I had said that we would double the capacity in quarter one and then double it again in quarter three so the first part doubling therefore as to what happen actually schedule for growth but there were some component issues in Europe because of which it got delayed but I think we are expecting a receipt sometime in the first half of August. So we probably miss by maybe a couple of weeks but not more than that because anyway before this is summer and that has got a good time to actually scale up the category, and I would not be able to give you the capex as such and chocolate I am just going to tell you with our expectation finally is a minimum of two terms so somebody had asked the question how much so that is the minimum that we would expect as a company that we are working on and we kind of give work on that and another question I think this has been often answered asked on chocolate from this time I guess I will trying to give you a decent answer to it, what is that you are talking about one line, two line, three line what does it mean in terms of revenue. So right now we are looking at a revenue of about 15 Crores to 20 Crores I do not know exactly because it depends on which line we are running what size we are running all that there are some variations. So you can assume somewhere between four lines should be not somewhere between 60 Crores to 80 Crores I know that sounds like a broad range but we will understand this better as we have more experience from that end and the SKUs.

I would say that is pretty much some detail which was soft launch as some investors in chocolates and that gives you here. We will continue seeking very aggressive growth rate to achieve breakeven in the category during FY2023. We invested a lot of money this year and I think very soon with scale we will get that breakeven and then from them into profits. It will be a key revenue driver in FY2023. In fact, would request you to go to status then on premium status. Now I have told you that this will include those but it does not really include much also it is a little bit of what is there but not much in this year. So you can assume for practical purposes that these numbers relate right now to premium oil. So premium oils will be therefore down about 12% and value was down about 8% so you could see there was still pricing but of course last year's quarter one also had fairly inflated pricing on many of the spaces, and so we will be rolling out those in quarter two to make this premium status more broad based and therefore reduce risk from a similar commodity business while providing procurement scale to the foods business so we explained this to you we do need more scale in many of the categories and this scale we can get only by actually buying larger volumes which we will put under the premium status. So premium status will gradually house many more commodities other than oils. They will still have the potential in our view to deliver a 15% to 20% margin but certainly we do not expect them to ever deliver a 30% gross margin which is the minimum expectation that we have for foods and mostly there will be single commodities.

If something is processed when we add value we will keep it under foods we will put it under food, but if something is a single commodity which really means just a packing operation that will certainly go into statements and in case is lifted largely where it is good from system in FY2024. Comparative updates you can just go to the page of that you can see we spent pretty much more or less in line with the last year, a tad below probably but a little bit and big spending by Frito Lays that is a big change there and as the player was expecting you can see that based on food spending, back snacks spending and Act II also spending a significant amount of money.

If I request you to go to this chart on spreads you can see here Hindustan Lever continues investment in peanut butter. They spent about 11 Crores, we spent 11 Crores last year. Our estimate is that they will spend at least 2 years. We had mentioned this to you and we launch so I would say this will probably go until quarter three at which point in time we will do a review of the business from their side. I will get to whether they would like to continue or not, and but I think you can go into the stores and see the stocks and see the amount of stocks the manufacturing date and the amount on discount. So you will get a good idea of how successful it is. We spent pretty much broadly in line with prior year and however that is nothing really was significant except Patanjali we spent a lot of money on money so that is a fairly substantial somewhere that you will see there as so that is kind of a standing out in the whole chart.

Breakfast cereals Kellogg's continues to support for broadly across the board. Nestle appears to have discontinued support really because you can see for a large number of quarters now last year and this year absolutely zero spent and Tata also has increased its investment so we will have to see now how their offtake pans out vis-à-vis the stock that they put into the trade and the media investment that they have that we will figure we will understand from the rating of the stock how many offers the prior on the stock so that will give us a good picture. In terms of chocolates Mondelez remains the dominant spender in the category but you will notice that ITC has also started spending quite significantly now steadily and now this time it is not somewhere behind federal but it is more by Candyman chocolate which is priced at a lower price point and that makes sense. So we expect them also to be reasonable competitors going forward in this space. Of course we have very, very differentiated products. So our growth rates are going to be very, very good.

Next page on edible oil, you can see that we had obviously stopped we have not been spending any money since FY2018, but you can see now even the second what we define under premium oils is Saffola also the spending coming down so the premium oil share of spending is certainly dipped in quarter one and I suspect this is going to continue and math are really going to dominate this space this is something that we have always told you very, very consistently and that expectation is coming through and panning out. So at this stage it all seems to reflect everything that we told you on the turning spends. You can see kind of the premium oil spends going down from 54 Crores in FY2019, 53 Crores in FY2020, 40 Crores in FY2021, 38 Crores in FY2022 and now 6 Crores in the first quarter of this year so the trend line is very visible and that is the reality because at the end of the day it is an undifferentiated category and with limited pricing there are a lot of other categories like noodles, but I am not going to spend too much time you can see Nestle, those Nestle and ITC remains dominant spenders.

We will just go to the next page now the pasta not much spending there I feel that most of the players are spending their money on the movie war, if you will. Soups Knorr continues to be the dominant spender. That is the next page and therefore in summary the last page of the presentation I think steady growth improved given by non-RTC growth of 41%. Let us see how this normalcy data works out in terms of anyone outperform and as that improves obviously for us the overall rates will go up and also the margin improvement will be there because popcorn is naturally a longer signing product and therefore from a profitability standpoint and there is a distribution impact on that. Oil pricing at 15 Crores for the quarter is below the quarter running rate last year would have been average I think for the year came to be about 18% if I take 70 Crores it will come to 17 point something so it is a little lower range. So we will see how the next quarter pans out, but overall I would say in the end-user particularly given the spike that we saw.

The power of the diversified portfolio is visible now you see during COVID we had both RT and RTC, RTE dropped RTC, RTC went up post COVID RTC has dropped, RTE has gone up so this diversity of portfolio I think is very, very important for us to be a really great foods company and I think that is certainly playing out and I think this redefinition of the premium oils into premium staples is also going to give us significant benefit because once we start looking at it three lenses we will be able to engage in a lot of categories where there is just simple stuff is already coming into our factory the simple packaging to be done and how to grow our distributors make enough money, our factories get sale, our overheads comes down, so it is a nice balance, so long as we do not lie to ourselves and pretend that something which is the premium staple is approved.

So long as we do not do that I think we are in very good shape and hopefully we will not do that and I would say in good shape to deliver a solid performance in FY2023 despite commodity headwinds. I think we have done with the presentation, we still have the 25 minutes or half an hour for questions. So there was only one other question which somebody sent us one of our shareholders has sent which is that we have got three members from Conagra on the board as compared to which we have had historically and for some time even that does it signify any change in Conagra's intent as far as the company is concerned the answer is no, see Conagra remains a very North American purpose company and they will continue to be there for at least right now things may change in the future but as of now I would not read I would not read anything into Conagra having one, two or three members in the board it makes honestly there is no linkages to be drawn from that and our job is to continue with do well to build a great foods company and certainly we are doing that. So madam Michelle over to you and we can start the Q&A.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Vishal Gutka from PhillipCapital. Please go ahead.

Vishal Gutka: Sir I have two questions, first is on premium edible oil. We have seen I think 12% volume decline this time. I wanted to understand when a consumer downgrades to a cheaper brand due to high insulation or higher edible project how difficult is bringing him back to the original brand. Second question is on peanut butter, I think there is a big diver just between volume and valley growth I think it might have happened due to price correction that you have taken across the board. So it is anyway impacting margins in a meaningful manner and your views and thoughts on the Rs.10 actually we are planning to run for peanut butter what is the game plan out over there. Thank you.

Sachin Gopal: Vishal, I did not get the last part on the Rs.10 SKU so can you just repeat.

Vishal Gutka: Yes, if you can just give any color what is the game plan that you are planning to do Rs.10 SKU for that will it be more on the property side as well as what is the law because you are trying to increase the market size for what do you call peanut butter. So what are the game plan are there the single serve pack so if we can give more color on the Rs.10 SKU?

Sachin Gopal: See on the premium edible oils I would say the answer lies in what the performance you saw last year. So if you look at it we were actually having a volume decline for several years on premium edible oil because our view would be higher we were 45%-50% of the market for premiums in the market and then the moment we did the price, we strained the turnaround so consumers will come see. We have a very strong brand equity and the only thing is, is the consumer willing to pay that price or not that is all, it is left to themselves consumers will always be willing to would rather buy Sundrop but it is a function of how affordable it is. So we do not see any issues of if a consumer downgrades will they come back, not come back, they will definitely come back consumers also reduce their consumption these are also things that happen so no worry at all on that. In terms of peanut butter what is our game plan? Definitely see when we take a price correction like that it has an immediate impact on margins but obviously our calculation and our math is that because we have our own plan so we have operating leverage unlike the other people who all buy from smaller players and there are lots of strong players but then they are not going to get the advantage of a better price because they give more only because the smaller player is servicing multiple people so it is already giving whatever best price he can that only we can get as the largest peanut butter manufacturer for the local market in India and therefore that was our math cluster. You go through our call you will see that we told you we think it is going to have an impact on margin it had an impact on margin but our math is that as we get back to volume and get back into very good volume growth, we will offset that initially. So therefore to answer your second question yes value is lagging volume because of the price realignment that we did in the back half of last year we will continue to see value lagging volume through for the next two quarters it will happen in quarter two, it will happen in quarter three we decided to do the price corrections in quarter three so that quarter four this gap should start to come down on a cumulative basis. On margin we would expect it is a function of volume and we will also have to see exactly how it plays out but our expectation is first stage will recover the margin that we gave away by way of pricing and then obviously the margin will just grow and when it grows like that it will grow exponentially because you are now corrected, you are operating at a very, very competitive price and which nobody can actually match. You can check us out you can check us out and go online nobody who is even close to it. Not only for that anybody close to it go into the internet and check peanut butter Big Basket or something and you will find most of the major consumers are only supporting Sundrop, when they put the display as you can make out all the major consumers they are 100% promoting Sundrop. So we are in very, very strong I think it is over so that is why that quotation from that was so, it is appropriate in many circumstances but in this peanut butter one definitely it is appropriate.

Vishal Gutka: Thank you.

Moderator: Thank you. The next question is from the line of Porinju Veliyath from Equity Intelligence India Private Limited. Please go ahead.

Porinju Veliyath: Hello Mr. Sachin sorry that I have no words of appreciation for you for the management I have been holding this stock for a long time. In fact I used to be really surprised operating in a country with such huge high economic growth and huge opportunities, a company what is it today when my local bakeries in my village make more money than me and you joined something like 15 years ago, if I remember correctly and that time the company had a higher revenue and something like a similar profit today. Of course I understand that shift from the commodity to the FMCG food business, but it has not gone anywhere. It is just any kind of business today is after this 15 years of working. Actually you should make a very serious retrospect and I have heard your very long speech it was basically a repeat of every year, every quarter what you talk, use the words like we are on track, overall company's position well, operational leverage all these are just to keep investors waiting companies making just enough profit for your salary, shareholders are just totally I do not know this is very, very funny thing. You should introspect very strongly. I would say you should take initiative for some smart CEO with execution capability to take charge and run this company and create wealth for shareholders rather than just talking and talking. This is not a one year, five year or ten years, I am talking about 15 years. The patience of shareholders are, it is too much being tested. Please do something Mr. Sachin and it is very pathetic the way this company has been managed in the last 15 years. I am sorry too for this kind of outburst but that is what is coming to my mind.

Sachin Gopal: Thank you, Mr. Veliyath. I think we will pursue that, so we will absorb the feedback and thank you for your advice.

Moderator: Thank you. The next question is from the line of Uttam Purohit from Perfect Research. Please go ahead.

Uttam Purohit: Could you please share the revenue breakup of branded food business namely ready to cook, ready to eat, spreads and dip cereals and chocolate and confectionary and we guided 20% to 25% growth for food businesses the guidance is still same and what is our current capacity utilization segment wise and any plan for capex this year?

Sachin Gopal: Anything else Uttam?

Uttam Purohit: That is it.

Sachin Gopal: We are very much so. I think therefore we said earlier, we said in quarter one we definitely see the impact of the elevated consumption of RTC popcorn in our base and as I said the delta of normalcy will change as we progress through the year. So we definitely feel that we are on track to be able to deliver a growth in that range. In terms of capacity utilization I think it obviously varies across categories but probably to be in the let us say if you are looking at this level probably maybe 50% to 60% kind of range in aggregate that will be the broad range, but it will vary across categories so that we do need to continue spending on capex especially on the ones which are fast growing for example right now we are spending on chocolate confectionary and last on capex I think this question was raised in the last analyst call or possibly it was in the AGM so I have given a figure that this year we expect to spend somewhere in the region of about 40 Crores to 45 Crores on capex but it will be phased through during the year and spread out so that we can also optimize it from a cash flow perspective. All right thank you Uttam, thank you I hope that answered your question.

Uttam Purohit: Yes thank you.

Moderator: Thank you. The next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead. As we have lost the line of Mr. Pardeshi we will move on to the next question which is from the line of Dhwanil Desai from Turtle Capital. Please go ahead.

Dhwanil Desai: Sachin good afternoon. My first question is if I look at our food numbers since last four quarters we did around 110 Crores in Q2 FY2022 then 108 and I think this quarter we did around 94 Crores, 95 Crores. So quarter-on-quarter the food numbers have been coming down and we did around 400 Crores topline on food last year so even if I assume or I was to think that we will grow at 15% to catch up we have to do 120 Crores, 125 Crores kind of a quarterly run rate. So first of all are we targeting 15% growth for this year given the base of last year and if so what will drive this kind of a performance considering that last three, four quarters on a sequential basis the food business has been declining so that is my first question. Second question is if I go back in time and look at last three, four years some of the products where we were very, very confident and bullish including chocolate spread, centre field cereals, they were actually remain subscale I mean even today chocolate spread is around 1 Crores per quarter so hardly a 4 Crores number while we are saying that we have all the ingredients of a great product we have great pricing so what are the challenges in scaling up some of these products? Is it the distribution reach, is it the competitive intensity what are the things where we have not been able to take it to a critical scale level? That is my second question and third question on chocolate you said that total capacity that we will put up by end of this year or by Q3 we will generate revenue from 60 to 80 Crores so do we think that we should be able to utilize these lines optimally by end of next year what is the game plan?

Sachin Gopal: Thank you. All very good questions. Let us take them one-by-one. See in the foods business definitely there is a seasonality so do not look at it on a sequential basis look at everything on a year-to-year basis that is how we also do our budgeting. So we work on a quarterly growth basis then we have to assess are we on track and what are the risks that we see so on and so forth. So we will do that for quarter one, we will do that for quarter two. Quarter two and quarter three are always the highest quarters and there is a very simple reason for that quarter two is the advent of the monsoons it is the end of summer the weather starts to get better people consume more snacks all of that in fact this is time for oil also. So quarter two and quarter three are always the peak so go through the graphs of different years and the data is there and the investor highlights so as many years as we have been providing it and you will find that trend to be true that is why the key thing is the growth the growth number. Even internally when we look at it and we look at our sales organization everything is driven by index it is whatsoever index is my index 110, is it 150, is it 120, is it 130, that is how you look at it. If you look at it like that then you will have a fair assessment of how the business is doing, not by looking it on a sequential basis. Is the 11% lower than the 20% of course it is. I mean that is given and there is a reason for that there is an elevated base in the consumption and that normally delta we expect to even out as the year goes by how much honestly we do not have the data to be able to enter that precisely but it seems common sense. On your point on distribution or the product will subscale of course that is true. Whenever we have said as a company then about half our growth is driven by advertising and half is driven by innovation so will I maybe the part that is driven by innovation will for some time remain subscale. It is going to by definition we are not going to get scale in a year then that is one of the reasons why we talked about premium staples so that at least at a procurement level we start to procure in large enough quantities such that our P&L for the foods part of the business is not suffering because we do not have scale. Now what are we defined as subscale we have defined subscale as categories where we have not yet reached 20 Crores of annualized sales. If breakfast cereals in the category is 100% is chocolate spread in that camp 100% yes. No doubt about it but each of these will build up overtime for example when we launch peanut butter our first year sales were only 5 Crores and that is after we had been importing it for a while so it takes time. In the food business it takes time the beautiful part is that once you have got the consumers and they are locked into your product they are yours for life pretty much, and that is how it works. So the answer is yes many of our products are subscale that is why we are not making money on them but as we build them up they will start to make money and the proof of the pudding is in the eating. We built up the RTC popcorn business, we built the peanut butter category so you will see and at any point in time there are going to be some products which are subscale because as we become a bigger and bigger company from 1000 Crores, 2000 Crores we are going to need other products which are at that point in time subscale for which you can make scalable. So you need this otherwise you will not be able to sustain growth rates of 20%, 25%. So that is kind of our planning you will see more product additions during the year and these are not to drive this year's growth but these are that we do not end up suddenly when we are 1500 Crores, 2000 Crores of business and it is all by way now we have no growth ideas. We should have done this exercise five years ago then that is precisely why we are doing that five years that five years ago piece is being done now. So there is no challenge on distribution. Distribution we have the capability. We have got a coverage of little under 450000 stores there is no problem but distributing only one part of it we are going to be able to reach out to consumers. We reach out to consumers either through direct trial like we have done on popcorn and built up the category and we are doing on pasta and we need to acquire new consumers on spread but the price in terms of immediate size of price doing very well on pasta reasonably large category, they are putting clarity there but we also do some demos on breakfast cereals and some demos on chocolate spreads, but it is about getting consumers in the absence of advertising spending as and when they get advertised then they will move into a different year. So look at it from that journey perspective. Dhwanil, can you just repeat your question on chocolate thee last part that you raised?

Dhwanil Desai: We said that with the Q3 doubling of capacity this quarter and then again doubling?

Sachin Gopal: Yes, got it. Thank you. I apologize for that. In terms of low 100% this would not be enough to meet our requirements for next year I have always said that chocolate will be a significant part of our growth story and we have brought innovation into the Rs.5 which has not been there in the chocolate category maybe for the last 10, 15 years. For example, if you look at the Rs.5 chocolate category most of the last one product were things like Perk, Munch by Nestle, Cadbury Perk there has been more real innovation we have got innovation into that category at Rs.5 in a profitable manner. So this is going to be a big, big, big part of our growth story because chocolate confectionary is about 15000 Crores and we intend to fully leverage it and I would say build it so no this whatever capacity that we are working on right now this is certainly not the end game we would need additional capacities in fact to be able to meet our growth conditions for next year. All right Michelle thank you Dhwanil for the questions all good questions.

Moderator: Thank you. The next question is from the line of Manish Gupta from Solidarity. Please go ahead.

Manish Gupta: Thanks for the opportunity. Sachin I have four questions. I will give all four of them to you. The first one is that in peanut butter or spreads when a lot of competitors have entered can you share whether they have expanded the market or this has resulted in us losing gross margin in order to maintain our share? My second question is that like chocolate spreads is 1 Crores a quarter but obviously a lot of headroom for growth. So any category we enter how do you think about what minimum scale it can be in three or five years before you think it is worthwhile for us to spend time on that category. So for example what would your hypotheses be today of how big chocolate spreads could be say five years out? My third question is that there is lots of innovation we are doing but are we also creating a lot more complexity in our portfolio and a lot of subscale categories. So when you say that the size of the price and chocolates is so large 15000 Crores category, we are bringing innovation in. How do you think about your time and the time of your team that should we be deeper in a few categories rather than innovate a lot in there is pasta, there is pasta sauce, there is chocolates, lots of other stuff we are innovating? And my last question is that in the premium staples where our gross margin target is say 70 Crores plus, minus do you see a risk that the aggregate gross margin in that category can completely collapse if pricing stays and consumers start to down trade. So these are the four questions. Thank you.

Sachin Gopal: Thank you Manish, I think all good questions. On the first part which is peanut butter. I think yes we saw a lot of competitors. Now we are seeing a gradual reduction in the competitors. Typically let us say a year ago you see as many as six brands of peanut butter in the store today it is down to three and it is down to three for two reasons one is in the advertised competitors you may find one in one store but you would not find them in the other store that would be true for something like say Kissan peanut butter, it will be there sometimes it may not be there sometimes but equally some of the smaller people who are leveraging the availability of local manufacturers, they come under a lot of pressure, and it is visible now in the volume growth that we have this 28% and how we are growing right now so I would say that is in terms of competitive outlook. In terms of the impact on did they expand the market? The answer is no. I think we showed this to you a couple of quarters ago where we showed that Hindustan Lever had spent about 40 Crores to 50 Crores and Euromonitor was showing actually that the growth rate of the market had come down in fact this almost flat. So our answer to you is that you do work like that in the foods business there is an adoption rate. It is a slow adoption rate and that is why a lot of food companies are simply unsuccessful at innovation, they are unsuccessful at innovation particularly where categories have to be built up. You need to do a lot of hard work and it takes a lot of patience for that. So the answer is no spending or having more competitors does not expand the market. What does expand the market are triggers of unmet consumer needs so for example if more people are going to gyms and they are wanting a particular type of peanut butter without sugar, without salt, yes or they are larger consumers and they are looking for value in that all of those will be triggers which will be impacting the market. From our standpoint, on the margin piece I think we told you last year as I have just mentioned it again so you can repeat it, is that yes our expectation was natural that if you do a price realignment it has some impact on margins, but our expectation is that with the volume growth and the operating leverage that we will we will first offset that and then we start to grow the margin. So that is perfect. In terms of the scale I think the answer lies in the same 20 Crores odd that we told you. We will we will continue to be working and experimenting in a large number of categories and products and some of them will reach, some of them will reach that level of 20 Crores faster, some will reach through earlier, right but it does not matter and we would not be able to tell you exactly which one is going to at the time that we want is going to do it is going to reach 24, pretty fast right, right now it looks like out of the all the other categories we of course ready to eat popcorn is much, much more than that now but let us say in the new categories, chocolate confectionary looks like it is all set to you know just well reach fast at 20 Crores mark. So a lot of it is actually having put the products into the market but there will be products and it does not require, and this comes to the third point because we discussed actually coincidentally we discussed it in the board yesterday which is how much is too less and how much is too much and the answer is that is a goal that you know we have to take as management seeing how much complexities we are in adding in a series so for example of a pasta sauce if we are going to set up new machineries for making pasta sauce and the question is why are you jumping to the next thing, but if the question is I already have the machinery, and I will have the product, and all we are going to do is say okay, now will just you know capture a slice of this market and that is very, very it will be silly enough to do it right. So these are choices that we have to make. It also necessitates these choice is also necessitate to exit these products, so w we do new products, then we bring some peanuts, which is in the process of exiting, so there will be perhaps it would not do so well, and there are products which will do very well instantaneously and some which will grow in time. I hope that answers that question. On 70 Crores plus minus, yes. The answer is zero. No way. You know when Russia invaded Ukraine we got a lot of people who say you know what is happening you know Russia invaded Ukraine and you know Sunflower oil is going to go through the roof, there would not be availability of oil right prices so you know is the bottomline going to fall from your edible oils portfolio the numbers are clear, we put them in the presentation, but that is not in all the portfolio. So these are good businesses but they are not the future, they are not the future of our company that is why we never promised you growth in edible oils and said you know this business will go at seven to eight percent no. We know the role of this portfolio is to make a certain amount of money as far as our P&L is concerned. When we started our journey of transformation and invested behind foods, edible oils is making about 60 odd Crores. Today also it is making 70 odd Crores, 60 Crores to 70 Crores. So it is making that worth a lot of money so no we are not worried at all about that. Thank you. I think we have no question or what should we do to okay I mean should we extend or you can extend another five ten minutes if you if you guys want to.

KPN Srinivas: We have one question from Shirish. If you can just take because he had not been able to ask earlier he had been there on the queue but he could not ask questions. So we will take the questions absolutely.

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

Shirish Pardeshi: Thanks for the opportunity. I hope you are doing well. I have four burning questions. The first is the top of my mind why the income tax rate has gone up and I am saying this tax rate is going up last two quarters so that is one. On the distribution front, can you share some qualitative remarks that are you now trying to do the spread distribution because the product lines what you are operating is completely different in terms of the target market? So if you can give some qualitative aspect where we are standing today and what are the things which are driving on distribution? Third on the new product if you can split saying that the products what we have launched in last one year what kind of revenue we have generated in terms of either percentage or maybe absolute number? Fourth is in if you can break 186 Crores the revenue what we have delivered in this quarter what is the split between oil versus non-oil?

Sachin Gopal: Thank you. Thank you Shirish. We will start with the last one for four burning questions. The last one see we have already indicated that our revenues from foods are about 94 Crores that is in the investor highlights. So you can just do the math and you know it will approximately be the difference. In terms of new product revenues they would get account, they would be in good double-digit, the revenue share that we get from the products that we launched let us say in the last three years right and I would say this will this will also continue to grow. It is required to grow because innovation should build will have to deliver a fairly significant part of our growth. So if you take a year like this where obviously there is a base of RTC popcorn, is not going to change, we do need to get that much more growth from the other part of the business to be able to get to where we want to be. In terms of distribution front, see this is a question we debate on and it is an internal debate in the FMCG business which is you know should we split between splitting the field has a lot of consequences. It has the consequences in terms of cost not only in terms of the salesmen and whatever subsidies you have to give to distributors but as well likely the supervision cost of the entire structure right so it is complex, you increase supervision, you will increase complexity, you will increase the amount of reports that come in and it adds a very, very high level of cost to the organization. So what companies do is and what we do is that we tend to say okay we need to increase range. Somebody has to increase range in the store. So there are many options for increasing range it is not that I need to split and have more people where there is a permanent line item in the SGNA. Now you could say you know for a year you can do it, but I can do it for a year next year there will be something else to be done. So it will never be you know I do it for one year and I end and bring it back so the tools that we have used mostly in our company is that we have days in the month where we work with ready stock and we work the market with ready stock and we carry the entire range of the items that we want to add in that day in ready stock right so for example if there is a store where we want to sell let us say 30 lines into that store then we will whatever are the new lines that we want to we want to add we will carry them in the ready stock unit because we would not be able to carry the entire range because the radius of unit will generally be an offer and the balance items will get next day deliver as you know separate as a separate delivery so what this happens is this enables you to concentrate on that day on increasing range. Once you increase the range and in the retail store you increase the range once then after that the distributor salesman will automatically be able to get the replenishment. So this is one amongst many things. There are other things that we do to be able to support the increase in distribution because we are not a high ANP company right so we need to have these levers in place to be able to get the distribution of the new product and is that a challenge today? Of course it is. Was it a challenge 30 years ago? It was and will it be a challenge 30 years later it will be the same challenge right but spreading the Salesforce is honestly a very, very expensive option. On the income tax rate, I think I think Srini, just wants to tell you something.

KPN Srinivas: Because of lower in profit and the expenses in feedstock that is the reason the percentages looks little bit higher, profits are going too up and passing on the income tax will be down.

Sachin Gopal: Thank you. Hopefully we answered your questions effectively.

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