HINDUSTAN FOODS LIMITED

A Vanity Case Group Company
A Government Recognised Star Export House
Registered Office: Office No. 3, Level 2, Centrium, Phoenix Market City,
15, Lal Bahadur Shastri Road, Kurla (West), Mumbai, Maharashtra, India, 400 070.
Email: business@thevanitycase.com, Website: www.hindustanfoodslimited.com
Tel. No.: +91 22 6980 1700/01, CIN: L15139MH1984PLC316003

Date: August 21, 2023

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 Company Scrip Code: 519126	To, The Manager, National Stock Exchange of India Limited, Listing Department, Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai 400 070 Company Symbol: HNDFDS

Dear Sir/Madam,

Sub: Transcript of Analyst/Investors conference call held on August 16, 2023

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

With reference to our letter dated August 8, 2023 intimating you about the conference call with Analyst/Investors which was held on August 16, 2023, 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**

Bankim Dilip Purohit

Digitally signed by Bankim Dilip Purohit
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Date: 2023.08.21 16:34:47 +05'30'

Bankim Purohit
Company Secretary
ACS 21865

Encl: as above

VANITYCASE
INTEGRITY INITIATIVE INNOVATION

"Hindustan Foods Limited Q1FY24 Earnings Conference Call"

August 16, 2023

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 16th August, 2023 will prevail.

MANAGEMENT: **MR. SAMEER KOTHARI – MANAGING DIRECTOR – HINDUSTAN FOODS LIMITED**
MR. GANESH ARGEKAR – EXECUTIVE DIRECTOR – HINDUSTAN FOODS LIMITED
MR. MAYANK SAMDANI – GROUP CHIEF FINANCIAL OFFICER – HINDUSTAN FOODS LIMITED
MR. VIMAL SOLANKI – HEAD OF CORPORATE COMMUNICATIONS – HINDUSTAN FOODS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Hindustan Foods Limited Q1FY24 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 date of this call. These statements are not the guarantees of future performance and involve risks 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 "*" then"0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sameer Kothari – Managing Director. Thank you and over to you sir.

Sameer Kothari: Thank you so much. Good afternoon and welcome to our Q1FY24 Earnings Call.

I am joined on the call by Ganesh Argekar – Executive Director; our Group CFO – Mayank Samdani and SGA, our Investor Relations Advisor. I hope everyone has had a chance to go through our updated Earnings Presentation uploaded on the Exchange and our Company website.

This has been a subdued quarter for us in terms of new projects and new developments. While, I would like to claim that this was much needed time for consolidation after the breakneck speed at which we have grown in the past few years, the fact of the matter is that the overall slowdown in the FMCG demand has definitely affected the CAPEX and the expansion plans of most of our customers and accordingly it has affected our pipeline as well.

Our hopes for the summer portfolio of our Company were quite high, and I personally mentioned that we are keen to explore the possibilities of expanding our footprint in this area. However, this portfolio also faced the vagaries of the season in the last quarter, and hence the decision making of our customers vis-à-vis the new CAPEX and other strategic initiatives have been delayed.

I do, however, have to say that we are beginning to see some green shoots, and our customers are seeing decent volume growth in July and August. We continue to be bullish about the Indian consumption story and hope to come back to you with some good news in the next couple of quarters.

I will now hand over the call to Ganesh Argekar – our Executive Director to brief you on the operational highlights.

Ganesh Argekar: Thank you Sameer. And good afternoon everyone. The existing factories continue to deliver steady performance. Our top line reflected a continuing fall in the commodity prices which offset the days of the financing of the new factories. Our new factory ramped up production in the last quarter and subject to the seasonal variations we are cautiously optimistic of the performance in the future quarters.

Now, I will walk you through the operational and business highlights of Q1FY24. The second phase of expansion of ice cream facility was successfully commercialized and ramped up during the quarter. The Company's CAPEX plan for setting up the Soaps and Bars project was commercialized in Q1FY24 and continues to ramp up satisfactorily in July and August. The Company's summer products portfolio was affected by the drop in demand caused by unseasonal rains during the quarter. The Company's acquisition of the Baddi facility is delayed due to the statutory approvals and we now expect to close the transaction towards the end of Q3FY24.

The factory being set up in Guwahati, Assam for the manufacturing of juice is progressing well and is expected to start commercial production by Q4FY24.

With this, I would now like to thank you and hand over the call to Mayank Samdani – our Group CFO to take you through the Financial Results for the quarter ended 30th June.

Mayank Samdani: Good afternoon everyone. While Sameer and Ganesh have painted a subdued picture of the operational performance of the Company, I am pleased to report that on the financial side, we have a good quarter. The PAT rose by 16% Q-on-Q and 57% year-on-year, our PAT numbers for the quarter was the highest ever aided by the commercialization of new facilities and the change in the tax rate regime. As I mentioned in my previous interaction, we have successfully utilized the entire MAT credit and have moved to the new tax regime from this financial year. The higher tax bracket has enabled us to utilize all the carry forward losses and also leverage the deficient benefit of the massive CAPEX that was done in Hyderabad. Now we have set up new subsidies for the new manufacturing opportunities. We believe it is a good time to move into new tax regime and hence our effective tax rate going ahead will be much lower than the previous years. In terms of specific numbers for Q1FY24, revenue increased by 4% to 620 crores in Q1FY24 from 598 crores in Q1FY23. EBITDA grew by 33% to 51 crores in Q1FY24 from 38 crores in Q1FY23. PAT increased by 57% to 23.4 crores in Q1FY24 from 14.9 crores in Q1FY23. The deprecation and the finance charges in the current quarter reflects the commercialization of the new factories, which we hope will start delivering to their full potential in the next quarter or so, thereby helping us to better our PAT numbers. Additionally, like Ganesh said, while the integration of the Baddi factory has been held up, we do believe that should happen in Q3FY24, and should help us further improve our performance.

With this, I would like to open the floor for the questions.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Aakash Javeri from Perpetual Investment Advisors. Please go ahead.

Aakash Javeri: My first question would be, on a like-to-like basis what will be the revenue growth, while profitability may remain unaffected, just trying to understand for the quantum of decline in prices?

Sameer Kothari: So, Aakash as you know we manufacture a bunch of products, and it would be difficult for us to quantify the exact drop in prices. If I just give you some examples in case of agri commodities like tea, the price drop in the last six months has been close to 25% odd. In case of petrochemicals and all the oleochemicals the price drop has been close to 15% or 20%, as well. So, that's the reason why we've been talking about this even in our previous interactions. Looking at our sales number is probably not the best way of evaluating our performance. Because any increase or decrease in the prices gets passed on to the customers immediately. Just give me a second, in terms of the volumes per se Aakash. What has happened is, in spite of the ramping up of the ice cream factory, while it was affected by the unseasonal rains, we actually produced a decent volume of ice cream, and also our bar facility has started commercial production. But in spite of that, the entire gains of that would offset just by the price fall. So, you will see that while our PAT numbers have improved, because of the commercialization of the ice cream as well as the bar one, the top line hasn't grown in the same proportion.

Aakash Javeri: Okay, understood. And now that prices are down, do we still expect to cross 4000 crores in revenue next year. And also, could you just help us with the drivers of growth till 4000 crores?

Sameer Kothari: Well, the target for 4000 remains the same. And we've reiterated that in our annual report as well as in our investor presentations. One of the biggest drivers, of course, is the fact that Baddi project while it has been delayed, we expect that it will close in the third quarter of this financial year, on an annualized basis. So, we are making an investment of around 150 odd crores in that facility. And we expect a similar amount of asset turns like we do in our other businesses. So, that should give you some idea in terms of what the top line will be from that facility while we don't have the exact numbers to share with you right now. And in addition to that, the bar project has started commercial production last quarter, but is actually getting ramped up in this quarter. Having said all of that, we do expect volume growth to come back. You would have read some commentary from our principal customers saying that the volume growth is coming back in this quarter. So, we certainly hope that in the coming quarter and in the next quarter we should start seeing some amount of traction even as far as the new projects are concerned.

Aakash Javeri: Got it. And the next question is that we took an enabling resolution last year for about 300-350 crores. And now we're looking at shareholder approval for 500 crores. I understand, as you said, enabling resolution, but is there any larger project on the horizon or have been delayed because of the ongoing slowdown in FMCG, and is now taking shape?

Sameer Kothari: So, like I mentioned in my opening remarks, frankly the decision making for all larger projects, etc., has got it delayed. While there are a bunch of irons in the fire, I do not have anything tangible to report as of now, as and when things come in, we'll definitely come back to you with whatever new developments are happening. But overall, it is an enabling resolution and we expect that this resolution will be enforced for a course of a year, we definitely expect that in the course of one year we will have a certain of these irons in the fire actually play out where we would require some amount of CAPEX and large investments.

Aakash Javeri: Okay. And how long is the CAPEX for shoes, that you announced about a year ago?

Sameer Kothari: The shoes?

Aakash Javeri: Yes.

Sameer Kothari: The shoes was a very small investment Aakash it was around Rs.10 crores of and we've already commercialized that, we commercialized it last quarter itself, not the quarter which is being discussed, the previous quarter.

Aakash Javeri: Okay, understood. And how is it doing, how is the demand for the same and how is the commercialized capacity doing?

Sameer Kothari: So, the shoes is an interesting situation sadly, because of the certain trade and non-trade barriers that the government brought in, BIS registration as well as the import duties, etc. the demand has increased for domestic manufacturing. However, the overall stress in terms of the economy, which you are seeing in case of discretionary spend, is definitely affecting the shoe market as well. Again, we believe that stress is temporary and the structural demand increase happening because of the implementation of BIS, import duties, etc., should lead to a greater amount of shoes being made in India, as opposed to be imported from China, Vietnam, etc.

Aakash Javeri: Sure. And just the last two questions. Sir the Scholl acquisition had significant spare capacity, how is that doing now?

Sameer Kothari: So, the Scholl acquisition is doing well. We are continuing to manufacture the products for Scholl. As you can imagine, it's a very niche product category we started reaching out to other customers etc. In terms of what we can do with the spare capacity as far as the existing machinery is concerned. In addition to that, Scholl incidentally is not being marketed in India at all, we are also in touch with the brand owners to try and see whether they have any India plans. In addition to that, the factory also has a large amount of real estate, it has nearly 10 acres of land, we are also trying to discuss to find out if we can bring other product categories into the same campus. But again, the overall sentiment because of the macro-economic situation is CAPEX decisions are getting delayed for sure.

Aakash Javeri: Sure. And what are the current levels of debt?

Mayank Samdani: We are at around 475 crores right now Aakash.

Moderator: Thank you. Our next question is from the line of Jay Shah from Mehta Investments. Please go ahead.

Jay Shah: Sir, I have couple of questions. Firstly, in the presentation we mentioned that the Q-o-Q revenue seems under some pressure due to a fall in commodity prices. So, how do you look at the commodity price trend and what would be our revenue growth guidance for FY24 and beyond?

Sameer Kothari: So, Jay we actually don't track commodity prices. If you are familiar with the business model, the commodity prices are a complete pass through for us. So, as a result, actually we don't have the expertise and we don't spend any resources in trying to forecast what the commodity prices will be. What we do is, we basically pass through the cost as and when they occur and as a result any kind of inflation or deflation ends up reflected in our turnover immediately. As far as sales forecast is concerned, while we have time and again mentioned that we would urge the financial community to not look at sales forecasts as a benchmark for our performance and look at ROE, ROCE as a better benchmark. Having said that, what I answered to Aakash earlier, we continue to stand by our guidance for getting to 4000 crore by FY25, irrespective of what happens to the commodity prices, unless we see a complete deflation scenario where our commodity prices fall by another 15%-20%. In which case, I will have to come back and do another investor call with you.

Jay Shah: Understood, sir. And sir, one more question. Can you elaborate what caused the delay for the Baddi acquisition?

Sameer Kothari: Sure, I'm going to ask Mayank to answer that question.

Mayank Samdani: Hi Jay. So, there are certain statutory permission which needs to take from the state government for them to allow us to take control of the plant, but due to the election and change in government and also the flood situation there, we are delayed by a month or so in getting those prior approvals from the government.

Sameer Kothari: Jay, just to elaborate on that. The law in Himachal is a little similar to Jammu and Kashmir, where Non-Himachali's are not allowed to own land. In case Non-Himachali's want to own land, agricultural or industrial / commercial, the state government has to give a special permission, this is under what is called as a 118 permission, which goes all the way to the Chief Minister of the state. As you can imagine the last couple of months the entire state machinery has been extremely busy in relief work. And unfortunately, we become one of the casualties in terms of those permissions.

Moderator: Thank you. Our next question is from the line of Faisal Hawa with HG Hawa & Company. Please go ahead.

Faisal Hawa: What are the kinds of acquisitions which we are now looking at actively and what are the ticket size of those acquisition and if you could just give a color on, what is the kind of market cap to sales offer that we get these at. Second is, are we facing lot of pressures from Hindustan Unilever and Reckitt for sustainability initiatives and trying to take more permission or wanting you to take materials from suppliers who are nearby and any kind of issue these sustainability initiatives that could cost us a lot of money on actual certification, etc. And thirdly, strategically are we thinking that, now making our excess land at most of these factories, so the geographical spread and the risk of that geographical spread actually reduces for our Company?

Sameer Kothari: Hi Faisal. Faisal so, in terms of acquisitions our strategy in terms of capital allocation remains the same, when it comes to dedicated manufacturing, we and the Board is very clear that we are okay to take on larger sizes, in terms of acquisitions and in case of acquisitions, which have come with a dedicated contract, frankly there is no ratio in terms of market cap to sales, etc., because effectively the cost at which we acquire the facility is what is built into our revenue model, our commercial model with our principal. So, as a result, as far as those type of acquisitions is concerned, we continue to be very aggressive and do not have any kind of a upper limit in terms of the money spent. In terms of our shared manufacturing facilities we continue to be a little bit conservative, we look at generally assets which are stressed and again, because they are stressed we tend to look at these which have practically very, very low market cap to sales ratio by definition, because that's why they are stressed assets. So, in case of share manufacturing, the Board has laid down a cap of around 30 to 40 crores as total equity outlay and we continue to follow that.

The second question is an interesting one Faisal where, you are absolutely right that with the onset of the plastic regulation coming in from next year, most of our customers are beginning to get aware and are taking steps to reduce their carbon footprint across the entire supply chain. And sustainability as well as recycling of plastics is one very large part of this entire supply chain strategy. One of the things that we are looking at definitely is co-locating or trying to reduce the transportation of plastic product from one factory to another. Like we mentioned in our previous interactions, we are definitely trying to get into some kind of backward integration within our factory spaces to reduce that carbon footprint. We made an announcement earlier that we are getting into stuff like plastic bottles, we are evaluating plastic bottles, we are evaluating spoons, as well as sticks for ice cream, all of those discussions continue to happen. I'm hoping that within the next couple of quarters, we will be able to come back to you with something definite along those lines.

Faisal Hawa: So, acquisitions, are we going to do anything this financial year?

Sameer Kothari: Faisal, what we have announced is the acquisition of the Baddi facility from Reckitt Benckiser. And like we mentioned, it should have happened already but we expect it to happen by Q3 of this financial year. We continue to work on a bunch of other opportunities, but I have nothing definite to report in terms of what we are going to do in this financial year.

Faisal Hawa: So, you mean to say that most of the vacant land of the existing factories we will utilize by making more products which are already required in our factory and which are being supplied by third party vendor as on date?

Sameer Kothari: I would not say that all of the vacant land will be used there. What we have done is that strategically, either so one is volume growth will come back to FMCG. And that's one thing we all are banking on which is the consumption story as far as India is concerned. So, if the volume growth comes back there will be capacity increases required in our existing facilities anyways. Let's say in some of our product category or some of our location, if we do not see volume growth coming in or capacity enhancement required for our existing product, that's when we would look at backward integration. As you can imagine, it is easier for us to stick to what we are doing, rather than trying to find out new product categories. So, if there is an option between doing more of what we are currently doing, rather than going into something new, we would obviously choose the former.

Faisal Hawa: Okay. And how is our engagement with the bottling major coming along with, it there any chance of this engagement really being enhanced at more locations or where we do something even on the distribution front with them?

Sameer Kothari: So, like I mentioned in a couple of interactions, we are very bullish about the beverage industry. And given the consumption increase in the beverage part, we are definitely hopeful that we will be able to look at it more aggressively. Again, like I mentioned in my opening remark, unfortunately the season for our summer portfolio definitely got affected because of the unseasonal rains. And as a result, our customers also have slowed down their decision making process as far as new factories, new locations, etc., is concerned. But structurally in the last couple of seasons, we've definitely seen growth in the beverage industry. And we expect that that growth subject to the seasonal variations will come back sooner rather than later.

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

Priyanka Singh: So, I have two questions. Just want to get an understanding on a broad level, as to how do companies decide what level of risk they want to take with HFL?

Sameer Kothari: What, Priyanka I don’t think I understand your question, what level of risk they want to take with HFL, meaning in terms of operations, in terms of financials what exactly are you asking?

Priyanka Singh: Overall.

Sameer Kothari: That’s a question which is very difficult for me to answer Priyanka, I would hope that our credibility and our reputation in the market is that they can trust us with whatever they want us to, And there are some examples of this being done there, we have gone into new categories, we've invested close to a couple of 100 crores in insights. In some locations we've also gone into categories which we have never manufactured before. So, I'm hoping that our customers trust us enough that we will not screw up, even if it's a large project or even if it's a new product category, or for that matter even if it's a new location where we've never been. That's, the only thing I can tell you, you can't quantify that whether my customer is okay to take a risk of 200 crores and not okay to take a risk of 205 crores or whether my customer is okay to take a risk with me in Jammu but not okay to take a risk in Lucknow, it's very difficult to say that. Our performance so far should hopefully demonstrate that our customers are okay to take risks with us in terms of locations, customers are definitely okay to take risk with us in terms of new product categories. And given the size of acquisitions and new investment that we're doing. So far, the customers have been okay with investments of 200-250 crores in one location. Bigger than that, since we haven't done it, I can't comment whether they are okay or not okay to make investment of more than 200-250 crores.

Priyanka Singh: Okay, that helps. And lastly our aspiration of doubling by FY25. So, which are the areas you have identified, and will it be newer areas or in existing product line and basically, what is the thought process of receiving that goal?

Sameer Kothari: Sure. So, when we talked about FY25 doubling it was some time ago. And a couple of things, actually two or three things have happened since then. So, let me just take this moment to kind of walk you through that doubling journey. One of the parts of doubling that journey was the expansion of our ice cream facility, where we have invested in our phase two a substantial sum of numbers, sum of money in that expansion. The second thing that we have talked about at that time was the expansion in our Soap and Bar facility, And that happened as well, it has got commercialized. The third thing that we talked about, which wasn't on the horizon, at that time was the acquisition of Baddi. And we have entered into an agreement where we are investing close to 150 crores as far as the Baddi acquisition is concerned. So, from figurative perspective, kind of indicated how we will end up doubling our gross block, we are all of these things. From a completely macro perspective in terms of the areas, I have mentioned this before, we have been very bullish about the beverage industry, we have been very bullish about the ice cream industry. Both of them have been relatively recent forays for us, the beverage, the foray was in 2019. And while as a Company, we don't have anything good to show as far as our beverage experiment is concerned, we are fundamentally very optimistic that beverage should be a great avenue for our growth in the future. And the second of course, is ice cream, because principally, ice cream capacity in India is not enough looking at the demand and the population and the density of the factories. So, from that perspective, we've been very bullish about these two categories. However, Priyanka I should caveat that by saying that, that we are absolutely agnostic as far as product is concerned, and, like someone earlier was telling me, if it happens in shoes, like we were discussing with Aakash, we would be happy to look at expansion in shoes as well.

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

Dipti Kothari: So, my first question was regarding, what is the ROE and ROCE we are targeting for this fiscal year and what will help us improve our return ratios from current levels?

Sameer Kothari: So, Dipti since you are a Kothari, I will ask Mayank to answer this question, let everybody else on the call think that you and I are relatives.

Mayank Samdani: So, Dipti, as we have mentioned in various forums that in the dedicated manufacturing. We target around 16% to 22% ROEs pre-tax but we do have the other businesses and all. So, our current ROEs are around 21%-22% currently. And we will target the same kind of ROEs going forward also. One of the major things which will help us to improve the ROEs is the change in the tax rates, which is now with the main Company. And as we progress and do the more investment in the subsidiaries, even our tax rate will come down because those are in the 18% tax rate, all the subsidiaries are on an 18% tax rate, the newer subsidiaries. So, this is the news and then we are very hopeful about the health and wellness business giving us a better ROEs as compared to the FMCG business.

Dipti Kothari: Okay. And sir are we looking at more acquisitions in the coming quarters, and are we willing to increase our CAPEX cycle?

Sameer Kothari: So, Dipti this question I'll answer. And yes, we continue to look at acquisitions very aggressively if you've seen the history of the Company, we have grown through acquisitions. And yes, we will continue to look at them, of course like I mentioned before, I do not have anything definitive to report other than the Baddi acquisition, which will happen in the next couple of quarters. But yes, we continue to look at acquisitions as a way to grow. And there are a couple of reasons for this, we believe that there is some amount of consolidation happening as far as the contract manufacturing industry is concerned. And then of course, there is a change in the manufacturing footprint of our customers which is giving us some opportunities in terms of acquisitions. We will continue to leverage both of these. And your second question I forget.

Dipti Kothari: Sir, it was regarding the CAPEX.

Sameer Kothari: Yes. So, given we are manufacturing Company, and given the fact if you look at our business models, in case of dedicated manufacturing Dipti once we start a factory and it ramped up, let's say within six to eight months of commercial production, our volumes from that facility are spoken for, which means that our turnover from that facility is something that we have clear visibility for, for the next five-seven-ten years depending on the tenure of the contract. So, for us to grow, we have to do CAPEX, and we will continue to do CAPEX. So, if you look at us, as a Company there is no CAPEX cycle. So, FMCG while the last couple of quarters have been bad, FMCG is not a cyclical industry, there's a structural consumption story in India and given the lack of capacity, I don't see that we will go to any CAPEX cycles, we will continue to invest in CAPEX as and when we see the opportunity and given that there is lack of capacity in most of the product categories, I am hoping that we will have enough capital opportunities for the next few years to funnel our growth anyways.

Dipti Kothari: Okay. That was helpful sir. Sir, secondly, what is the capacity utilization of Soap and Bars project, which got commercialized in this quarter. And how much will this contribute to our revenues in this fiscal year?

Sameer Kothari: So, Dipti we can't disclose specific revenue numbers, etc., because of the fact that in case of dedicated facilities, we work with one principle, if we end up giving volume numbers, capacity, utilization numbers, revenue numbers for a particular site, it effectively ends up giving out numbers for our customers which as you can imagine we are strictly prohibited by virtue of the confidentiality clause in our agreements with our principals. Having said that, let me just tell you one thing that again, in case of dedicated manufacturing, capacity utilization is actually not relevant to our bottom-line numbers. Once we ramp up the capacity, which generally takes around three to four months, post that any variation in the capacity utilization actually does not affect us, because the volumes are guaranteed by our principal. So, I would urge you not to look at capacity utilization as in the normal way when you are trying to look at our Company.

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

Akhil Parekh: Sameer you mentioned in one of the questions that the agri commodities have declined by 25% and oleochemicals have declined by 15%. So, would it be fair assumption that the volume growth at least for this quarter would have been at least 20%+ for us?

Sameer Kothari: Akhil like I said, difficult to give you that kind of a metric. Please understand also, that when you look at volumes for us, because the product categories are so diverse, it's very, very difficult. Just to give you an idea, we manufacture ice creams, which are barely 15, 20 grams each. And if I have to give a volume and tonnage, you can imagine how many cups and cones we would have to make, to be able to sell an equivalent of let's say, a 5-kilo packet of tea, or a five kilo packet of detergent powder. So, it's very difficult for us to get volumes on the same denominator. And of course, like I was telling Dipti earlier, that in case of specific customers, we try to stay away from volume discussions anyways. All I can say is that the gains of the ice cream and the bar project, as far as the revenues is concerned, has been completely eaten away by the fall in the pricing.

Akhil Parekh: Okay fair enough. Now we're almost halfway through the quarter do we see better demand now, at least on a sequential basis do we see incremental volume trend right now?

Sameer Kothari: So, again, that's public information if you've seen some of the commentary which our customers are making, volumes are coming back, the entire shrink inflation is getting reversed. there's a couple of days ago, there was this large article in economic times about this, and anybody who's going to a supermarket will see this happening anyways. So, definitely volume growth is coming back. Having said that, it's too early to declare it a winner you have seen the headline inflation number coming in last week, or actually was just this week, a couple of days ago. And given the rain situation, we are hoping that the rural demand will sustain. But I really don't want to go out on a limb here and end up saying something where I have to come back next quarter and say that the volume growth has still not returned.

Akhil Parekh: Okay fair enough. And on a carbonated drink project, just wanted to understand slightly more details in what kind of work we are doing, is this more of manufacturing the product and packaging it or are there plans of managing the entire supply chain basically for this particular product?

Sameer Kothari: No, Akhil we are being very clear right from earlier that we will continue to be a contract manufacturer, we do not think that we have any kind of expertise in doing anything other than that. And even as far as CSC carbonated drinks is concerned, we will continue to concentrate only on the manufacturing bit of the entire supply chain.

Akhil Parekh: Okay. And this is only for pet bottles at this point of time. We don't intend to go to the glass bottle manufacturing.

Sameer Kothari: No, it's pet bottles, and it's tetra pack for the time being.

Akhil Parekh: Got it. And just two more questions. One is, the Baddi unit which we are expected to commercialize by the end of third quarter. How do we see the ramp up basically, how do we see the sales trajectory from this particular acquisition say next 12 to 18 months?

Sameer Kothari: So, frankly, it's an existing factory which has been running for more than 10 years. And as a result, since it's a slump sale. Frankly, there won't be any ramp up, revenues will start showing up from one day to another after the closing date. So, I don't think we will be going through any ramp up as far as this facility is concerned. Having said that, we definitely do expect to bring in new customers and bring in some more volumes, which we believe will take maybe a year or two, especially since some of these products are regulated products. Just to remind you, it's a USFDA approved site. And the gestation period for bringing in new customers to this site will be slightly longer than let's say bringing in a new customer for a shoe factory.

Akhil Parekh: Okay. And would you have the gross block number handy for this acquisition by any chance?

Sameer Kothari: What we have disclosed is that we've got the commercial contract is for 140 odd crore. I don't think we've disclosed the entire breakup, and it's a slump sale, so I don't think we can disclose the breakup of that, at an appropriate time when we do the closing agreements we will disclose that Akhil.

Akhil Parekh: Sure. But the asset turn would be largely in line with what we're doing right now at Company level?

Sameer Kothari: That's what we expect. Yes.

Akhil Parekh: Okay. And last question for Mayank, effective tax rate, we did around 21% from this quarter. And with now new subsidiary coming in do we anticipate this ETR, effective tax rate to drop below 21% in subsequent quarters, or at least on an annual basis?

Mayank Samdani: So, we believe that it will be at the same levels for the year and when the new year is more investment in subsidiaries will come. It can come down to a point or something, because already HFL is doing much of the business and it will take some time for the new business of subsidiary to come to that line. So, we believe that this will be the tax rate for this year.

Akhil Parekh: Okay. So, it would be around 21% odd?

Mayank Samdani: Yes.

Moderator: Thank you. Our next question is from the line of Ashay Jain from Jain Capital. Please go ahead.

Ashay Jain: Few questions from my side. Firstly, on the renegotiation part. So, have we gone through the cycle of renegotiation at a project level, which are the products there are up for renegotiation in the next couple of years and what is the revenue contribution from them?

Sameer Kothari: Ashay, I'm sorry, I am not sure where you got the impression that, you want to just repeat the question for a second, I'm sorry.

Ashay Jain: So, it's basically on the renegotiation at the project level. So, how many of them projects are up for renegotiation, and over the next couple of years and what is the revenue contribution from them?

Sameer Kothari: Okay, so it's just an academic question. for a second, I thought that maybe you were referring to something that Mayank, me or Ganesh said. So, from an academic perspective, I would say the average age of our current contracts would be between seven to eight years. And while we've had experience in terms of the negotiations, etc., and I can talk to you about academically from a HFL perspective, I don't see renegotiations coming up for any of our contracts for the next five or seven years anyways. Academically, however what ends up happening is, at the time of renegotiation is frankly in the interest of our customer to continue business with us. And the ROEs are sustained even post the renegotiation period, with a slight bump up in terms of the value of the assets left over. So, from that perspective, I don't see a major renegotiation risk, if that's what you're referring to.

Ashay Jain: Sure, that helps. So, secondly, how do you get business from a competing brand as in, there are NDAs in place with them and I'm just asking because, you know the secret of success of one brand product which can make the principal think twice about it?

Sameer Kothari: Sure. Ashay so there are a couple of things in case FMCG frankly, the secret of success is more likely the brand, rather than the manufacturing process, most of the people end up buying a particular brand of products without even looking at what are the ingredients, etc. So, FMCG is a very emotional decision. Having said that, your question is definitely valid, that there is some amount of intellectual property in terms of manufacturing. And our customers do share that with us. In fact that, we believe very strongly the fact that our customers trust us with that is one of the largest barrier to entry as far as our competitors are concerned, because our customers will not trust any Tom, Dick and Harry with that kind of intellectual property. Given the fact that we've been doing this business for more than a couple of decades now and have been working with most of the larger FMCG companies in the country, across locations, across product categories, means that we've developed some amount of trust with our customers. There was a question earlier in the call about what kind of risk our customers are willing to take with us. The biggest metric for that is the fact that some of our customers or I would say most of our customers are willing to risk their main brands with us. That itself is a statement about our credibility and our reputation.

Ashay Jain: Sure. So, lastly, just wanted to understand the contract timeline for a dedicated facility, which includes logistics, raw material sourcing, packaging, etc. So, apart from this, is there any additional opportunity within the value chain for us?

Sameer Kothari: So, the tenure of the contract is between five to ten years, our longest contract right now would be around ten years and our shortest contract would be let's say, five years. And most of the contracts tend to fall between this range. In terms of other areas, you are absolutely right and I talked about this earlier with Faisal, we continue to look at ways of doing backward integration within our supply chain, both from a commercial requirement as well as from a requirement of ESG sustainability reducing the carbon footprint of the product, etc. And we definitely believe that in the next few years, that can become a major source of growth for us. The other thing that we continue to look at is R&D. Like I mentioned in some other interactions, a private label for us is a very small part of the business right now. However, we have definitely got our foot in the door with most of the larger retailers, as well as some of the smaller B2C brands. We expect that to grow further. And we are definitely taking some steps to strengthen our R&D as well for that.

Moderator: Thank you. Our next question is from the line of Jaiprakash, who is an Individual Investor. Please go ahead.

Jaiprakash: My question is regarding this opportunities which might be in the sports and sports equipment, so when I went to this store called decathlon, let's say I go to IKEA, which is more of a home improvement. So, I don't see any, I would say that I see very less product from India. And most of the products are either from China or Bangladesh. So, can you share your thoughts on this and difficulties which Indian manufacturers face?

Sameer Kothari: Jaiprakash, hi. You are absolutely right in terms of your observation, I however, not the expert to be able to comment on everything, I can comment to a certain extent about shoes, but home furnishing, IKEA products, T-shirts, etc., sports tools, Decathlon is not within my area of competence. As far as shoes is concerned, you're absolutely right that there is a huge potential for Make in India kind of scenario as far as sneakers and sports shoe is concerned. The government is also seized of this, they have brought in a bunch of initiatives including levying of import duty on the shoes as well as bringing in BIS requirements for shoes, you will see a lot more action happening as far as manufacturing of sneakers in India is concerned. You would have read that recently a Taiwanese Company has entered into an MOU with the Tamil Nadu government to set up a large shoe manufacturing facility. There are certain infrastructure bottlenecks as far as setting up large factories in India are concerned. However, the future is looking good.

Jaiprakash: Thank you Sameer. Sameer, the other question I have is on this model where electronic manufacturing companies talk about having ODM and business and prescription-based business. So, I'm just thinking, are we going to move towards ODM like where you design your own products, you have your own solutions and all that in future?

Sameer Kothari: So, ODM equivalent for us is private label manufacturing. And we definitely are doing some amount of private label manufacturing for retailers, for organized retailers, for e-commerce platforms, as well as for B2C companies. And again, I can't comment about electronic manufacturing guys, I can talk about the FMCG. For us, ODM is definitely one of the avenues for growth. I don't see private label becoming a very large part of our business for the next couple of years. But in the medium term, we should definitely see ODM / private label becoming far more important for us.

Jaiprakash: Thanks Sameer. Just last question from my side is, your annual report one year back or two years back, you even talked about some exports opportunities because of China plus one or anything. So, are you seeing any traction on that side, I understand the India opportunity itself is huge and you want to focus on maybe India but just want to understand in terms of future opportunities.

Sameer Kothari: So, two things, so one is the export. Export things definitely is interesting the China plus one thing that we spoke about and if I don't remember which particular aspect of my message you are talking about, but I'm sure I have caveated it very clearly saying that there are certain infrastructural bottlenecks as far as FMCG manufacturing is concerned to become the China plus one. Some of these bottlenecks are being addressed and you will see that happening in shoes, far quicker than happening in the case of FMCG products. We ourselves have taken some steps, the acquisition of the Scholl facility in IGK is actually it's a 100% EOU which is currently the exclusive manufacturer for all short products out of going to EU, UK, Australia and New Zealand. The Baddi facility is a US FDA approved site which is manufacturing a host of OTC / pharma / FMCG products for the US market as well. While we are taking some steps, I would say it's miles to go before we actually end up and have something to talk about.

Moderator: Thank you. We have a follow-up question from the line of Mr. Akhil Parekh from Centrum Broking. Please go ahead.

Akhil Parekh: Sameer, just one question from the bottled water opportunity. Like if I look at IRCTC, they have been doing fairly good amount of CAPEX in Rail Neer kind of a facility basically. So, they have almost 16 odd operational plants and they have done a CAPEX of 100 crore for first quarter. By any chance have you thought around this like in terms of manufacturing bottled water and supplying it to likes of IRCTC?

Sameer Kothari: So, couple of things. Have we looked at manufacturing bottled water, absolutely. So, we consider bottled water to be part of the beverage industry. And definitely, like I mentioned before whether it's CSC, pet bottles, tetra packs, juices, bottled water is everything is fair game for us. As far as meals specifically is concerned and IRCTC specifically is concerned. We haven't actually considered that at all for reasons, so we are generally if you followed the Company we are very conservative in terms of our counterparty risk. We prefer, especially for larger customers, etc., we prefer dealing with companies who are able to give us a long-term contract in terms of their take off etc. And from that perspective, it's difficult to get into that kind of a contract with some of our customers, and we're not comfortable with that Akhil.

Moderator: Thank you. Ladies and gentlemen, that was the last question of our question-and-answer session. I would now like to hand the conference over to the management for closing comments.

Vimal Solanki: Thank you. So, in addition to the operational and financial initiatives, we at HFL, are keenly committed towards our ESG initiatives as well. The Company's focus is on GHG emission reduction and effective utilization of energy. By selecting appropriate low carbon transition technologies. We have identified opportunities for improving energy efficiency. To illustrate, we are now using more than 6000 metric tonnes of bio briquettes annually to replace fossil fuels.

HFL is also steering various other initiatives, including groundwater recharge through rainwater harvesting, as its facilities maintaining natural habitats around its plants like ponds, ensuring their maintenance and beautification as a part of its compliance requirements. We reckon that the local community's well-being is vital to our business and accordingly, we consider their concerns and expectations in our business decision making process. The Company's CSR initiatives are rolled out directly or in partnership with non-profit organizations. This helps in increasing reach as well as ensuring the adoption of initiatives by communities.

I take this opportunity to thank everyone for joining on this call. I hope we have been able to address all your queries. And for any further information, kindly get in touch with us or the strategic growth advisors, who are our Investor Relations Advisors. Here's wishing you all a belated Independence Day.

On this special day, let's remember our past, celebrate our present and dream of a brighter future. Stay healthy, stay safe. Thank you so much.

Moderator: Thank you. On behalf of Hindustan Foods Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.