"LT Foods
Q3 FY2020 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen and welcome to the Q3 FY2020 Earnings Conference Call of LT Foods Limited hosted by Batlivala & Karani Securities India Private Limited. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Deepak Kolhe from Batlivala & Karani Securities. Thank you and over to you, Sir!

Deepak Kolhe: Thanks, Margaret. Good afternoon, everyone. On behalf of Batlivala & Karani Securities, I would like to welcome all the participants, who have logged in for the LT Foods Limited Q3FY20 Earnings Conference Call. From the management team, we have with us Mr. Ashwani Kumar Arora - Managing Director and CEO; Mr. Vivek Chandra - CEO, Global Branded Business, Ms. Monika Chawla - VP of Finance and Strategy; and Mr. Sachin Gupta, General Manager - Finance. Thank you, management, for giving us the opportunity to hold this call. I would like to request Monika Madam to first begin with her opening comments, post which we will have a Q&A session. Thank you and over to you, Madam!

Monika Chawla: Thank you, Deepak. Good afternoon, everyone and thank you for joining us on the LT Foods Q3 FY 2020 Earnings Conference Call. My name is Monika Chawla Jaggia, I head the Investor Relations Team at LT Foods. Joining me today is Mr. Ashwani Kumar Arora, the Managing Director and CEO; Mr. Vivek Chandra, the CEO of Global Branded Business; and Mr. Sachin Gupta, the General Manager Finance of the Company.

I would like to highlight that certain statements made or discussed on the conference call today will be forward-looking statements and a disclaimer to this effect has been included in the results presentation shared with you earlier. Result documents are available on company's website and have also been uploaded on the Stock Exchanges. A transcript of this call would also be made available on the investors section of the company's website.

I would like to begin by taking you through the key highlights of our nine-month financial year 2020 performance. Our revenue for the nine-month period is at INR 2967 Crores, a growth of 2%. Our strategic intent has been to focus on our branded business and gradually reduce the non-branded private label and the trading business, so as to build a sustainable and more profitable business. As a result, the share of our branded rice portfolio increased to 76% versus 70% last year.

Our branded sales growth has been broad based coming from all our markets with the India-branded business growing at 6% and the International-branded business growing 16%.

Our second strategic focus has been growth in our profitability. With the combination of change in sales mix and manufacturing efficiencies, the Gross Profit for 9M FY2020 increased by 10% to INR 794 Crores.

EBITDA for 9M FY2020 increased by 12% year-on-year at INR 358 Crores due to higher GP and further operational efficiencies.The EBITDA margin for nine-months improved by 107 bps on year-on-year to 12.1 basis, which is in line with our plan to expand EBITDA margin by 200 bps in the next two years. We would also like to mention here that our Europe business, which achieved EBITDA breakeven in Q4 last year, continues to do well and has EBITDA of INR 11 Crores for the nine-months period.

The PAT jumped by 22% in 9M FY2020 to INR 141 Crores. We have performed exceedingly well in terms of the cash flow front as well. The cash flow generated from the operation, up by 150% to INR 269 Crores.

Now, I will be taking you through the key highlights for our Q3 FY2020 performance. Our revenue for the Q3 FY2020 at INR 998 Crores fell by 11% on year-on-year basis, mainly due to the decline in the private label business, as explained earlier, while our branded business grew 6% in the Q3.

During the quarter, the Gross Profit margin improved by 300 bps due to better product mix. The EBITDA margin for Q3 improved by 170 bps on year-on-year to 11.7%. PAT for the quarter increased by an impressive 26% year-on-year basis.

Now, I would like to update you on all the efforts taken towards the strengthening of the balance sheet of LT Foods. Networth of the company is up by 12% to INR 1561 Crores year-on-year basis. Because of our continued focus on strengthening our balance sheet, the long-term debt has decreased by 22% to INR 205 Crores. The long-term debt to equity has reduced to negligible levels of 0.13 from 0.19 last year. This is to reiterate that majority of our debt is working capital debt, which is required because of the nature of our business, and our focus is to maintain the debt-to-EBITDA ratio to less than three times.

Because of our continued focus on working capital optimization, our net working capital has also reduced by 7 days to 257 days, which has helped in reducing short-term debt by INR 12 Crores to INR 1380 Crores. Total debt of INR 1585 Crores is lower by INR 70 Crores on a year-on-year basis. The total debt-to-equity ratio has also improved to 1.02 versus 1.18 year-on-year basis.

Interest coverage ratio has also improved significantly in Q3 FY2020 from 2.8 to 3.2 year-on-year basis. Debt-to-EBITDA ratio has also considerably improved to 3.3 versus 3.9 last year. The current ratio has also improved significantly to 1.49 from 1.38 last year. The ROCE has also improved by 80 bps to 12.6%. Thus, our efforts have started reaping dividends in the form of strengthening all kind of key financial ratios, solvency, returns and the liquidity ratios. These are further getting reflected in strong credit rating your company enjoys of A- (positive outlook) given by the reputed credit rating agency CRISIL.

I now hand over to Mr. Chandra for the further business update.

Vivek Chandra: Thank you, Monika. We at LT Foods have been the industry thought leaders and technology innovators. We are proud of the fact that most consumer-centric ideas like consumer packaging or recipe-based solutions like the Biryani, Pulav and Rozana variants, or usage-based products specifically designed for HoReCa, all have originated from LT Foods. LT Foods, one of the first to introduce 2-year aged rice, was the first to recognize that during these 2 years, rice needs to be stored hygienically and carefully, and so pioneered the use of silos for storage. Similarly, LT pioneered the launch of brown Basmati rice and is the only one to sell a genuine quick-cooking brown rice with its full bran still intact.

I am happy to announce that LT Foods has continued its innovation and consumer-centric leadership by launching a fortified Basmati under the brand ‘Daawat Sehat’. This product is fortified with iron, multivitamins and folic acid and is certified F+ by FSSAI. Launched in test in Delhi, the brand is gaining very good trade and consumer response.

As discussed in earlier quarters, we have forayed into certain Greenfield ventures, which are a natural extension to our current portfolio and I would like to give you an update on those.

On Kari-Kari, post the successful test launch 18 months ago, we have started commercial production from our new facility in North India. This facility will enable pan-India expansion for Kari-Kari.

Regarding our ready-to-heat facility in the U.S., I am happy to share that this is expanding well with the product being well accepted by the trade and consumers and has revenue of INR 16 Crores in the first nine months of this year.

We have started commercial production from our organic Soya meal plant with a capacity of about 10,000 tonnes. We are pleased to inform that the plant has reached 75% utilization in the first quarter of the operation itself.

I would now like to hand over to Mr. Ashwani Arora.

Ashwani Kumar Arora: Good afternoon, everyone. LT Foods is a 70-year-old Food Company, delivering the finest-quality rice and rice-based food brands, providing taste and nutrition in more than 80 countries. We are also proud producer of organic agri ingredient, supplying them to the leading business in Europe and the US for the past 25 years.

Overall, we are on the track with our strategy for this year. As informed on our earlier calls, our strategic focus continues to be driven by three broad pillars: growth, margin expansion, and strengthening our financial metrics. Our growth strategies are to strengthen our brand, secondly further widen our distribution network, and increase brand penetration across all consumer segments.

Margin expansion strategies are to focus on change in product mix towards higher-margin brands, manufacturing cost efficiencies, and thirdly to realize economies of scale. We will focus on strengthening our balance sheet through growth, margin expansion and focus on cash flow generation. Thank you. Now we open the session for question and answers.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Snehal Bakke from Man Finance. Please go ahead.

Snehal Bakke: First of all, I would like to congratulate you for the excellent set of numbers, and for showing strong focus on the margin growth, which is very good for investors. Could you throw some light on the competitive intensity in various geographies and how will you achieve further margin expansion? What is your goal in the current tough market situation?

Ashwani Kumar Arora: As a company, we are strong in India, America, Europe and the Rest of World, like Far East also, etc. So in this space, the consumption is growing and as a brand we are a very strong brand. In India, we have a 26% market share. In U.S.A., we have more than 45% market share. In some parts of the world, we are in a leadership position. So as a strong brand, we will keep leveraging and commanding the price power.

Snehal Bakke: In the presentation uploaded, your branded portfolio has shown a growth of 6%, earlier, it was 70%, now it is 76%, which is very impressive, could you give me the reason for the same and what would be your strategy going forward to improve it?

Ashwani Kumar Arora: As I said, the category is growing, and we will keep focusing on our consumer business, and we will keep this momentum.

Moderator: Thank you. The next question is from the line of Parul Mehta from Sharegiants Wealth Advisors. Please go ahead.

Parul Mehta: Could you tell me how the paddy prices have moved in the last nine months?

Ashwani Kumar Arora: So this season, the Crop'19 is cheaper by 15% to 20% than the last year, and the crop was good.

Parul Mehta: What is your outlook going forward on this?

Ashwani Kumar Arora: The prices, as you know, are at the bottom, so we expect that going forward, if Iran improves the demand, then the prices will be firmed

Parul Mehta: Do you feel that there is possible inventory loss due to fall in the paddy prices?

Ashwani Kumar Arora: No. I think, as I said in the last concalls, Crop'19 is not a replacement of Crop'18. And there is no price decrease in the Crop'18, therefore, there is no loss.

Parul Mehta: Sir, what is your capex plan for the next three years and what is the capex done in this year?

Ashwani Kumar Arora: Until December, the capex is INR 42 Crores and as going forward, the capex will be in the same range.

Moderator: Thank you. The next question is from the line of Daksh Solanki an Individual Investor. Please go ahead.

Daksh Solanki: I have seen that the private label business has been reduced, so is this a conscious strategy? And then probably we are looking forward to reducing the product and focus on the branded business, or what is the strategy going forward?

Ashwani Kumar Arora: That's what the strategy is. The strategy is to grow our branded business and business which is sustainable, be it the private label. We are only doing private label, which is strategic in nature.

Daksh Solanki: And the other question I have is, can you comment on the kind of margins regarding the organic business, and whether it is profitable right now?

Ashwani Kumar Arora: So organic business, EBITDA margin is at 13.4%.

Daksh Solanki: The final question, which I had is that I just realized that you all have taken a board meeting for declaring a dividend in this coming next few weeks, has the board considered the possibility of a buyback since our stock is trading at 5x earnings and it will get a lot of value if we buyback at these low prices?

Ashwani Kumar Arora: Yes, we are going to discuss in the board meeting. Yes, we will evaluate.

Moderator: Thank you. The next question is from the line of Ashok S from Merlion India Fund. Please go ahead.

Ashok S: I would just like to understand a bit more on your strategy going forward. I notice your organics food, the new products are around 15% of revenue, so two parts to the question, do you see this becoming a big portion going forward and second is, how do we interpret because you still have quite a room to go as far as market share goes in some of your geographies, so can we expect market share gains also or is market share is kind of tough to now increase and hence, new products in organic and new businesses?

Ashwani Kumar Arora: First, on the organic side, we have the plan to grow 10% to 15% year-on-year and the branded business will also grow in the range of 10% and going forward we expect that organic business will be in the range of 15% to 20% of our revenue. Regarding our core business, which is consumer business and, in some geography, the focus is to gain market share and, in some markets, like USA, we have already 45% to 50% market share. Here the focus is to maintain market share and get into the value-added things and as you know, last year, we have got RTH, which is 2-minute microwave rice, so that is the focus. In India also, the focus is to grow core business and as the consumer trend is changing, so we have launched rice value-added, we have launched Rice Sauté Sauces, which is getting very good response and some products are in the pipeline according to the consumer demand. We have the finest rice, "Daawat" brand is a very strong brand in India and as a brand, we will provide consumers all the needs regarding rice-based solution.

Ashok S: So, from a margin and overall capital return on capital from these new businesses, I understand we have to invest for a while until they become stable, but longer term, these are also high-margin, high ROCE businesses?

Ashwani Kumar Arora: Yes, high-margin, high ROCE business and the margin expansion strategy is the same, the product mix and the scale and the growth, so these are the margin expansion strategies.

Ashok S: Thank you, Sir. Just one last bookkeeping question on your tax rate, that seems to have come off, is it that new tax rate adopted or how should we look at this going forward?

Ashwani Kumar Arora: This is the new tax rate.

Moderator: Thank you. The next question is from the line of Shalini Gupta from Royal India Investment Managers. Please go ahead.

Shalini Gupta: Actually, just wanted to inquire whether the company will be moving more towards the health segment, as you all have gotten new rice towards, which is on the healthy side, but would we be moving into something like quinoa, or couscous?

Ashwani Kumar Arora: We have 3 pillars, which is health, convenience and the core dry rice, so Mr. Vivek will put more light on moving forward on the health question here.

Vivek Chandra: I think I will just build on what Mr. Ashwani Arora said, that we are expanding into health and convenience, which is from our core of rice. Grains like quinoa, etc., if they fit into what the consumer needs and what Daawat as a brand can offer, it will be evaluated. But it is currently not on the anvil.

Shalini Gupta: Is there something already in the pipeline for us or have you not given it much thought?

Ashwani Kumar Arora: Quinoa, no, not at the moment.

Shalini Gupta: Just one last question, you have launched Kari Kari snacks, so there are a lot of established players already in the market, so how do you see yourselves standing in this competitive space?

Ashwani Kumar Arora: So, in snacking, we are entering into the premium snacking side and health. We have done consumer tests and we have got a very good response and we have done our complete homework on this and we assure that we will have success in this venture.

Shalini Gupta: How will we be planning the distribution of these products?

Ashwani Kumar Arora: So distribution will be, of course, as a premium product, it will be the modern trade, online and the A class outlet in GT and the HoReCa.

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

Chintan Desai: Good afternoon, Sir. My question is on the branded domestic revenue front, for the quarter, we have degrown by around 3%, which is largely a realization led. Whereas we look at one of the competitors' numbers, the realizations have not come down, in fact, they are higher, even on a nine-month basis. If you look at our realization is around 1%- 1.5% compared to around 5%-6% odd for the competitor, so where is this mismatch happening, is it because of the mix, HoReCa and consumer mix?

Ashwani Kumar Arora: Of course, one is the product mix. And in the last quarter the new crops started coming and the food service people pick new crop, and new crop was competitively less priced in this quarter.

Chintan Desai: Sir, if you were to further split it with HoReCa versus the consumers, what would be a rough mix at nine-month level this year versus last year?

Ashwani Kumar Arora: So, we are roughly 17% is HoReCa business and the rest is all consumer business.

Chintan Desai: Sir, in the branded exports business, the realizations are almost 9.5%, 10% for the quarter, I mean they are down, so what would be the reason there?

Ashwani Kumar Arora: It is product mix, because a lot of brown rice is going to Europe. But overall, brand wise as you see, we are not down, except the India food service. The realization is not less as compared to last year, if you see it brand wise.

Chintan Desai: Sir, lastly on the organic business, the decline in the topline is largely price-led or is it a volume-led decline on a nine-month basis?

Ashwani Kumar Arora: We have a threefold portfolio in the organic ingredients. So as far rice, oil seed and the other category has grown, only the Soya has decreased. And with this the Soya meal plant, we will recover it back, so we have just inaugurated in our organic company, the Soya meal, organic Soya meal. And as Mr. Vivek said, in the first quarter only, it is running 75% of the capacity.

Moderator: Thank you. The next question is from the line of Rakesh Roy from Indsec Securities. Please go ahead.

Rakesh Roy: Sir, this is Rakesh. Sir, can you share the EBITDA margin for the domestic branded and the international branded and organic?

Ashwani Kumar Arora: As I said, in organic, it is 13.5% and international it is 14.2% and India is at 13%.

Rakesh Roy: India is at 13%, Sir?

Ashwani Kumar Arora: Yes.

Rakesh Roy: This year your topline de-grew by about 10%, but other expense increased, in the other expenses, how much is the advertisement? Can you give a break up of it?

Ashwani Kumar Arora: In other expenses, only the salary has increased, that is because we have started capitalizing Europe salary and Ad and Promotion is INR 64 Crores.

Rakesh Roy: In terms of revenue, is it nearby 2% to 3%?

Ashwani Kumar Arora: No, 2%.

Rakesh Roy: Any guidance for EBITDA margin for next two years?

Ashwani Kumar Arora: So as I said, the focus is to improve our margin through growth and efficiency. We are sure that we will maintain that & there will be a margin expansion in the coming years.

Rakesh Roy: What about the debts, any debt reduction?

Ashwani Kumar Arora: As we said in our call that the idea is to maintain debt-to-EBITDA ratio less than 3, so that is the goal we are working towards.

Moderator: Thank you. The next question is from the line of Anurag Patil from Roha Asset Managers. Please go ahead.

Anurag Patil: Thank you for the opportunity. Sir, how much is our exposure to Iran and are you facing any payment or credit-related problems there?

Ashwani Kumar Arora: In Iran, LT Foods has had no exposure since the last 3 years, so there is no question of payment.

Anurag Patil: What is the short-term debt as of now?

Ashwani Kumar Arora: It is INR 1380 Crores.

Moderator: Thank you. The next question is from the line of Anup from ANP Advisors. Please go ahead.

Anup: I notice that there are only two things, which are bothering investors with respect to LT Foods. One is the operating profit margin and other is debt. With respect to operating profit margin, one of your competitors expects a sort of surprise with respect to your U.S. business, at the margin, what you are deriving out of the U.S. business because they were surprised at how you were able to sell at such lower prices, can you please throw some light on it as to what is the margin that you are at?

Ashwani Kumar Arora: I cannot comment on whatever they have said, but as a Company, we are getting very strong margin in that business.

Anup: As far as the debt is concerned, do you have any short-term targets as numbers? What you want to achieve as?

Ashwani Kumar Arora: As I said, the most debt is working capital debt and long-term debt is only INR 200 Crores, but still, we have target for this year, we will be reducing the debt by end of the year roughly INR 150 - 200 Crores either as compared to last year and going forward. We are going to maintain our debt-to-EBITDA ratio less than 3, that is the goal we are working towards.

Moderator: Thank you. The next question is from the line of Mihir Desai from AMA Associates. Please go ahead.

Mihir Desai: Thank you for the opportunity. I just have two questions, one is that our other expenses are down roughly by 9% Y-o-Y in this quarter, can you please explain or elaborate on the possible reasons for the same?

Ashwani Kumar Arora: If you see, the sale is down by quarter-on-quarter, 10.6%, and expenses are down by 8%, so in terms of percentage to revenue is almost same.

Mihir Desai: Correct and also, just wanted to know that what could be the major component for our, if we were to break up, the other expenses, Sir?

Vivek Chandra: Yes, the other expenses comprise of our manufacturing and our admin expenses, selling expenses and advertisement expenses.

Ashwani Kumar Arora: Advertising, sales and distribution & the manufacturing expenses.

Mihir Desai: So on the debt front, what would be our average cost of debt, for long-term and short-term both?

Ashwani Kumar Arora: 7.8%.

Mihir Desai: 7.8% and Sir, I think we have foreign currency loan also?

Ashwani Kumar Arora: Yes, that is right.

Mihir Desai: So what would be the amount of that loan, Sir?

Ashwani Kumar Arora: So there are two types, one is borrowing from overseas, Europe and America, that is roughly INR 523 Crores, but there also, we have a mix of, in our export, the foreign currency loan and the rupee loan.

Moderator: Thank you. The next question is from the line of Dikshit Mittal from Subhkam Ventures. Please go ahead.

Dikshit Mittal: Good evening, Sir. So my first question is on domestic branded volumes, they are flattish on a Y-o-Y basis, so any particular reason? Has the market not grown or have you consciously scaled down?

Ashwani Kumar Arora: As I said, if you see the nine months, we have grown by 6%, but in this quarter also, our premium segment and mid-price segment has grown. So the only degrowth is in, we call it, One Dollar. So that is where the degrowth is, but the focus is where the premium and mid-price that is growing.

Dikshit Mittal: Secondly, we have seen a sharp fall in the basmati prices in this season, so has that led to any inventory valuation loss also during this quarter?

Ashwani Kumar Arora: 2019 crop cannot replace 2018 crop, so there is no loss in that and we have not reduced any prices of our brands also because basmati sells, aged right, up to two years.

Dikshit Mittal: Sir, for next year, you will be having lower input cost, so will you be investing behind brand or will you be earning higher margins or what kind of a strategy that you will be having?

Ashwani Kumar Arora: Yes. That is what we are planning and hopefully, we will be working two, three strategy, investing behind the brand and other marketing mix we will be using.

Dikshit Mittal: So, margin expansions, how much can we expect next year?

Ashwani Kumar Arora: It will be improved margins, so we are expecting a better year ahead.

Dikshit Mittal: Lastly, what is the status on Daawat Foods your manufacturing arm's stake sale, I think about to exit that, so any movement on that front?

Ashwani Kumar Arora: We are working on that.

Dikshit Mittal: So, any timeline that you can give, some indication like by when the clarity can come on that front?

Ashwani Kumar Arora: So, maybe within two months.

Moderator: Thank you. The next question is from the line of Ananya Sharma from AB Capital Advisors. Please go ahead.

Ananya Sharma: Sir, I wanted to ask about Kari Kari, how do you plan on further increasing its presence in the market?

Ashwani Kumar Arora: As I said, we have, in the last one and a half years, we have done test marketing in the limited outlets, and we have got a very good response. As of now, the production has started and we are rolling it out to all the modern trade, e-commerce and selected A class outlets and the team has done all the work and hopefully. In the last quarter, we are going to roll it out to all the channels.

Ananya Sharma: So, what margins do you expect to come in the future from Kari Kari?

Ashwani Kumar Arora: So, Kari Kari is in the range of 35% gross margin.

Ananya Sharma: If I may ask, like how many retail outlets do you plan on having in the coming years?

Ashwani Kumar Arora: 10,000 outlets, that is the plan we have.

Ananya Sharma: Alright, so what is the advertising spend during the quarter?

Ashwani Kumar Arora: So to start with, it is more sampling and below-the-line activity and maybe in a year's time, we will go above the line.

Moderator: Thank you. The next question is from the line of Vipul Shah from RW Equity. Please go ahead.

Vipul Shah: My question was relating to the month of March. Last year, for the quarter-ended March, we actually had one of the more subdued EBITDA margins and tight margins probably in LT between the last 3, 4 years, so just wanted to understand, so far do you think that was an aberration and we probably will not repeat what the company made in March 2019?

Ashwani Kumar Arora: We are expecting a similar kind of result in this quarter also.

Vipul Shah: Similar to December, not March, right?

Ashwani Kumar Arora: Whatever we have performed in the last three quarters, so in the fourth quarter, we will maintain the momentum.

Vipul Shah: So that is very good to know, Sir, because the whole year trailing analysis, the March quarter is actually because of its subdued results will now be return ratios.

Moderator: Thank you. The next question is from the line of Tirath Muchhala from Elusividya Capital. Please go ahead.

Tirath Muchhala: So a few months ago, there were a couple of press releases about consolidating some of our international operations, where I think, scheme of arrangement or something, so what was that regarding, was it more for tax planning or what was the purpose?

Ashwani Kumar Arora: Yes, it is for consolidating our international business, so we were exploring the different schemes, but until that, no scheme has yet finalized. So until time, the status is the same.

Tirath Muchhala: But the reason is, is it for fund raising of any kind or like debt raising?

Ashwani Kumar Arora: No, there were no such plans, the idea was to consolidate our international operations. There was no plan for any fund raising. Actually, there is no need of fundraising at the moment for the company, as we see, our balance sheet is getting stronger and stronger and whatever the money we need for the growth of the company, we are self-sufficient. So, at the moment, we do not have any plan unless and until some other inorganic opportunity comes, but still, there is no plan, but I am just letting everyone know that.

Tirath Muchhala: So, for the Europe business, the fact that we export, I think, brown rice and then we process it over there, does that get rid of the problem of pesticide residues that a lot of other basmati exporters are facing?

Ashwani Kumar Arora: We have a very strong farmer extension program, and we make sure that whatever compliances are needed, we abide by that.

Tirath Muchhala: As we understand, there is a big problem in the Europe basmati market because of this compliance. So, are we expecting full utilization pretty soon of the facility?

Ashwani Kumar Arora: Yes, we have just declared that, we have a profit and this year we will be using roughly 70% of our capacity, and we have got our business stronger and stronger and we are getting good orders and in the coming years, the business will be even better than this year. The last quarter also will be better than whatever we have performed in the three quarters.

Tirath Muchhala: On the fact that most of our business is actually outside India and that the Royal brand business is actually bigger than the Daawat brand business, so for the size of our company, which is almost INR 4000 Crores of revenue, do you feel that we need a CFO in the top management, with all the forex movements and interest raising because we have foreign loans, something on that line?

Ashwani Kumar Arora: We have a very strong team on the finance and if you see our forex is being managed very well. But if needed going forward, definitely, we will think on that line.

Moderator: The next question is from the line of Tanya Bakshi from Galaxy Investments. Please go ahead.

Tanya Bakshi: I wanted to ask you about the competition, given that there are many other basmati rice and ever since we have the healthy segments also, there are many other competitors placed in this market and how do we see ourselves placed going ahead in about the competition as well as market share?

Ashwani Kumar Arora: You know, different geography has a different competition, so in India, mainly two brands are playing, in USA, where we are at majority of 45% to 50% market share so it depends on which geography we are talking, but we have good plans how to recruit consumer and the category is growing and we have good strategic plans.

Tanya Bakshi: Also, I wanted to know since in the U.S., you have a good market share of 40% to 50%, is there any scope that we see a growth in that or maybe we are introducing some new segments into it?

Ashwani Kumar Arora: So whatever the natural growth is coming, the category is growing. Our U.S. sales business is growing, nine months also and our branded business has grown more than 10% and as a strong brand, of course, any leader brand has the first opportunity to capture whatever the category is growing and that is what happening. The second is, as I said, as in the USA, we have just set up a business plant, which is two-minute microwave rice and that is also getting a good response, so there are two levers there, one is the core business growing and the convenience business growing. Every geography has a different strategy as per the emerging demands. There, we are strong.

Moderator: Thank you. The next question is from the line of Parul Mehta from Sharegiants Wealth Advisors. Please go ahead.

Parul Mehta: First, if I see, you have done good on the debt reduction side, so can you throw some color on when are you planning to be a zero-debt company and by when you expect it to happen and moreover, because of the debt reduction and you have a good cash generation in your company, how you are planning to reward investors?

Ashwani Kumar Arora: As I said, the plan is to grow around 10% year-on-year, but the discipline we wanted to make is we wanted to maintain our debt-to-EBITDA ratio, and we will be working on those goals. We are quite confident that we will be leading to those goals on debt-to-EBITDA ratio.

Parul Mehta: Any plans on giving a good dividend growth or buyback of shares?

Ashwani Kumar Arora: We will be discussing that in the coming board meeting, and we will evaluate all these things.

Moderator: Thank you. The next question is from the line of Anup from ANP Advisors. Please go ahead.

Anup: This is with respect to the domestic market, I see a lot of institutional retailers are coming up with their own labels, Big Bazaar is coming up with their own label, do you see any competition from that side?

Ashwani Kumar Arora: This has been happening since quite a few years, but as a strong brand, we are getting the growth and we believe that we have both with a strong supply chain and the strong brand, we will be able to grow as per our plan.

Anup: Will it affect your operating profit margin with respect to this competition is concerned?

Ashwani Kumar Arora: Not at the moment. As I said, this business is a very strong supply chain business. You have to wait the rice up to 2 years and I think on the quality front, it is very difficult for any private label to give a consistent quality and as a brand, what we are offering is the finest and the consistent quality and that is how we have won, and that is how we have grown our business year-on-year and we believe that with all these promises to the consumer, we will keep growing.

Anup: As far as your new product Daawat Sehat is concerned, is it only for Mogra and mini Mogra or is it for even basmati as well?

Vivek Chandra: Right now it is Mogra and mini Mogra because they are more regular consumption variants and for Sehat to really make a difference, you have to consume it more frequently, so currently, that is what it is offered here.

Anup: It is targeted towards health-conscious customers, right?

Vivek Chandra: It is actually more towards under-nutrition, where there is a certain fear in mind about, is the total nutrients that are required going in, so it is health, not so much in lifestyle. But health in terms of supplying the requisite nutrition.

Anup: It is like a mass-based health nutrition product that is what you are targeting it as?

Vivek Chandra: Yes and my company has done that.

Anup: My last question, this is with respect to Daawat Sauté Sauces, exactly what position the company is in and what is the level of investment the Company is going to make with respect to this product?

Vivek Chandra: The Daawat Sauté Sauces was in test market and has now been expanded predominantly in modern trade and it is doing exceedingly well there in terms of the category of cooking sauces that are available. Our investments are really more in marketing and building consumer trials and awareness with pretty much no investment at the back end.

Anup: Approximately what is the total amount of investment you are going to make in Sauté sauces?

Vivek Chandra: I think that is a figure that will evolve as the business grows and as the requirement of building it with the consumer comes in, so we are not operating here at a fixed sort of number of what we will spend. It is in relation to the business development that we will see month-on-month.

Anup: The commercial loss will be expected in the year of?

Vivek Chandra: The assumption that there would be a fiscal commercial loss still needs to be seen. We believe that this product, we should start on a month basis breaking even pretty soon.

Moderator: I would request Anup to come back in the queue, as there are several others waiting for their turn. We will move to the next question, which is from the line of Vipul Shah an individual investor. Please go ahead.

Vipul Shah: Sir, what is the status of the court case against the insurance company, it is a very large amount.

Ashwani Kumar Arora: Yes, it is in the final stages, so we expect in 2020, we will be getting justice from the first court.

Vipul Shah: What is the amount involved, Sir?

Ashwani Kumar Arora: The amount is now with the interest more than INR 300 Crores, but in the balance sheet, it is 136 Crores, in the first year, we have written off INR 40 Crores. The actual loss was INR 190 Crores, so if you calculate the interest it is more than INR 300 Crores.

Vipul Shah: Sir, what is the realization difference between our branded rice and private label realization that we get?

Ashwani Kumar Arora: It depends, as our private label business EBITDA is in the range of 9% to 10%, whereas the branded business EBITDA is in the range of 13% to 15%.

Vipul Shah: Lastly, Sir, you said that in spite of a drop in paddy prices, you expect any loss in realization for our basmati, so would you elaborate further on how it works?

Ashwani Kumar Arora: Again I am repeating that in Crop'18, which is until June, we sell a majority. We also sell the Crop'19, but the pricing index is based on the crop year, so when the '19 year crop, aging will come, we will see the competitive landscape and decide on should be the pricing strategy.

Vipul Shah: I have still not understood, means older basmati sells at a high price, is that the interpretation one should look at?

Ashwani Kumar Arora: In Consumer Business, only the aged basmati sells, but in food service, less ageing, and we call it through acceleratory ageing, that sells in food service.

Vipul Shah: But still, I am not able to understand that when your raw material prices falls 20%, how can finished product price not fall proportionately?

Ashwani Kumar Arora: That is what I am saying, there are two, one we sell, some we sell just in time, some we sell 1-year age, some we sell 2-year age, so the '19 Crop is not a replacement of the old crop and old crop prices. Whatever are, because of their demand and supply of situation of that crop, so we are not seeing any decrease in the old crop prices. It is only in the '19 Crop, like we sell parboiled rice, we sell accelerated aging rice, that we are getting the reduction, so whatever we are getting, a lesser realization in the 19 crop selling price.

Moderator: Thank you. Ladies and gentlemen, due to time constraints, that was the last question. I now hand the conference over to the management for closing comments.

Ashwani Kumar Arora: Thank you so much. Thank you.

Moderator: Thank you. On behalf of Batlivala & Karani Securities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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