"Agro Tech Foods Limited
Q1 FY'24 Earnings Conference Call"
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MANAGEMENT: **MR. SACHIN GOPAL – MANAGING DIRECTOR – AGRO TECH FOODS LIMITED**
MR. K. P.N SRINIVAS – CHIEF FINANCIAL OFFICER – AGRO TECH FOODS LIMITED

MODERATOR: **MR. AJAY THAKUR – ANAND RATHI SHARES AND STOCK BROKERS**

Moderator: Ladies and gentlemen, good day, and welcome to the Agro Tech Foods Limited Q1 FY '24 Results Conference Call, hosted by Anand Rathi Shares and 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 star then zero on your touchtone phone.

I now hand the conference over to Mr. Ajay Thakur from Anand Rathi Shares and Stock Brokers. Thank you, and over to you, sir.

Ajay Thakur: Hi, everyone. I welcome you all to Agro Tech Foods Q1 FY '24 results conference call, hosted by Anand Rathi Shares and Stock Brokers. From the management side, we have with us Mr. Sachin Gopal, Managing Director; and Mr. K. P. N Srinivas, CFO.

Without wasting much of our time, I would like to hand over the call to Mr. Sachin Gopal for his opening comments and followed by Q&A session. So, over to you, sir.

Sachin Gopal: Okay. Thank you, Ajay and good afternoon, everybody. Thank you for taking the time out to be with us today. We'll walk you through the quarter 1 results, our thoughts on it. And after we'll open it for Q&A.

All right. So, we've already sent a presentation for today, both the -- both BSE and NSE. So, you should be able to access it. So, I'll just walk you through the presentation. So, Investor Update, July 27, 2023. Our -- yes, it's up on our site also. Our company strategic vision, to be the best performing, the most respected food company in India, and that's what we are tracking towards. And I think we'll see that we'll continue to make very steady progress towards this.

If you go to the next page, that is quarter 1, FY '24, our key performance highlights. Overall, I think steady foods growth, improving margin. So, quarter foods revenue of INR103 crores, were up about 10% versus prior year. So, they did big bounce back from the 3% that it has dropped to in quarter 4 last year, which was due to the fact that Omicron was there in the country in the month of January and February '22, and as we had mentioned to you. So, it was certainly helped by return to growth, some growth in Ready to Cook, but also impacted by our spreads performance, which we'll talk about a little bit more.

Our gross contribution, that is net sales less raw material less packing material, which then if you refer to as gross profit, ended up at about 38% for the total company with foods at a historical level of about 46%. So, as we mentioned to you, we believe a good post company, which can deliver a healthy EBITDA margin needs to be in the 48%, 49% range. Best-in-class companies do work with that.

Because after that, if you are able to maintain the rest of your cost at about -- all costs, other costs of the company in the range of about 30%, then you deliver a good EBITDA margin. So, I think our foods margins historically, as we mentioned earlier to you also in the region of 46%. And that is, if you will, the level that we are back in, and we will continue to make progress to make sure that it remains healthy.

It's very important for us in the foods portfolio to have businesses which have this or can deliver in an aggregate of this kind of a growth contribution, right, so, and that is why we spread it. For example, some of you say that why are you including something like oats and staples. The reason is that we don't believe those businesses can never ever give this kind of a gross contribution in terms of the total portfolio that we have. It's impossible. So, that's why we put it in a category like premium staples where it can probably deliver 23%, 24% gross contribution.

The overall level also, of course, as you all know, you would have seen there is a declining trend in commodity prices. So right now, we are moving downward on the price drop. We are dropping prices as and when it works in the market. So there, I would say there's probably some elevation in the oils part, right now, which is helping it. Probably realistically, we're at about 36%, 37%, something like that. But obviously, as we increase the share of foods, this obviously also has a positive -- that has a positive impact on this.

The strong gross contribution also improves gross margin. And some of you have raised this issue you now of, you right now you're reporting both, you always used to report gross margin and we added gross contribution. And I wanted to tell you why we added that because about last year or 18 months ago when commodity prices started to really spike up, gross margin, which is less contribution less manufacturing overheads and trade became inadequate for us to monitor the business.

Because we needed to ensure that we were taking pricing in line with raw materials or we were not -- we needed to know why we were not there would be a strategic reason, which we did in some cases. So that is why we added this into our lengths to which we run the business. And it is actually a very, very good length. So that is why we are showing -- we continue to show this to you.

We'll figure out during the course of this year, how do we improve our reporting of gross contribution, gross margin, so on and so forth, so it becomes better for you. But overall strong gross contribution improves gross margin by about 500 basis points to about 23%. So, we added about INR10 crores of gross margin and that is the same number that we've always referred to in our annual reports and directive reports.

Our A&P investments were raised during the quarter by about INR2 crores versus prior year. This will be higher than what you see in the P&L because some of these advertising and promotion expense items would be elsewhere in the P&L as per whatever are the accounting guidelines that we need to follow as a company. But this is an incremental by which we increased the investment behind the brand.

We started media investments on Popz, our Breakfast Cereals. As you will see from the presentation, we have our maiden investment of about INR50 lakhs in Duo. And then we also did some install displays for Duo and Popz, which are working well, and we will continue to walk a tight rope and the right balance for it hopefully.

Our quarter 1 SG&A was higher than prior year by about INR3.5 crores. That's partly because there was some reversal of management incentives in the prior year in the first quarter and partly due to higher secondary freight and travel expenses. Travel expenses are running higher than last year, but are now starting to find the right level. Travel costs have gone up, but I think as always, we think we should be in good control of it.

And therefore profit and -- profit before tax and profit after tax are up versus last year by about INR6-odd crores and INR5-odd crores. And that really reflects the impact of the gross margin as above, you can see INR10 crores plus INR2 crores and INR3.5 crores and one-time benefit of loss of profit by business interruption claim that we got on account of the Ola factory fire. So that INR1.1 crores is also there. And we've also mentioned it in the most of the amounts.

Okay. So that's really the summary for the quarter. Without any further ado, we'll go to the category-wise highlights. So, this is just a chart on performance highlights by category, all the categories which we compete in. In the Ready to Cook, you can see, last year for the last part, we were in decline because we were competing with a very high base of COVID. I don't think all those base pieces have entirely gone away, but they are starting to be less significant than what they were.

So there's obviously been a gradual opening of offices, there's been gradually starting of schools, it varied by geography, some of them probably even in quarter 2, FY '23 it was happening. So, there is some dynamics at play here. But overall, I would say it's -- the big impact that we saw last year, that is behind us now, and therefore, we are now in the positive state.

The levels of media. I think during this entire COVID period, we made sure that we were present on media, you can see that in the data and the numbers. Combined with distribution expansion and retail demos provided support. And with the change in trends in RTC popcorn, we are now reinitiating popcorn on other elements of RTC, including Sweet Corn and Meal Kits. Clearly when we had such a huge uplift during COVID. And those were big basis that we needed to be working against. It was important for us to put a lot of organization focus on Ready to Cook popcorn.

I think that overall, it has done the job. And we therefore we feel now that we have the available bandwidth to be able to look at other areas, so this is why this comment. And we are also initiating the launch of our Cocoa-based offerings and Plant Meats in FY '24. So, many of you who asked me this question earlier because in plants-based, we have brought in some equipment. And we -- I think we are good for a launch in FY '24 for now, hopefully, sooner than later. Okay. So that's on Ready to Cook.

On the Ready To Eat segment, that's the next page, if you could please go to that page. You can see here continued strong volume-driven growth and that's the great part about even our Ready To Cook part or all our business, everything is all volume-driven. There's not pricing, much pricing growth here. And that sets us up well for current year, next year and all the years. It was very important for us to navigate through last year's commodity spikes by ensuring that we did not compromise on our continued sustained volume growth of the business.

We need that 15% to 18%, 18% is our CAGR. That's what we need. And that has to be volume-driven on a long-term basis. You can get some growth in the short-term through pricing, but then you do pay a price for it in terms of volume. And I think we navigated through that decency, and therefore, we continue to see growth there. Most of this growth is driven by Ready to Eat popcorn where we seem to be having, I think, some benefit also of the media support that we put behind at Ready to Cook. So that's good.

Sweet Snacks continued to increase share. Sweet share of RTE is at 8% in quarter 1 as compared to 3% in quarter 1 in the prior year. So quarter 1, obviously, because of summer, the whole sweet part tends to be a little muted and also when you include things like chocolate crunchies there, so we don't want to drive it too high, but now starting -- as it cools-off, the weather is more favorable to us.

We will -- we can drive it faster. So if you remember, I think I would have mentioned a figure of about 11% at the end of the year. That's because the weather in January-March was a lot better than April-May-June. And therefore, I think we are on track towards the number that we are looking for is about 15-odd percent for Sweet Snacks in the current year.

Work is also underway on further innovation behind Sweet Snacks. You can expect to see more activity from us now in the next -- in the balance for the next 3 quarters of the year. The impact of greater scale in RTE popcorn, including share of sweets and the greater overhead absorption is therefore significantly enhancing the profitability of RTE snacks. As all of you know, RTE snacks is the conveyor belt of the company. They are what takes us deep down. And that is the role we envisage, but the challenge always was how do we make sure that it's profitable.

That it doesn't -- it's not diluted in absolute terms, right, which it was in the early days because we start up all this infrastructure and we are making very, very, very, very good progress, I would say, in the current year and last year to make it a good business where we can say, okay, let's go as far as we can, and it doesn't impact our profitability. So, we'll continue to drive both scale of savory and share of sweet to create a profitable Sweet and Salty Snacks business. So that's it, pretty much it on Ready to Eat snacks.

We'll go now go to Spreads and Dips. As you can see here, in the first couple of quarters, particularly quarter 2, we had a big, big growth last year because we have taken this price correction on the large pack f peanut butter and we got almost up 30% on volume. And then in quarter 3 and quarter 4, that narrowed down. And you can see quarter 4 is pretty much flat in volume and about minus 2% in value. So, we talked to you last time. We think that on an aggregate basis, we were fine last year in terms of share, but it's possible, and this is our read for whatever we see in the pit.

What is possible is that our share of large packs increased disproportionately, but we lost some share in the medium size pack, so 350 grams, 400, 450 grams packs. So, we've addressed the large pack issue. Even with big customers now - our largest, some of our largest customers, we have more than 80% share of the large packs. That's what we would call 1 kg pack though it's a broad term reference to 924, 1 kg, 1.1 kg. So, we are in a very strong position. And we are now taking the adequate steps to make sure that even in the 300 gram to 350 gram packs, we are able to drive say very aggressively.

So, we had talked to you last time that on an ongoing basis, we'd rather focus on sweet spreads. So initially, it's going to be sweet peanut butter and that's exactly what we've done. So, we've launched a very, very good offering and with the right margin profile at about INR99 for 300 grams for honey-roasted peanut butter. And we've also launched a INR10 SKU, the first blister pack, I would say, probably the only blister pack for peanut butter outside of the U.S.A. I have not seen a blister pack of peanut butter anywhere in the world other than in our factory when we used to make peanut butter.

And I think if I remember correctly, that used to be made exclusively or I could be wrong. Anyhow, that plant is no longer with Conagra because Conagra exited that business. But I would say it's a great thing. We've always had a INR10 SKU, we had a sachet. But this sachet probably doesn't lend itself to consumption of a spread as well as a blister cup does. Because a blister cup replicates the nature of taking it out from a bottle, so on and so forth. Now that is not to say that sachets don't work. You can find say jams in sachets. But I think in general in the case of spreads and that is what you see in the HoReCa.

You guys have breakfast at a restaurant in a hotel, they will have blister pack. They'll have blister packs of Amul butter, they will have blister packs of jams, sometimes in airlines we'll get them. I certainly remember getting used to getting them in Air India and you will get blister packs of different items. So, this is the first one that outside North America that I can see where it is sold. And we've put in a very aggressive price, a low unit price of INR10 for 30 grams, which is more out of standard stuff. And we think that this will take us to the next level of distribution expansion for peanut butter.

And that's what we mentioned to you in a call -- in the call last time, we believe this INR10 SKUs e very important. They are impossible, I think, for anybody to do using a third party, unless we lose money. And that's -- and that's tough. So, we see as a great benefit. If any of our competitors invest in peanut butter, we think it will play in our flavor. And we will be able to get the benefit on our INR10 pack in addition to whatever is our own advertising support. And the other part, which is 300 gram pack, that should take -- it's very -- should replicate exactly what we've done on the 1 kg pack.

We entered on the 1 kg pack. We came in aggressively. We took share. It's very difficult for anybody to compete with us. And now with this 300 gram pack at INR99, we're going to do exactly that with the middle of the segment. So, these products, the bottle, the INR99 bottle started rolling out about 1.5 months ago, and the low unit pack have just started to go into the market. Starting, I think July, we also moved this advertising towards from a promotion aspect on to the INR99, the sweet peanut butter, and this is great for us.

So, when we told you last time, we intend to move up the pyramid. That intention is translated into reality. And we are a moving from base peanut butter to sweet peanut butter. We expect these twin actions to be adequate to address the soft start to FY '24 and accelerate growth. It may take a little while to show up in our numbers because as you can see in quarter 2 last year, we were up by 30%. So that we must have grown by a very, very high number. But we obviously tapered off as we went into quarter 3 and quarter 4. So, we expect that quarter 2, we will see a positive impact, but we will see the full impact of the growth as we meander down into quarter 3 and quarter 4. But more than enough, our intention is to do -- to provide advertising support to honey roasted peanut butter and to drive trial and expansion of distribution through the INR10 pack.

Our expansions have continued underway on the Protein segment, Gym Detailing, selling. This is going to be -- as I've mentioned to you earlier, this is going to be a long haul. It will be a steady process, but we are doing it. We were in the trade day before yesterday. We're starting to see it. We will obviously -- we won't get everything right on day 1, but we will be -- we are starting to cover up this segment. Chocolate spreads also starting to look good. We are going to follow some of these peanut butter strategies on chocolate spreads. But I would say on shelf today, if you see in some of our customers, we probably have more than a 10% value sure of the chocolate spread category.

And because most of our business is coming from smaller packs, which is attracting new users, probably our share of transactions were already north of 20%, 25%. So, I think that's a happy space to be in and we're going to expand the portfolio a little bit more in terms of price point offerings. And if we are able to do that, then I think it should set up. Remember, we've always told you we need each one of these businesses to reach about INR20 crores, INR25 crores before we can consider putting advertising support on them. So, this will also move towards that. It may take a little more while to get us right here. And we will continue to see this business with appropriate portfolio development.

Okay. If I could request you then to go to the next page, Breakfast Cereals. You can see a continued solid growth, strong growth momentum. Popz Center Filled Cereals are really powering the growth for ATFL. Pricing taken without any impact on momentum. We reduced some grams and increased the pricing, therefore price per kilo, and that's working well. Helping, so that we continue to have the right margin for the business. Our assessment is that our top Center Filled product is the most widely distributed Center Filled product in the country.

So, we had a number of competitors, some of them who have come and some of them who have gone. But we may not -- we are not the largest by volume today. I think the largest by volume today would be Kellogg's because they sell a lot of products in the large packs in large stores. But when it comes to distribution and new consumer acquisition, I think we are miles away, we are miles away. So, we are in a very, very strong shape. And this is very important piece because in the medium -- in the short, medium and long-term, the only way to bring innovation to the excluded cereals category is through Center Filled.

So, when you have an extruded cereal, right, there is a limitation to how much innovation you can do on it. You can change the shape, you can have a round up, from a shell, you can make a moon or a star or something else. But you can't do much to the product. Your hands are tied. And although there is still one of the things that we're going to do. But I think it is very, very limited. Whereas in Center Filled Cereals, the runway for renovation is endless because you have a shell and you have a liquid chocolate inside that you can take and do anything with it. Like we've already done. We've got a cookie and cream, we've got a hazelnut, we've got a regular chocolate, so, there's all kinds of, there's not limit to what you can do. So, I think this is beautiful. It's absolutely beautiful position for us to be in. And we will have leadership of the Center Filled Cereals. We'll do step by step.

You can see the screen shot, there is from our television advertising that we started in June. So, we'll be advertising these products in June and in July, and then we'll probably do some in some more months, and then we'll take a break because it's caused a reasonable distribution figure of about Breakfast Cereal what we have 100,000 stores. This was the right level to put up a couple of crores into media, and then it will help us to boost the distribution further and then we can come back later and see whether we need to boost this or not. So, we'll be tracking the impact of that going forward of the media.

As we mentioned to you, we've reworked the shelf product also, that is an offering at 10 in size. We do need size and it's very important and we can't deliver size on a Center Filled Cereals product. It's not possible. The number of trips to the market is hard to chose. So this is also important because as we advertise the Popz Center Filled Cereals, we expect to get some benefit on the shelf product as well. So, the roll out of that has also started now and it's gradually going to be extended across the country.

And so therefore kind of, in a sense, our overall cereals portfolio is really very, very much near completion. I think the only missing segment is now Muesli and that also is ready, but it's just that we have a lot of priorities and we have to take those priorities as we go to market. Our objective will be to continue delivering strong volume growth to capture operating leverage benefits across the supply chain and improve gross margins. Okay.

So with that, we'll just go to our next slide, which is on Chocolates. So you can see here, the volume growth is about 38%, and when you grow these will be similar to that. Duo continues to steadily gain distribution and acquire consumers as reflected in the volume growth figures. We mentioned that we had some supply chain issues earlier. I think more or less the supply chain rhythm is established and we told you I think that quarter 1, which has will get done and that's I would say, correct. And we are working -- we are on track.

We told you that we'll expand the chocolate capacity in our Jhagadia factory to be able to support the business of INR100 crore plus and we are on track for that. I would say most of the supply chain disruption that we saw last year was on account of the Ukraine war and gas and it's consequent domino impact on many manufacturing industries. I think all that is past now. And so we are on track. And during the year, we will ensure that this accomplished so that. We intend to start advertising goal, but then that will be the first phase. But then as we have said that in the near-term, this is a very big part of our growth figures for the projection.

As you can see, give or take a bit, we are at about INR500 crores right now. But in our plan to get, as we talked to last year in November, a plan to get from INR500 crores to INR1,000 crores, chocolate will play a very big part. Chocolate in daily to cook, because they are both great businesses with the right margin profile and we'll be therefore -- we need to ensure that we have this capacity available. In the near term, right now, our focus is on expansion of distribution, leveraging low unit price pack and supported weather with effect from July, that has happened already. So, I think that's good. And we will complement this LUP driven distribution expansion with in-store visibility in large stores. And target enhanced share of the Gifting Market with the onset of the festive season.

Okay. So, with that, if I could just request you to go to the next page, that's on Staples. You can see we made one change in the Staples here. And I don't think it's required on an ongoing basis. But this year, it's required because of this huge, what you call it, impact of the commodity prices and its deflationary impact on a category, which is basically pass-through pricing, right, when you pass through the cost. So, we've therefore just changed the nomenclature a little bit. The data is still there and completely comparable with what you had earlier. It's just that we've added a row for total volume of Staples and total value of Staples.

And as you can see here, in the previous Staples, we grew in the quarter by about 5%. And Mass Staples we dialed it up a little bit so that we can also ensure that our total revenue figure which is very important, both from a driving company's perspective but also from a distributor perspective to support the network and have a healthy distribution network. We dialed it up to about -- growth of about 49%, giving us a total volume growth of about 9%. And this translated in the premium -- in the Premium Staples business to about minus 13% in terms of value and in the Mass Staples, plus 38% in terms of volume, and therefore, a total decline in total Staples of about 8%.

So that math makes sense because about 50% to 55% of our business is now the foods business, grew by about 10%, about 45% to 50% of our business, which is Staples, declined by 8%, and therefore, you see a net growth in the business of in the region of about 1%. That's broadly the high level math. This -- the strategy that we have I think has worked very well for us. And mostly, I think the lower price realization that we had in Premium Oils has been offset by the entry into adjacencies, which is in this case, oats and mass oils. And if you add foods to that, then that completes it. So, that is why the word, partly offsets Premium Oils by adjacencies, i.e., oats and mass oils, right, and the balance coming from foods.

We will establish a very comprehensive presence in oats by price points per pack, including LUPs, would leverage our popcorn facilities. So we have popcorn capabilities and we are able to make obviously small packs, we make lots and lots of small packs, which we sell at INR10. So making oats in those facilities is absolutely no problem. And that's the photo that you see on the right-hand side, those are the ready packs for the oats. Nobody else really has it. I mean, if you were to look and say, does anybody has any post-entry standpoint, entry price of about INR7.50, which is what it is, this pack two for INR15, nobody has it.

And we've seen time and time again that wherever we have entered categories where we have the ability to expand the category, we always get more share rather than if we just take share from the middle of the category. In this case, we are taking share from the leader also, which is the photograph on the left-hand side, which you see is the 1 kg pack and you can see that's a lot of oats. All those red and white packs, they are all 1 kg packs of oats. So, that's a lot of shelf presence that currently we would have in the stores. And I believe we are ramping this up store by store, and it's going in I think very well. And so I think we are overall very satisfied with it.

From a materiality perspective, you could interpret that the entire growth of Premium Staples is due to oats. So the plus 5% that you see is due to oats and otherwise Premium Oils, which is the balance would be approximately flat versus prior year. So, we are also underway, an almond expansion is underway. We figured that the center of hard brands could easily extend into almonds because it has the right -- almonds has the right benefits so on and so forth. So that is also currently underway. It started in the next last 2 weeks or so, and we'll keep you posted on that.

So, we still benefit from Staples expansion, really are enhanced performance scale for foods because we buy, we buy almonds anyway. We buy oats anyway for Granola. We buy almonds anyway for our chocolate-based product. But what it is doing is giving us a better price because we are no longer having to incur that much one on trade, we are also able to better -- negotiate better with the vendor.

So, it's helping us in the P&L of the foods business, or it will help as time goes by and simultaneously giving us the scale that we need so that our distributors' revenues don't go down. And as a consequence, their liability is not impacted. So that will also impact our foods business.

And that's a common problem that retailers or distributors across the world are having, which is that the huge drop in edible oil prices that has happened, that you've seen the results of some of the companies that came out, 15% growth in volumes, 15% decline in revenue. So -- it obviously has an impact on retailer revenues also.

So they -- and for everybody, their cost is fixed. Or in some cases, in some retailers, overseas, it's impacted their general merchandise sales because there was high grocery inflation, we're actually happy now with the drop -- lowering of commodity prices. So overall, I would say, more or less, I think we've been able to address the whole issue of commodity prices and its revenue impact for the first quarter and it's something that is work in progress. Let's see how it goes in the quarter 2.

All right. So with that, we've closed the category business. I think it's 2:29. So, I'm going to switch -- speedily go to the competitive spending, then we'll open it up for Q&A around in a minute's time. You can see Snacks, there's been very steady spending behind ACT II. Frito-Lay and ITC have increased spending, but overall, we are -- we continue to remain very steady.

The next chart is on Spreads. Here again, we are very steady. We spent about a crore, it's very similar to last year's area. And we'll continue to spend at the right level, only difference is now the spending is going to be focused more behind Sweet Spreads in the future and it will focus on the power skew to avail of INR199 even the INR10. So steady spending behind Sundrop Spreads.

On the Breakfast Cereals, you've seen really the first time is there, Sundrop cost, the first time we spend money on Breakfast Cereals, it means that we feel it's the right time. If we're comfortable spending this money, both from margin perspective and from a scale perspective. So, they have the adequate distribution for it. So, it's looking good. Aside from that, not much to report. Go to the next page, that's on chocolates. A lot of heavy spending continues by competitor.

So, we are in the process of deciding what is our strategy going to be in chocolates such that while we are cognizant of the high level of spend that is done by many of these companies, we are able to have a strategy, which works for us and our level of scale and our P&L. So, we'll talk to you more about that in the quarter -- in the quarter 2 call in October. And edible oil, no significant shifts in spending pattern. You can see it's evident, it's basically the mass oil players who continue to dominate the entire spending. And the Premium Oil, fuel in inverted commas are -- that's the share of spending continues to decline.

Okay. So overall, therefore quarter 1 FY '24 summary, foods growth increased to 10% in quarter 1, which was 3% in quarter 3, but that, as you know, was because of Omicron wave. Ready to Cook returns to growth with the ending of COVID-19 base impact. It's still complex. I don't think in the case of Ready to Cook, it's 100% crystal clear, how much of COVID not got, but at least we are passed the hump that we have real business to compete with and we've done with that, almost taken care. Now we'll have to see how we transition with the right growth numbers.

Gross contribution looking very good. And obviously, foods is back to the 46%-odd figure. Impact of lower edible oil prices, it's about 35-odd percent kind of -- if you look at the overall market, was largely offset through growth in foods, adjacencies in Premium Staples and higher shipments of Mass Oils. And we continue to work towards growth acceleration in foods through new categories while delivering steady growth on the base businesses.

Okay. So that's it really from ourselves. Srini, anything else you want me to call out?

K. P. N. Srinivas: No, no.

Sachin Gopal: Okay. All good. Thank you. And so, Yusuf, you can open it for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: Two, three questions from my side. Starting with now we have inched up close to 50% food contribution, would you comment in the near term, what kind of operating margin you are gunning for? And what are the levers is open? Because I think the demand conditions are now improving and I think raw material inflation is also subsiding? So, that's the first question. On the capacity side, if there is any new attempt or is there a new capacity which is there? And what is the capacity utilization at this point of time?

And third, maybe another example that we have been talking, getting the adjacent countries, say, Asia. Is there any plans? Is there any work which has happened or if there is any time lines if you can set out that how Bangladesh and Nepal and other markets will develop?

Sachin Gopal: So, we'll take each one of these. See, I think broadly speaking, on the foods, here's the context and that is why we are try and giving on a context on the gross contribution. We have said that we need to have a -- or we can have. Our business is capable of delivering about a 48%, 49% kind of gross contribution. We're already at 46%, some months, we'll touch 47% also. I think probably in June, we must have touched 47%. So, I think that means our portfolio is actually very good. So, if you look at even the best-in-class companies, they are is that 48% to 52% -- on an average, 50% is a very good benchmark.

After that, the main thing there is how do you wrap around the rest of all your costs to ensure that they are in about 30%, 35% so that you can deliver a good high-teens EBITDA margin. Now I can tell you straight for the foods business, that's the key here, which is, let's say, we today [inaudible 0:34:24] business.

And we obviously expect and that's what we talked about in the last November call, how do we get to INR1,000 crores. We've given you the guidelines for that. That INR1,000 crores, the critical thing for us is to maintain this 46%, 47%, because at 47%, 46%, 48%, give or take a bit. It doesn't really matter.

You're talking about INR470 crores, INR480 crores of gross contribution. After that, the key is to get our manufacturing cost up. Our biggest opportunity going forward is going to be that we are operating at relatively low levels of capacity utilization. That's one. Second, also, aside from the capacity utilization, in many categories, it's relatively new for us. right? These are all strategies which we have created and built for ourselves. There is no IPR as such that has got transferred from anywhere.

So, let's take a look at chocolates. We built the chocolates business from scratch. Now obviously, therefore, there is a lot of learning, which is going on every day. How do you -- how do you get more out of this machine? How do you transfer this product from one part, one section to the other? How -- what is the right way to optimize the productivity of that machine?

How do you reduce the level of rejection? How do you make sure that in different parts of the line, let's say our product is going from creation of the product to the packaging line, how do you ensure that the packaging line is working efficiently. These are all different pieces, which obviously, a chocolate player would have had a lot of time to do it.

So, the bad news is we don't have this knowledge right now or we have a part of it. The good news is that we're getting this knowledge every day. As we get this knowledge every day, our manufacturing cost will come down because we become more and more efficient in manufacturing the product.

So, by way of example, we are probably the most efficient on Ready to Cook popcorn because that is the oldest part of our business. It's more than 15 years old, right, or thereabouts, whereas on our business like chocolates, is relatively very new, just 1 or 2 years, and that's how you go through the early learning phases.

So the good news is that it will only improve. But yes, there's going to be a learning curve. Nobody figures out how to suddenly make chocolates in 2 months and take a share of the INR15,000 crore category, but we are on track to do it.

So, I would say that will be one part. I think there will be some savings in freight as we become more and more efficient, but we are still buying a lot of -- we are a reasonably large consumer of trucks right now relative to our scale. Because remember, we sell a lot of Ready to Eat popcorn and that is very, very voluminous.

So I think we already -- I would say, the benefits we'll get of scale will be much more in manufacturing than is some that of freight. I think in freight, there'll be some. But the biggest driver of cost reduction is actually going to be in manufacturing as we improve our capacity utilization. See each one of these brands needs to be in that INR200 crore range.

We've always told you that. At INR200-odd crores, everything starts look very profitable. And that is true, Ready To Cook popcorn is already there. And you can see it's a very profitable business. We're profitable. We are able to sell at low price points, which is difficult for anybody to match and we continue to have a great business.

So, each one of these categories will get the sales and that will be the main driver of margin improvement. After that, what is left. What is left is only SG&A. What we need to do is keep a tight control in SG&A. SG&A, what are the largest components and largest components are basically employee benefits and travel. And there's probably a bit of depreciation in SG&A but not that much. And at the same time, obviously, operating leverage will kick in because these plants -- the largest part of their investment in the plant has already been made, which is the 4 machinery items.

Then the incremental whatever capacity you need to get from 500 to 1,000 doesn't, a, cost that much money. And b, is also not that complex. And c, frankly, is much easier to execute because now you have knowledge of the categories already because you built up the first place, okay? All right. So new capacity, that's the first question.

I would say, I think we mentioned it, the bulk of our new capex investments that we are making are in the area of chocolates. And that is in the Jhagadia plant. In the other plants, we continue to do some amount of investment, but more of it is in terms of expanding the infrastructure.

So, we already have a lot of capacity, let's say when it comes to extrusion, but we may not have the warehousing space to be able to handle those extruders to the full extent. So much of the investment that we are making is in that area, okay? And last is on -- if you will, adjacent countries, I think we continue to stay focused on Bangladesh, it's an important piece of our supply chain as well because we've got a plant there and we use the plant to be able to service the -- service Bangladesh, but also we bring -- we do bring in some goods to India. And we will continue to work on that.

Sri Lanka also, I think as the economy is bouncing back, which it will and I think maybe there's going to be Rupee trade because they had a lot of U.S. dollar issues in the recent past, we will continue to supply [inaudible 0:39:36] and we do some business in Nepal obviously, because that's a neighboring country, but that's it. I think we're firmly focused around India. And that will remain our core.

However, we'll continue to be there in our adjacent countries, not with the objective of being revenue drivers for the Indian market, but just to be able to support this and also provide an outlet both ways, some outlet for us to export in the future and provide an outlet for us to import as we are currently doing. Okay? Thank you.

Moderator: Next question is from the line of Vivek Kumar from Bestpals Research & Advisory.

Vivek Kumar: You just for the previous participant, you mentioned that INR200 crore category like Spreads is nearing INR100 crores, we would've crossed INR100 crores, chocolates is nearing INR100 crores. So, my question is on Spreads. So with this increased competitiveness and once you are introducing a new variant such as small packets, what would be the growth rate?

I know you can't tell a number at which Spreads will grow, but what is your -- like whatever you are seeing from your end, what growth rate do you think the Spreads -- you can see in the Spreads in the coming 2 to 3 years in sense to become our INR200 crore in 2 to 3 years or it will take much more than that? So that is one question on Spreads.

And then even in Chocolates as well, when do you think Chocolates will go to INR200 crore. I'm not saying exact 3 year or 5 year, but what is -- what are you assuming in your -- internally in the company?

Sachin Gopal: So see, the fact is the reason why foods businesses are beautiful is because they do take time to build. But when they are built, it's very difficult for somebody to take away share for you. Very difficult. You can see -- even if you see, I showed last 4 quarters results, lets say on a category like Spreads, which you talked about, if you see 4 years or so you'll see the business is growing at some 10%, 15%, something like that. So this business will continue to grow, but there will be always ups and downs. So you have to look at it from that perspective. Look at 4-year data and see, and it will support whatever we've said.

See, our algorithm on growth is very clear. We -- our 18%, if you look at it, the 18% CAGR that we've had over several years is a function of about 10-odd percent of the base categories, 10% to 12% coming from the base categories. And the balance, if you will, 6% to 8% coming from the new innovations that we are putting in.

So today, for example, our largest base category is Ready to Cook, Ready to Cook popcorn, and that has been growing at 10%, 11%, whatever the figure, exact figure might be. So,. we expect to see that our Spreads business will continue to grow. It is also one of our base businesses. It should continue to grow at the region of about 10-odd percent. And it could be 11%, could be 12%, in a good year, it could be 14%, but kind of should give us that base level of growth that we are looking for, with the tougher growth coming from the other categories.

So in this is the top of growth is coming from Breakfast Cereals, it's coming from Chocolates and it's coming from Ready to Eat, okay? And then that's right now with peanut butter and then obviously, as chocolate spreads comes in, that will increase the growth rate of the Spreads category in total, okay, because that will be additive again.

So that will again be a new category. So I would say, I won't be able to give you a year. But yes, all these categories will get there, right, okay? And I think the truth of the pudding is in the eating. Remember, we have about INR500-odd crores foods business, with 46% gross contribution. There aren't too many companies that have actually achieved that spread, INR500 crores of foods revenue with a 46% gross contribution.

So, we just need to be steady and keep working at it, and if we keep at it, we'll get it. So, in fact, Shirish had asked this question, I think one call ago, right time, you grow at 35%, you can grow at 35%, you can have an inflated foods growth. Suppose we had -- we treat oats under Premium Staples and we -- if we had saturated in the foods, the foods growth would have been higher, but it's not the right margin profile, right. You need the right margin profile. That's critical because remember, we need this growth rate of 15%, 20%, and we needed this gross contribution moving 46%, 47%, 48%, 49%, we needed to move right there, okay.

I can't tell you precisely whether Chocolates will reach INR200 crores first or Spreads will reach. I think they will both reach INR200 crores. But certainly, the growth rate of Chocolates is going to be much faster than the growth rate of Spreads. And the reason for that is simple. It's a INR15,000 crores category. We have great products. We have absolutely wonderful products in the count lines that we have.

And we have obviously also done the pan chocolates, which we included under the Ready to Eat category. So the products are excellent. And we are doing all the right things. Processing on LUPs, processing on the gifting occasions. We haven't got into the tablet or the molded chocolates category, but that will also happen in due course of time, not today, not this year, [inaudible 0:44:55] it will take time, but we'll get there.

So I would say -- I won't be able to give you a specific time line, but be assured that all of these are underway and happening. And on Spreads, I think people have asked me this question, so you have a lot of competition. Yes, but don't worry about it. We had at one time 40 competitors in instant popcorn, today, we hardly have any. I mean, there's nobody really worth are talking about as a threat.

So I would say, yes, people will come, people when they see growth, they come in, they see the category growing, but very few of them have the tenacity to stay on. And that is where we win. So, you'll be seeing the same picture probably after a few years and you say, by the way there was a time when we had so many competitors, but they won't be there.

Moderator: Next question is from the line of Zakir Nassser from Nasser Investments.

Zakir Nassser: I think you spoke about the competition in the popcorn market and how you've been able to sustain in the recent past. But could you please share your thoughts on the competition from Reliance Retail, I mean, especially since we are aggressively trying to expand the business in this space and other startups in the industry in your other category? And how do you foresee the competitive landscape? And what strategies do you plan to adopt to say ahead of the market?

Sachin Gopal: Anything else, Zakir?

Zakir Nassser: No, that's it.

Sachin Gopal: That's it. Okay. Thanks. So see, we will always continue to have new competitors. The thing about -- I think the FMCG market or the CPG market is that -- it takes a lot of time and a lot of effort to build. We today have a coverage of a little under 0.5 million stores. And it's taken us time to build it. You can't just write a check and get that distribution. It happens store by store, it happens city by city, and it takes a lot of time. And that is why that is one of the biggest moats that any company has. All the large ones have. Because once we've established that moat, it's very, very difficult to recreate it.

You could probably count the number of companies who are like us who built up 0.5 million stores, if you will, coverage in the last 15 years, there aren't very many. It's very difficult to accomplish. Because it requires a great delicate balance of having the right portfolio, having the right price point, having the right people in the organization, getting on those, the distributors, making sure the retailing happens, managing large productivity of large numbers of people who are out on the street every day, it's a very, very -- it's a very time intensive and it's a very painstaking process.

So, I think a lot of competitors, whether they are large conglomerates or they are small DTC players, would like to do it, but it's extremely difficult. This is meaning it's so difficult that it is near impossible. So we are not at all worried about any of these. And you don't have to take my word for it. Why don't you do [inaudible 0:48:31] you can probably maybe use ChatGPT or whatever and see how many companies have built 0.5 million coverage in the last 15 years in India. It's very difficult, okay? So that's -- it's a nice moat. It's a very nice moat to have. And that's what we have already built partly and I think we will continue to build that.

Now going forward, the only difference is going to be that -- and I'm not talking about this right now because we are right now going to see how we are taking Duo and Popz to a distribution level, which is kind of similar to Ready to Cook popcorn. But once we start to get there, once these products start to get there, then we have to start working our way through some 0.5 million stores to 1 million stores. Now that journey of 0.5 million to 1 million stores also requires a portfolio development. And that is what we are kind of fully completing right now because it's very difficult for us to get to 1 million stores without the right portfolio of INR5 products.

So, hereto we have not really had a lot of INR5 products in our portfolio. And INR5 popcorn is a difficult one to use because it's pretty voluminous and freight and so freight intensive and therefore it's difficult to shift long distance, not very profitable. So, we now have in our portfolio what we've curated is like 4, already 4 SKUs in INR5. We have 2 SKUs in chocolates, which are Duo peanuts and Duo coconut. Then we have 1 SKU in Ready to Eat

Snacks, which is the Duo crunchy product, which is the Pan product. And then we have 1 SKU in Breakfast Cereals, which is the shelf product.

So we're going to be designing this INR5 product. This INR5 product will play a very large role for us as we go down the Popz strata. So I'll give you an example. We were just about a couple of weeks ago driving back from a town called Vidisha, which is an MP, back to Bhopal. And we had completed our market working that day in Vidisha and we are going to be returning from Bhopal that evening of that night.

And we stopped over at a small town, small wholesaler, very small guy. We presented the portfolio to him, but after 10 minutes he said, but I only sell INR5 product. That is it. And this plays out in town after town because another town, I remember this happened with -- in that town we had a coverage, decent coverage, but some of the wholesalers we went to, they said no, INR5 -- more than INR5, we don't sell, because I think there was a town called Thiruvananthapuram.

So this is very important. And that is why actually the FMCG business, most are so -- it is not so simple as just saying, oh, I want to hire 1,000 salesmen and I'm going to cover these stores. You need to have the right products. You need to have the right combination. You need to have differentiation, you need to balance all of these. So it's a great question. Thank you for asking that. And I would say we will keep you posted on coverage, but not right now. Right now, our immediate priority is let's drive to Duo, Popz and now peanut butter, with INR10 LUP, how do we accelerate distribution of this.

Moderator: Next question is from the line of Dhwanil Desai from Turtle Capital.

Dhwanil Desai: So my first question is, so if you look at our product portfolio, we have couple of categories where we create factory and then or maybe very -- so sir, we have a product portfolio, where some categories we created category like popcorn or we were early in the category creation like peanut butter. And these are among the categories Ready to Eat or Breakfast Cereals or chocolates, where already the categories was there and we were trying to create our space for the product.

So vis-a-vis these two, why is it that not higher bandwidth to the first category where we have right to win, where the entry barrier is created, because some of these categories are very large outside India. So, can you elaborate on your thought process, how do you allocate resources between these two?

Sachin Gopal: I'll try and answer your question, but I didn't get the -- there were parts on it. I think that we're missing in the middle. But I'll try and answer it, okay? All right. So thank you. So I think, look, if you see our approach in each of the categories that we've entered, we have one niche unit, if you call or one major component of it, where we've become market leaders, all right? So, let's look, start with Ready to Go. We've entered Ready to Go, we entered it with popcorn and we are dominant players popcorn, not question. Then let's say Ready to Eat, we entered with Ready to Eat popcorn, extruded snacks and tortilla chips.

We've become dominant players in Ready To Eat popcorn. That's the category which drives us. And therefore, because we have right to win. We have more scale in popcorn, we're able to leverage that -- our advertising which happens on Ready to Go. So -- but it is the one business which is driving the total growth. Then let's take look at Spreads. We didn't launch chocolates spreads, we went in with peanut butter. We were not even the first player in peanut butter. We were the second player in peanut butter. But we built the category and we got dominance in the category.

Now come to Breakfast Cereals. We've entered most of the subsegments within it. As I said, other than Muesli, we were in everything. Granola, value-added oats, extruded plain, extruded center filled. But we clearly have huge right to win and in center filled series and we are not the largest right now, but we are the -- if you were the most widely distributed. And the most widely distributed will become the largest. Right? We were not the largest in peanut butter, because we came in number two. But we came in from number two. And in a couple of years, we became number one. So the same thing will happen, let's say, in Breakfast Cereals also.

And in chocolates, we've got the Duo Coconut which we are the only people selling it. And we've also got an attractive peanut proposition. Now we'll see there which one of these lenses help. It could well be coconut because we are the first entrants in the coconut as my -- one of my old colleagues, Kalpesh who used to run Mars in India till recently, one day he met me in the changing room, sir, we are selling in INR60, same you sell for INR10, this not fair. I said, it’s not our concern, don't worry, you're very big guys and all.

So the point I'm making is that in each category -- we need to have one thing, which is the call it foot in the door, call it competitive advantage, right to win, something that can power us. If you have one, then all the others fall into place. You don't need to work so hard.

So let me give you an example. As we talked to you about it earlier, we started the process of building some ATFL walls, walls in the store. Because Kellogg's had what we call the walls. We had our own walls. It's not in tens of thousands, we got the number of stores, it's getting us the traction. You can see it in the volumes. But the biggest benefit was we focused on Popz Center Filled Cereals, but along with that because visibility of everything else and retailer started stocking those products which otherwise he may not have stocked it. So, that's a critical piece.

We need credibility with the retailer, right, and the consumer with just 1 segment in each of these categories. One should get that, then the others come into this. So for example, let's look at Spreads. We are dominant players in peanut butter. You can see the numbers, anybody can say, yes, lot of competitors would look at our growth, look at our volume growth figure for the last 4 years. That doesn't look like we are losing share. It doesn't look like it at all, even though we said that we gained share in some parts and lost in others. So that has given us the credibility to go into chocolate spreads. Now, chocolate spreads are very small business right now.

But like I was in a customers visit 2 days ago, in that shelf of chocolate spread, we had 50% of the facings. And now we are modifying our portfolio, we'll probably get to 75% of the facings.

So we won't be as large as Nutella today, but we will be larger than Nutella tomorrow, tomorrow means in the future. And the reason is, if we have the giant share of facings, it means that we are getting the giant share of transactions. And if you're getting the giant share of transactions, we're getting the giant share of consumers. And if we're getting giant share of consumers, we'll have giant share of share. Okay?

So bottom line, just to sum it up, yes, we continue to work on category creation. We will find the segments within each of these five categories that we compete in, where we are very good. We are differentiated. We will drive those hard, and we will use that power to actually gain share across the category. That's the broader game plan, very important question, okay? Thank you very much for raising it.

Okay. I think Yusuf, that it, I think what that we should close or...

Moderator: Okay, sir. Ladies and gentlemen, this was the last question for the day. I now hand the conference over to the management for the closing comments.

Sachin Gopal: No, that's it. Thank you. Thanks, Yusuf, and thanks Ajay and thanks, everybody, for taking the time out to join us. It's been a pleasure as always and we'll keep you updated and look forward to giving you a greater update as we work steadily towards the mission of becoming the best performing, the most respected foods company. Thank you on behalf of Srinivas also.

Moderator: Thank you, very much. On behalf of Anand Rathi Shares and Stock Brokers, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.