HINDUSTAN FOODS LIMITED

A Vanity Case Group Company
A Goverment Recognised Star Export House
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Tel. No. +91-22-69801700 / 01 CIN: L15139MH1984PLC316003

Company Scrip Code: 519126

Date: 16th August, 2022

To,
The General Manager
Department of Corporate Services
BSE Limited
Floor 25, P. J. Towers, Dalal Street,
Mumbai- 400 001.
Tel: (022) 2272 1233 / 34

Through Online Listing Centre

Dear Sir/Madam,

Sub: Transcript of Analyst/Investors conference call held on 10th August, 2022

Ref: Pursuant to Regulation 30(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations 2015

With reference to our letter dated 05th August, 2022, intimating you about the conference call with Analyst/Investors which was held on 10th August, 2022, please find attached the transcript of the aforesaid conference call.

The above information will also be available on the website of the Company i.e www.hindustanfoodslimited.com

We request you to kindly take the above information on record.

Thanking you,

Yours faithfully,

For **HINDUSTAN FOODS LIMITED**

HINDUSTAN FOODS LTD.

Bankim Purohit
Company Secretary
ACS 21865

Encl: as above

VANITYCASE
Integrity Initiative Innovation

"Hindustan Foods Limited Q1 FY23 Earnings Conference Call"

August 10, 2022

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the website of the company on 10th August 2022 will prevail.

MANAGEMENT: **MR. SAMEER KOTHARI - MANAGING DIRECTOR, HINDUSTAN FOODS LIMITED**
MR. GANESH ARGEKAR - EXECUTIVE DIRECTOR, HINDUSTAN FOODS LIMITED
MR. MAYANK SAMDANI - GROUP CFO, HINDUSTAN FOODS LIMITED
MR. VIMAL SOLANKI - HEAD - EMERGING BUSINESSES AND CORPORATE COMMUNICATIONS, HINDUSTAN FOODS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Hindustan Foods Limited Q1 FY'23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involved risk and uncertainties that are difficult to predict. 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 "*" and "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sameer Kothari - Managing Director, Hindustan Foods Limited for his opening remarks. Thank you and over to you, sir.

Sameer Kothari: Thank you, Cathy. Good afternoon and welcome everyone for our quarter one FY'23 Earnings Conference Call. Thank you for taking the time to attend this especially after a holiday yesterday. I'm joined on the call by Ganesh Argekar, who is the Executive Director; Mayank Samdani, the Group CFO; Vimal Solanki, the Head - Emerging Businesses and Corporate Communications and SGA, our Investor Relations Advisors. I hope everyone has had a chance to go through our updated investor presentation, which was uploaded on the stock exchange and our company website. Overall, I'm pleased with the performance of the company in the last quarter. We have achieved our highest ever turnover and profitability in numbers on a consolidated basis. And given that the ice cream facility and the RB Scholl facility that we've talked about before, we'll start contributing significantly to these numbers in the coming quarters. We are confident of meeting our guidance, both in terms of revenues and profitability.

This quarter, the team that has commercialized our ice cream facility deserves special mention. While in terms of the turnover, it didn't contribute much in this quarter. It was a tough and a stressful startup, right from managing the complex procurement to manufacturing and commercializing all the formats of ice cream, sticks, spoons, cups, and party packs. I think this facility and the team is a testament to our ability to service our customer's requirements in new geographies and in new product categories. The highlight of the coming quarter, which is Q2, will be the integration of the RB Scholl facility, which we finally signed the agreement on 1st of July. Given its EOU status and the compliance requirement of pharmaceutical products, this integration is probably going to be quite challenging for us as a team. However, we are very excited to see what we can do in this field and are also aggressively looking at more opportunities in this sector.

As far as the medium term is concerned while the slowdown of FMCG demand and the inflationary pressures have definitely affected our customers,it has also led them to rethink about their manufacturing strategies and explore ways of becoming more nimble and lean. One way, of course, is to outsource more and in that regard, I'm confident that given our track record, we will continue to be the chosen manufacturing partner for the FMCG companies. I will now hand over the call to Ganesh Argekar, our Executive Director, to brief you on the operational highlights.

Ganesh Argekar: Good afternoon, everyone. I would like to highlight operational performance of Q1 FY'23. All the existing US dollar company were stable and performed as per expectations. The new color cosmetic execution was completely integrated, and the factory achieved its highest ever turnover in this quarter. We have started manufacturing host of new products at the facility, and then we are confident that this unit will be able to service the growing requirement of the customer. The wholly owned subsidy HFL consumer products has successfully commercialized the ice-cream plant in Uttar Pradesh. Post the monsoon, winter season the plant is supposed to deliver 15,000 litons per annum of ice cream, going into the peak season by the end of FY'23. This includes the expansion project at the site, which should be online by Q4 FY'23.

Reckitt Benckiser Scholl India Limited acquisition has been successfully completed. The company is working on the integration plan of the same. The recently merged beverage plant in Mysuru did record turnover in this quarter. The beverages plant unit has an order book higher than its capacity and working on expanding the capacity. Based on the current plan, we expect it to be profitable in this financial year, after two years of painful pandemic. The merger of the large Beverage Plant at Coimbatore has also been completed and the board has sanctioned an additional investment of INR 10 Crore at Coimbatore site. The work on this project has started and we expect to complete this by September. The project work at Hyderabad bar and soap project that we have been talking about for the last three quarters, well, I am relieved to say that it has finally started, and it's expected to be completed by Q4 FY'23. Despite the vagaries of commodity inflation and integration of new factories, and new product categories, the company has managed to service the customer demand and achieve nearly INR 600 Crore of turn over.

I would now like to hand over the call to Mayank Samdani, our Group CFO to take you to the financial results for the quarter ended 30th June 2022.

Mayank Samdani: Thank you. Good afternoon, everybody. We have commenced the quarter on a good note and we are on track to meet our annual estimates. As the newly acquired companies and the new factory start ramping up the action has started shifting to the consolidated numbers of the company instead of the standalone numbers. We have hit the highest ever turnover and the profitability figures on the consolidated basis in this quarter. In the next couple of quarters, as these companies foreign projects start ramping up, we expect the consolidated figures to convert with the standalone figures. Our total revenue for the quarter increased by 30% on a year-to-year basis to INR 598 Crore in Q1 FY'23 as compared to INR 461 Crore in Q1 FY'22.

EBIDTA for the quarter has seen a growth of 43% year-on-year and stood at INR 38.6 Crore as against INR 27 Crore in Q1 FY'23. Profit **after tax** grew by 48% year-on-year to INR 10 Crore, which is the highest ever reported by the company. In this regard, I have to mention that we believe that the company will be able to reduce its tax bill from next year as compared to the 35% tax bracket that we are currently in. EPS numbers have been recasted after the split and our EPS for the quarter was INR 1.32 versus 0.89 last year, a growth of nearly 50%. As on June 30, 2022, our net worth stand at INR 319 Crore, **Gross Block has** increased from INR 550 to 649 Crore on account of commercialization of the new factories in line. Though they are yet to contribute fully to the revenue and profitability figures as they are yet to ramp up to their full. Despite that our debt-to-equity ratio remains steady at a comfortable position of 1.16 on the consolidative basis. And our interest coverage ratio remains at a strong 5.38 times. We reiterate our near term and long-term targets for revenue and profitability and to focus on accelerating growth through exploring organic and inorganic opportunities. With this we have remained focused on strengthening our balance sheet and cash flow through effective capital management, which would facilitate us for the first quarter. With this I would like to open the floor for questions. Thank you.

Moderator: Thank you very much. Sir. ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Faisal Hawa, from HG Hawa and Company. Please go ahead.

Faisal Hawa: So, Sameer, there is an enabling resolution that we have asked for INR 300 Crore more equity raising, so is it just an enabling resolution or we may even raise equity in the 2 or 3 years?

Sameer Kothari: Hi, Faisal, good afternoon. It is an enabling resolution, but the very definition of enabling means that at some point of time we might raise it, but for the time being we have no definitive plans. The enabling resolution is for, as you are aware and we'll have to take it up in the AGM, since, just in terms of the timelines, and our the legal processes we've been advised that it is always better to keep an enabling resolution so that it gives us flexibility at any point of time to be able to look at raising funds, et cetera.

Faisal Hawa: So nothing as on the anvil as such or nothing, which will be done in the next, it all depends on the opportunities that come up.

Sameer Kothari: Absolutely, Faisal. I mean, I think you've answered the question, depending on how the opportunity shape up, we'll probably be able to give some definitive answers on this.

Faisal Hawa: And can you give some idea how this beauty and wellness and the whole pharma contracting business is shaping up for us and whether the development **incharge** has been able to make some good in growth for the business?

Sameer Kothari: So the beauty segment and the health and wellness segment are two different ones. The beauty one is the Aero Care acquisition, which is the color cosmetics one; that has actually integrated very well. We hit our highest turnover last quarter as far as that company is concerned. And we expect that that will continue going ahead well. We've mentioned that we should be able to do around INR 100 Crore of turnover out of that facility. And I think we are well on track to do that. As far as the health and wellness is concerned, that's the RB Scholl facility we are getting some very good feedback from our customers. Sanjay, who is heading that business recently visited London and met the customers there as well. And I can just say that right now. I think we are very cautiously optimistic that we should be able to integrate that facility well into our system and also look at any other opportunities that can come our way in that sector.

Faisal Hawa: Okay. Thank you very much.

Sameer Kothari: Thank you, Faisal.

Moderator: Thank you. The next question is from the line of Ajay Thakur, from Anand Rathi. Please go ahead.

Ajay Thakur: Thanks for taking my question. I have two questions. First one was on the margin so if we were to look at the margin for the quarter it was more like 6.4% versus more like 5.9% in the base quarter. Even on sequential basis we have seen bit of improvement on the margins front. So just elaborate on what has been driving this margin improvement? Is there a seasonality factor or what is the reason behind this improvement?

Sameer Kothari: Ajay, I'm going to ask Mayank to answer this question and then I'll give some operational details once Mayank has given you the financial details.

Mayank Samdani: So there are two things here, Ajay. One is that you've correctly said that these are the, the product mix has also changed within this quarter. Ice cream as, we started manufacturing ice cream which has a better margin as regard to other product. And secondly, some of our products is on the conversion cost model, so which is nearly done. Just like in ATC we are doing tata on the conversion cost basis where there is no RMPM cost, only conversion billing is there. So you will see the margin betterment in there also.

Sameer Kothari: And Ajay, from an operational perspective, yes, there will be some amount of seasonality coming in. Now that Mysuru facility has finally, we have an order book which is hopefully making the facility profitable. This quarter was the highest turnover for Mysuru facility that's ended up reducing our burn rate in Mysuru quite a bit. The next couple of, next at least four or five months will be lean quarters as far as beverage season is concerned, as well as ice cream is concerned. And then again it will ramp up. So you will see going ahead some amount of margin variability from quarter-to-quarter as far as our numbers is concerned.

Ajay Thakur: The second question was more the ice cream unit. So you have indicated that there would be approximately INR 200 Crore kind of investment into the unit. And if I were to look at this the asset turns and assuming that they could be around 2 to 3 times asset turns, so we would be making more like INR 400 to 600 Crore kind of a turnover. Just trying to understand if we were to do manufacturing for one of the large kind of a company or, so 600 odd or maybe even INR 500 to 600 Crore kind of the revenue potential that we would be looking at in three years' time for the ice cream unit, that itself for a large vendor would contribute like 50 - 60% of their business if I'm not mistaken. Would that be direct assumption?

Sameer Kothari: No, Ajay. What you're looking at, when you look at revenues for us is manufacturing cost. When you look at it from a customer's perspective, it's their realizable value, right? And generally, in case of FMGC products the difference is a factor of two, which means the manufacturing cost is practically half of the net sales realization of the brand owners. In case of certain products like Aero Care, et cetera, in case of color cosmetics, et cetera, it could be higher. You could get to a manufacturing to NSR of

3. So I don't think you can draw a parallel from our turnover to the customer's turnover directly,

Ajay Thakur: The question that I was trying to come across from the fact that we don't have many players in the country who would be having a thousand, as in there would be few, obviously, who would be having a turn of 1000 plus kind of in ice cream segment. But if I were to look it from the perspective of the customers, for them to outsource just to you, or maybe you being one of the other two kind of outsourcer in the ice cream segment, it's what I was trying to wonder would you be getting like almost like a half of their share in terms of the revenue ?

Sameer Kothari: Okay. So maybe I misunderstood. So first the first thing that I need to tell you is that, no, our turnover will not contribute half of our principles turnover. And I think instead of looking at turnover, maybe you should look at it in terms of volume. So if you're looking at around 15,000 tons of volume of ice cream being made at the facility, a large brand, even a regional brand for that matter and we are in touch with some regional brands as well. Regional brands sell around 15 to 20,000 tons within a couple of states, right? So if you look at it from that perspective, I think that will give you a better idea that the national brands are much larger. The regional brands have that kind of scale already. The second thing that you have to note is this particular facility is probably going be amongst the largest ice cream facilities in the country. However, it's not necessary that all future ice cream facilities, if we decide to do any, will be on the same size. They could be smaller; they could be manufacturing only cones or only sticks or only cups. So there's a lot of variables there in terms of what we could do in the ice cream sector. That answers your question.

Ajay Thakur: Yes. You had addressed it. That's quite helpful. Thanks. Maybe I will look at it more from the -- Thank you. Yes.

Moderator: Thank you. The next question is from the line of Dipti Kothari, from Kothari Securities. Please go ahead.

Dipti Kothari: Yes. Good afternoon. Thank you for the opportunity, sir. So my first question was that you mentioned that the next leg of growth would be via inorganic or organic acquisition. So can you throw some more light on the same?

Sameer Kothari: If you've tracked our company we've been very aggressive in terms of M&A, we've always been looking for opportunities, we've talked to our customers who are looking at divestments. We've also looked at consolidation of the contract manufacturing industry by acquiring some of our competitors, et cetera. We will continue to do that. I am unable to give you any specifics or give you any more color around it. All I can say is that we continue to look for assets, which will help consolidate the contract manufacturing industry. And we also continue to look at assets where a customer is either not interested in running the factory or incapable of running a factory or has lower capacity utilization in the factory and they're looking at diverse assets in our favor. So we continue to look at that very aggressively. Sorry, I can't give you more color around that.

Dipti Kothari: Okay, sir. And sir, what are the new segments that we are looking at venturing into?

Sameer Kothari: You mean, apart from home care, personal care, pesticides, infant foods, ice cream, leather shoes, beverages, apart from that we are looking currently at health and wellness as a sector, Dipti, and within the FMCG space we are also looking at pet foods, within the [**inaudible 19:09**] we are quite agnostic in terms of what product categories that we can manufacture.

Dipti Kothari: Okay, sir. And sir, which of your products category has the largest outsource manufacturing opportunity? Can we please share that out of this total 1 lakh Crore opportunity, what is the potential size for OTC healthcare market?

Sameer Kothari: Dipti it is difficult to slice that in terms of product categories and frankly, to look at that 1 Lakh Crore figure that we mentioned, that's probably only the FMCG industry and you know that there is a back of the envelope calculation. What we've done there is we've taken the total FMCG size of the market and then split up manufacturing cost. The health and wellness actually is a sector, which is probably as large as the FMCG sector. And in that case we are going to concentrate only on key products and products which have an adjacency towards or rather are next to the FMCG segment. Very difficult for me to look at, or very difficult for me to tell you product category has the largest potential. All of them have equally, I mean, just a few days ago we were in discussion with some government officials, were thinking of doing a PNR for or some kind of an incentive for the leather sector and the shoe industry. And I think that could become a very, very large business for us as well. So it's very difficult for us to do that.

Dipti Kothari: Okay. Thank you, sir, that answers my question.

Moderator: Thank you. The next question is from the line of Akhil Parekh, from Centrum Broking. Please go ahead

Akhil Parekh: Thanks for opportunity. Sameer, my first question is on the inflationary trend, right? How does the volumes of our end consumer impact our business? Because in last con-call you had mentioned that the inflation shouldn't ideally impact us negatively. So that's first question. If the inflation sustains and if the end of volumes, end consumer volumes continued to be on a lower end, will that impact our sale. And second, in inflationary trend, does our margin profile improve given that we operate on a fixed EBIDTA margin in the dedicated manufacturing unit?

Sameer Kothari: So, Akhil, two questions, one is what happens in an inflationary environment to FMCG market in general. So two things, there are certain staples which in spite of the inflation, the demand is quite defensive. What ends up happening is that the customer then down trades. So if they were using a more expensive, let's say shampoo, they will start using a cheaper shampoo or they start buying a sachet instead of a bottle. Given the fact that we've diversified across brands, across product categories. We believe that any customer down trading will not end up affecting us. The second, effect of inflation is reduced consumption. And that's some of the things that most of our customers have been talking about in their investor calls, where they are seeing that customers are reducing their per capita consumption. That is something that definitely affects us, but it affects us more in terms of the future growth, rather than the current facilities. As far as the current facilities are concerned, especially in case of a dedicated manufacturing, as you are aware we have long term contracts, which have a minimum guarantee. So we have very clear visibility of what the turnover will be for those facilities. However, any kind of reduction in the FMCG consumption definitely affects expansion plans of our principles and in turn it affects growth plan for us. Hopefully, India being, such a huge population and the demographic we don't see this temporary blip of reduction in the volume will last more than a quarter or so. And fundamentally, I think the conjunction story of the country will continue and as a result we really don't think that's a major issue. Now coming to the margin profile, I'm going to ask Mayank to talk about, the effect of inflation on our margin.

Mayank Samdani: Hi, Akhil as per our contracts and our expert, we are passing through the all the RMPM costs to our customers. So any increase or decrease in the RMPM costs will directly passed on to the customer. So, no, the question's answer of it is that in the inflation trends our margin profile does not increase because of the increase in the margin, because of the increase in the prices of the commodities, because it is directly passed through to the customer on a monthly basis.

Akhil Parekh: But on absolute basis does not EBIDTA increase in inflationary trend on a like-to-like basis. For example, if I'm selling a, if I'm manufacturing a soap of INR 100 yesterday, and today, I am selling the same soap for INR 110 on a absolute EBITDA level will our EBIDTA improve?

Mayank Samdani: So the cost will also increase by INR 10 in that case, Akhil. EBIDTA remains in the figure, in the rupees it will remain same, percentage while it'll go here and there in the inflationary trend.

Akhil Parekh: Okay.

Mayank Samdani: The cost will also change by that much effect.

Akhil Parekh: Got it.

Sameer Kothari: So Akhil, mathematically, when you look at a fixed EBIDTA that we get, which is guaranteed in case of our dedicated factories, if the sales volume goes up, our margin profile, defined as a percentage of sales will actually go down. Because our sales will increase, correspondingly our cost will increase, but our EBIDTA in absolute terms will remain the same. And as a result, the percentage will go down. I think one of the main things that we've tried to highlight earlier in terms of our dedicated manufacturing models is that our bottom line which starts from EBIDTA and then downwards to ROE or the PBT and PAT, are pretty much guaranteed irrespective of what happens to the top line.

Akhil Parekh: So when you say guarantee, it means EBIDTA per piece is guaranteed. That is what you're trying to imply

Sameer Kothari: No, EBIDTA per factory is guaranteed.

Akhil Parekh: Okay.

Mayank Samdani You got your answer Akhil, or should I…?

Akhil Parekh: No, I got it, but probably I'll just go deeper into it. And if I have question maybe I'll connect you back.

Sameer Kothari: Sure.

Akhil Parekh: Second questionon receivable front. So one of the, our largest client, if I look at it, their receivables are broadly at 10 to 15 days, but our payable days are at 60 to 90 days. So there's a dichotomy between those two numbers. So if you can please help me understand that?

Sameer Kothari: Yes. I think this was a question which I think someone had asked in our previous call as well. So let me just address it in a very simple way that when you look at the larger customer or when you look at our customers, all of them have their own factories and they also have a contract manufacturing facility. If you look at our, that would be very similar in terms of what our customers have in terms of payable, because the raw materials and the packing material suppliers who supply to us, also supply to the customers. As far as the outsourcing receivables are concerned the payment terms are far more favorable and that's for historic reasons in terms of how the outsourcing and the contract manufacturing industry in FMCG has evolved. I'm happy to take that question offline, because it entails some amount of history lessons about how excise regime was and how tax had to be paid on FMCG products, etcetera. But to make a long story short our payables will be the same profile as that of our customers. However, our receivables will be far better than the payables of our customers.

Akhil Parekh: Okay.

Sameer Kothari: I'm sorry if I've confused you on this, Akhil.

Akhil Parekh: No worries, if I need help I'll connect you.

Sameer Kothari: Please, because I've addressed this question earlier and I'm happy to do that offline with you if you want.

Akhil Parekh: Sure. Thanks a lot, Sameer and team and congratulations, and best wish you for coming quarters.

Sameer Kothari: Thank you so much.

Moderator: Thank you. The next question is from the line of Nikhil, from PIA. Please go ahead.

Nikhil: Yes. Hi, Sameer and team Congrats on a big set of numbers again. So my first question is the difference between the standalone and consolidated top line is close to INR 35 Crore. So is majority of that contributed by the new Aero products facility or does ice cream also contribute significantly?

Mayank Samdani: So, Nikhil, we have a difference of 33 – 34crores between console and standalone out of which 24 is being contributed by the Aero Care unit and INR 10 Crore is by the ice cream unit.

Nikhil: Okay. So the ice cream unit has barely contributed, hopefully we'll see that start contributing.

Mayank Samdani: Yes. So ice cream unit, it started in May in this quarter and it was in ramping up stage and ice cream is a difficult category also.

Nikhil: Okay. I mean, are you through the testing and validation phase and can we expect smoother quarters going ahead?

Sameer Kothari: Yes, absolutely. But having said that you're also coming into a monsoon lean season in the next couple of 3 to 4 months, as a result we will not see any significant turnover coming in from the ice cream factory for the next 3 or 4 months, but post that I think we should be able to ramp it up completely to 15,000 tons as we mentioned in.

Nikhil: Okay. So, does this also work like the seasonality in beverages where Q4 and Q1 is, I mean, where the revenue is front loaded and we see lower revenues in Q2 and Q3?

Sameer Kothari: Absolutely. I mean, both of them are summer products, Nikhil. So, consumption during the summer goes out substantially, in case of the ice cream factory, we are also located north, where the effect of winter and summer is far more significant than let's say the south facility in Mysuru, where the difference between the summer temperatures and the winter temperatures is not that much.

Nikhil: Noted. So, I mean, in terms of concentration of seasonality it will be higher in terms of summers for ice cream facility.

Sameer Kothari: Absolutely.

Nikhil: Okay. Now, so given the slowdown in FMCG volumes for the last whole year, how does the deal pipeline look? I mean, whats the status on being awarded new large projects?

Sameer Kothari: So the deal pipeline has definitely slowed down, but for us the deal pipeline is nearly one and a half to two years, right? Because for a new factory, that's the kind of gestation period. I mean, one casualty of the slowdown has been the Hyderabad Bar facility, which I think we've been talking in our investor calls and our presentations for nearly three quarters now. We've finally started work on it in this quarter, and we expect to start production by Q4. So obviously what happens is, and that was the point that I was trying to make that when customers start reducing their consumption, the overall future growth and the deal pipeline becomes a little bit slower. We've been fortunate so far that we have enough, or we had enough stuff in the deal pipeline which will take us to the kind of number that we've guided. But there's definitely some amount of slowdown. This is also incidentally an interesting time for consolidation, because when there's stress in the market overall, we also get more opportunities to consolidate the industry in terms of buying our competition or doing some kind of a merger or take over there.

Nikhil: I hope you are raising funds for the same. I mean, of course, as we being interested in the company, we want you to acquire something at lower valuations. All the best for that. Last two questions from me is the bar and soap project, you just mentioned that I just had a question that on, in the PPT it mentions somewhere that the phase one of the expansion is been implemented now. So does this come in phases the INR 150 Crore or the phase 1 is worth INR 150 Crore?

Sameer Kothari: The INR 150 Crore will be phased out and that's one of the casualties of the slowdown, while the initial contract was to set up all the lines put together, because of the slowdown we've had to phase it up. Our first phase investment will be close to INR 60 Crore, and then hopefully the market will start looking up and then we'll come back to you in terms of the second phase.

Nikhil: Okay. And the second phase will also take another six months whenever you plan to do it, or does that happen in a shorter time frame?

Sameer Kothari: It will happen in a shorter time because what we are going here and doing is we are building the civil infrastructure for the entire capacity.

Nikhil: Noted. And one last question is whenever you mention the quantum of capex, now I know that your working capital is negative or close to 0 in the business. So all the capex pertains only to the fixed assets, including the bathing and civil and the plant and machinery, just asking for confirmation?

Sameer Kothari: Absolutely. Yes.

Nikhil: Okay. No problem. Thank you. That answers all my questions. All the best for the coming quarters.

Sameer Kothari: Thank you so much.

Moderator: Thank you. The next question is from the line of Priyanka Singh, from Atidhan Securities. Please go ahead.

Priyanka Singh: Hi, good afternoon. I had two questions. First one is, can you through some color on the current industry scenario and how is the demand like?

Sameer Kothari: Priyanka, I think you've heard from people far smarter than me and far more experienced than me, if you listen to conference calls by Britannia, HUL, Dabur, et cetera. I think I would end up just repeating the same that there's definitely some amount of stress in the immediate short term, as far as demand is concerned. However, I think everybody remains bullish about the medium-term performance of the industry.

Priyanka Singh: And is there any demand supply gap, like has there been any significant impact on FMCG slowdown on our business?

Sameer Kothari: Considering that we just posted a record turnover in the last quarter and we are continuing to maintain our guidance. We believe that we should not be affected by this slowdown. Like I was mentioning earlier, this kind of slowdown will definitely affect our deal pipeline. However, we are also looking, our deal pipeline consists of green team projects, as well as acquisition. And as a result, we continue to remain confident even about our deal pipeline in spite of the slowdown.

Priyanka Singh: Got it. Thank you.

Sameer Kothari: Thank you, Priyanka.

Moderator: Thank you. The next question is from the line of Nishita Shah, from Raga Securities. Please go ahead.

Nishita Shah: Good afternoon, sir. Thank you for taking my questions. So I just have two questions, firstly, I wanted to ask are we seeing any ramp up in demand in the next couple of quarters?

Sameer Kothari: Nishita, I certainly hope so. The fact that the Bar project has been finally greenlighted means that our customers are beginning to now look at some green shoots, in terms of demand coming back, and from our perspective for the existing factories, it's very difficult for us to make an estimate of how demand will be in the next quarter, especially in case of the dedicated factories where we have guaranteed volume, etcetera. But overall, I think, you should definitely see in FMCG demand coming back within, by the Diwali quarter.

Nishita Shah: Okay, sir. And sir, secondly, just wanted to understand, is there any destocking that we are seeing at a customers' end?

Sameer Kothari: Nishita, I'm not sure, right. I mean, I don't think I would be privy to be able to answer a question about what kind of destocking is happening at the customers' end. I can say that, again, I'm repeating that since we've had a record turnover, it definitely means that we've been able to ship out the maximum amount of product that we could, whether this product is going and sitting in the customer's warehouse or whether it's actually going to the end customer, I really don't have an answer for you. I think, like I was telling the earlier caller as well that people who listen to conference calls of Unilever, Dabur, etcetera, will testify that all of them have hinted that there is some amount of slowdown. All of them have also hinted that they think that things should start turning around as soon as by next quarter or so.

Nishita Shah: Okay, sir, this was helpful. Thank you,

Sameer Kothari: Thank you, Nishita.

Moderator: The next question is from the line of Sachin Shah, from SS Securities. Please go ahead. Sachin Shah you may please go ahead with your question, your line is unmuted. As there's no response from the current participant, we move to the next question from the line of Vijay Chauhan, from Rite Horizon. Please go ahead.

Vijay Chauhan: Yes, thank you for the opportunity. So most of my questions have been answered already. I just had one query, like we mentioned that the soap and bar plant will be in phased manner going ahead. So are we expecting some kind of like revenue ramp up from Q2 or it will be like coming from the Q4 itself?

Sameer Kothari: Vijay, we expect commercial production to start in Q4, in terms of phase one, in terms of ramp up, I would say Q1 of next financial year is when the phase one will ramp up completely. Between now and Q1 of next financial year, I'm hoping that we are sign off on the phase two as well and if that happens, we'll come back to you and give you appropriate disclosures about what we are looking at in terms of revenue ramp up from phase two.

Vijay Chauhan: And so is the ramp is going to happen in let's say the Q1 of the completely for the phase 1 in the next financial year. So, and now we have lean quarter for the ice cream plant and also the beverage side. So like what kind of like the revenue target we are looking for while at least for the FY'23 if we are looking at, because the ice cream and beverage plant will be also at a lean like growth side.

Sameer Kothari: So I can't give you like a definitive target. What we've guided is that we'll be able to get to a INR 4,000 Crore turnover by FY'25. I think we are very confident about that guidance and we believe that we'll be able to reach there for sure. If you look at this

Q1 performance, we are at around INR 600 Crore, which gives you an effective annual run rate of around INR 2400 Crore. Given the other things that are in the play your guess is as good as ours, about where we will land up between 2400 and a higher number, whatever that is.

Vijay Chauhan: Right. Yes. Thank you for the clarification. Yes.

Sameer Kothari: Thank you, Vijay.

Moderator: Thank you. The next question is from the line of Yash Zaveri, retail shareholder. Please go ahead.

Yash Zaveri: Yes. Hi. About your guidance of 4,000 Crore, do you think you'll get there without diluting any more equity? And the other question is in FY'21, your top one customer was what 85% of the sales, what was it in by FY'22? Thanks.

Sameeer Kothari: So, I'm not sure, Yash, where have you got the number of 85% of sales for the top one customer from.

Yash Zaveri: About 71 Crore out of 1400… from your annual report.

Sameer Kothari: Okay. I'm going to have to check on this because I'm not sure about that. The top three, the most for us. Hello?

Yash Zaveri: Yes, please go on.

Sameer Kothari: So the top three customers for us definitely contribute around 85% of our turnover over, the largest being Unilever and Reckitt Benckiser. We generally avoid giving specific numbers as far as our customer breakup is concerned, like you are mentioning if it's in the annual report, it's definitely a screw up from our side and I need to check on this. But in terms of the customerwise breakup, we generally avoid giving that. In terms of customer concentration, I'm happy to give you a broad number, which is that I think, nearly 80 to 85% of the business well comes from the top three customers.

Yash Zaveri: And when you hit INR 4,000 Crore, it'll continue this one way?

Sameer Kothari: Yes. So, that's a difficult question for me, Yash, about the revenue guidance and here's what we are mentioned, right. To achieve the turnover of INR 4,000 Crore, given what we have already announced, we will not require any dilution of equity capital at all. However, in case we have any opportunities, in terms of acquisitions or new projects, other than the ones which have been announced, we will probably then look at raising funds, in which case our revenue guidance will also probably change.

Yash Zaveri: Okay. Just one more question, for your business, currently you're pretty healthy on your debt matrix. So what do you think the optimum amount of debt is for the business and balance sheet as yours?

Mayank Samdani: Yash, we are at very comfortable position as far as the company level that is concerned. We are very comfortable. We can go ahead because our debt is indirectly guaranteed by our customer also. So we are okay to take more, but we are consciously trying to have this type of debt equity ratio in mind.

Yash Zaveri: So about 5 times interest cover and about one to one and a half times debt to equity, is what you are…

Mayank Samdani: So we are at 1.16, as consol basis we can move that up to 1.4 - 1.5, we are okay till that time.

Yash Zaveri: Okay. Yes. That's all for me. Thanks.

Sameer Kothari: Thank you. Yash.

Moderator: The next question is from the line of Shanti Patel, from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: Good afternoon, Sameer. I joined your call little later, as far as I understand over turnover by 2025 will double of what we have got today and EBIDTA will remain same. Am I right?

Sameer Kothari: Mr. Patel, I'm not sure I understand the question, EBIDTA will remain the same meaning you're saying the broad percentage?

Shanti Patel: Yes.

Sameer Kothari: So we believe, so as far as the dedicated manufacturing is concerned we believe that it'll definitely remain around the same level.

Shanti Patel: And the turnover we have got today…

Moderator: Mr. Patel, excuse me. This is the operator; we are unable to hear you clearly. Can you please check your line? We request you to rejoin while we take the next question, sir. We have the next question from the line of Faisal Hawa, from HG Hawa and Company. Please go ahead.

Faisal Hawa: Any notable hires that we have made in the last four to five months in, with M&A or in the new verticals or even in the old verticals, because the kind of growth that we are always going to target, we will have new skin and shed the old skin.

Sameer Kothari: I'm sorry, Faisal, I'm not sure I got the question.

Faisal Hawa: Any notable new hires that we have made in the last five to six months?

Sameer Kothari: Yes, of course, Faisal. Across board we continue to hire new people at various levels. And like we had mentioned from a corporate perspective and the senior level, Sanjay has been appointed as a director at RB Scholl and he has gone ahead and recruited his team. We've also got the entire team of RB Scholl who has joined us including the senior people of Reckitt Benckiser Scholl. They are now being integrated into the organization and they will be given additional responsibilities across us. So in terms of people, that's a continuous, it's a continuous process for us in terms of recruitment.

Faisal Hawa: Thinking of changing, and as you are changing corporate structure which we kind of, what may have worked so far, may not work with much larger volumes or you don't feel the need to do that.

Sameer Kothari: In terms of the op structure or in terms of the corporate structure?

Faisal Hawa: Hierarchy, the reporting structures and all, do you feel that any kind of changes would be needed with much larger revenues because stocks will get 100 times multiple always, and the market is always betting that you are going to double the revenue every two and a half, three years. So that's like a very, it's a horse that you're riding, which will need a lot of changes, an agility at your end as a top leader.

Sameer Kothari: So Faisal, I should be thankful that you didn't say that we are riding a tiger. It gives me bad memories of the letter that Satyam guy wrote. But on a serious note, you are absolutely right. We are looking at changes in terms of our op structure as well. The addition of as the head of the health and wellness division is a new experiment for us where a gentleman is being given an entire sector and is being given P&L responsibility for it. We are also actively looking at, recruiting a Chief Operating Office, and I'll come back to you once that position is filled. There will be changes in terms of how we work, Ganesh will be happy to talk about his scene and what he's doing in terms of implementing ERP across the factories. We are actually upgrading our ERP system, and doing a lot of work on processes, et cetera. But Faisal, this is something that we have to do as a basic price of admission, right?

Faisal Hawa: This is exactly what I wanted to hear you, people given P&L responsibility, having a COO running the operations on a more micro level, and you being more free. So, I mean, kudos to you, and you have done exactly what I thought you should be doing. And not that my thoughts really matters, but I mean, this is what I actually wanted to hear. Thank you so much.

Sameer Kothari: Thank you, Faisal.

Moderator: Thank you. The next question is from the line of Shanti Patel, from Shanti Patel Investment Advisors. Please go ahead.

Shanti Patel: Madam, are you getting my voice?

Moderator: Yes, we can hear you now. Yes.

Shanti Patel: My question was by 2025, score will double…

Moderator: Mr. Patel, we are unable to hear you. Ladies and gentlemen, there seems to be a disconnection from the management line, we request you to please stay connected while we reconnect the management. Sir you reconnected to the call and Mr. Patel has moved out of the queue. We are unable to hear him. So I hand over the call to the management for closing comments, please.

Vimal Solanki: Thank you so much. We are related as, HFL yet again has delivered the best ever quarterly results. And we were able to keep our promise of unprecedented performance on our journey of INR 4,000 Crore revenue. With seamless support from our customers, a solid all round working team, committed management, and with our decentralized manufacturing strategy, we have been able to embrace every paucity that came our way making the most of it. With undeterred determination we continue to focus on seizing every possible prospect to become the go-to manufacturer, contract manufacturer for FMCG business. We are highly convinced that contract manufacturing as a subcategory of the FMCG universe remains very relevant and is only becoming more relevant with time. This is expected to have a simultaneous impact on the sector. We believe the next couple of years are going to be exciting in terms of growth for the contract manufacturing industry. We are enthusiastic about the future and are working hard on the pipeline that shall only consider moving ahead in one direction, onward and upward. Thank you again for joining on the call today. I hope we have been able to address all your queries. For any further information kindly get in touch with us or strategic growth advisors, our investor relations advisors. Here wishing everyone an affectionate and a warm Raksha Bhandhan. Stay healthy, stay safe. Thank you so much.

Moderator: Thank you, members of the management, ladies and gentlemen on, ladies and gentlemen with this we conclude today's conference call. Thank you for joining us. And you may now disconnect your lines.