"Agro Tech Foods Limited
Q1 FY2022 Results Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the Analyst Call for Q1 FY2022 for Agro Tech Foods Limited by Anand Rathi Shares & Stock Brokers. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. I now hand the conference over to Mr. Mehul Desai from Anand Rathi. Thank you and over to you Sir!

Mehul Desai: Thanks Ayesha. Good afternoon everyone. On behalf of Anand Rathi I welcome you all for 1Q FY2022 Results Conference Call of Agro Tech Foods. From the management side, we have Mr. Sachin Gopal, Managing Director and we have Mr. KPN Srinivas, CFO of the company. We will start with opening remarks from the management and then we can start the Q&A session. Over to you Sir!

Sachin Gopal: Thank you very much and good afternoon to everybody. Thank you for taking the time out for the call this quarter. I will walk you through the presentation that we have already uploaded on the website so you can see that on our quarterly results section analyst call, it is called analyst call July 2021 and then we can just cover up the P&L as well and then take any questions which you have.

Let us call the page number of the presentation it is page #2. Summation to be the Best Performing Most Respected Foods Company in India, how we are doing that versus that now on page #3 of the presentation. Overall for the quarter we saw a strong growth of 31% in the foods business with overall income of 65 Crores to about 85 Crores in terms of revenues. This is more than what we have indicated to you as you know we have always told you we have had a historical CAGR a 10-year CAGR of about 15% and to that we have said that with all the new products that we are introducing we expect to do between 20% and 25% growth rate on an annualized basis to be able to get the top kind of a growth on a sustained basis and the reason is higher is primarily as you will see later in the presentation we have had a significantly higher amount of demand for Ready To Cook products and that is driven to a large extent by the fact that more people at home during the second wave of COVID which have been very difficult across the country and we had correspondingly lower sales of Ready To Eat snacks and even our breakfast cereals and chocolates will probably perform better if there has been more out of home activity but they are giving a small size of growth appear very large, but on a sustained basis I think we still feel that the business is capable of growing between 20% and 25%. Obviously as we grow through the year there will be ups and downs in this so there is this kind of a quarter where you have a very high growth trend, this is the quarter where it will be lower because the base is now become high and the dynamics have changed. Overall on a full year I think we feel comfortable that range of 20% to 25% is a good range for us to demonstrate sustainable growth of the foods category.

As I mentioned earlier there has been a clear impact of the second wave. Higher in home consumption of Ready To Cook offsets lower out of home consumption of RTE Snacks & Cereals. When I say lower it does not mean that it is lower there is still volume growth to some extent depending on the size of the business but it is lower than what we would be expected. The foods gross margin has improved from about 20 Crores in Q1 of last year to about 22 Crores of the current year which was driven by volume growth but was less than the volume growth of oil because it has largely been volume growth which has driven this increase in revenue and which has indicated that there has been some amount of softening of gross margin percentage, there have been significant commodity headwinds as all of you know palm oil rates have gone up and there have been other inputs as well which have been a challenge, we have taken some amount of pricing it will be visible already in terms of the premium end of popcorn where we feel more comfortable taking pricing. On the bottom end and for entry level packs are concerned we are a little more reluctant to take pricing because we do not want to compromise volume growth so we want to make sure that volume growth keeps coming at the rate at which we would like it to come and already now the palm oils have also softened the prices were softened I think probably for Q2 it may be more like Q4 which is lower than Q1 so it should be looking better.

In terms of oils we ended the quarter with a gross margin of about 20 Crores which was lower than the prior year of about 27 Crores, but if you recall we had indicated to you in the last analyst call that this year is going to be a very bumpy year because of lots of ups and downs, elevated oils demand and all that are going to and we also had indicated there were all one time, etc., will happen in subsequent quarters. Overall it is a good figure because for the full year we actually ended at 72 Crores right because we took the pricing actions, more or less the pricing actions happened more in Q3 and Q4, the price reduction so at this time last year we were sitting on a MRP for our Sundrop Heart and Lite products, which was an excess of Rs.200 per liter for the 1 liter and 5 liter pack we had already started rolling of the 3 liter that was still smaller and the competition was all at about 135 to 140. As we sit today we are at about 200 but the entire competitive market scenario is probably about between 180 to 200 for our immediate competitors and then 170 to 180 for the ones likely to go back. So I think we have come out well most of these price hikes will take normally 18 to 24 months to actually play out right because you take the rough on pricing and therefore on margins but then the volumes take some time to come back as it is always the thing, but I would say this push has been actually faster than one would have expected. So if you look at the 20 Crores in the context of last year's 72 Crores I think it is a very good figure and let us see how the next couple of quarters play out, there is a lot of turbulence in the market, but I think it is good and certainly it is better more than what we were expecting when we ended Q4 and that is natural because Q4 saw peak commodity prices, we were in the process of making ourselves more attractive, actually raise prices again what we thought was a reasonable point. So that is the detail of the gross margin, so you can see 2 Crores up on one business, 7 Crores down on the other so net of about 5 Crores and after that if you move down the P&L to SG&A it is relatively flat to prior year except CSR provisioning and royalty so easy to provide we said approximately 2 Crores on CSR provisioning and our provisioning last year was significantly lower and we were fully compliant with all that we need to do in the current year and we were fully compliant last year as well and probably we need to add somewhere I think it will be in the relative to prior year of about 1.5 to 1.8 or something next of course and we also have incremental royalty of about 50 lakhs in the current quarter so that total is about 90 lakhs and that is the change in SG&A, it will add that up along with the change in gross margin that is pretty much give you the movement in operating profit and profit before tax and profit after tax was 38% or 40% lower respectively than prior year, which has really given the high base effect of Q1 as we have already talked through. Overall I would say a very good start to the year.

So I am going to skip page #4 of the presentation and move to Ready To Cook snacks which is page #5. We saw a stronger than growth expected in Ready To Cook popcorn as you can see it is about a 36% volume growth and a 39% value growth. The pricing on premium range has increased to offset the higher commodity prices, palm oil, popcorn, and kernels and this is visible in value versus volume chart. There was a boosting of the growth rate with the steady growth of sweet corn. Commercial production and shipments of Pasta and sauce kit commenced in June, sell in was currently underway and initial feedback to concept I think is positive and then we take a few minutes to talk about this so let me get an idea of what exactly it is. We told you that we probably enter pasta noodle soups and all the question is how would we enter it and why will our entry be differentiated. Here how it plays out on this product in the market so we can talk a little bit more about it. Our pasta kit really includes a pack of pasta and a pack of pasta sauce. Now a lot of people sell pasta and lot of people sell pasta sauce but today there are actually only two companies which combined this two one is Tata Q and the second is us, Tata Q have a much higher price point where their architecture I think is driven by the **(inaudible) 9:19** you get a sauce on a tray and there is a foil on top etc., etc., so it is a slightly more expensive architecture or it was a little more bottom end architecture it is based on sweet corn architecture which says there is a retort pouch, there is a sachet and then there is four wrap on it. It is very, very low cost. There is nobody actually in the market in the retort pouch market who have been able to sell products to the consumer at Rs.20 to Rs.25 which is what we are doing today with sweet corn, so the pasta's price this pack price we will also see on to how the lower price remains let us see, but I think we have come out with an excellent product, it is a differentiating product and this will be approach that we will be taking in several other products as well, so we will leverage our competitive strength in terms of now having a very competitively low cost competitively low cost manufacturing for retort pouches. We will produce whatever we will need to bring in house and then we will buy the balance items from outside. To an extent there is scope for sweet corn also where we retort the sweet corn ourselves we buy the seasoning from outside we put the two together and sell it, it is the same architecture for pasta right, we make the sauce in house, we buy the pasta from outside and we sell the pasta and sauce kit. We intend to do the same thing in pasta where we will be making the pasta in house ourselves that will be a much smaller business obviously pasta is a much larger market it is likely 1000 Crores whereas pasta will be very, very smaller limited basically to imported Blue Elephant kit, but we do intend to have a full range offering really in this whole Ready To Cook kit area, so we will make sauce in house and we buy the pasta noodles from outside ditto on Chow Mein and Hakka Kit where we make the sauce in house and then we buy the Hakka noodles from outside and we could extend this actually endlessly, we could extend this endlessly, we could extend it to breakfast, we could have coconut chutneys with Upma and the total aggressive market is very large and because our competitive advantage lies today in the fact that we are really able to look great job in terms of providing the sauce without any preservatives and in a low cost manner I think it is a clear pathway to success to gaining share in segments which are large and that at the sometime without having spending a lot of advertising dollars behind it. So overall we keep you posted, but I think the initial response is good and as you see let us hope for a good time for us to enter the category because most of these pasta majors are right now fighting in the global market so which is good and it will give us a fairly at least easier entry into the category.

The next category is Ready To Eat snacks so that is page #6 of the presentation. As you can see here really volumes are pretty much flat than prior year we have not really seen any growth, value however is higher by 9%. So the second wave and the consequent lockdowns, April-May were very difficult months for everybody, we have clearly had a negative impact in the business with lower-than-expected growth so on the flipside there is no higher than the expected growth on Ready To Cook but then we saw lower than expected growth on Ready To Eat. The value growth really reflects that popcorn actually performed very well

Ready To Eat popcorn, a lot of Ready To Eat popcorn players I think have struggled in this quarter with the pricing of palm oils, maybe even just the financial capability to withstand through the pandemic and we keep being able to incur loss in receivables on a monthly basis where I am sure many of them also done particularly and basically the popcorn players and so we definitely would have gained share in the Ready To Eat popcorn I think we will be a very, very strong player now and actually as the markets open up and we are able to visit more markets we will be able to give you better information on that and also we are saying that there is a market as if you remember in July 2020 we rolled out Rs.5 and Rs.10 savoury snacks also now go straight from the packing so we changed our pricing structure, we stopped all the trade deals which we would give on secondary sales, we are now mentioning the drop, etc., so that also has positively impacted the net sales realization.

The higher palm oil prices have certainly impacted the category margins, at an overall level you saw our margin grew by 10% in regard to revenues, the volumes grew by about 30% so this part of it will be here as well and the margins are being addressed to increase focus on higher end products, we will focus more on things like caramel bliss, which is sold at much higher prices Rs.1000 a kilo, some packaging cost reduction which we are in the processes of doing so all of that is just ongoing normal management business and we are also seeing how to accelerate the development of value added offerings for margin improvement so one of the things is clear is that while we continue to scale up in this category and therefore this scale will get operating leverage and also together in the growth of breakfast cereals, but along with that we will need to keep having sort of what we have for caramel bliss and popcorn we need that on chips, we need that on extruded snacks and if we can have that then automatically we will have more higher margin product, which are rolling of purchase manufacturing, infrastructure manufacturing and logistics infrastructure. So we are looking at things like chips, we are looking at extruded pan products and even things like that can be, so as we add those into this category that together with the scale will give us the margin which we are looking forward. We do not expect this to be a hugely profitable segment ever but at least it should not be so it will always be a little margin dilutive in that side but we shall not be losing anyone, so which has always been in the black and we get to even high single digits where the margin earnings we have kind of came back. Accelerated development of value-added offerings I talked about that. Learning continues on potato chips; we have a great potato chips I know it is not going to be available for most of you so we do not do a lot we just make it once or twice a month that will be more once a month drive and we send it along with heavier products so this follows the brick and feather. We do not have the margin on this to be able to ship it by itself but it can go along with things like peanut butter, sweet corn, pasta, so on and so forth because there is always empty space left in those structures but it is a great product it has got a significantly lower pack content on Lays potato chips, a lot of consumers who have tasted it oh wow, this stream of thing is slightly lose, so it is a very nice product but it is taking time and as we told you always potato is a tough commodity we do not lose any money on this and we are just going to take our time learning and quite a few time.

Spreads and dips I think this is one category where we feel the growth is less than what we expected but not because of COVID but we think we were running a promotion because we have to deal with a competitive launch with the Hindustan Levers, Kissan and Amul they have actually been for about at least 8 months we were running our promotion to where we will be getting the promotions on bottle along with the five or eight brands. We discontinued that about two months ago and we are certainly seeing some softness goes back. We think it is probably due to lockdown it is very difficult to call but we always believe it is better to assume that there is some share loss and take management action accordingly. If you recall we have a similar situation about five years ago when there was a 1 kg pack and even though we do not buy audit we felt at that point in time we had lost some shares so we reacted accordingly on the ones maybe and then we got back our shares, so we are working on the assumption there has been some share loss here, it is somewhere between Rs.100 and Rs.200 is where the game has been played, one of our lead investors or largest investors after Conagra **(inaudible) 17:33** Praveen has mentioned this, we are not available at 175 and I had explained them that on a per gram price we were pretty good that it is not only Kissan actually Amul and Kissan is at least good because they spend some money on the category so it helps the category growth, but there is a lot of other players which has come in at about the 350 gram pack at 120, 140, 150 these are the fun foods of course obviously there, so we have actually started to roll out our 350 gram product under the Nutella’s brand name. Peanuts we already are using the Nutella’s for almond butter we will be going to using it for peanut butter as well and we will also be bringing down the price not 562 we will make it a 462-gram pack and then bring that price centrally down to 175 to assess what is the situation and that too because we will make up because of the volumes and our own plants always get better manufacturing cost with volumes so we will make up that margin and then we will understand what it is. Broadly speaking what our hypothesis currently is and it is obviously be subject to as the markets open we are able to give you a better perspective on it, is that we will need to segment the peanut butter spread market in two markets one is recipe base which is what our regular premium peanut butter which we currently sell and the other will be all which needs the protein requirement so where protein is more important than rest of these and there is going to be a price difference between these two so that is probably is how we need to play, we need to play this category for the future so this is our first attempt to do that so as I said this Nutella's peanut butter is going out, you can see from the presentation it is a 350 gram pack which is priced at 115 so it is very, very attractive so we intend to have a very strong position at about that price point, we will also have very, very good value when it comes to our premium peanut butter, which will initially be priced at 175 and then we will see how to take it from that and it may take us a couple of months to figure this out, one of these actions is already underway and the second one is being produced in the factory as we speak right now. So overall therefore bottomline we are not sure maybe the slower grades is due to COVID and lockdowns but maybe it does not and it is better to assume that it is in and therefore take actions to work accordingly and we have two actions which are in line with the preparation of recipe with the protein content one is to have a product which meets exactly the protein content and in fact the recipe of these two products is also not similar you can see visibly the difference is there and we have very high quality premium peanut butter which we sell today under the Sundrop brand. Total category value growth was fair and ahead of volume due to higher price realization of chocolate spreads and dips both spreads and dips come at higher price so we will see as we are adding more of the spreads that is adding to the value growth and so that will also help us as we manage the entire category. Our differentiated Hummus offering has been very well accepted and the rollout continues. I have just seen couple of days ago on Milkbasket which is a local online grocery delivery service and we were like now clearly the second brand as far as Hummus is concerned and that without spending a dollar we have not spent any money on advertising or anything we just do not spend money and it is a great product, it is a great architecture, architecturally this product is very similar to sweet corn and pasta right this is a retort pouch in this case along with that there are two additional pouches one contains the seasoning and the other which contains the edible oil and **(inaudible) 21:17** that overall very much in line with what we are expecting and we are very happy to play.

Breakfast cereals the growth numbers are high, so far we were reporting in terms of breakfast contribution to foods growth, but now that starts to become complex because of multiple dimensions so we brought both these on chocolates into the same format but obviously the percentage looks good but we were less than what we would have expected so it is clear I think impact of lockdown is visible here there is nothing else, the growth figures are obviously high because there is a small dip. Value lags volume because of the introduction of Rs.5 shells in O's & X's so those two products which are in the lower part of the photograph on the Rs.5 pack that we launch and both are very, very good products and if you are **(inaudible) 22:09** but in the Rs.5 pack you will find that, and they are very, very good versus competition. Of course our centre filled breakfast cereals are far better.

The opportunity we have very low plant volumes during the month of April and May so we really refined our portfolio also in terms of SKU offerings with great deals, we are missing some box packs to be able to go on the shelves in the self-service stores and in other kirana stores so we have done that. The box packs we have been apportioned to pro-paks for individual consumption. We were reworking on the economy; we are once again starting to drive distribution of the full range of cereal offerings. The centre filled margins as our P&L is improving now it is getting more certainties with a dominant share of foods and a lower share of oils and now on more stable share of oils. We certainly think that in the near future we are not sure exactly when but we should be able to generate funds, the P&L should be able to support some amount of advertising, the candidates for that advertising is for the centre filled cereals and the chocolates, those are varied in their own ways, but because it is a very differentiated product and the great news is there is definitely A&P grade. For A&P grade we believe we need products which are in the 40% to 45% gross contribution ranges, gross contribution in net sales like raw material and packing material and at this point in time the centre filled margin so far is definitely there it is at about 40% growth so that gives us enough scope after you take into account freight and what we see will be the manufacturing expenses going forward as we get operating leverage and you take into account a relatively lower SG&A it has space for about 5% to 7% of advertising and we had to give us about 15% of EBITDA margins that is what we shared with you last time that structurally the foods business is about 16 to 17 EBITDA and we should be able to get there. That is all on breakfast cereals.

On chocolates again the growth rates are very high but that is only because the base is very, the important thing is that we rolled out our revised product price architecture so all the packs have now been revamped from last year, so we have a Rs.5 pack now, we have a Rs.10 pack, we have a Rs.10 pack but it was actually too parlance, if Reliance was 28.6, we lowered the weight in and that is come down to 23.5, it still have a tray and flora because it is in a hot seat, it will move like the Rs.5 product when we get hold of it, like most of the chocolate majors have it and so that is what this will also move and once that happens both will also be again A&P grade which is remarkable. See getting a Rs.5 and a Rs.10 chocolate with these kind of grammages for a new entrant like us is the standard obviously, getting a Rs.5 offering a 9.5 grams makes money or at least can make money with the right manufacturing cost is a holy grail of marketing because actually that is my own calculation and it could be wrong, there will be not more innovation in the Rs.5 chocolate price point for the last 25 years I was going through all the earlier launches of different products and all that and I think it is 1996 it could be later but the point I am making is either way is that there is not a much innovation that has been there in the chocolate market at the bottom end and that is where the transactions happened probably even for a company like Mondelez 50% of the transactions that take place are more will be at the Rs.5 price point and that is how the consumer is coming so I think we are in very, very good shape. Our Rs.10 product has also been very well accepted even though we have reduced the grammage, change the form, it is now a bar, it is a really, really very good product so I think we are rocking when it comes to this product and I think this is a great category some of you have asked me how long is this category be I think it should be at least 5% of the 15000 Crores chocolate market price which means we are talking about 750 Crores category at consumer price Rs.500 at company price we have long run rate there so we are just getting our act together and we currently have one line and that was sufficient to kind of meet our requirements for the current year, we are still trying to run the line fully but we were looking at a revenue this year as mentioned in the region of 20, 25 Crores let us see how it goes, but also the Board has approved in our meeting yesterday a second chocolate line so we are going to be ordering a second chocolate line and then we will see how to play it, but this is certainly going to be a big part of our growth next year and I think to an extent as much as we can scale up and sell it and we used to manufacture the product, ship the product through our temperature control chain and distributor we will get, it is there. The advertising support will depend on the speed of scaling up and the overall P&L progression of the company, how we see the P&L panning out, how the margins doing, how is the edible oil business doing, how the other parts of the business doing Ready To Cook, Ready To Eat, so on and so forth, but I think we will see advertising for this at some point in the next 12 months or so.

On the chocolate part I think one of our investors had asked the question which is how cum you got more than 1 chocolate on your website yes we have actually shown it is indicator because that the early time last year we had actually launched a peanut chocolate also and the peanut butter chocolate as well, so you can expect to see those areas in the future so right now lot of our energy is going towards scaling up so they are indicative of what is likely to come. Now we have a question that people have posed to us and how cum it takes a lot of time to the new products to come and our answer is we do not spending a lot of money doing that, we do not go and show money as we said, you know what I mean listening tomorrow morning we say look if you are going to take time that is okay but for us the P&L this whole profitable margin business the EBITDA margin that they are looking for 15% to 20% on the food business we need to be able to get that so we are not really willing to compromise on profit margin just for the sake of speed and there is not speed in any case because we have a 10-year CAGR of around 15% we know that we are going to add another 500 to 1000 basis points so it is going to continue.

So on edible oil the premium edible oil segment was down 12% in volume and we have indicated last time Q1 last year was very, very elevated it is up about 16% and there is a sharp declining trend so we have indicated to you that single digit is kind of very viable as far as the business is concerned so if you take the 12 and the 16 it will come to that it is going to come in that ballpark and let us see, there is a lot of turbulence right now but we feel comfortable that we are in that ballpark, obviously value will have and that is only because of the commodity prices. We are significantly lower in mass oils, a lot of it is due to the out of home because out of home business really was very, very weak in Q1 because everybody is so scared to really move around, but it is overall in line with planning, now you would have also seen in disclosure that we have made this going to the exchange, which is that the Board has approved that we as a management can explore we can explore alternatives coming from kind of arrangement that we can get an alternate or third party to sell the Crystal and also we have another brand called Healthy World is underway, to sell these brands because they are really low margin brands and one of questions where investors have **(inaudible) 30:34** I will answer that question as part of this presentation which is that whether these revenues from the businesses in FY2021 which is a legitimate question so the revenue from the Crystal and the Healthy World business was about 183 Crores in FY2021. How do we see it panning out, we will see it kind of broadly we see broadly kind of having in the current year and then getting rid of the balance as well in the subsequent years, so what will be left after that will be a very, very small percentage among the mass oils probably in the 50 to 60 odd Crores range and we will take a call at that point in time on what do we do with that part of the question so we are obviously a lot more confident this is something that has been in the past for a long time but we need to have the dominant share of the foods business right which is growing so that we can say more than take care of offset any of the businesses as we remove them from our P&L and we will figure that early this year or end of last year probably that time has come now. So we have always indicated to you that Crystal is part of our supply chain because our **(inaudible) 31:51** so we will be entering in the conversations with him and we will see how to probably go. So broadly to answer the question about 180 odd Crores of turnover in FY2021 expect to see decline by about half this year and the balance also to be even close. So that is declining as of now and we will keep you update it if there is any change in plans let us see how it goes.

So we come now to competitive update as you know we do not buy shares so we will cover up first on snacks I would say not too much to report on snacks pretty much reasonable amount of spending everybody bagged spending this quarter, last year same quarter we had actually gone off where we were one of the few people on there last year and that is visible in Q1 spends of last year, but this year most of the people are back now including theatres and I would say however we have been consistent we continue to spend and we intend to do that right when we are in good shape we will be able to do that. In terms of spreads you can see here it will go to the next chart there has been a significant spend continuing by Hindustan Lever they spend almost 11 Crores in this quarter so let us see how this progresses I think this was a category good for the business, we need to ensure that all our SKUs are properly positioned, our product wise architecture is right to be able to capture the benefits for all the money that we have invested and the few actions that we needed to take we have taken and it should be in the chips. We will continue to spend obviously because we expect to come under price premium in the long run and even in the medium-term as we do today. We will continue to spend but there will be no effort from our side front at the spend levels if anybody has that question and honey is seeing a reasonable amount of activity, on the Q1 it is normally low so you can see here Dabur continues to spend they spent about 2.4 Crores in Q1, which is kind of similar to what we spend in Q1 of last year where Patanjali has spent almost 5 Crores and Saffola is also similar. So that tells you the highlights from spreads. Hershey's has actually reduced their spending a lot and if you will also to be noted since we are in the chocolate spread market. In terms of breakfast cereals you can see here the primary players were Kellogg, Saffola and Quaker continue their investments. Let us say it has actually been half year for this quarter and it was very low in the last quarter as well I get pretty much reevaluating the category otherwise normally we would not expect the company like Nestle to continue to be offset for two quarters in a row and other than that not a lot of activity, Cadbury's has spent a little bit you can see on the Bournvita fills but it is very small 50 lakhs, so I do not expect to see too much spending coming from Mondelez.

In the chocolate category Mondelez, Nestle and Ferrero remains steady you can go through numbers in more detail later; however, two players I think we see has really reduced spends one is Hershey's so they are really significantly lower than prior year and the other is Snickers Mars so they are also much lower than last year and we need to understand as a company what is driving those decisions on their part, it could be that they are quite over modern trade and that is so, then modern trade has had a very difficult year it could be that. The ITC has kind of shifted focus so far if you look at the bottom rows the ITC they were spending last year about 5 to 7 Crores on Fabelle this quarter they have not spend that money they have spend that money on CandyMan, which is like a chocolate wafer product.

On edible oils there has been a significant amount of spending actually both Fortune and Emami so they remain dominant spenders. As we told you last time the share of new edible oil is actually coming down and we expect that will continue because these players now will be basically playing on scale. We added the noodles category pasta and soups because these are categories of interest to us, so you can see there is a lot of action in noodles. Maggi is clearly the dominant spender followed by Sunfeast. Saffola is also spending money they spent I think close to 14 Crores because that is again I guess their approach to entering the category and we will see how the competition plays us. We are not in the category right now as we will keep you updating what is our expectation. The pasta category did not really seen a spending which is surprising but I think everybody is now looking and spending some on their noodles that all the money getting diverted there so there is a bit of a war I guess showing on, on the earlier slide so this is the ones which we are taking the soft code of this, since we are happy to have we are not participating. In terms of soups dominant spending seems to be pretty much the Knorr and they continue to spend on the category and really spend behind these two soups hot and sour soups so we will keep you update it, in the first year you will see us entry in this category as well, but we have just added them so that we all start to begin many of the categories.

Summary a strong start to FY2022, edible oils starting to show stability in margins that is relatively good. Robust snack foods portfolio significantly improving go to market capabilities and attractiveness of business to high quality distributors this is something actually I think I will saw in one of the people commentary when we start about a year ago I was reading this comment and you are absolutely right he or she saying that wait a minute I think this as we get this portfolio we are probably going to have much better distributor and that is exactly is like happening so all these things are reasonable to spend in savoury and gone to a small dominant they are not really interested in us and we have got somebody else and now he too go and said, you know what the portfolio is looking very good and highlight, obviously we will be given it to somebody else but of course it all depends in the quality of the distributor. The point is that it is becoming attractive and we are even in a pandemic time able to add about 25 odd distributors every quarter so it is about 100 distributors a year and I think as we get over this pandemic we will have a very different portfolio from what we had when the pandemic started. If you think about it when the pandemic started we had a much more limited portfolio in February 2020, we have expanded our Ready To Cook business, we have started to expand our spread business, we got into chocolate spread, we got into dips, we got a virtually full line of extruded breakfast cereals today, all doing very well and we have got chocolates right so we are going to as the pandemic and we are able to be in the market fully and aggressively drive distribution we are going to be is a different company it is a completely different company from where it was. We are now spending regularly; we held our brands and we are not being forced to cut because of price margin pressures on edible oil so hopefully we would have taken full advantage of all the opportunities that have come our way in the last 15 odd months and at the yearend I think we will be really in a wonderful position. We clearly have some margin headwinds that is visible in the foods business right we talked about it 10% margin in GM growth versus 30% volume growth so these are being addressed, we need to address them and we need to thought about it that does not mean that we need to take pricing and recover future volume growth but wherever we can we need to take pricing, we implement cost reduction, implement other costs but there will be other arrangements also diesel is starting to become a large headwind now and that is not just to India it is in US as well and so we will have to see I think palm oil prices have softened so that should be good and A&P and SG&A hopefully we will not need to cut the A&P in the future and we will continue to manage the SG&A. We have certainly seen a huge strain that we saw last year in terms of travel and the other cost running administrative cost while some of those we have to restore as travel and everything comes we will have to restore all of it so we will have to work smartly to see that and overall there is a continued steady transformation of it in line with our visionary and becoming the best performing most respected foods company in India. So with that thank you very much and that is over from my side and if there is any questions happy to take.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Akshay Chheda from Perfect Research. Please go ahead.

Akshay Chheda: Sir I had a few questions, we know that you do not buy Nielsen data and share on the annual number but could you please some qualitative insights about the distribution reach like what the number of stores for the branded food business and the second question is Snacko and potato chip segment is very competitive like with the players like Haldirams, Lays and Bingo being there we understand you do not want to push to the money over there but what is the thought process as we do not have the right to be in long run over there?

Sachin Gopal: Anything else Akshay?

Akshay Chheda: Yes, one more question was there. What is the response of the global parent to our inflection in blended foods over the last year, currently India strategy not got mentioned in the global reports any plans to change the name in Conagra India?

Sachin Gopal: I think in terms of the qualitative insights Akshay we would be now having a product which will be closer to about 450000 stores little under that we would be 440000 and it goes up and down depending on lockdowns and active distributors so on and so forth that I would say it is we continue to be able to add coverage as I mentioned earlier that we probably adding about 25 distributors every quarter and qualitatively I would say the distribution infrastructure is becoming better by the day probably by the minute and the reason is the portfolio. Today when our distributor goes into a market he has food products from Conagra from Agro Tech which are five categories Ready To Cook, Ready To Eat, spread, breakfast cereals, chocolates, now if you compare that if he was handling a single category company like Kellogg's, but we work in a higher end south Bombay or in a greater Kailash in Delhi so that is now going to work as we go down the cost trader because those categories are just not large enough so we certainly have the product profile of the Hindustan Lever or a Nestle today in terms of the categories in which they are competing in and so we do not have the slide, but that will come to you right as we grow and we will grow to that to be a billion dollar foods company. In terms of Snacko and potato chips 100% right I think we do not have a right to win which is identified right now and that is why we have been extra careful, but it is a large category potato chips is also in almost like a chocolate confectionary category so pretty large category that is how we have been very, very safe and conservative on this one. We know that we have a great product that we know our right to win currently the one identification that we have done on right to win is that because the fat content of our potato chips is so much lower than our competitors we certainly have a great taste in products and by the way it is very visible to do more business. Anybody who actually had this product will tell you that, if you have the product you feel my god it is really dry meaning we just do not have any experience of the oils no oily feeling on it. So I would say once we are ready to build on that we will be in good shape but just I will throw some numbers with you. Our Snacko range has about between 26 and 27 grams per 100 grams of fat so it is about 26%, 27% is the fat content, if you go by a product like Lays magic masala they will have almost 36 grams so 36% and if you take a product like Bingo that would probably be about 32% so we have between I would say 600 and 1000 basis points of less fat in our potato chips. Now what we need to do is figure out how do we make a business model out of there, how many stores we are willing to distribute it, how we learn about potato, learning about a fair commodity is also not easy so we will be working still there. Last as far as global parent is concerned our global parent is very much a North American focus company so more than my telling you anything about the global parent you can read their analyst calls they are available on Seeking Alpha and they have always said we are a pure North American company and we are very much focused on North America, we are great shareholders of this company, we have been excellent shareholders of this company but their focus is there and which is okay. They are an excellent parent for us, we are very fortunate to have them as a promoter of the company and as of now they have their own visionary. So that is it then we can go to the next question. Thank you Akshay.

Akshay Chheda: Thank you so much Sir.

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

Percy Panthaki: I have a few questions so I have decided not to ask about edible oil last year you are pointing me several times because I have to ask this time so my question is on Crystal and other brand which you spoke about which is the mass edible oil where you said that the sales here is going to halve so I do not understand exactly what is happening is it halving because you are selling some part of your business to your franchise or this is halving because there is actual loss of sales at the consumer level and if it is the latter 50% is a huge number why not just sell off the brand to the franchises and led them be interested in at least growing the brand and you are getting a good value while the sales is still there with you otherwise when the sales halve you will get half the value for the brand that is question one, question two is if you could just give me one data point on what is your direct distribution so what I mean by direct distribution is if you are reaching a retail outlet without a wholesaler in between the company distributor directly going to a retail outlet how many retail outlets to reach through that route so that is a direct distribution and thirdly just wanted to understand your thoughts on the product portfolio, see in the beginning we had a very small product portfolio we had only peanut butter and popcorn and we said that we should add a bulk to our distribution system to make it sort of more efficient economical as well as attract good distributors, etc., but today we have a very good product portfolio I mean this kind of product portfolio would be sufficient even to sustain 3000, 4000 Crores food company, now with this kind of a product portfolio why are we still adding newer and newer products when the existing products are so subscale would not you rather focus your energies in bringing up market share of products like breakfast cereal and chocolate which are very, very large categories and you are very small players here rather than entering one more new large category which is noodles and pasta because then having so many subscale products do you think that is the right way to proceed, so some thoughts on that these are my three questions Sir?

Sachin Gopal: The answer to your question on Crystal and Healthy World is it is a latter so the intension is not to have lower sales that would be lower sales obviously in lockdown period that it goes up and down but let us say with Crystal. The answer is that this is a low margin business and still 1.5%, 2% margin business and therefore it has little role as far as portfolio is concerned. Now this question has been several times in the past over the last 10, 15 years why do not you sell Crystal and the answer is no because we actually do not have our own plans in edible oils so our Sundrop edible oil is also produced at the same facility which our co-packer who manages the Crystal business for us currently so we intend to keep our control on the entire supply chain so what it really means is the approval of the Board to look at alternate ways to do it is only reflecting one thing that our other businesses have now started become a size of scale and therefore we can afford to shed this much turnover in our business and also our supply chain to an extent is also more reliable; however, we do not intend to spend whole on it, we intend to continue to own the brand and all the leverage that actually comes from owning the brand and the answer is not to say we want to halve the business, we want to continue to extract the margin and we will continue to extract the margin and the profitability as we do today. So it is a restating of arrangements in some cases and probably exploring more elements in the case of the other. In terms of your data point I think I have mentioned we have a ATFL direct coverage we closed last year at about 440000 I am sure in this quarter that would have come down a little bit because of the pandemic because some of our distributors may have closed or where new people appointed although we do not have much distributor attrition, but people have had problems in their families, they have been hit with huge medical bills and so there has been inactive distributors in this period naturally, but you can assume that as we close last year 440000 is a very good figure in terms of our direct coverage so those are the number of stores that we actually reached. Last in terms of product portfolio your answer is yes, the answer is yes we I think have a product portfolio of 0.5 million or $1 million company today but that needs to be completed from all sides so let me articulate this well to you. Even within a product portfolio you need to actually in India have products which needs all three price points so now these price points if I was to articulate it on a price per kilo rate is right would vary obviously by category but let us say Rs.1000 per kilo will be premium products. Then on an average Rs.400 per kilo would be mid price for us and let us say 250 would-be entry-level products which is the math which is equivalent of the Rs.5 chocolate although in chocolates that range varies so higher in chocolates it would be higher, in oats it will be lower in oats the entry point will be Rs.150 a kilo which is very commoditized. So we need to actually enter all these pieces, if you do not enter in all these pieces you will never have a profitable business and if you look at the food business they do exactly that but it is just that we have done it over 50 or 100 years where you are entry level products then you are mid price and then you are premium, if you do not have the premium you do not make the margins, if you do not have the entry level we do not get this scale and if you do not have the mid you know the large opportunity which is available by way of profit. So each of these is well thought through and I would say therefore one is disarticulation so if you actually got our five categories and maybe in the next analyst call we will actually show you that chart it is all in the public domain we will see how we think about the businesses across our five categories and with each of all of them our effort is we need to be in all three so for example in centre filled cereals we were not in the bottom we were in the middle so we needed to share the O's and X's, etc., to be able to also have a presence right at the bottom. As far as the other subcategories within these five categories are concerned they all very attractive categories and are going to help us get operating leverage. Remember architecturally and I used the word architecture and probably almost one of the few people keeps using architecture but architecturally these are all flowing of the same manufacturing structure sweet corn, pasta, noodles there is no capital that the company specifically deploying behind this we are leveraging competitive advantage which we have in terms of making these amazing soft pouches it is a clear competitive advantage that is where you are not investing in our own capital in noodles and pasta because we can just buy it alright there is enough capacity to buy out for pasta and noodles and obviously that also makes us more capital accretion, so all of these are thought to ditto for Hummus, those of the same manufacturing architecture when we do that we get scale and when we do that we get operating leverage so we get more trucks which are getting shift out from the factory we get more truck then you get more economies of scale, the shipments to the depot become more frequent, the freshness of the stock improves, you can send other products on top of it there are innumerable benefits of that of scale. Last year we would have had a manufacturing cost of about 15% more all these businesses do and because they have a very large total addressable market which enables us to gradually lower the manufacturing cost so if let us say we had a 46% gross contribution last year with a 15% manufacturing cost and that give us a net gross margin of about 31% we will get from 15% to 12% and 10% by getting the scale and if you go deep down into all the food measures all of them have it you will not be able to achieve success in a market like India without us. Thank you for asking all those questions and I apologies if I stopped you from asking some of the questions. Have a good day.

Percy Panthaki: No that was a lighter one thanks a lot.

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

Shirish Pardeshi: My two questions I think after long time I am seeing that now really put your dreams true in terms of portfolio I think the bigger question which I am struggling to understand you have been banking on the slow and steady winning the market place in terms of the distribution I think with the basket of the product what is the bottleneck, are we now seeing the distributors or the liquidity in the market is stopping us to expand quickly and one followup on that now where is the distribution standing are we broadly in top 800 or we have gone beyond 2000 cities and the second question is on the margin though you gave a very good picture the inflection is behind but somewhere you are still away from your 40%, 45% milestone so when do you think in the current context I hope the pandemic is behind do you think it is achievable in next one, one-and-a-half year?

Sachin Gopal: Thank you on good questions. On the distribution growth that is continuing. I do not think for us liquidity will be an issue because actually our distributors have seen a very good growth, if you see now for our distributors the dominant share of the business has already been foods even for us if we are getting close to the mid 40s kind of figure for them it is even more because there is not Crystal right and even the Healthy World business which we do is often with different distributors. So our distributors are actually growing very healthy and I have talked about it earlier in the conference call that they are a) happy and b) there are new guys who are happy to come to us. So I do not see any of those challenges and remember this portfolio is going to sit into the market it is keeping in right I have mentioned earlier that our portfolio is very different from what it was pre-pandemic to what it is today. Remember all that has happened during the pandemic so what will happen post the pandemic is a lot of our energy will get deployed and we have to see when exactly that happens we will get deployed behind driving it but the full impact of what we see today in a PowerPoint presentation is yet to be felt in the market naturally because after all we just scaled up chocolates now so you will as you see that you will see it but to an extent it is usable because we are already managing to add distributors with a very low level of if you will say in development because earlier all of us would be in the market we are pushing it like that so that should helpfully increase further so I think we talked a lot about the portfolio and we will be extracting if you win the full juice from this portfolio but certainly it is not going to be in the middle of a second wave of Coronavirus where a large parts of the country are sitting at home so that is reasonable too. In terms of the city coverage I think we have kind of in-between the two so we have gone beyond the top 800 but naturally because we have more than 100, 120 super distributor each one of them individually will be having about 15 to 20 odd sub pockets so that number itself is taking closer to the 2000 so we will definitely pass that and that is because of the portfolio and as we are able to leverage the portfolio we certainly would be able to do even better growth on that and last is on margin I think we are now pursuing our path where we believe that in the next five years a lot of the growth in India and rapid growth and for us to progress to becoming a billion dollar foods company a lot of it will come through volume so we are going to be open to see how we actually get the margin it could be through more percentage it could be through more volume, but so far as we are getting it, all parts are falling into place, we are getting operating leverage, our manufacturing costs are coming down, our gross margins are going up we are fine with that. We are it is reasonably clear in the 20% to 25% volume growth range and as we add many of these products as we are seeing already in spreads our value growth is actually faster than our volume growth so let us see and we will place by here but certainly we are in excellent shape I would say for continued growth in revenue and profitability.

Shirish Pardeshi: That is very helpful thank you and all the best to you.

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

Dhwanil Desai: Three questions, the first one is on the chocolate side. So since now PPA is in place and we are planning to ramp it up this year and thereafter can you directional sense in terms of what kind of distribution reach that….

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

Shirish Pardeshi: What I wanted to check with you, you touched upon the capacity expansion so what I need to understand yes we know what we are doing on edible oil but in terms of the food business how much we are producing in house and how much is the outsource and any plan a concrete plan you can share that how you are looking scaling up this production in house?

Sachin Gopal: We currently have a manufacturing footprint which is probably in the region of about it is probably 450000 square feet across the country and how it works is that on a continued basis we keep adding to infrastructure so you would have seen we just added a small part of land next to our Cochin factory once now that we have got that line we will see a closer opportunity to expand the plant there so we will continue to expand our footprint in terms of number of square feet of plants base what we have there and we will also continue to add machinery on an ongoing basis to be able to increase capacity but that will depend on the attractiveness of each of those categories so for example we have just increased the capacity of our Ready To Cook business on the popcorn side by another 20% odd so that is a continued process. Having said that I think I had said earlier and a while ago that we had said about a year-and-a-half ago that we probably have close to 500 Crores of foods capacity already and we will need to add but it is not going to be at the same scale as we have done in the past so I would say at this point in time we are focused on building capacities to get about $100 million foods business so that is 750 to 800 Crores and that should happen in the next couple of years, meanwhile we will keep by and large we will keep building plants and to be able to continue to motor our way through steadily. Our focus will continue to be on in-house manufacturing so we will use third-parties as appropriate that does not mean that we do not use third-parties but as I explained on the pasta side we are going to make some thought insights then we are going to buy the pasta from outside that we will never ever see a saying oh by the way let me now buy pasta from ABC manufacturer getting the branded under Sundrop pasta and put a lot of advertising money behind it we would not do that because that is an EBITDA negative business and we have demonstrated that time and time again you can do the math yourselves and do for any competitors which believes on it so there is no money in it, now it is okay if it is EBITDA negative or EBITDA zero it is the total P&L of the company can afford it but that is not the case in our side. So we will remain focused on in-house manufacturing because that is the only way in which we see that we can bring innovation to the market that is the only way and over time using advertising only to differentiate products I think we are going to be more and more difficult because consumer awareness about products about pricing is far greater today when it was 5 or 10 or 20 years ago. So I hope that answers your question. We will continue to increase capacities on a steady basis which we are doing that even today I talk just now about how we are going to be doubling our chocolate capacity. So yes but it will all be within a 4% to 5% of our topline spending in that ballpark is what we are going to be spending on capital expenditure it is not going to be more than that.

Shirish Pardeshi: Thank you.

Moderator: Sure Sir, would you like to have any closing remarks?

Sachin Gopal: Just want to say thank you all for joining us. Thank you for taking the time out. Have a great quarter and talk to you in a couple of months.

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