



## “Agro Tech Foods Limited Q1 FY2023 Earnings Conference Call”

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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.



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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



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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.



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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 try 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.



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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

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

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 Dhwani Desai from Turtle Capital. Please go ahead.

**Dhwani 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



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. Dhwani, can you just repeat your question on chocolate the last part that you raised?

**Dhwani 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 Dhwani 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



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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.

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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 Srin, 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.