

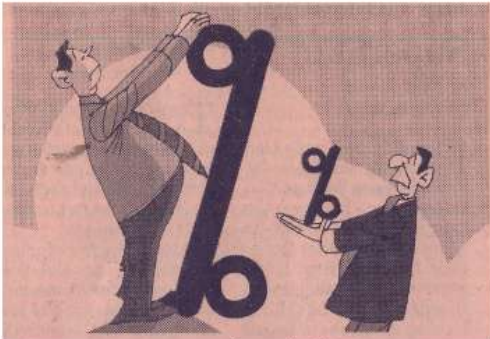
Business Standard

Agro Tech focusing on profit margins

CH PRASHANTH REDDY
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Bogged down by low profit margins for a long time, Agro Tech Foods Limited (AFTL), a subsidiary of global food major ConAgra, is currently focusing on improving its margins by at least 1.5 per cent a year.

"Our challenge right now is improving margins, not size or scale," AFTL chief operating officer, Sachin Gopal, told *Business Standard*. In 2006-07, the company's profit margin stood at 9 per cent. This increased to 10.5 per cent in 2007-08. In fact, in the fourth quarter ended March 2008, the company posted a net profit of Rs



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5.5 crore, which accounted for just 2.14 per cent of its turnover of Rs 256 crore. The company, however, attributed this to high-

er taxes and high spends on advertisements.

"If we can improve our profit margins by 1.5 per cent every year, our margins will cross 20 per cent in five years. Then we would become like other benchmark food companies in India whose margins are around 25 per cent," Gopal said.

Keeping this in view, the company is moving away from high volume, low-margin business of commodities trading and shifting its focus to value-added differentiated products in the edible oils and food portfolio.

"We are doing what Marico had done five years ago," Gopal said, adding ConAgra had a wide range of products

and AFTL would keep testing these products in the Indian market. "The key for us is to start building up our product portfolio," he said.

In an effort to expand its branded food business, AFTL is currently test marketing Snack Pack, a shelf-stable pudding that does not require any refrigeration, in Andhra Pradesh. It had recently launched Swiss Miss, a beverage comprising milk, chocolate and sugar, in the state. Now, the company has changed the package of Swiss Miss to a sachet (earlier a carton) and reduced its price from Rs 10 to Rs 5 to expand its sales.

"From one product of Act II popcorn, we have now moved

to three. I would be surprised if we have less than five products in the portfolio at the end of another 12 months," Gopal said.

On the edible oils front, the company is now test marketing Rath Lite in Uttar Pradesh. It intends to come out with value-added products with strong health benefits in this segment.

Gopal said the company had increased its spend on advertisement and promotional (A&P) campaigns from Rs 13.8 crore in 2006-07 to Rs 22.9 crore in 2007-08. As a percentage of sales, the company's A&P spend stood at 2.3 last year. This expenditure was likely to increase as "good FMCG companies spend 8-10 per cent of their sales on A&P".