

Managing transition

Agro Tech is moving from being a commodities firm to a foods company



Gopal: 'we had no option but transform the company'

Wearing a face mask, a surgical skull cap that neatly tucks in each strand of her hair, black factory boots and a body apron, Shrisha Reddy emerges from the green room. The next room is largely occupied by a machine. Reddy promptly stands on it, punches a few keys on its monitor and puts both her hands in the two apertures below. For the next one minute, the room resounds with a gushing spurt of water. None of it can be seen though. It's all automated. While the machine washes and dries the soles of her boot in that one minute, Reddy is rubbing her hands clean inside. A lever opens, permitting Reddy to cross over into the factory, but not

before she wears the hand gloves. This stringent routine must be followed by Reddy and each of the 150-odd workers at Agro Tech's facility in Kothur, located on the outskirts of Hyderabad. As the co-ordinator, Reddy herself makes sure there isn't a single slip in the hygiene protocol.

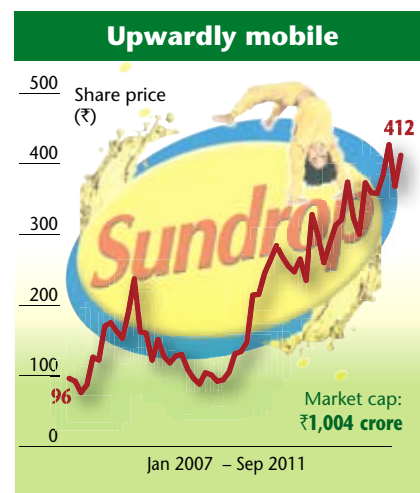
Inside, there's a separate chamber where stacks of sunshine-yellow corn kernels are fumigated, before being sieved for size and processed for packaging. The final avatar, Act II, can be seen travelling royally on conveyor belts, from one end of the shop floor to the other. Least said, it deservedly is the star brand in its category.

Act II, the instant popcorn brand from Agro Tech Foods Ltd (ATFL), is

also representative of the transformation the company is seeking to make – from being commodity-centric to food-centric. Apart from the microwave version, the ready-to-eat packs of Act II are also on the department store shelves now. Earlier ATFL was synonymous only with Sundrop oil, "the healthy oil for healthy people". As part of the transformation exercise, the portfolio of Sundrop is also being expanded – the latest entrant is the Slimlite Cooking Spray. In December 2010, the company also divested the 'Rath' brand to Cargill India for ₹26 crore, thus completely exiting the vanaspati category.

With its focus on innovation as a growth driver, ATFL also launched 10-minute Yummeals in the convenience meals category – rolling out Dal Tadka, Palak Paneer, Methi Malai Mattar and Kadhi Pakoda among the variants. The idea is simple – focussing on value-added products with clear competitive advantage to enable greater pricing power.

"In 2006, when I joined the company, it was apparent that there was no future in the way we were," says Sachin Gopal, president & CEO, ATFL. "We were largely a commodities company with 98 per cent of our sales coming from edible oil. Our share of foods was just 2 per cent and



Source: BSE, month-end prices

The company was incorporated in 1986 as ITC Agro-Tech to enter the oil seed and edible oils business. In October 1997, ConAgra acquired a 51.3 per cent stake in the company through its investment arm, CAG-Tech Mauritius. The com-

The ConAgra connection

pany was renamed as Agro Tech Foods Ltd (ATFL) in July 2000. ConAgra Foods is one of North America's leading food companies, with brands in 97 per cent of America's house-

holds. It also has a strong B2B presence, supplying potato, other vegetable, spice and grain products to restaurants, foodservice operators and commercial customers. ATFL

has two business segments namely Branded Foods Segment and Bulk and Processed Commodities Segment. It benefits from the business support provided by ConAgra and from its access to the latter's branded product portfolio.

our gross margin used to be less than 10 per cent. That was definitely not the viable way forward. It left us with no money for ads and promotions. We had no option but to transform the company – largely from being a commodity entity," he adds.

The company thus set out with three objectives: to gradually take its gross margin to 40 per cent; the share of food to 50 per cent; and achieve a better return for the shareholders. The broad glide path was set.

"We realised that, as we improve margins, we'd be able to invest more in our brands... give them more strength and subsequently move to becoming a foods company," says Gopal. "A lot of food companies the world over have their origin in base commodities such as edible oil. That's their starting point; later, they graduate to higher value added products". He further adds: "The food industry is growing at double-digit rates. We wanted to be part of that growth story, not just by entering categories that others had created but by creating new categories all together. Category creation may be recognised as a reasonably time-consuming job, but it gives you a hold of the market. It's good from a stakeholder point of view."

Analysts are also upbeat about higher value products in the foods category. "The change in eating habits of India's growing urban population has led to an increase in demand for processed or ready-to-eat (RTE) food products," says Gaurav Gupta, director, Deloitte India. "Though the packed food industry in India is large, the RTE market in India is estimated to be just \$65-70 million (approximately ₹310-340 crore). However, this is changing with need for convenience and a more favourable attitude towards RTEs. The expected

growth rates are higher over the next few years, especially in metros with large number of working women and student community. The margins in the segment is higher than some of the other categories, prompting new entrants to establish an early mover advantage in Indian market and also target the large Indian community in international markets," Gupta adds.

On the other hand, explains Gupta, while the edible oils market is expected to grow at 5 per cent over the next few years, the branded segment will grow at an even higher rate, given consumer awareness, demand for quality products and a shift towards healthier lifestyles. Moreover, the growth is expected to be largely driven by the increase in per capita consumption, as the current penetration is estimated to be as high as 90 per cent, though the per capita consumption varies significantly in different segments of the society and geographies. "The biggest risk factors are high reliance on imports (45-50 per cent) and profitability of companies as, in a price conscious market, the demand will be subjected to volatility in commodity prices, forex risks and weak harvests across the globe," adds Gupta.

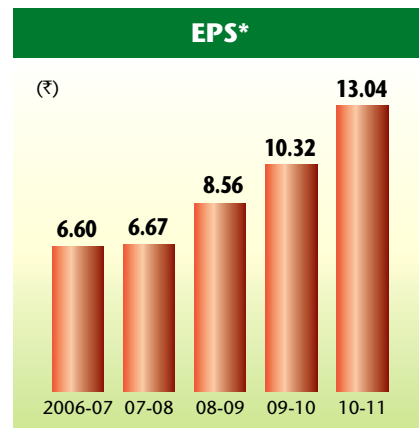
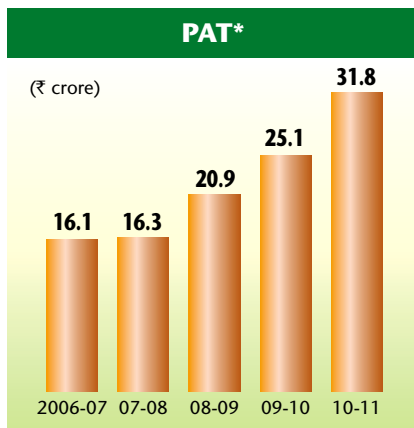
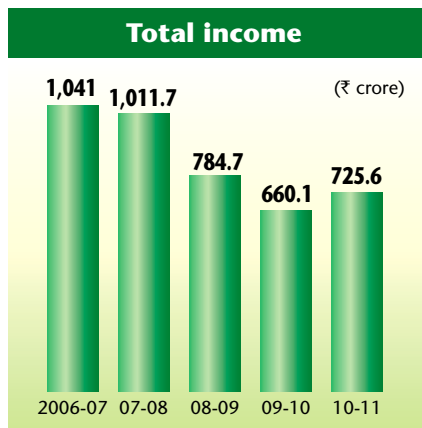
Growth strategy

Agro Tech's strategy has paid off. The net sales for the last fiscal are up by 11 per cent to ₹718.7 crore, reflecting continued strong volume growth in Act II Popcorn and higher pricing across the Sundrop and Crystal branded edible oils. The net worth too increased from ₹95.5 crore in FY07 to ₹177.5 crore in FY11. Gopal prefers to focus on the gross margin instead of turnover to gauge the journey. As much as 80 per cent of Agro Tech's turnover still comes from edible oil

and since commodity pricing has a crucial role to play, gross margins are a better indicator, he explains. The gross margin of the company has more than doubled from ₹70.5 crore in FY07 to ₹149.2 crore in FY11. Also, the EPS, which was ₹6.60 in FY07, has doubled to ₹13.04 in FY11.

The future path entails completing development of new oil blends to increase penetration of Sundrop brand; developing new single step flavours for instant popcorn; and developing new flavours for 'ready-to-eat' popcorn. "We are on track," assures Gopal. "Our share of food business has crossed 15 per cent and we are targeting 25 now. The long term aim is to touch 50. We are also focussing on growing our distribution network. Our presence has increased from 50,000 to 3,00,000 stores. Our next benchmark is to attain half-a-million stores in terms of direct coverage. Incidentally, popcorn was seen as an urban product, but we were surprised by the response Act II got in Tier II and III towns. In fact, it has become a carrier brand for our other products such as oil," he adds. Peanut butter could well be the next niche category to propel ATFL's growth further.

Meanwhile, health is the buzzword in Agro Tech's research and marketing divisions. Given that the urban Indian consumer is increasingly getting health-conscious, a good response to Sundrop Slimlite Cooking Spray was naturally expected. Its USP lies in significantly cutting down calories. A single spray delivers only two calories, as against 135 calories received from one tablespoon of cooking oil. Incidentally, Act II and the cooking spray (called Pam) is a strong business for Con Agra Foods USA to which ATFL is affiliated. In 1997, CAG Tech (Mauritius), a joint venture between ConAgra



*After exceptional items

Foods and Tiger Brands, South Africa, had acquired a 51.3 per cent stake in ITC AgroTech, which was renamed as ATFL in July 2000. (See box).

Or consider the Yummeals, which took two years to develop. “They are processed using Retort Technology which eliminates the need for any preservatives and helps retain freshness,” says Satish Kumar Singh, head, research, quality & innovation, ATFL. “Even the peanut butter was tested for a year before being rolled out nationally”. He also points to Sundrop Heart, a blend of rice bran and sunflower oils. According to research, the blend is beneficial for people with abnormalities of lipid metabolism as well as normal healthy persons. While Sundrop is a leading brand in the premium refined oil segment, ATFL’s low-priced oil brand Crystal has helped it maintain a strong presence in the mass market. However, “because Sundrop is highly priced, its market share is under pressure and, hence, its bottomline is falling,” points out Angshu Mullick, COO, Adani Wilmar.

“Building a food brand is a slow and steady race; food habits don’t change overnight,” says Asheesh Sharma, head, marketing, ATFL. “Act

It was launched in 1999 and it has taken it so long to arrive. It was a challenge to promote in-home consumption of pop corn. It was only perceived as something to be had in movie theatres, parks, beaches etc. But I am sure the gestation period of Slimlite or 10-minute Yummeals won’t be so long – may be four to five years but not as long,” he adds. Act II has served as a case study for Sharma and the rest in more ways than one. “We never promoted pop corn as a healthy snack, though the belief already existed that corn is largely healthy. It was and is a potential USP. And that’s why we shifted from ready-to-cook to ready-to-eat category. And we also launched it in flavours such as ‘chilli surprise’, ‘butter delite’ and ‘butter pepper,” Sharma explains.

HR policy

ATFL’s HR strategy deserves part of the credit for creating an innovation pipeline to fuel the company’s plans. “We set out to create a non-hierarchical organisation, where hierarchy or experience doesn’t shoot one’s ideas,” contends Gopal. “Secondly, we eliminated a lot of layers. There are few mid-management

levels in our organisation. There’s a core base of resources with one-three years of experience and then of employees with more than 15 years of experience. The average age of the employees today is 28! The idea is to harness the power of younger people with support from more experienced people,” he adds. In fact, at the helm of the convenience meal portfolio is a woman fresh out of Central Food Technological Research Institute.

Back in 2006, managing human resources was a challenge. “Our engagement scores were just 38 per cent in 2006 and the attrition 40 per cent! It was almost in the red. We addressed the issue and today our engagement score has risen to 71 per cent. The attrition rate too has come down to 12 per cent... most of it is in field sales force. We were spending ₹1.5 crore on recruitment and ₹10 lakh for training. Today, we are able to put most of that money in developing our resources,” says N. Narasimha Rao, vice-president, human resources & corporate communications.

Agro Tech is certainly managing the transition well – one step at a time.

♦ KIRAN YADAV

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