

Operator

Good evening, ladies and gentlemen. I am Daniel moderator for this conference. Welcome to the 4Q FY12 Results Conference Call of Agro Tech Foods Limited. We have with us today senior management of Agro Tech Foods Limited and Mr. Shirish Pardeshi Co-Head of Anand Rathi Research. At this moment, all participants are in listen-only mode. Later, we will conduct a question-and-answer session. Please note, this conference is recorded. I would now like to hand over the floor to Mr. Shirish Pardeshi. Go ahead, sir.

Shirish Pardeshi

Yeah, thanks Daniel. On behalf of Anand Rathi Research, I welcome you all on this 4Q FY12 earnings conference call hosted by us.

I am happy to share, we have Mr. Sachin Gopal, who is President and CEO, Agro Tech Foods is available on the call joined by Mr. Hemant Kumar Ruia, CFO and Head of Legal.

Without any further delay, I would now hand over to Mr Sachin Gopal to give the opening remarks. Over to you sir.

Sachin Gopal, President and Chief Executive Officer

Thank you very much. And thank you all for participating in today's call. I'll give overview of the results for the year and after I'll take up any questions that you may have. So, overall if you look at the total company's gain from the top-line perspective excluding the balance sheet business which had net sales of over 107 odd crores in the value, net We saw steady improvement in profitability which continued, profit before tax crossing the 50 crores mark for the first time in the history of the company. And profit after tax up by about 14% over prior year and about 36.1 crores. We will be able to really improving in the gross margins as the low margin - is more profitable Sundrop oil business and gross margin is about 165 odd crores. There is about a 11% higher than the prior year of about 149 crores. This effect is mainly the positive impact of mix and recovery cycle. And the gross margin -- therefore is used from about a little under 21%.

So, the -- is 24%. So gross margin increased in percentage wise is about 8 points. Edible oil also reflects the build efficiency -- with a relative spend which enable us to -- gross margin but the lower -- as a percentage of sales at about 4.7%.

As a consequence of -- which is 7% is purely driven by 14% as the company also receive tax benefits within period set up for account in R&D investments and our new R&D --

Operator

Mr. Gopal.

Sachin Gopal, President and Chief Executive Officer

Yes.

Operator

Apologies for interruption, sir. Would it be possible for you to pickup the phone and speak sir as it is not very clear.

Sachin Gopal, President and Chief Executive Officer

I am only on -- so there is no handset --

Operator

Or if you could move a little closer to the mic. Thank you.

Sachin Gopal, President and Chief Executive Officer

From a -- category perspective, we just cover up within obviously the size categories that is defined as score to our business which is edible oil spread within the investment --. The transport of the oil during FY12, the company continues to be total brand support. We are in the flagship in the hard products will be clear and technically it started from October full production.

Basically -- by the levels and continues to be a strong volume growth -- in that. And this is not counted in the mix ingredient. We also securities introduced in the second stage which is really an innovative product which is -- we have an easy brown stick cooking experience, with an attractive low calorie proposition and -- calorie and we continue to expand the social requirement -- into our strategy. In addition FY12 also saw a positive product for Sundrop -- and support the expansion of our distribution. So this is the product which is beyond at the bottom of the price -- in our entire portfolio.

Operator

Mr. Gopal.

Sachin Gopal, President and Chief Executive Officer

Yes.

Operator

I apologize for the interruption again, sir. Some of the participants have complained that it's not audible, sir.

Sachin Gopal, President and Chief Executive Officer

Daniel, I requested you call me on my mobile number. We will ask for the statement number which I have given to you if this is not working, by all means call me on the mobile, this is what.

Shirish Pardeshi

Alright. Sir we will connect you via cellphone sir. Ladies and gentlemen, you are requested to stay online. Mr Sachin, please go ahead sir.

Sachin Gopal, President and Chief Executive Officer

Okay. Good afternoon everybody. I am afraid I have been requested to repeat everything that we said. So I will have to do -- start again. Alright.

So good afternoon, welcome again. I will take you first through the overall top line comments on the year's P&L. And then if there are any questions we can take them after that. So from a total P&L perspective, excluding the divested business of Rath which had net sales of about 107 odd crores in the prior year. Net sales for FY12 stood at about 702 crores which were higher than prior year by about 15%.

We continue to see a steady improvement in profitability with profit before tax crossing the 50 crore mark for the first time in the history of the Company. And profit after tax up by about 14% over prior year at about 36 odd crores. We saw improvement in gross margin percentage which moved up from about 20.8% to about 23.6% or an absolute rupees improved from about 149 crores to about 106 -- a shared over 165 crores. This reflects the positive impact of pricing and mix in the overall business.

We also continue to see improved efficiencies in A&P spend which enable the Company to deliver a significantly high gross margin for the lower A&P which stood at about 4.7% of sales. As a consequence, profit before tax increased by about 7% and profit after tax by about 40% as we also received tax benefits which included a set off on account of R&D investments at the new R&D facility in Andhra Pradesh. I'll now come to each of the five core categories that we've defined as important to our business which are edible oils, snacks, sprays, puddings and desserts and convenience meals.

The company also introduced during the year, a cooking spray, unique and innovative products which enables consumers to have an easy non-stick cooking experience besides an attractive low calorie proposition of 2 calories per spray.

And we are continuing to expand distribution albeit on a very small base and acquired new consumers for this product using the defined low investment strategy. In addition, we also launched during the year Sundrop Nutrifit to support the expansion of our

distribution reach with an aggressively priced branded edible oil.

The Crystal brand which is largely sold in Andhra Pradesh also registered a strong performance in both volumes and profits. Coming now to snacks. We continued to focus on Act II Popcorn during the year. As you are aware the year saw the successful introduction of - ready-to-eat popcorn nationally to support the expansion of distribution and consumer acquisition for the Act II brand.

The introduction of this product will enable our company to leverage a large and rapidly growing out of home consumption to expand the Act II instance business in a profitable and sustain manner.

In the sprays category, Sundrop Peanut Butter continue to perform well. Work is underway in the state of Gujarat to set up a plant for local manufacture of the product. The investment reflects our company's commitment to participate and lead the development of new categories in the Indian food market and establish a strong position in the growing processed foods industry in India. In the pudding and desserts category Snack Break chocolate pudding continue to perform reasonably well, we are making progress towards identifying options in terms of the way forward on supply chain or modification which maybe required. And last on the convenience meals business we have successfully I believe seeded a limited investment entry into the convenience meal segment with introduction of RTE Indian foods.

This is consistent with the strategy of creating a broad based portfolio which enables us to leverage longer-term trends and food consumption patterns in Indian. The consumer response is good and just as in the case of the spray we are continue to expand the on share presence. So that pretty much sums up our total summary of the P&L and the highlights for each of the business segments.

I'd like to hand over the floor back for questions, if you like.

Questions And Answers

Operator

Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions]. The first question comes from Amit Vora from PCS.

Amit Vora

Yes, good afternoon. Thanks for taking my question. My first question is what has been the total CapEx for this entire year?

Sachin Gopal, President and Chief Executive Officer

Our CapEx continues follow the same philosophy which we described earlier, which is we take our profit after tax. And from that the three key elements which come out which is basically dividend to be -- to shareholders, money which drop into the ESOP Trust at the balance really goes in to the CapEx. So broadly speaking if you take that we would have

Amit Vora

Right. With our Peanut Butter facility coming up in Gujarat, in terms of margins what would be the savings vis-à-vis imports that we are doing currently?

Sachin Gopal, President and Chief Executive Officer

The entire amount would really come into margin, because currently we don't make money on the product on an imported basis. So we defined that this product, the new product that we launched must have a gross margin of about 30% odd, north of 30%. So basically, whatever we sell once we make locally will be incremental at 30%.

Amit Vora

And I am sorry, if I am repeating this. When is it that we expect this Gujarat plant to commission?

Sachin Gopal, President and Chief Executive Officer

It will happen, I would say during the current fiscal. It would probably be looking at about anywhere between three to four months from now, roughly speaking that's probably the time line.

Amit Vora

Alright. And in this quarter, have you still maintained the same ratio of 85 15 that is edible and food category?

Sachin Gopal, President and Chief Executive Officer

Yes, for the year that would be roughly correct. About 85% and 15%. Broadly speaking that would be the figure, yes.

Amit Vora

Yes. And one last question which is on the balance sheet. At the end of first half the current, other current assets and loans and advanced put together was around 44 crores which has come down to roughly around 7 crores in the year ended. Can you just give some explanation at least?

Sachin Gopal, President and Chief Executive Officer

Bear with us for a moment while we get to the exact number that you are talking about.

Corporate Participant

Which year are you saying?

The other current assets and loans and advances.

Corporate Participant

From the balance sheet, okay. You see, both are not comparable because in the first half that we publish the results, in the balance sheet that was as per the old schedule 6.

Amit Vora

Okay.

Corporate Participant

And the new balance sheet is with the revise schedule 6. So the numbers may not be comparable.

Amit Vora

But line to line basis itself, the direct numbers as they were as other current asset head and loans and advances

Corporate Participant

Yes, they would have been a

Amit Vora

Alright. Okay. So cash is 40 crores like as on date.

Corporate Participant

Correct.

Amit Vora

Alright. Thanks. I'll get back if I have any further question. Thank you.

Operator

Thank you sir. The next question comes from Mitul Mehta from Lucky Securities. Go ahead sir.

Mitul Mehta

Yes, hi sir. Sir my question is pertaining to your new product launches. One is that sir, you seen over the years companies like Nestle and all focusing more on India centric consumer products where the consumer have been able to

Sachin Gopal, President and Chief Executive Officer

Yes. Nitin what we have outlined some years ago is that our effort will be on categories where we have a clear right to win and therefore we have a competitive advantage, right. We do not see ourselves making investment in categories unless we -- and significant investments unless we have a clear idea of, yes we have a strong competitive advantage of this. That there is some amount of IPR that we believe either we can leverage immediately or which we believe we will be able to leverage in the future. As a consequence of that, you will see that the new categories that we are choosing to create are ones where we or our parent company already has several years of experience and idea which has been build as a consequence, right. So, if you look at popcorn, the reason why we've driven popcorn over the last two years is that we believe we do have a comparative advantage.

We have strong back-end sourcing advantages. We have hybrid seeds which enable us to produce a superior quality product.

That same applies to and it is true for peanut butter where ConAgra has probably one of the best products for making pennant butter in the U.S. We're extremely strong company in the category there. And we get the benefit therefore of all the IPR that comes in and making a great product and making it in a product in a manner that is safe to consume. So, that's the philosophy.

So, you will not really see us as a company investing in categories, just because they may be large. Size will not be a relevant criteria. What will be relevant is, do we have a right to win in this category? And can we make this category a reasonable size and can we make it in a profitable manner? Because if you have a right to win, then that should enable us to get that 30% plus gross margin. That's the reason why we've stayed away from a number of large categories and certainly our intention is to continue to do that in the future.

Mitul Mehta

Sir, in edible portfolio, what is now the mix between branded and unbranded?

Sachin Gopal, President and Chief Executive Officer

In the total edible oil business now that is left, the vast majority of that will be Sundrop. To put it into perspective, about 15% or our share over that will be our turnover coming from Crystal and the balance is entirely the Sundrop business.

Mitul Mehta

Okay, okay. Thank you so much sir.

Sachin Gopal, President and Chief Executive Officer

You are welcome.

Thank you sir. The next question comes from Ms. Nandita Parker from Karma Capital. Go ahead ma'am.

Nandita Agarwal Parker

I just wanted to ask about that your Del Monte brands and what do you think might be the potential of those in India from your standpoint?

Sachin Gopal, President and Chief Executive Officer

I am sorry ma'am. I didn't, I missed that which brands you said something.

Nandita Agarwal Parker

Del Monte.

Sachin Gopal, President and Chief Executive Officer

Del Monte, you are referring to the Del Monte, the acquisition in Canada.

Nandita Agarwal Parker

Yeah.

Sachin Gopal, President and Chief Executive Officer

Yeah, I won't be really able to give you any perspective on that right now. We are aware that ConAgra has made an acquisition of the Del Monte business in Canada. And I would say beyond that I won't be in a position to make any comment. Should there be opportunities which come by as a consequence which we understand that there is some IPR or some possibilities. For sure we would seek to understand that but beyond that I won't be able to comment.

Nandita Agarwal Parker

Right. And just in terms of volume numbers would you be able to give us a sense of volume growth in your popcorn category and also peanut butter as it stands currently?

Corporate Participant

Yeah. So I'll give you a volume prospect for all the three categories which we are currently in, which is edible oil, snacks and sprays. So we have closed the year roughly inline with the volumes of prior year so that is consistent with what the comments that we would have made in our quarter three conference call. Where I had requested that your pick volumes in the edible oil business is kind of flattish. On the popcorn business actually would probably have turned over about -- index so it would be about 10% lower in total year volumes than prior year. And on peanut butter we would have seen a reasonably happy double-digit growth versus prior year.

Right. And to going forward you would expect a similar kind of trend or are you more hopeful?

Corporate Participant

I won't be able to give you any perspective forward because we don't really give any guidance in terms of future. So we'll have to stay with that. I apologize but that's the best that we can do.

Nandita Agarwal Parker

But can you give us a sense of what's happening in the market?

Corporate Participant

Well, again I would say I really won't be able to give you guidance. What I can say is that on the popcorn business is that last year saw the impact to some amount of inventory correction coming as a consequence of higher inventories which were there at the end of the prior year. That should be behind us so we should expect to see a different trend in the current year. And as far as Peanut Butter is concerned, clearly as we, once we start local manufacture and we are in a position to stabilize that and have smaller SKU's, then we should be in a position to see a faster rate of consumer acquisition and the distribution expansion.

Nandita Agarwal Parker

Smaller SKU's, you mean what size? 10 and

Sachin Gopal, President and Chief Executive Officer

Smaller diameter, that would include let's say a sachet pack.

Nandita Agarwal Parker

Yes.

Sachin Gopal, President and Chief Executive Officer

Today in terms of the jar our smallest SKU's is about is, well the only SKU we sell is 462 grams. So clearly there is a possibility of having SKU's in between. It could be 100 grams, 200 grams, whatever is the appropriate size for the market.

Nandita Agarwal Parker

Right. And in preparation have you expanded your distribution?

Sachin Gopal, President and Chief Executive Officer

No. We didn't make investments once we have stabilize the local production and we have the smaller SKU's available then we will be in a position to do it. We will, one of the objectives of having smaller SKU available is that you can go and place them in the product and you know that you have a reasonably good chance of off take and for the new consumers coming into your category. It would not be wise for us at this point to do it with the SKU because we then on the rest of the idea.

Nandita Agarwal Parker

Right. Okay. Great. Thank you.

Sachin Gopal, President and Chief Executive Officer

You are welcome.

Operator

Thank you, ma'am. The next question comes from Ennette Fernandes, from MF Global. Go ahead ma'am.

Ennette Fernandes

Hello. Good afternoon sir. Sir this is with respect to the contribution for edible oil and snack foods that you mentioned. You've stated that it's around 85 15 for this year. If I just walk it out quantitatively, that largely means that in snack food business, the growth would be either flat or negative. Can you just help me out with respect to this?

Sachin Gopal, President and Chief Executive Officer

Correct. That's right. Because the percentage is very similar to last year, last year was also about 15%, so you are looking at a figure of about a 100 odd crores. And that basically as I mentioned earlier, that we had an index of of about 90 Act II Popcorn, because we saw the consequences of the inventory correction. And that got offset to an extent by the growth in the other categories like Peanut Butter. So that's the net arithmetical and mathematical calculation.

Ennette Fernandes

Okay, fine sir. Also sir with respect to ad sales ratio going ahead, considering that we are going to have the launch of Sundrop Peanut Butter, say three months to four months down the line, as you commence production. How do we look at this ratio as such for FY13 and maybe in the medium term as such?

C:Sachin Gopal:} I would say in the medium-term while it would be desirable for us to have a higher percentage, right. That would be consistent and enable a faster growth towards the transformation of the Company. We also have to see what is the right pace at which we make the investments. So I think you will see us having a fairly disciplined pace in terms of media investments. I think we will start to invest in Peanut Butter in the current year, however we will do that also in pace with the rate of distribution expansion and consumer acquisition.

Ennette Fernandes

Okay.

So, I would say we and I have said this earlier that we would certainly like to be at a higher level as compared to the 4.5% 5% that we are today. Right.

Ennette Fernandes

Yes sir.

Sachin Gopal, President and Chief Executive Officer

But it would I think be a gradual journey. It won't be one which is full of a lot of cost, unless there are some one time gains or something that come back which we then choose to invest in the transformation of the business.

Ennette Fernandes

Definitely sir. Sir also I -- just certain house keeping question, sir. What would be the effective tax rate say FY13 onwards considering that we would also have the indigenous production of Sundrop Peanut Butter I just wanted to understand how do we look at that?

Sachin Gopal, President and Chief Executive Officer

Ma'am the Peanut Butter production will not change at all the effective tax rate because it's not in a backward area.

Ennette Fernandes

Okay.

Sachin Gopal, President and Chief Executive Officer

So that will have no impact whatsoever. At some point in time and I guess I mentioned this in earlier call, at some point in time our Kashipur factory will start to give us some amount of tax rate improvement, however that will be then the accumulated losses post marketing expenses than other all allocation overhead have being removed and therefore it is making a profit, that's when we will get the benefit of that.

Ennette Fernandes

Okay

Sachin Gopal, President and Chief Executive Officer

I won't be able to comment on the exact time frame of that, but that will happen in future. But exactly which quarter it will happen, I wouldn't be able to tell you right now.

Ennette Fernandes Sachin Gopal, President and Chief Executive Officer

We've taken - we've taken I would say...

Ennette Fernandes

On a weighted average basis if you could just share with us?

Sachin Gopal, President and Chief Executive Officer

Yeah. We've taken steady pricing during the year which is basically to offset the higher cost of goods. And that's the reason also partly why we were able to deliver a margin where higher sales of profitable products offset the divested sales of that. But there's nothing in terms of a one-time percentage or something that I can say we've taken in the last three-four months, no. It's been steady through the year.

Ennette Fernandes

Okay. Okay. So, there has been no recent price hikes, that's what you're saying in the past three months?

Sachin Gopal, President and Chief Executive Officer

There have been no but they are very liberate, they are not huge.

Ennette Fernandes

Okay.

Sachin Gopal, President and Chief Executive Officer

Because we tend to take pricing through the year in smaller bits as is appropriate reflecting the cost... commodity cost inflation.

Ennette Fernandes

Okay okay. Sir, one last question on my side. Sir you have said that Sundrop Peanut Butter has basically reported double-digit volume growth if you are, if I look even the realization of Sundrop Peanut Butter we have more substantially done, I suppose that they were priced at something like Rs. 125 odd at the start of the year and they sell at Rs. 180 or so right now. So, that would mean that this particular brand has a growth of more than 40% for this year?

Sachin Gopal, President and Chief Executive Officer

Yeah, the value growth ma'am, you are right. The value growth will be higher than the volume growth because there has been a higher pricing which was necessitated by a higher cost of protein in the U.S. and as well by a weakening rupee. So, yeah the value growth will be significantly higher than the volume growth.

Ennette Fernandes

Okay okay. Sir also since we have improved the realization since Sundrop Peanut Butter say we started off with Rs. 99 in 2009 and

now it's sales for around Rs. 185. Considering that we are also going to initiate our indigenous production, I would expect that the gross margins for the product would be upwards of say around 40% to 45% inline with the other snack foods. But you've indicated something like 30% if you could just help me again understand this as such?

Sachin Gopal, President and Chief Executive Officer

Yeah. Well, yeah. There has been a significant cost increase in the cost of protein or peanuts worldwide, right.

Ennette Fernandes

Okay.

Sachin Gopal, President and Chief Executive Officer

So that's the reason why we see it as being north of 30%, right.

Ennette Fernandes

Okay.

Sachin Gopal, President and Chief Executive Officer

Because there is a significant cost of goods increase. If you actually track the groundnut or peanut price increase in North America over the last two years, you will see there has been a huge increase in actual product cost.

Ennette Fernandes

Okay.

Sachin Gopal, President and Chief Executive Officer

So, yeah, it's not that pricing is going all the way through into a better margin. No.

Ennette Fernandes

Okay. Okay. Fine, sir. That's it from my side. Thank you so much.

Sachin Gopal, President and Chief Executive Officer

Thank you ma'am.

Thank you very much ma'am. [Operator Instructions]. The next question comes from Prakash Kapadia from Alpha Enterprises. Go ahead sir. Mr Kapadia? Sorry sir, the line is not active. We'll take the next question.

The next question comes from Tanukha from Danda Commercial Private Limited.

Analyst

Good afternoon, sir.

Sachin Gopal, President and Chief Executive Officer

Good afternoon.

Analyst

Yeah. Previously you had stated that your aspiration is to have 25% from branded foods in the near-term and ultimately take it to 50% of total turnover?

Sachin Gopal, President and Chief Executive Officer

Correct.

Analyst

So currently if I understand correctly, your turnover for branded food is around 15%. So would you be in a position to give us some sort of a time frame as to when you will be able to achieve the next level of your aspiration, it will make a 25% under branded foods?

Sachin Gopal, President and Chief Executive Officer

Yeah, that's correct, I mean you've stated the milestones correctly. And I won't be able to give you a time line honestly, we would like to do it sooner than later. So, we did the first like from -- payment about I would say about four or five years. So, sooner the better but I won't be able to give you a time line, but our energy and efforts will certainly be focused towards getting to the 25% and then the 50%.

Analyst

Okay. Sir, what's your present distribution reach and you intend to reach like 5 lakhs or something in how much...?

Sachin Gopal, President and Chief Executive Officer

Correct. So we have mentioned that our coverage today is about between 3,50,000 and 3,70,000 stores, so there is about 3.7 lakh stores. And suddenly are distribution capability is increasingly very rapidly. So to give you a perspective, we launched ready-to-eat popcorn only four months ago and in four months we were able to get as per AC Nielsen about 100,000 stores. That represents the entire coverage of the company about four years ago. So that From a immediate goal perspective you gave the exact number which... what I have shared in earlier calls we expect that by the end of this fiscal we should be having a coverage of something like 0.5 million stores. So that's what we are working towards and what we're tracking ourselves against on a monthly basis.

Analyst

Okay. And sir you are ready-to-eat segment you've launched some products. Hello?

Sachin Gopal, President and Chief Executive Officer

Yes.

Analyst

In the ConAgra Foods we have launched some products how are they doing?

Sachin Gopal, President and Chief Executive Officer

They are doing well. They have a limited distribution and that's fine with us because we were long-term best that we are making. We believe that as we gradually establish a presence for us in this category we would certainly be able to leverage some of the IPR that ConAgra has in making ready-to-eat foods as you know we're one of the largest makers of convenience meals in the U.S.

And just we unfold I think overtime right now, it's limited distribution and within that distribution I would say it's doing reasonably well. So, for example if you were to go to let's say a store like Hyper City in Malad, you will rarely see Sundrop ready-to-eat meals

with a full shelf and having a very good rate of off take. However, of course we've limited the distribution because we certainly don't want to go and make the product available and display it in stores, where we have a low chance of off take where we have a greater cost to the P&L than the value of what we sale. So, it's a major approach. And I think it will remain like that for a while but the response has been good.

Analyst

No the I am from Calcutta and I had done some research and this ready-to-eat products are not really available here and even the response from those who keep it, is that the off take is not very good and even the oils that you have launched the cooking spray, that was available sometimes back but now it's not available in most of the stores in Calcutta?

Sachin Gopal, President and Chief Executive Officer

Sorry which product did you refer to I'm sorry?

Analyst

I'm referring to your ready-to-eat product and the cooking sprays which you had launched.
Correct.

Analyst

So it was available sometimes back in the stores in Calcutta. But they are not available sir.

Sachin Gopal, President and Chief Executive Officer

Entirely it's entirely possible with all new products we go through the status where we introduce them there is some amount of off take then we have to recalibrate the supply chain along the way, right? Because we certainly don't want to have the risk or the financial consequences or selling a lot of product and then taking it all back and then having a huge charge to the P&L.

So you are absolutely right this is entirely possible and it will happen. It is possible even today that there will be a number of outlets which don't have spray. We went through this trend with peanut butter as well wherein the initial stages we would sell it and then there was no stable demand then as you built up demand it became stable so you will see these kind of consequences. And they are likely to stay, they are not likely to go away in one month or two months. They will only go away as we gradually stabilize the product and make it more broad based in terms of consumer demand.

Analyst

Okay. And sir, how many products that you intend launching in this fiscal?

Sachin Gopal, President and Chief Executive Officer

We have said that we will do about two every fiscal, and that's what we are doing. So there is no change to that. That will continue in the next fiscal also.

Analyst

Okay. Thank you sir.

Sachin Gopal, President and Chief Executive Officer

You are welcome.

Operator

Thank you very much sir.

Shirish Pardeshi

Shirish here, from Anand Rathi. I just had two quick questions. One is, can you update on the two new launches which we had done last year. That is Express and of course the previous launch chocolate pudding as well? And also if you

Sachin Gopal, President and Chief Executive Officer

Okay. So I will take the last one first. As of now, we don't believe that we had the right business model for drinking chocolate. So we will, until we have the model we will not be importing further product. As far as the two that we launched last year, I would say as I cover off now we are gradually gaining trial of the Spray, it's going to be a long haul, but it's a very nice business to be in. And we will continue to have a investment strategy but which is measured.

So which is as I said earlier a kind of low investment strategy where we keep the product till such time that we are at which point in time it can probably merit it's own independent A&P support.

That is too equally for our Ready to Eat convenience meals which we talked about just now and the availability issues that. So again low investment strategy but planting our flag in ground for the longer run.

As far as the pudding is concerned, we continue to import and sell this product. I would say we need to find a viable way to be able to make this product locally, that viability needs to be examined from or is under examination from a CapEx even a modification in product and distribution capabilities. We haven't tried that as yet. So it continue to remain in our core categories. But as and when we have something new to report, we will obviously come back to you.

Shirish Pardeshi

Okay sir. And any update on the import of corn which is the key raw material for Act II?

Sachin Gopal, President and Chief Executive Officer

No change in status, I think. Thank you for asking the question, no change in that status. As of now that continues to be a stay on the import of popping corn. And we obviously are seeking for that a stay to be removed. But as of now, that stay still remains.

Shirish Pardeshi

So going ahead you will be have enough supply. We have enough inventory as of now or it would be sourcing some locally as well?

Sachin Gopal, President and Chief Executive Officer

No we would not be sourcing any corn locally. So we have on for now, but it's something that we have the Director General of Foreign Trade to indicate that they didn't do need to issue out the end user licenses. And I am sure that they will do that in the near term. It's in the event quality that gets delay beyond the capabilities of the corn that we currently hold, then we are in the process of developing a contingency plan to ensure that we continue to have -- continue to be able to supply our branch to our consumers in India.

Shirish Pardeshi

Okay, sir. And lastly one question I repeated in many analyst calls, where do we see the, from 1 July there will be Standard Act, so we will have to come out with the regulatory pack. So whether the popcorn is category included in that?

Popcorn classifies in the proprietary foods, so that's not impacted. However edible oils is and we are having to making the necessary modifications on the date on which the new law will come into effect.

Shirish Pardeshi

Okay, okay sir. Thank you.

Operator

Thank you, sir. The next question comes from Shekhar Kedia from Barclays.

Shekhar Kedia

Sir, thanks for taking my question. I just wanted to get your sense on CapEx sir. I missed out your earlier comment. So like CapEx going forward for FY 13 or what was the CapEx for FY 12, if you could just give your comments?

Sachin Gopal, President and Chief Executive Officer

Yeah, okay. I think I have mentioned that what we follow as a strategy is broadly speaking that the cash that we generate is the cash that we invest, right. And as you will see from our balance sheet there are basically three areas where that money, the profit after tax and add as a depreciation goes. The first is capital expenditure which is largely on plant and machinery but to some extent it is also information technology related in which we had bigger CapEx's in the prior year. And the amount that goes into the ESOP Trust and the third is the amount that goes into dividend plus dividend basis. Broadly speaking on a year-on-year basis, we tend to invest what we are earning.

So which is why we feel comfortable that we're reasonably self-sufficient from a capital perspective in terms of our investment needs. Right?

We don't see any change to this strategy going forward, i.e., that we will need to borrow money to support and enhance level of CapEx. We need to continually invest in CapEx. We believe that if we want to participate and in many cases lead category development of the processed foods industry in India, deliver food manufacturing capacities are going to be vital to the post. However, we need to do it in a manner that is robust that investments are made inline with our demand generation capabilities and not that we overrun, and suddenly create much higher than, much higher let us say depreciation charges to the P&L than the margins that the new products or those incremental capacities are.

Shekhar Kedia

Okay. And sir regarding our new products, so you said that we are going to launch two new products this year. Right sir?

Sachin Gopal, President and Chief Executive Officer

Correct. We have said it will be in the 12 to 18 month range but we are launching two new products every year. Yes.

Shekhar Kedia Sachin Gopal, President and Chief Executive Officer

This would represent a new opportunity for consumption. So let me clarify. If we launch the brand like Sundrop Nutrition which is a low price oil. That doesn't come under this category. Right? Because in a sense it is catering to the same consumer demand. However if we extend popcorn from interim consumption into savory ready-to-eat popcorn that's the new consumption occasion right? So we will classify that as a new product.

Shekhar Kedia

Right sir. And sir in terms of the other segments that you have mentioned in which we are not very heavily present at the moment which is pudding and inconvenience meals what is the opportunity that you see sir the amount of products or the IPR that we can get from our ConAgra sir?

I just wanted to get a sense from you sir what is the opportunity that you foresee from that?

Sachin Gopal, President and Chief Executive Officer

In all of these categories there is a significant amount of IPR because IPR is available we often think of IPR only in terms of recipe that often usually there is a large amount of IPR in food manufacturing and process as well. So therefore we do see IPR opportunities there which in the long-term we believe can give us a good margin. And however the pacing of this is likely to be different, right.

So, it's got a multiple factors that work. If the market ready and how ready is it, we need to tailor our investments accordingly right. Do we follow until that point lower investment strategy, if a product reaches a point where we know yes it's an inflection point and now we can look forward to very rapid growth. The time for the categories has arrived and we need to put more money in AMP. So, it's a little balancing act across all aspects of the P&L and balance sheet.

Shekhar Kedia

Right sir. Thank you sir. Thank you.

Operator

Thank you sir. The next question comes from Abash Podar from ialpha Enterprises. Go ahead sir.

Prakash Kapadia

Yes sir. Thanks. This is Prakash Kapadia here. Thanks for taking my question. Sir, could you give us some sense on what is the market share in the premium edible oil as on FY12?

Sachin Gopal, President and Chief Executive Officer

I had given the figure about in the last call or two calls before. This is exactly the same. We will be about 45% at the premium edible oil category and - would be -.

And sir given that most of our restructuring in terms of exiting the commodity business is done. So, is it fair to assume we'll see now top-line growth coming in from next year onwards?

Sachin Gopal, President and Chief Executive Officer

Yeah it's... I will say yeah it's reasonable it's very reasonable to say that so it's whatever developments had to be done in excess has to be done. It is the next five years is going to be different from the last five years in that we should expect to see a top-line growth and a management of margin in a different manner as compared to the last five years. But the answer is yes.

Prakash Kapadia

Okay. And sir if you could give us some sense of our path and our journey which we said gross margin improvement will happen which is happening over the last few quarters. So, over the next two, three years where do we... when do we see that 30% plus and then inching towards 40% so is that also part of this five year which you are hinting?

Sachin Gopal, President and Chief Executive Officer

Yeah, but I won't be able to as you are aware give any perspective in terms of time clearly we are I would say probably half way in our journey from 10% to 40%. So I won't be able to give you honestly a answer specific time frame on it but yeah the path remains clear and obviously how we do it we'll change on a quarter-on-quarter and year-on-year basis.

Prakash Kapadia

Sure. And sir given that Superlite in our edible oil is our largest product portfolio. Could give us some sense of where do you see the positioning of Heart and how typically would gross margin improve if Heart was to become a significant contributor to the edible oil business?

Sachin Gopal, President and Chief Executive Officer

It's pretty significant because we... I would say even this year a part of the gross margin improvement has come above because of very strong growth on Sundrop Heart. So the answer is yes, it is a strong contributor in terms of margin improvement, not so much probably in terms of volume although to some extent some amount of volume contribution as well.

And yeah clearly as it grows from being 15% of the business to 20%, 25%, 30% of the business clearly we will see a increasing contribution of that to overall percentage margin yes.

Prakash Kapadia

Okay. And sir the lastly if you could give us some sense our communication strategy in terms of specifically the peanut butter, how do we communicate the dietary fiber or high protein content of peanut butter. Because Indians are very peculiar in that, so how do we get people consume more? And when do we stop importing this, once our plant starts, do we stop importing that? Or parallelly you will give some time to stop imports?

Yeah. Our experience indicates that whenever we start total manufacture, it is why is to pointing you to import in such the entire process stabilizes.

Prakash Kapadia

Okay.

Sachin Gopal, President and Chief Executive Officer

So, I would say we can expect that during the current fiscal year, we will continue to import the product even after the local production has started. In terms of communication, we primarily benefit of peanut butter is really a very very effective source of protein, as you correctly mentioned. So, I'm sure that communication strategy around the product will focus on the benefit of protein, absolutely so.

Prakash Kapadia

Okay. Thank you sir. All the best.

Sachin Gopal, President and Chief Executive Officer

You are welcome. Thank you.

Operator

Thank you sir. [Operator Instructions]. The next question comes from Binoy Jariwala from Sunidhi Securities. Go ahead sir.

Analyst

Hello, yeah. Thanks for the opportunity sir. Sir, if could you throw some light on the final distances in the business model of -- profit and pre-plan one of this. And second was do you see the oils actually kicking out and there is some consolidating happening in the industry [Technical Difficulty].

Sachin Gopal, President and Chief Executive Officer

With your question I'm not sure if the others could have heard. Daniel did you deliver the question?

Operator

I was not able to hear it clearly.

Analyst Sachin Gopal, President and Chief Executive Officer

Hello. I can't you hear you? The first question about Rath and Crystal?

Operator

Hello? Just a moment sir, let me see if I can make this any better. Just a moment. Mr. Jariwala, can you hear me sir? Sorry sir, it appears the line is not active. We'll move on to the next...

Analyst

Hello? Can you hear me? Hello.

Operator

We can hear you sir, but barely.

Analyst

Can you hear me now?

Sachin Gopal, President and Chief Executive Officer

Hello?

Operator

Mr. can you hear me sir?

Analyst

Yes, I can hear you.

Operator

Sir but you are sounding very faint, sir. What I would recommend is that you hang-up and try and call us back.

Sachin Gopal, President and Chief Executive Officer

Daniel, can you take the next question please.

Yes sir. Moving onto the next question. The next question comes from Sourabh Arya from Bajaj Allianz Life Insurance.

Saurabh Arya

Yes, hi sir.

Sachin Gopal, President and Chief Executive Officer

Hi.

Saurabh Arya

First of all congratulations on good set of numbers, sir. I have only two small questions, one is this degrowth which you talked about Agro Tech Foods and this Act II Popcorn. This was majorly due to sourcing of raw material problem only, is it?

Sachin Gopal, President and Chief Executive Officer

No, not at all. We had adequate raw material during the year, so this is what I would have covered up in the quarterly calls earlier. Saurabh it is that we had some amount of excess inventory build up in the prior year and starting the first quarter of last year we started to correct that, and that to an extent therefore also was responsible for the business performance that we had last time.

Saurabh Arya

Okay, sir that's fine. Still one more small question. One is just can you tell me the capacity of the plant which is coming up in Gujarat for the Peanut Butter?

Sachin Gopal, President and Chief Executive Officer

I won't be able to give you the exact capacity, but I would say we -- and I think probably I have mentioned this in some earlier interviews. We've created a plant which helps us overtime migrate this business which is currently a small business to at least a reasonable size. And said that we are not really interested in any business at least if it's not in the 50 odd crore to 100 odd crore range. So our initial -- in terms of turnover.

So our initial investment should enable us to get somewhere close to that range without over investing on day one, right. So I would say it's therefore the capacity is more than adequate to be our immediate needs a couple of years. But yes after that there will be changes, but the plant will be designed in such manner that incremental capacity can be built in easily.

Saurabh Arya

But the raw material would be Indian only right?

Yes. That's the reason why the plant is in Gujarat because all the groundnuts were taken from Gujarat

Saurabh Arya

Okay. And coming back to Act II, so this problem is nearly resolved now with the high inventory problem of last year. So next year we can expect something of the previous year's line, right?

Sachin Gopal, President and Chief Executive Officer

We should certainly, we should certainly start to see growth on it. What number of growth, that is something that we keep you posted on a quarter-on-quarter basis.

Saurabh Arya

Sure. Thank you very much sir. Thanks a lot. All the best for the next quarters and next year. Thank you.

Operator

Thank you very much sir. Ladies and gentlemen, we will be taking the last question. And the last question comes from Amit Hiremath, from ENAM. Go ahead sir.

Amit Hiremath

Thanks. Thanks for taking my question. Just one question regarding the overall consumer behavior in the premium edible oil segment. I mean whenever, what is the actually driving force for a consumer to buy a premium edible oil? Is it the blend or is it the price which actually rises this behavior?

Sachin Gopal, President and Chief Executive Officer

We believe that the behavior is completely driven by the propositions that we put forward consumer. Premium development of any premium segment means that the consumer must see a benefit in paying the premium price. Therefore it is reflective of a benefit base propositions in a category like us. So now what was done well last year it's because we have got a strong benefit base proposition which has contains the resin oil to reduce cholesterol. And the growth category will be a function of this. We don't believe that just barring a pricing point or out of any specific nature, the proposition we hand it we believe that you will not get the benefit of that.

Amit Hiremath

Sir actually the price rising from 125 a liter to 180 a liter actually doesn't take out the sentiment of the customer to down trade to some other oil.

Sachin Gopal, President and Chief Executive Officer Saurabh Arya

Thanks for that. And just last question what percentage of your sales is coming from modern retail?

Sachin Gopal, President and Chief Executive Officer

It is I would say inline with most other companies so it will be in the 10% to 12% range.

Saurabh Arya

Okay. That's it from my side. Thank you.

Sachin Gopal, President and Chief Executive Officer

Danial is that the last question?

Operator

We have one more question sir.

Sachin Gopal, President and Chief Executive Officer

Okay.

Operator

The last question comes from Saurabh Bang from SBI Mutual Fund. Go ahead sir.

Analyst

Yeah. Hi Sachin. Good afternoon.

Sachin Gopal, President and Chief Executive Officer

Hi.

Analyst

Sachin we've spoken about this earlier spending less in terms of advertisements and having more feed on the street do we see

ourselves allocating a higher say budget A&P spend going forward ?

We too certainly expect to see a, I would say a continued improvement in A&P spends, right. And A&P, which is obviously the piece which is media and sales promotion and as we've become more effective in reducing the cost of distribution that releases the money in the P&L to be able to increase it. So, I would say the immediate task for the company is how to be able to generate additional points of distribution in a cost effective manner and as we do that as it becomes more cost effective and we have a margin improvement we should, that should translate into a better level of A&P.

Analyst

So, there is the 5 lakh points of sale, looking at that number to actually reach before you actually allocate a higher amount to A&P, is that a fair assumption?

Sachin Gopal, President and Chief Executive Officer

It's not going to be very sort of linear in that sense.

Analyst

Okay.

Sachin Gopal, President and Chief Executive Officer

It's not that you get to a point because at the end of day you have to generate money for investment on a month-on-month basis right. So, as you become more efficient on it, we should - you should continue to be able to improve it and have a more steady level of brand franchise investments.

There are many factors which will go into the investment. As we put in the more new products like say we have to advertize peanut butter some of the other participants mentioned that that will also need some amount of investment. And we're going to have the balance the priorities for investment while continuing to build a robust business.

Analyst

But very anecdotal you've seen very less visibility of Act II specifically on television.

Sachin Gopal, President and Chief Executive Officer

Correct.

Analyst

Is that something you've actually cut quite significantly in FY12?

Sachin Gopal, President and Chief Executive Officer

It's more than prior year largely because last year what we did is we took the entire profit that came from the sale of the Rath brand what came into the P&L and we invested that behind Act II and Sundrop Heart probably the ratio of about 80:20. So if you compare it with prior year it will be lower because that one-time increase and investment is not there in the current year. But other than that there is no difference in that.

Analyst

Thank you. Thank you sir.

Sachin Gopal, President and Chief Executive Officer

You're welcome. Okay. I guess that closes Daniel yes.

Operator

Thank you sir. There are no further questions. So now I hand over the floor to Mr. Shirish Pardeshi for closing comments

Shirish Pardeshi

Yeah, hi Sachin just couple of questions. Just first question is that this inflationary situation we have seen the price increases happening on one side does this impact on a longer term or maybe next two to three quarters long-term in terms of volume growth for us?

Sachin Gopal, President and Chief Executive Officer

We don't see anything any significant event in terms of pricing because Shirish as you would have noticed during this conversation I said we haven't really taken anything aggressive in terms of pricing. Our pricing has been as continued to the year depending on input price inflation. So there is nothing special that we see right now.

Shirish Pardeshi

Okay. The next question is at have we taken any price increases in this month or in last one quarter?

Sachin Gopal, President and Chief Executive Officer

We would have taken a minor price increase on the last quarter, the answer is yes.

Shirish Pardeshi

So, in terms of price premium are we at 145 plus I mean between you and Saffola wouldn't be premium at this time?

Sachin Gopal, President and Chief Executive Officer

I won't be able to give a comment on Saffola, I mean obviously I would have the numbers that I wouldn't want to give a perspective on a competitor but I would say the kind of, we would have maintained our relative position in the market

Shirish Pardeshi

Okay. Just last question, any key trends we should look at in terms of costs inflation and especially in terms of rice brand oil or edible oil or your sunflower catalog?

Sachin Gopal, President and Chief Executive Officer

See we continued to see significant amount of input price inflation that is the consequence also in part of a weaker rupee since a large amount of oils that comes in now is imported. As far as our -- the oil, variable oil which impact our P&L, they would be in order of priority the top two would be first and third and then rest.

Shirish Pardeshi

Okay. So that's it from me. And I take this opportunity to thank you and the senior management to be present on the call. I also thank all the participants for taking out time and attending this call. Sachin, you would have any closing remarks?

Sachin Gopal, President and Chief Executive Officer

Okay. And thanks very much again for organizing the call. And thank you to everybody for taking out the time. Have a great day.

Shirish Pardeshi

Thank you.

Operator

Ladies and gentlemen, this concludes your conference call for today. Thank you for your participation and for using Door Sabha's conference call service. You may disconnect your lines now. Thank you, and have a pleasant day.