

Agro Tech Foods Limited

30th January, 2024

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Codes: BSE Scrip code 500215
 NSE Symbol ATFL

Dear Sir,

Sub: **Transcript of the Analyst Call pursuant to the Unaudited Financial Results for quarter and nine months ended 31st December, 2023**

In continuation to our earlier letter dated 15th January, 2024 and pursuant to Regulation 30 read with Schedule III of the SEBI (Listing Obligations & Disclosure Requirements) Regulations, 2015, we are enclosing herewith the transcript of the Analyst call held on 24th January, 2024 for discussing the Unaudited Financial Results of the Company for quarter and nine months ended 31st December, 2023 approved at the meeting of the Board of Directors of the Company which was held on 23rd January, 2024.

The transcript is also available on the website of the company i.e. www.atfoods.com

You are requested to take this on record.

Thanking you,

Yours faithfully,
For Agro Tech Foods Limited

Jyoti Chawla
Company Secretary

Encl.....

ATFL an affiliate of



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“Agro Tech Foods Limited Q3 FY2024 Earnings Conference Call”

January 24, 2024

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ANALYST: MR. AJAY THAKUR – ANAND RATHI SHARE & STOCK BROKERS LIMITED

MANAGEMENT: MR. SACHIN GOPAL – MANAGING DIRECTOR – AGRO TECH FOODS LIMITED

MR. KPN SRINIVAS – CHIEF FINANCIAL OFFICER – AGRO TECH FOODS LIMITED



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Moderator: Ladies and gentlemen, good day and welcome to Q3 FY2024 Earnings Conference Call of Agro Tech Foods Limited hosted by Anand Rathi Share & Stock Brokers. 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. I now hand the conference over to Mr. Ajay Thakur from Anand Rathi Share & Stock Brokers. Thank you and over to you Sir!

Ajay Thakur: Thanks Aditya. I welcome you all to Agro Tech Food’s Q3 FY2024 results conference call hosted by Anand Rathi Share & Stock Brokers. From the management side we have with us Mr. Sachin Gopal, Managing Director and Mr. KPN Srinivas, CFO. Now without much ado I would like to hand over the call to Mr. Sachin Gopal for his opening comments and followed by Q&A session. Over to you Sir!

Sachin Gopal: Thank you Ajay and good afternoon everybody. Thank you for taking the time out to join us today. We will go through the presentation which has already been uploaded on our website and after that we can take questions so if you could just go I am on page 2 right now so which is the Q3 update, our mission and vision page three to be the best performing the most respected foods company in India and then on to page four which is a performance highlights for Q3 and wherever it is year-to-date we have indicated that our commentary is year-to-date. So overall I think the highlight is we had a slow growth in foods, certainly less than we would like it to be much less and we will walk you through what is going on. Underlying everything we believe all the trends are strong but we need to be able to diagnose this and we are discussing with you and also lower pricing in staples that is in line with whatever is the commentary you heard from us in the prior quarter and the full impact of that is flowing through in the current year and probably I would say some impact of the lower pricing might even stretch into a little bit of Q1 of next year. In terms of the actual growth rate I think the foods growth rate has started to inch up. The volume is in low single digit but spreads are ready to continue to be a drag on the total so we will update you on the actions taken and what are the results and how do we see it today. One of the questions that we were asked by our Board and the Chairman was why is the growth rate lower than we like it to be and our algorithm is clearly talking about high double dig growth and I think there has been a lot of news in the media about how rural is dragging companies down and the question was so therefore how does ours look, so we had provided that answer in this Board meeting and therefore we are sharing it with you also. We do not normally give you channel wise splits but I think it helps to address the question on why and therefore why do we believe it can be better. So the current growth rate of foods and this refers to the foods



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business is driven right now largely by semi urban/rural so what we call and many companies call in their network the super distributor network, so we are not really into rural in a big way but these are the smaller towns, the sub 100000 towns probably 40 to 50000 population and there we have got a very good growth actually. We have got a growth of about 11% in revenue and a 13% growth in volume. As compared to the more urban parts of the country where we have direct distributors so we service these distributors directly not through super distributors, where we have a revenue growth of only 1% and a volume growth of only 3% so what we wanted to therefore highlight was I think a lot of the portfolio work that we have done actually a lot of it has been in Rs.10 and 5 is actually paying off. We are getting reasonably good double digit growth in the more semi urban/rural parts of the country but because ready to cook and spreads are so dominant and obviously our coverage is also that much better that impacts the more urban parts of the country significantly so the short answer to the question is on why is the foods growth less than we like it to be it has nothing to do with the macros because if it is the macros then it will behave more similarly to other companies who reported that rural is dragging them down. That is not the case in our company I think we have got only two drags right now which we are working hard to and I think we have almost reached there in terms of addressing. One has been ready to cook which is the post COVID hangover which we talked about earlier then we will tell you now that we have several months of reasonable growth in this year we will tell you what we think we need to get it to, to the 8 to 10% range and the second part is in spreads where we have had a lot of competitive activity, particularly in the mid size packs and there we have taken actions and we expect to see the results of that as well in the coming quarters so just a sort of hygiene point.

In terms of the year to-date gross contribution and margin these are actually up nicely we are up by about 18 Crores and 9 Crores respectively so the year-to-date gross contribution is up by 18 Crores and the year-to-date gross margin is up by about 9 Crores, so you will see that as well in the financial results. For Q3 the figures are lower than prior year and the figures are 3 Crores and 6 Crores lower respectively and that really reflects the phasing of pricing and the mix between oils and foods, so it is a little anomalous because you would rather normally expect to see the six in the first and then the three later but that is the way it stands out given our product portfolio and obviously the impact on oils. Overall on a year-to-date basis I think we are looking at continuing improvement in margin as a company our margin has gone up nicely obviously that is partly due to lower revenues but we are managing that piece I would say.

For the quarter A&P is pretty much at prior year levels you can see that in the financial results. On a year-to-date basis however it is higher and that reflects the additional



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investments that we made behind the business. In terms of SG&A overall I think on a year-to-date basis it is largely in line with prior year other than salaries, travel & freight we probably have about 2 Crores, you will see that in employee benefit. We have about 2 Crores increase in salaries and this may not be visible to you in the results but we have got 1 Crores increase in travel which reflects just coming back higher travel cost also and Q3 PBT and PAT are therefore 3.4 Crores and 2.5 Crores respectively and year-to-date PBT and PAT are about 12 Crores and close to 9 Crores respectively.

We skip page five that is more of a picture page and move to page six and we will dive into the more important parts of the conversation. As you can see here on a year-to-date basis our volumes in ready to cook are up about 3% with a value growth of 0% and that is due to the fact that in the largest part of the business which is instant popcorn we had taken up pricing as if you remember last year we had a huge increase in Q1 and Q2 so in palm oil and as a consequence we had to take up our price which we then started to bring back towards the end of Q4 of last year. So what is behind the 3% growth, behind it there is year-to-date volume growth of about 5% in instant popcorn partly of microwave popcorn and lower adjacencies, let me say adjacencies that is basically sweet corn and pasta, so we will walk through each one of these individually. Now this 5% on instant popcorn is very steady now. We also wanted to see how much of it is the post COVID hangover what is it and now I think barring the month of May where we had lower commissary orders last year which is CSD, I would say every month if you look at the cumulative growth rate of instant popcorn is in the region of 5 to 6% so we are therefore comfortable that now this business is at %5 odd growth rate which we need to take up to 8 because that 8 starts to give us a total ready to cook algorithm of about 10 because we expect the adjacencies to go faster. Our plan is therefore to close the gap in IPC growth between the 5 and 8% that we require with a little higher media spends in FY2025 so that is the conversation that we had with the Board yesterday. We indicated to you that total A&P is going to increase from the 6.5% range to about a 7%, 7.5% range that is for total foods okay not for ready to cook and probably anywhere between 7 and 7.5% should give us the incremental 4 odd Crores that we think we need to increase the investments behind, so that is something that we discussed and therefore we are going to pursue now not in this quarter but starting Q1. The lower base pricing will start to flow through in end Q4 and prior year so as you can see right now value is behind volume but that will change at the end Q4 of prior year that will set the base for revenue to start therefore growing in line with volume. So instant popcorn is growing by about 5, gap between 5 and 8 we will address that we think about 4 odd Crores of higher media that should get us to 8% volume, 8% volume should translate into 8% value because starting next year of Q1 the base on per kilo pricing should be compatible and then on top of that we will build the adjacencies in the RTC category. In terms of the non-popcorn



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business which is sweet corn and pasta business the business had a gap of 49% at the end of September so that mean basically it was stacking to about 51% in the last year that gap has come down as we started putting more energy behind it and we are doing all of that and I think that should give us a reasonable delta in terms of growth as we enter FY2025. In terms of new products we have started rolling out the cocoa based products so the Bake Treats which is really a cake mix which is something that we are starting to roll out we are starting to do the demos. We are doing it in a phased manner so we do not want to be going overboard on it in term because if you go overboard on anything it has obsolescence cost but we are just going to track it slow and steady and build this category. We think we have very good competitive advantage here because we pretty much own the microwavable foods category in India. We have popcorn but that is the only one we do and we will see how as we go forward what all we can do and we have shared with you the plant meats the Imin Yum Keema that market testing has also started now. We have started rolling it out. It is going to be slow but the main thing we are finding here in plant meats is that there is a very large difference in awareness between the top end of the socioeconomic spectrum and the bottom end, the bottom end even I would say middle but at the top end actually the awareness of plants is more than I expected so it is pretty reasonable, the product response is excellent and as it is in the case of the Bake Treats and we will start dialing these up slowly and build up distribution in a very steady manner, so that is as far is ready to cook his concerned.

As far as ready to eat is concerned I think picture looks very good overall growth of about 20% in volume and 19% in value. The main volume driver for this category is ready to eat popcorn where I think we have clearly reached a very, very significant inflexion point so that part is going well and all parts of popcorn, savory popcorn small pack, savory popcorn big pack, sweet popcorn everything doing very well. Sweet snacks which are basically Caramel Bliss sweet popcorn and our panned products are also up 66% so up to about 8% share of the total RTE business. We had however wanted to get well beyond that right because I think at one stage in one quarter we had actually touched even 11% last year and then of course there has been overall very strong road but we wanted to get to like a mid teen kind of number but I think we need to make some recipe changes in the panned products something in the fat so we are working on that and that would be the first step for us to get past the 10%. In terms of gift packs of sweet popcorn we rolled them out in Q3. They are slower than chocolates but nevertheless a good start. Our chocolates is very naturally to gifting so you do not even have to tell anybody oh chocolate is a great gift, popcorn as a gift is okay it is acceptable but it is not something that is instantaneous or spontaneously comes top of mind, but nevertheless I think we were able to roll this out. We will again make some tweaks in this year so that in the coming months and for the next



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festive season we are in good shape. We can see a very visible impact of the Rs.5 panned range in the rural markets that is for sure, so I think together with the Rs.5 packs of Breakfast Cereals as well, which is the shelf product in cereals so I think the Rs.5 portfolio is actually really enabling us to make very significant gains down the line and that is evident in the conversation that I have had with super distributors in different parts of the country where they are feeling yes the Agro Tech's portfolio is absolutely perfect for them to make a breakthrough and that is true not only in ready to eat it is true even in Duo or Rs.5 Duo, the largest selling depot right now is Patna. We are not selling enough of the Rs.5 Duo but the point is that as per the acceptance we are finding the right way forward in terms of the smaller markets which is pretty good because see if you want to be a billion dollar foods company in India you are not going to be a billion dollars if you do not have the right 5 and 10 portfolio it is impossible no company can do it, so we need to get the top end right, we need to get the bottom end right and all these actions show that they are starting to get the bottom end right pretty well. This is something that we talked about three quarters ago. The last point we would like to make is that on ready to eat portfolio the big packs of ready to eat also appear to be reaching an inflexion point so that is really good for us because that has taken us some time and this is not only in channels like quit commerce and all it is also true in out of home, in highway stops, etc., etc. I think more or less we have cracked the supply chain and formula on this one so that is one. Now the thing is that we are trying to work within our supply chain and sales to increase penetration because that should help to further accelerate growth. So to give you an idea, right in the middle of COVID we took a decision that we will not sell Rs.5 and Rs.10 products directly to customers right and we then restricted the sale of our products because otherwise we were having heavy obsolescence. It was ineffective because you have loading, unloading charges, additional freight, all and so forth and as a consequence we probably ship directly from our company. Our products of ready to eat snacks today are probably in the region of about 500 customers and as you know we have about 1100 direct customers and we have another 1500 indirect customers under the super distributor so the total size of price is about 2500. Now in the 500 there will also be some of the retail stockists also that we have started servicing directly but the point is the size of price is very big so we just need to refine the supply chain, make sure it works for us from a profitability perspective, from a trade perspective and make sure for the customer but these are very long runway for growth and that is what we are working on. Overall picture on ready to eat looks very good.

Spreads & dips as we said earlier ready to cook and spreads & dips are really are the two focus areas which we need to address to get back to our algorithm of 16-18% growth and on a year-to-date basis you can see our volume is down about 3% versus last year and value is down about 6%, so we have already taken the actions because this actions that we needed to



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take were largely in the midsize pack and obviously to get some good trial pack sale we have done that and we are steadily gaining ground in midsize packs driven by a recipe based Honey Roast Peanut Butter. As I have said we already dominate the large packs so this piece is now working very well. I would say they are gaining ground very, very quickly and I would expect that we will be in positive volume growth by Q4 and that will set the base for solid growth in FY2025. There will however be some lag in pricing so the volume-value relationship in the coming quarters may not be on par but we will work through that and we will keep you posted as we develop it. I would say we are already seeing the results for example in general trade not in modern trade where our competitors do have the ability to spend a lot of money but in general trade our volumes are already up in Q3. I think we were up about 3% versus prior year so we can already see the signs, very soon the general trade growth itself will go up and I am sure even in modern trade whatever is the initial impact of competitor spending lot of money that will definitely has to fade away. Everything finally has to go down to some amount of rationality so all that is good. In terms of the blister pack we have launched it. We told you about this earlier the Rs.10 blister pack is settling down. We are getting a significant number of transactions every month to be able to get new consumers for this and we are also seeing visible gains in peanut butter distribution. We are now just under 1 lakh stores now and I think hopefully we will reach that mark in the coming quarters. Certainly all the indications are there. It has had a dramatic movement I would say over the last two, three quarters once we did these actions on the mid size packs and the entry level packs and work is also completed for the launch of the dipper pack at Rs.10 to further accelerate the trial of Honey Roast Peanut Butter. If you recall I told you about on the go consumption of peanut butter because that is a big consumption opportunity. It also gives you a lot of visibility in the store. For example in breakfast cereals for our popz brand you will see it is very visible. You will also see Act II ready to eat popcorn very visible but you will not see peanut butter that visible because it is a bottle, stored in a shelf so we are working on how do we get more visibility and faces in the store with peanut butter adjacency. They can be related to peanut butter, it may not be peanut butter only, it could be peanut butter with a date it could be something else, but all of that will simply increase our visibility in the trade and we are the only people honestly who can do it because we are the only people who sell peanut butter who have a huge network of back stack manufacturing facility so it is a significant competitive advantage, so we are launching our version of that on the go pack with peanut butter. It is going to be priced at Rs.10 and I think we should be starting production sometime in February so that is on track. That will address the out of home consumption location for peanut butter and once we are comfortable that this piece is working then there will be a lot of other things that we can do in terms of the on the go consumption of flat spreads. So I would say in good shape the proof of pudding obviously is in the eating so you will need to see our Q4 results and you



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need to see the volume growth there. If you see the volume growth there you will know that we have turned it around and we can look forward to the kind of solid growth that we need a %10 odd growth in the category for next year so that is as far as spreads are is concerned.

Breakfast cereals all looking good that number of -3 that you are seeing which is on page 9 is really just an aberration because we had launched Masala Oats last year in this quarter that is why you can see the pricing is much higher, there is a delta of almost 900 basis points because obviously oats sells at a much lower price than center filled cereals or any exclusive cereals for that matter, so Popz Center Filled Cereals continues steady growth. We have a lower volume index as I said for processed cereals due to the launch of Masala Oats in the prior year; rewired architecture for Shells which is the plain excluded product is working. We have got a Q3 growth of 9% that is good and total cereals distribution now up to 134000 stores. We have started to roll out Muesli and that is good. We probably underestimated the demand for it because we are also being very careful now as we told you one of the points we have to address that 1.9% obsolescence so we just need to be careful without compromising on the quantum of innovation that our company has to do and we will be assessing the consumer acceptance of this in Q4 and we have also started process of manufacturer of sweet oats which will be launched in Q4 so I would say all good and we hope that in the launches as we go forward we continue to drive innovation very high but are also able to control the amount of obsolescence that is generated and there are also preparation for launch of a Center Filled Coffee Variant, one more variant is underway and we have scheduled a product for this launch so overall I will say on breakfast cereals very strong momentum and both ready to eat and breakfast cereals it is visible in the growth figures. It is also visible in our manufacturing cost per kilo which are coming down dramatically as our volumes are increasing so which is the result of reflection of operating leverage.

Last category in the foods part is the chocolates, a little up and down you can see +38, +9, +11 volume growth but overall about I would say 17. I would say roughly to give it about 20% growth which is in line also with the distribution increases that we have had over the last 12 months but the level of volume growth I would say is still lower than what we would have liked it to be. We would have liked it to be in 35-40% mark and I think the one piece that probably has not worked so well for us this year is that we had a moderate acceptance of the Rs.5 pack. I think our Rs.5 pack we expected it to be bigger but overall I think it is a very good pack especially for smaller market but I would say its performance has been lower than our expectations. The most likely cause is the size impression. It is a little smaller in comparison to either wafer chocolates at Rs.5 or even larger brands like 5 Star, the footprint the size impression of those larger so we will figure it out. We have to work



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through this, obviously the work is underway. It is not that it is not acceptable the chocolate market is huge so even if it is acceptable to 20% or 10% it is still large enough for us but still it will take us a little while to crack through. Meanwhile in any case we had a scheduled additional launch of a paan variant, if the paan goes very well because already we have a coconut so we have just started commercial production of that and you will probably start to see it in the market in the next month or two. It is an outstanding product and that will play to our strength in the Rs.10 variant and we will therefore be able to I would say increase our total addressable market of the consumers whom we are talking to because each variant develops its own loyal consumer base. How much exactly growth it can get I am not sure exactly let us see when the numbers come in but it should add up. Bulk of our business today is Rs.10 business where we are also continuing to work. We told you earlier that the chocolate manufacturing process and supply chain is extremely complex and therefore product integrity, shelf life were all being addressed. There are a lot of work in the area of sanitation, humidity, handling of the product, so on and so forth feeling and I would say remember we told you we are setting up lines with a capacity of 100 Crores plus in total and those lines therefore are very, very close to completion so our plan right now in this quarter is that we will be more transitioning to those new lines for manufacturing. They will address all the initial layout issues and production issues that we had in the existing lines right and then we will also migrate into the new hall if we will so I would say addressing it in a good manner, the size of price of this as I have already said is huge and we therefore are addressing all the right points I would say. One point to note on Q3 I think we had a very successful introduction of the new gift pack range. We had two packs of 200 and one pack of 100 all of them did well but the one at 100 which is the moment pack that you see here it just rocketed through and we are close to zero inventory of the Rs.100 pack post Diwali. Gift packs are always difficult to manage particularly in the festive season and it is not a problem peculiar to us or to India across the world which is how do you forecast what is the right volume to sell, one year you sell good, next year you plan more and then suddenly you have inventory left over so clearly what we targeted to sell was less than what the market could sell through but we did not also want to get addressed with lot of inventory and obsolescence in our book of accounts after that so I think it has gone well and we are happy with it. The next year obviously we will plan a bigger figure and then we will also see how to make this available through the year because most of the Cadbury gift packs at Rs.100 they sell through the year, the Rs.200-300 sell more during festive season but the Rs.100 one sell right through the year and we are the only other player at that price point along with Cadbury.

In terms of staples you can see volumes are lower in premium staples by about 6%, mass staples up 9 total minus 4 value is obviously reflecting the drop in prices so overall I would



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say volume are down 4% and premium was partially offset by mass staples and adjacencies. Roll out of oats and almonds continue. We think we will have estimated revenue about 10 Crores plus on oats and almonds so that is not equal to our oil business but it is not bad and it helps from a distribution network perspective. It also helps us in terms of our buying off oats for granola, muesli, so and so forth and I would say therefore the adjacency support increased efficiencies in procurement and helps with the distributor network. We have talked about this earlier. In terms of competitive update I would say steady spends we estimate a marginally higher annual spending about 4 Crores to get to the 8% growth rate so that is what we are planning and that is what we discussed with our Board of Directors earlier this week. In terms of spreads please go to page 14 we have got very steady spends behind Sundrop; however, Kissan also continues to spend at heavy levels so let us see how long we are able to last out and Hershey's sorry for the news there, basically they have dropped their spending significantly in FY2024. I would say longterm probably it is very likely that in chocolates spend we are not going to see competitive spending because Ferrero in any case does not really spend and if Hershey's also does not spend then our play will start to become stronger because we are putting all our money behind that but we will still probably be able to get leadership of the chocolates of that category even without spending money so let us see how that goes. In terms of breakfast cereals we are maintaining a steady investment. You can see what is visible here is the Tata has really reduced their investments. You can see Tata Soufull and I think that is consistent with what I have seen also wherever we have common distributors with them it is starting to be a challenge. It is one of the challenge I guess if you have a large like what we face through the edible oil Business but until the processed food becomes a reasonably big part of it the commodity side of it is always put pressure in the system that is in the law of nature and Saffola is lower than prior year, so in terms of chocolates not much to report really it has got strong category margins I told you these numbers you can check them yourself. Average gross margin in chocolates is about 60% gross contribution and that is more closer to personal care than it is to any foods business so therefore given those contribution levels it merit that kind of spending and it indicates we are in the right category in terms of our margin profile as we want to increase our gross contribution of foods from 46% to 48-49% mark and we are just working through this how to build share in a large but competitive chocolates category. In terms of edible oils this is interesting because premium edible oils and this is page 17 so it is worth a look. If you look at it premium edible oil spending has actually dropped to nil so in Q3 it was nil and in Q2 it was nil so if you see we had actually stopped spending from FY2019 onwards we did not really spend any money but it looks like the competition is also heading there so we obviously cannot forecast what will happen in Q4 and Q1 next year but if you look at this chart it indicated that whatever we did several years ago our competitors have to do now.



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Then overall in terms of Q3 FY2024 summary year-to-date foods volume growth of about 5%, clearly lower than what we wanted it to be but we are addressing the drag caused by ready to cook and spreads and we believe there is sufficient strength in actions being taken and proposed. Just to recap I have already told you in ready to cook the key is getting instant popcorn to that 8% odd growth level that is our algorithm and that we are already at five so we believe that with a little incremental investment in media we should be able to do that along with distribution expansion and in spreads we have already taken all the necessary actions and our expectation is that by Q4 of this year itself volume should be coming back, moving from negative to positive space. Gross contribution level of foods stays in about 46% so it is really close to best in class, best in class defined as we told you are naturally in the range of 48-52%. With sufficient capacity in hand a lot of our focus now is on reducing cost so we are focusing as we told you in our November analyst call meeting we are focusing on labour, we are focusing on energy and we are focusing on obsolescence. These are the three really where we feel we have a large size of price in order to be able to reduce our manufacturing cost and obsolescence cost and therefore improve our gross margin from the 46% contribution that we have today and it is not rocket science but we feel together with operating leverage this will do the job and the impact of lower edible oil prices of about 35% give or take a bit partly offset through growth in foods, adjacencies in premium staples and higher shipments of mass oils, so overall on a revenue basis you can see in the quarter our revenue gap is about 10% odd and I think from a year-to-date it will be over 8 but if you take a weighted average the revenue on edible oil would be in the 15 to 20% range so I would say that part of the benefit of having a portfolio now which is much better in terms of managing fluctuations in commodity prices right and the last point that I would like to make on Q3 is visible. We are making very strong inroads into smaller towns and mass markets and that is critical. We will never be the kind of company we can say. We want to be the best performing most respected foods company which really means it will have a billion dollars turnover at some point in time but we will never be able to do that if we do not have a mass market presence. We are not available properly across the country at 5 and 10 price points, etc., so I think that part is working very well for us, it is visible in the revenue numbers as well also and the volume numbers and once we are able to resolve this RTC and spreads which I have explained to you what we are doing it will ensure that we return to a strong growth in 2024. So overall on track to be the best performing most respected foods company in India and we will now start to take questions so operator we would request you to please come in and hence start the Q&A.

Moderator:

Thank you very much. We will now begin the question and answer session. Our first question is from the line of Percy Panthaki from IIFL. Please go ahead.



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Percy Panthaki: Hi Sir couple of questions from my side on the ready to cook portfolio could you give us some idea as to how many retail outlets are you touching on a direct and on a total basis and where do you see these numbers going 2 to 3 years down the line that is my first question, my second question is that your raw material cost has declined by about 315 basis points given the lower edible oil cost plus the mix shift I would have expected this to be on the higher side about 200-300 basis points should have come just from the lower edible oil cost despite the pass through I am sure it is not a full pass through and then on top of that the mix of the higher foods contribution so why is it that the gross margin expansion is not higher than that so these are my two questions Sir?

Sachin Gopal: Thanks very much. Thank you for the question. I would say see we have indicated to you on instant popcorn so probably we would have started this year close to about 280 thereabout stores in the low 280s and right now we would be clocking probably closer to the 295000 mark so we will be closer to the 300000 mark right now in terms of popcorn and it has a steady growth pattern it grows steadily every month, every quarter and obviously that is a continuing progress because it also needs to be supported by media so that is your answer on ready to cook. In terms of gross contribution yes you called it out. See there are two parts to it one is that there is obviously a pass through pricing which has to be done in the edible oil prices or rather in the edible oil business and the second also is when the commodity prices of palm oil went up last year we took up the prices but then as they started coming down we took them down as well so that is why you can see the value growth in ready to cook is less than the volume growth you can see that difference. I think the difference is about 3 or 400 basis points. You can see about 3% growth in volume and a nil growth in value so that reflects also the impact of wherever we felt it necessary we took some price hit and there will be a third element on this which is that see if you are spending a reasonable amount of money, we would have spend more than 150 Crores by now in spreads so we do not have 150 Crores to defeat them but we do have a very good product and we have the option to price ourselves in a manner that they find it very difficult to believe, we have done that. In the big pack it is like a closure. I do not think really they probably hardly sell the big pack any longer. Once we are close and brought their business to a state that clearly they will not be able to spend any more money at that point in time we were just increasing the price, so in terms of pricing these are the three elements which are governing the outcome that you are seeing today. Thanks for your questions.

Moderator: Thank you. Our next question is from the line of Vivek Kumar, an individual investor. Please go ahead Sir.



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Vivek Kumar: Thanks SachinJi for the opportunity. My question is you can take it as on spreads in general how to understand the other products where growth is not up to the mark as we have envisaged let us take spreads like is there scope to increase the distribution or is it market like spending on ads or is it product or pricing, what are the things that we have to crack do you think like competitive intensity, what are the things that we have to crack for us to see the sustained growth like what are that two, three thresholds that we have to cross, if these obstacles are done or these things are done like maybe obstacle is not the right word but if these three four things are done then we go into a sustainable growth, is it like are we facing tougher competition or do we have higher scope for distribution I am just trying to understand what are the levers so that we go into that path because last three years if you see spreads growth has been very volatile so just to understand, at the same time there has been huge increase in competition so I am just trying to understand the dynamics, what are you looking for to get confidence that okay boss we are set for growth in spreads at least there is a stable market share?

Sachin Gopal: Any other question to it or that is the one?

Vivek Kumar: I think just this one.

Sachin Gopal: Thank you for the question so first if you go to our earlier presentation I think it was last quarter or the quarter before that we had indicated and I will talk specifically for spreads and I will come to ready to cook again because these are the only two ones which are dragging the growth everything else is okay. You can see ready to eat is doing very well, breakfast cereals is doing very well and chocolates doing less than the expected but we are in the process of building the business model so nothing unusual in that. Coming to spreads we have had a volume CAGR for the last three years before Hindustan Lever launched Kissan Peanut Butter of 17% so if you go prelaunch of our number one competitor today at least in spending terms not necessarily in revenue we have had a volume growth of about 17% but there has been a reasonable amount of competitive activity nothing unusual at one point in time we had some 35 or 40 brands in instant popcorn competing with us that is a large number more than 10 years ago so every category goes through this phase there is nothing unusual in that and it is part of being in business, so I would say however the comment is right that it has been up and down if I look at the monthly chart like that, so all we therefore need to do in spread is crack the midsize packs. We need to do with HUL what we did to them in large packs. We need to get new consumers to grow the category because that is critical. Any competitor can go to a retailer and try and offer a margin and get inventory on a short but if the stuff does not move that is not a sustainable model so the critical thing is for us to be able to get the consumer with us. Once you own the consumer



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you own everything. You own the currency printing machine alright and that is what we are in the process of doing so that is why I said yes up and down completely correct but that is the consequence of so many people taking an interest in the category as these people lose interest we come back because we are winning with the consumer, we will have the ability to take pricing also and restore the margins that we have compromised on to be able to protect our volume share that is all nothing else. As far as ready to cook is concerned and that is the other category we called out that we are working on. The graph I do not show obviously those numbers here but when I discuss it with the Board I actually show cumulative monthly volume and every month is 5 to 6% so we know now as a management team 5 to 6% growth is in the bag night with our current marketing mix. In this year again we do not see anything no need to think anything we think that five to six will get to 8% but we need to increase our spending a little bit. On a year-to-date basis the spending is in line with prior year but in Q4 actually we will be spending less than prior year because we have also invested this year heavily upfront not heavily but reasonable amount by our standards in cereals and chocolates and therefore in Q4 it will be less than prior year but after that we will start spending and what we have agreed with the Board is that we will increase our spend levels to be able to fund that that I think should address the growth to 8% level if that is 8 the adjacencies give us 200 basis points because they will start growing faster, their bases are normalized, the pricing is normalized, we will get to 10% growth on RTC and if that is the case then that 16 to 18 starts to become real for us and visible because all the other categories are growing that much faster it is simple. The business appears complex but at its root these are the only two things that we need to do.

Vivek Kumar:

Got it Sir. Thank you.

Moderator:

Thank you. Our next question is from the line of Bimal Sampat, an individual investor. Please go ahead Sir.

Bimal Sampat:

Now my questions are basically on breakfast cereals and chocolates. Now I am quite disappointed that breakfast cereals up to last quarter the growth was there but now we have come down and if I see in modern trade now I believe Hershey has also come with some products and Tata Soufull is very aggressive, so our presence in at least modern trade big size stores it is reduced. Firstly there used to be our Popz, that first chocolate variant used to be there but now that is reduced and second thing is chocolates what I understand that our supply chain is still not geared up properly because if the product is sold out they are not getting refilling part that refilling is not happening faster and then they put some other product on the shell, which I mean for us to come back is difficult so I am telling this in a



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constructive manner so how are you planning to address this and second now our capex on production capacity is it over now or still we are continuing with capex?

Sachin Gopal:

Thank you Mr. Sampat so we will try and answer your question. See on cereals in terms of big pack versus small pack we are winning and have always been winning disproportionately in small packs not in big packs. We probably have three kinds of distribution of the market leader which is Kellogg's in terms of center filled cereals. We have never actually had a huge presence of large packs because that is where the role of advertising starts to become more important and that is where if you remember we also started taking balls addressing some of those and we are doing that even today because what happens in cereals in the smaller pack is you get automatic visibility, you take it, you put it up it is visible and our Popz breakfast cereals are widely visible across the country, so we are working and continuing to win in bigger stores as well so I will give you a number in Dehradun we have a common distributor with Kellogg's. Our distribution is three times the size of Kellogg's but Kellogg's center filled cereals in his business is three times our sales in value and that is all in big packs. It is all in big packs and it is all in big stores so it will happen. We will be taking share from them but it is going to be one step at a time. In terms specifically about Tata Soufful and Hershey's I think is more of a collaboration if you will right and in terms of Tata Soufful I think we have talked about it. You can see that their spending has come down and in my view and you asked me this question probably certainly well it is a real mountain of a task for a company which is focusing on staples to move up to processed foods it has it has been a mountain of a task for us also. It is only now that 55 to 60% of our revenues come from processed foods. Even when we go into the market the distributors that we get today are dramatically different from the distributor who came to us 12-13 years ago dramatically it is chalk and cheese. Today we get the light type of distributors that we want to get so I would say on cereals as I said the number for the quarter is low but that is only due to the launch of Masala Oats in the area that is it other than that business is doing well, excellent momentum, absolutely no problem. Coming to chocolates yes we are I would say not so much yes you can call it supply chain I suppose but also just being very careful the size of price in this business is huge. Look every company in the world and every Indian entrepreneur and everybody wants to get into chocolates because there is a promise of profit. It is a 60% gross contribution category which everybody would like to be in right but it is a difficult category to do, it is difficult because you need a lot of focus in production, there is a lot of focus in transportation and storage etc, etc so I think we have made all the right moves. We are already I would say visit available in about 120000 plus stores so that means the proof of the business model is there. You do not get to 120000 stores in India with a Rs.10 product if you are not getting good product obviously the consumer likes it so the scaling of that we will figure out and a



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large part of that is also what I called out in the chocolates slide in terms of production process, sanitation, humidity, handling, sealing all of those pieces, but it is working well and as you go back to our charts which we have shared last quarter or the quarter before that we had shown you how businesses take time. If you look at our ready to eat popcorn business it was hovering around 405 Crores I do not know how many years and then suddenly boom we were able to crack it and obviously the new products are doing that faster and faster so there is going to be some up and down. I am not fussed about that but I would rather ensure that we make a high quality product where we win with the customer and if we do that we will win our business will come and the growth is sure and last is on capex see we will continue to spend capex but kind of not at too much variation from whatever is the cash flow that we are generating. We have always told you that right. We do not want to borrow and spend a lot of money and interest for the sake of doing capex so that is the model we followed and we continue to follow. The only difference now is we have a reasonable amount of capacity I think in hand. We do not need to invest so much now to build for a 1000 Crores business in terms of capacity. More and more of our spending so like the capex proposal that yesterday I would have put to the Board all three proposals are related only to cost reduction. It could be automation, it could be energy whatever it is so our capex focus is shifting and that is correctly so because our base margin profile is fine. See we are at 46% as we explained in the November analyst meet; we need 48 to 49, 200-250 basis points not very far which scale we will definitely get it. The key for us to get to a 15 to 20% EBITDA margins is now to reduce the manufacturing cost by about 500 basis points so we are going to invest capex in that area more than anything else. I hope that answered your question. Thank you very much and thank you for the feedback.

Moderator: Thank you. Our next question is from the line of Ajay Thakur from Anand Rathi Share & Stock Brokers. Please go ahead Sir.

Ajay Thakur: Sir I just wanted to understand in terms of the staples so generally whenever we see that we have taken a price cut or you generally when the industry undertakes a price cut the volumes actually start following with a lag now, we have already taken almost quite a bit of a price cuts in staples business but the volumes are still negative in that segment when can we expect the volumes to start recovering and stabilizing in the segment for staples, the second question Sir also wanted to understand broadly in terms of your guidance for ad spends you had indicated a broad range of around 7 odd percent of ad spend during the analyst meet so wanted to check on that as well do we continue to hold that 7% kind of ad spend and also which all segments we would be kind of targeting in terms of spending that pie?



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Sachin Gopal:

Thank you Ajay so I will take ad spend part first. We always told you over the years we do not think the foods business can get to 15% EBITDA margin with a 12% ad spent so we have always told you and all investors that we are working in a model of an ad spent of 7 to 8% and that is what we are even today. I think I mentioned it in one of the charts that when I was talking about RT that at a total company level we are probably at about 6.5% today and probably for next year we will be in the 7 to 7.5% range so that is where we are but we believe that is adequate ammunition for us to be able to deliver our historical growth which are in the 16 to 18% range because half our growth comes from advertising and half our growth comes from innovation. In terms of categories I would say the largest part will continue to be the current category it is in order of the size of the business for us so ready to cook instant popcorn we continue to receive the giant share of it, it will be followed by peanut butter and then will we invest in breakfast cereals and chocolates as much as we see is incrementally available. It is not that the new categories will come at the expense of the current ones no we will continue to spend on the current category and then whatever is the additional amount we will see how to deploy that behind the new categories that is the fundamental because we need to keep growing our current businesses while we build out the new businesses. So on pricing I think that is the question and on staples we have never said that we will be growing our oil volumes by 5% or 10% we never said that. We remember I used to talk of a range I think between 98 and 102 or 104 on volume and kind of that it is we need to have volumes in our edible oil business which indicates or gives us confidence to believe that our edible gross margin that we are running every year is not going to dramatically drop all right so if you look at the last couple of years it is in the 70 Crores, last year I think was about 77 Crores thereabouts this year also we are okay I think we probably made about 59 odd Crores so far so we are okay. Our judgment on this business is more that look we need an X amount of margin so that it does not become a huge drain on our business and that is how we would approach it, so your point is correct that traditionally in classical terms you say okay your volumes are down now minus 4 and now you need to do, what do you think, will it come to plus four. I think our metrics and the lens to which we see it is how much margin are we making from this business if that margin is adequate that is the first thing irrespective of what is that exact volume delta that has happened. Obviously we would like more volume because it is more sustainable but we are looking for all the growth in the company to come from foods and that is what we told you when you said, we want to have let us say 1000 Crores business we are not forecasting that there will be another 1000 Crores of edible oils. I think if you look at our SG&A calculation there I think we showed a number of about 250 Crores something like that right so that is the lens to which we look at it. I know it is a little different right but that is what we believe is right and many years ago when we told all of you that edible oils is not a category worth spending, a lot of used to say that your competitor is saying the opposite and I say we will



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see in time that is the competitor problem, we cannot assess what is right for the competitor but the proof of the pudding is in eating today. Thank you Ajay for that question and I guess we are coming to the end of the Q&A now.

Moderator: Our next question is from the line of Shirish Pardeshi from Centrum Broking. Please go ahead.

Shirish Pardeshi: Thank you for the opportunity. I have three quick questions when I look at last year our base was very benign and now we have taken some adjustment so three questions starting from do we need some pricing action downwards to lift the demand because now your comment is now skewed towards the rural part and rural is more price sensitive that is my first question, second on the medium to long term you did mention that the capacity is now enough so when we see the setting of the assets and maybe if that growth is driven what are the low hanging fruits or what are the medium-term pains for the company and third in a steady state over next three to five years now we have a decent contribution from foods 46% now once we targeted 50% contribution we should have reached to 8-9% EBITDA which has not happened so what are the pain points there?

Sachin Gopal: Thank you. So I will take the last part first, so in terms of the pain points I think the main thing is that you see during COVID we got a huge lift in ready to cook. If you look at our business ready to cook is almost double of what it was some years ago but obviously we look at everything on a year-on-year comparison. The good news obviously for us is that we actually did not have a drop in our ready to cook business after COVID. We had some quarter that it was impacted it was marginal and then we are coming back to growth so I would say broadly at a high level we manage to almost double our business and we are holding it there. However if I look at the current growth you can see all of the growth is being driven by breakfast cereals and ready to eat snacks. The manufacturing cost of manufacturing these products is much more than the manufacturing cost. The manufacturing percentage that it would be for a product like say ready to cook that is a simple process, so that is what is driving up the total manufacturing cost as a percentage because it all depends on where your growth is coming from and the second part is that as I called out have a higher obsolescence rate if you recall in our analyst meet we had presented we had an obsolescence rate of about 1.9% that is pretty high. Now I do not think it is going to come down in the near term to the 0.5% which most FMCG companies work on but we certainly would not like it to be an excess of 1% but we have a large amount dependent on innovation so that is kind of balancing act that we are doing in terms of the business portfolio and the last part is remember when edible oil prices fall then the allocation of SG&A whatever is our allocation of SG&A onto the foods business it is



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hypothetical because we do not do segment wise reporting but will increase right if a part of our business has a huge price decline then the SG&A contribution even on a notional basis if you assign it to foods they will increase so that is the other piece which is therefore not working as we would have liked it to be, but then at the same time we start to say look we took advantage also of the pricing when it was there from SG&A percentage but these are the two, three main change points that are visible in our system. In terms of medium to long term your point on capacity look it is not that we are not going to keep building capacity we do not build capacity today for 1000 Crores we have capacity I think close to maybe 800000 Crores but we need to keep building capacity but what we trying to see is that big investments really do not need to be made any longer. We have got a presence. We have invested in capacity in all the five food categories that that we compete in and our focus therefore during summer session that a lot of our capex we will focus on cost reduction because that is the other part of how we are going to bring the manufacturing cost down which relates to your question I just answered Shirish for you which is that it is a manufacturing cost which are key now for us to be able to get to that 15% EBITDA margin and I think that is what we highlighted in the November analyst meet also. In terms of pricing options I think I will repeat what I said earlier. I think there is obviously three pricing actions which are underway one is the pass through pricing on edible oils that is going through, the second is on the ready to cook portfolio, the input prices went up, they came down we passed that benefit right back to the consumer which is why we are growing at whatever 4-5% odd mid single digit growth and the third is that in the spreads category we chose to do some pricing actions because we felt that was the best way for us to withstand this threat from Hindustan Lever. Let us face it we are dealing with a situation we are competing with India's largest FMCG company, it is not a company to be tackled with they are reasonably smart people and they spend a lot of money but they have not made much progress so I think from that standpoint we have done the job and I think executed the best possible game plan that we could have chosen and now it is a matter of time we have to see how long they can keep spending. We will see but at this point in time I do not believe that this level of spending with this current of level of revenues for them is sustainable now time will tell I cannot tell you that. Alright so thank you very much Shirish. Thank you everybody for all the questions. Very happy New Year to all of you, have a great day, great month everything else and a great year, cheers by now, thank you.

Moderator:

Thank you. Ladies and gentlemen on behalf of Anand Rathi Share and Stockbrokers that concludes this conference. Thank you for joining us. Now you may disconnect your lines.