Agro Tech Foods Limited

4th May, 2023

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Codes: BSE Scrip code 500215, Co. code 1311
NSE Symbol ATFL, Series EQ-Rolling Settlement

Dear Sir,

Sub: **Transcript of the Analyst Call pursuant to the audited Financial Results for Q4 and year ended 31st March 2023**

In continuation to our earlier letter dated 19th April, 2023 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 28th April, 2023 for discussing the audited Financial Results of the Company for Q4 and year ended 31st March 2023 approved at the meeting of the Board of Directors of the Company which was held on 27th April, 2023.

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

Digitally signed by Jyoti Chawla
Date: 2023.05.04 17:26:47 +05'30'

JYOTI CHAWLA
COMPANY SECRETARY

Encl………

ATFL an affiliate of

CONAGRA BRANDS

“Agro Tech Foods Limited

Q4 FY '23 Financial Results Analyst Call”

April 28, 2023

MANAGEMENT: **MR. SACHIN GOPAL – MANAGING DIRECTOR – AGRO TECH FOODS LIMITED**
MR. KPN SRINIVAS – CHIEF FINANCIAL OFFICER – AGRO TECH FOODS LIMITED

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

Moderator: Ladies and gentlemen. Good day and welcome to the Agro Tech Foods Limited Analyst Call for the Q4 FY ’23 Financial Results, hosted by Anand Rathi Share & Stock Brokers Limited. As a reminder, all participant lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal an operator by pressing star, then zero on your touchtone phone. Please note that this conference is being recorded. 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, Darwin. Good afternoon, everyone. On behalf of Anand Rathi Shares & Stock Brokers, I welcome you all to Q4 FY ’23 results conference call of Agro Tech Foods Limited. From the management side, we have Mr. Sachin Gopal, Managing Director and Mr. K P N Srinivas, CFO of the Company. We are going to start the call with opening remarks from the management and followed by the Q&A session. I shall request Mr. Sachin Gopal for his opening remarks. Over to you sir.

Sachin Gopal: Thank you, Ajay. Good afternoon, everybody. Thank you for taking out the time to be with us today. We will walk you through the results and then we’ll do Q&A between now and 3 PM. So, I’m on the second page of the presentation that we’ve already have signed uploaded on our website. So that is just a summary title page. So going to Page 3, really just to repeat what is our vision, our vision is to be the best-performing, most respected foods company in India, and we’re definitely on-track to be there.

Then going to Page Four, which really summarizes the quarter four and FY ’23 key performance highlights kind of all-in-one. Overall, as a headline, I would say we’ve seen steady foods growth, it’s been less than our average for very, very clear reasons. But also, we’ve seen improving margins as we have gone through year because as you know, the first two quarters were significantly impacted by very-high level of commodity prices. And I think we’ve kind of navigated through all of that and still maintain our growth rate, and our year ending margins are looking much better.

The quarter 4 foods revenues were about INR103 crores. These were only 3% higher than prior year, and that really reflects the COVID-19 hurdles, like Omicron, which was there in Jan and Feb ’22, which again saw a lot of people working from home. And that’s evident in our numbers also as we see it. Jan-Feb, the base was very high and in March the people started coming out and then we also returned to the growth. So, in the Ready-to-Cook business. In the other parts of the business, it’s been more or less a strong growth too.

And then generating a total FY’23 foods growth of about 9%. Both Foods and Staples showed moderate growth on a full-year basis in gross margin. So, we’ve delivered about a gross margin of about 97% and INR97 crores in Foods and about INR77 crores in Staples. We said both of these were higher than last year, and given all that happens I think during the year, it was good that we continued to have a single-minded focus on margin. It came at a cost of volume in the case of edible oils, but I would say that was the right thing to do. And now we’re in the process of making sure that we are more competitive in the marketplace.

We have exited our foods gross contribution. We shared some numbers with you in the last fall on gross contribution. Over time, we want to start reporting more of it, but many of you have said, hey, you were basically giving our gross margins, so can you please go back to that. So, we said okay, but over the next few quarters, we will try and give you a better indication of how gross contribution is going, because at the end of the day, that's the starting point for the P&L, which is less raw materials, less packing material. So we're at 46%, so more or less this indicates a full recovery from our commodity spike that we saw in the first two quarters of this year. It's still, we have way to go.

We need to be in the 48% to 50% range as we always said, and we'd be working towards that and get to that in the appropriate time. In terms of the ANP spending, the Food's ANP of about 5.3%, you'll see the total, which is up by about I think INR3 crores versus prior year or thereabouts, but as a percentage of the Food business, the Foods ANP is about 5.3%. This is lower than the desired range of 7% to 8%, but nevertheless at an acceptable level of investment. And you know, as the margin improved, we will obviously be deploying even more greater funds behind advertising.

The change in employee benefits, our employee benefits today stand at about 7% of revenues. And that really largely replaced the headcount changes of whatever was the salary increases, they were more or less largely offset by the fact that performance incentive pay-outs were not there because obviously our profit was impacted for the year. And therefore that pay-out did not happen. So, it offset the salary increases for the larger part of the company.

In terms of other expenses, we were higher than prior year by INR13 crores, nearly the largest chunk of this was restoration of travel and increase in freight, these were the two largest components, but other charges as well like manufacturing, processing charges so on and so forth. The restoration of travel is a big piece, we have cut down the travel during COVID, and you know it was necessary as well, both on safety of our employees and particularly in the field people. And it also helps us to shore up the bottom-line, but that part is over now. We needed to be in the market, and we restored most of the travel as we felt we could do safely without risking people's lives as the year progressed and the world moves to normalcy.

And profit before-tax and profit-after-tax are INR20.4 crores and INR15.1 crores respectively, lower than prior year, largely due to the early part of the year when we saw commodity prices, which is evident in the operating results for the quarter 4. Okay, I'm going to skip Page 5, and I'll go straight to Page 6. So, Ready-to-Cook snacks this is the largest part of our food business. And you can see here a lot of ups and downs during the year, in general volume is lower. As we told you, you know as COVID started, we said, there is going to be an elevation in demand due to COVID, meaning you could see that happening.

But clearly, it wasn't going to be at the same level once COVID ended, right? Because people would no longer be working from home, they'd go back outside. And I would say we've held the volume retention in the Ready to Cook category at about 5% last year. And certainly it could have been more, we don't know. Different companies have, you know, reported different sets of numbers in the work from home space. But all those categories impacted by work from home positively during COVID and then negatively post COVID.

So, I would say it's probably part for the course. And but now we should start to see growth in line with the prior year. We've always had a high single digit to 10% growth in this business. And we expect to be getting back there. Let's see, we don't, we cannot tell you exactly in which month that will happen. But that should happen because last year by about May, June, the world had started returning to more normalcy. It was still a little bit, a little bit still elevated in terms of work from home.

Elevated level of media investments, you saw that we spend more money than prior year, expansion of distribution, and effective use of the INR15 pack along with retail demos, what we believe key to minimizing attrition. A lot of companies have tested out, you know, pricing 12, 14, I would say in general, they haven't worked. And any intermediate price points like 15, 20 are important from a long-term strategic perspective as well, because you need to build or reduce your dependence always on INR10. INR10 is the greatest driver of acquisition of consumers. But we need to have a good program for non-INR10 also.

We believe that we are exiting FY23 in good shape to get back to the growth in FY24 with a normalized post COVID-19 days. The seeding of snacking kits is underway. We have seen strong acceptance in select stores. You won't see these kits everywhere. But you know, in the stores that we see, it has a very good uptake, and you know, a few consumers have bought in and repeat businesses are there. But broad-based success is still pending. And that's typical of Ready to Cook.

Nobody builds a Ready to Cook business or anything in a hurry. But we have to do a lot of work. We know what that work needs to be done. And that's similar to what we did in popcorn. But a lot of our energy right now has been going behind popcorn to ensure that you know, it's the largest part of the business, it's the most profitable part. And therefore, how do we get it back to growth? So we will put some more energy and then a few more resources behind this going forward once we see the growth coming back nicely in popcorn.

And there are a lot of pizza and pasta sauces started in FY23. Right, so that was Page 6. I request you to go to Page 7. That's the next category, which is Ready to Eat snacks. So, you can see here very strong growth, you know, close to 40%. I've also been looking at different companies, you know, who are both internationally and locally, who've been sharing the results. Overall, I think the 15% to 20% growth is what I see coming out to the Ready to Eat Snacks business. I think ours is a little more because RTE Popcorn has done very well.

So in every business, finally, you know, I think it tends to reflect the competitive advantage that you have and the right to win. We clearly have that in the popcorn business. So we have clear all India leadership today in the category. And you can go anywhere in India, you will see ACT II ready-to-eat popcorn. So, it's in good shape. Sweet Snacks are also starting to gain momentum. This is very important for us from a margin improvement perspective, because it lowers the cost of packaging, and it also lowers the cost of trade. So, you know, ACT II Caramel Bliss, Duo Cruncheez.

And in fact, we exited Sweet Share of RTE was up to 11% in Q4 FY23. And if you recall, I had mentioned to you, we were sub 5%, right? We were in low single digits some time ago. So, as we exited, this is not an average for the year. As we exited, we’ve exited at about 11. So we would hopefully, you know, strive to exit somewhere between 15% and 20% and next year. Then actually, that would be perfect, because it would lower our cost of goods if we're annual because you know, trade and packaging will come down and therefore improve margin.

And also enable us to go deeper and deeper. We have today in effect, a six-plant network. And there will be some limitations to how many thousands of 500 kilometres, 700 kilometres that we can go. So, I would say this will be helpful from, this is very important also from our overall expansion perspective. The impact of greater scale in RTE Popcorn, increased share of Sweet and greater overhead absorption has significantly enhanced the profitability of RTE Snacks. So I don't think we are 100% there.

But pretty much, we've made huge progress in the last two years by moving stocks by moving to a depot-based model to direct shipments from factory by getting scale in Ready to Eat popcorn, and by increasing the Share of Sweet. And I would say this is something that used to worry us a lot, which is, you know, at the end of the day, this is the conveyor belt of the company. This is what our entire distribution expansion model is based on. And without it, you know, that expansion won't happen.

And it should not have been, if you will, unprofitable for us. So, gradually to take it to a position now where it is close to being profitable, I think is a very good thing, because long term, it means that we can continue to drive. And we know that it's not that our investment by way of secondary trade or anything else is hurting the P&L. We will continue to drive both the Scale of Savory and the Share of Sweet going forward. And that's what we're doing right now as well.

And we are also going to see what learning’s we can leverage from RTE popcorn and other RTE Snacks. Clearly, we had the most success in RTE popcorn. But that's not the same success that we've had in, say, Tortilla chips and excluded snacks. We'll see now that at least one part of the model is fixed. How do we apply this learning on the others so that each of these becomes robust business?

Okay, I'd request you to now go to Page number 8, which is Spreads & Dips. As you can see, we had a very, very strong volume growth of about 22-odd percent and value was less because this was due to the price reduction that we did on the larger packs. And there we certainly would have gained share on the larger packs. So, I would say overall, we've been really successfully able to defend our turf under threat by India's largest FMCG company and several DTC players. But going forward, I expect to see this moderate.

We'll see how long India's largest FMCG company continues to invest. So, we will going forward continue to defend our base business. There are a few more actions that we need to execute, or we have started execution on the smaller packs like the 350-gram pack. And so that we are able to successfully replicate whatever we did on the large packs, in the small packs, while enhancing future growth and profitability by the three actions that are mentioned in this slide.

Why is this important? It's important because we've got this volume growth, significant volume growth, I would say must be higher than the category. We don't like being so as you know, but it came at the faster margins. So we need to now ensure that we fix the smaller packs part of the business and also improve margin. So, we see this happening through three key actions, as I said earlier. One is accelerating trials to INR10 nano packs. Now just to give you a perspective, there are many companies in India who make peanut butter and sell peanut butter.

So, there are a lot of companies who sell peanut butter. Everybody's in peanut butter. You saw HUL is there, Marico has introduced peanut butter, Dabur has introduced peanut butter, you name it, they're all there. But they don't make it, they buy it from others. And there are lots of people who make peanut butter. There are a large number of manufacturers in this job. So, but there are very few people who make it and sell it, right? And we've also seen historically that in each of the categories in which we play in, the INR10 point is very important for category conversion, for consumer acquisition.

Irrespective of the category, because that's reflective of the purchasing power of the consumer in general. So we've seen that, for example, in Duo, right, in chocolates. We launched chocolates, it's a INR10 pack which get us immediate conversion. In breakfast cereals, it's the INR10 packs. In ACT II instant popcorn, even today the INR10 is the largest, you know, is the largest price point that we have. So, this is important and therefore, and we believe that it's very difficult for somebody to compete in these INR10 nano packs unless they are manufacturing and selling.

So, going forward, we'll be focusing on these packs to expand distribution and that should work well for us. If any of our competitors increase their spending on the category, we'll still benefit disproportionately from it. And we feel that it's, there's a very low probability of any of our competitors actually coming in, into this area. We have it because we are uniquely placed. We've got a decent scale in spreads in both peers, in certainly in peanut butter, not as yet in chocolate spread. And therefore, we have the manufacturing capabilities, and we have the distribution, of a little under half a million stores.

So, we are doing, so this we feel will be a good intervention. You'll start to see this being rolled out in this quarter. We are addressing the consumer need for spreads as a source of protein. So, we are working with gyms, so on and so forth. It's going to be a time-consuming piece, because the whole area of protein is something that is a new area for us, but it is a very good area for us, and we need to work on it. So, it will take time, but we'll get there.

And lastly, we will work on enhancing revenue per kilo by focusing on Sweet. So, you'll see this pyramid on the right-hand side, where you see what we've given is the price per kilo, right? So, base peanut butter sells at about INR250 to INR350 a kilo. Sweet peanut butter sells at between INR350 to INR500 a kilo, effective prices in the market. And chocolate spreads sell at more than INR500 a kilo. So going forward, we're going to focus on Sweet.

So, you'll see us putting more emphasis on sweet peanut butter, you know, things like we have variants like honey [Inaudible 0:16:09], so on and so forth. They'll give us a better revenue per kilo. They will also give us a better margin. And this is possible only because now we've got the base piece absolutely controlled and tight. And then over a period of time, we see ourselves migrating towards spending more on chocolate spreads, which is even higher in terms of revenue per kilo, so that this will remain a good, profitable business for us with the right margin structures that we expect.

We will also continue to seed the sweets business, and we'll be working on capturing new consumption occasions by addressing the need for Spreads and Dips on the go. So, in a sense, we need to create new consumption occasions around Spreads and Dips. So, one part is obviously, yes, you know, I buy a table spread, and then I consume it on bread. I buy a bottle; I take it home. And then I consume it. I may consume something else tomorrow for breakfast. But another very large area is for spreads on the go.

So to give an example, you must have seen Nutella & Go pack. If you haven't, I would suggest just Google it. You'll understand. Of course, it's very expensive. But if we are able to capture these new occasions, they will obviously increase total consumption for us, and it will be very profitable, very, very profitable consumption as well. So, all of these actions designed to continue to ensure that we grow volume and revenue. So, going forward, of course, we expect volume and revenue to come closer.

And if anything, maybe at some point in time, revenue will go ahead of volume. Because this year, what data that you see, which is the plus 22 and plus 8, really reflects the price correction that we did in the back half or towards the end of the prior year.

I'd request you now to go to Page 9. So on Breakfast Cereals, obviously a very strong performance there. Expansion of Center Filled Cereals and roll out of Value-Added Oats have ensured strong category growth. And I would say we continue to see this as we exit the year, strong momentum here. Center Filled Cereals are really driven by distribution expansion and introduction of the Cookie & Crème Variant. So, we introduced the Cookie & Crème Variant. If you look at that photo in the store, and I put that photo for a reason to explain what we are trying to do, you see there's a blue pack there.

So that's the Cookie & Creme pack. Cookie & Creme is relatively new to India, it's basically Oreo who has created that taste profile for Cookie & Creme. And this product is doing very well, very well means, very well. And I think it's entirely full credit to Oreo for creating that taste so thanks, but you know, I guess we are there to take advantage of it. Kellogg's had also launched a Cookie & Creme, if you would have noticed during the COVID period but they removed it. I guess, the products were not able to match the standards, but our products were hugely impacted.

We've also got a cheaper offering called Shells, what we call Shells, which is similar to Kellogg's Chocos, but the product, we didn't create, I think we had some challenges with the product earlier, it was a little hard. And we 've done a reworking of that Shells product, which will be rolled out now. This will improve our bottom of the pyramid offering, so we will need to have some packs to enable multilevel wholesaling to ensure that we get fairly broad scale indirect distribution.

So, by the time we start advertising the Popz brand, it benefits both from the more premium products of the Center Filled Cereals, but it also benefits the bottom-end products. The Shells product is being rolled out because of that. You see limited distribution. We don't sell a lot of it, but as we rework it, we probably see it, although you may not see it in the more affluent areas like where you guys live, because it will be a little more down market and in less affluent areas.

One of the things that has challenged us in Center Filled Cereals has been this huge wall that Kellogg's has. So, if you walk into any store in the breakfast cereal category. You'll see this huge wall of Kellog's. And you would see maybe one packet of Popz there, one refillable bag or two and we're not really making an impact because we are the category leaders. In contrast, when you go into the small stores, we are out distributed. We out-distribute Kellogg by a mile. By a mile means by a mile. We are by far the widest distributed Center Filled Cereals. And we are saying that on the basis of all our market working, more than anybody, whether it is Kellogg as sold in majority. We are clearly the most widely distributed Center Filled Cereals.

Our mathematics, however, with Kellogg showed on the basis of interviews, meeting the distributors, so on and so forth, that the total revenue that they were generating from Center Filled Cereals was three times our amount. So that means clearly we were losing out in the big stores, which is evident to us when we go to the market as well. So it is not possible, we have seen, to really break their wall. And in general, we've noticed this in most categories. Going in just by saying, by the way, I'm here, and I'm better value or something like that doesn't motivate the consumer to come to you.

By and large, in the FMCG business, consumers stay with the brand unless the brand gives them a reason to be dissatisfied, either in terms of quality or in terms of price. So what we finally cracked down, and this is doing very well, is we're building our own walls. It's next to the Kellogg wall, but we're building our own wall. And this, what you see in the photo, is an example of that. So we'll take it step by step, because it requires investment. We have to spend money on the store. But this is something which we've already started in this first quarter, and it's there in a limited number of stores across the country.

We'll be expanding this during quarter one, and then quarter two, we'll probably move to investing behind chocolates, and then we'll figure out how to manage the balance of the year. But this is giving very good results. Again, the hero is INR10 here. Our INR10 breakfast cereals are picked up by consumers, and we think that, therefore, it's an effective way forward. And now it will only be a function of resources. We believe that we have the answer on what to do with the Kellogg wall.

And the answer is build your own ATFL wall in the cereals category. It benefits not only pops, which is the largest part of it, but it also benefits other things like granola, muesli, so on and so forth. Of course, we don't have muesli, but we will have at a point in time. So it's, I would say, work underway, but looking good and promising. Otherwise, we've not got this revenue growth. And continue to deliver strong volume growth to capture operating leverage benefits across the supply chain. Our capacity is significantly more, obviously, than what we are selling. And therefore, all we need to do is get more volume, and then all the other costs, depreciation, manufacturing, labor costs, resource costs, all of those come down.

So looking good overall. Chocolates, I'd request you to please go to page 10 out of 19. I know there's a growth of 59% or 69% of volume and value, but that's really well below our expectations. Our expectation was that we would be able to more than offset the lower volume that we were going to see in RTC. And I think we certainly have faced significant supply chain issues in FY'23. And this is common. If you go through the Hershey CEO North America statement, she also mentioned it some one or two quarters ago. She said, you know, we've had supply chain issues.

Most of the world buys a lot of machinery from Germany. And Germany has had a huge amount of challenges over the last year. It's not just gas. There's gas, there's labor, there's breakdown of some internal suppliers. They've had to change things. I would say we, as a consequence, we did have some delays in the receipt of our machinery. If you go back to our quarter one analyst call, you will see that we mentioned it there also.

So I would say going forward, we are, I think, almost there. We're probably 80% there in terms of whatever we needed to do from changes in recipe, manufacturing processes, all of that. Although all of those are pretty much closed now. And I would say by quarter two, maybe even by the end of quarter one, we should be in good shape to, we should have overcome all of these and then start to be aggressive.

We obviously are not going to be aggressive with chocolates in quarter one because, quarter one sees high level of heat and also moisture in many locations. Heat and moisture are a lethal combination when it comes to chocolates. We need to manage the supply chain very, very carefully. And it's okay right up to our depot, but then beyond that, as it goes into retail, distributors, we need to manage it carefully.

But it's all looking good now. And we told you that we'll be building a capacity which can produce 100 crores plus of chocolates in a year. And we'll build that capacity in the current year and we're on track to be able to do that right now. Most of the answers to the problems and solutions have been found.

Investment in the store visibility will start in quarter two, FY'24, post the summer, again for the reasons that I mentioned right now. It's a proven lever for growth acceleration. You know, it's in particularly in the chocolate category, there's a very impasse purchase item and, you know, trials happen very, very quickly. And we've had very good results in the stores that we tested in the month of January and we will now be rolling this out in quarter two.

And the results are good. So if we take a look at the stores where we were able to, execute good display and have a reasonable presence in the store, our sale of chocolates in those stores is equal to the sale of our instant popcorn business. I mean, our ready to cook popcorn business. Now that's a big statement. That's a big statement because if it can happen in that store, that means we have a right to win and the ability to build that business nationally. The question only is how quickly we can do it and how safely we can do it.

Because chocolate, we need to be careful about product stability and product quality right through the supply chain. In reality here, it can make waste. So we just need to be careful. But we certainly have a product which is good enough, as I said, to be equal to our ready to cook popcorn business. And that's not in one store, by the way. That would probably be – we would have tested this in maybe a hundred stores across the country in January or maybe a little more.

So in all of those stores, it's already there. In some stores like some modern trade stores like we have in, say, Gurgaon, even without the extra display, we've already gotten up to 60% of instant popcorn levels. So those are big numbers. So the only thing is how do we scale it up and to make a great business. So our assumptions of how much we can build from this business, we shared those with you in November. And those assumptions stand validated with the work that we've done in stores.

Now the only question is how to get there. And bear in mind, these revenues have come without advertising in these stores. All the investment has been made largely in display. So that's a great statement because the instant popcorn business has been built up over several years with a lot of advertising support. Of course, it's a very different business. It needs a lot of demos and other things. But that's the power of chocolates. So to close this page, capacity, productivity, and automation work is underway. Capacity expansion, improvement of productivity, and automation work is underway. And I think it's on track to be a significant contributor to growth in FY'24.

I'd request you now to go please to page 11. So on the premium stable business, we've talked about it. Margin successfully held in premium stables despite the Ukraine conflict. We had a gross margin of about INR77 crores up from INR75 crores in FY'22. Fair revenue, that's in line. We've already always told you INR70 crores plus minus INR5-odd crores is the range that you can expect this business to develop. But it will entirely be, it will depend on timing and what is the opportunity available at that point in time.

So I doubt very much that anybody sitting in the early part of the year would have said actually the edible oil margin is going to be higher than prior year. But it did. So but it's going to, it is going to fluctuate. But I think we are in the right ballpark. That's what we told you two years ago. INR70 crores plus minus, and I think we are there.

We see a fair revenue risk in FY'24 in premium stable. We are correcting the pricing now. So as you correct pricing, you also lose revenue. Because revenue per kilo comes down or lead up comes down. So you'll see. But also I think we expect to see that therefore as a consequence as we improve pricing, and we've seen this earlier, as you improve price competitiveness for marketplace, then the volume algorithm also changes.

We are also making the portfolio more broad-based by providing procurement scale to pools. So rollout of oats is already underway. And that is, that's a, it's a very steady build that is happening. And I would say it's going well for us. And we are also working on additional staples which are used in pools, which is under development. So in other words, we are looking and selecting staples, not in a meaningless manner. We are selecting staples where we're already buying those staples, but we don't have the procurement scale.

So if it makes sense for us to yes, say, okay, I think I'll get a significant procurement benefit. If I also had it, that staple under, which I'm buying for pools under staples, then we'll keep it and it should also fit from a brand perspective. And that staple reflects largely the exit from crystal and FY'22, nothing more than that. The rest of the business is doing fine.

Okay, so I'll skip page 12 and I'll request you to go to page 13. So you can see snacks competitive spend, steady spend behind Act II, which is designed to address the expected post-COVID-19 softening. If you see our spends over the last three years, they are equal to or more than the spends in the prior four odd years, so it's looking good. And I think we've done therefore whatever we needed to from a brand investment perspective that, you know, whatever is the result of therefore mathematically of all the ready to cook changes or the lower consumption, it is not manmade or enhanced by any manmade actions in terms of our cutting advertising or something like that. Other than that, not a lot more to report. Pre-CODA is obviously up spending here and you can, the others really are self-explanatory.

In spreads, page 14, please. So you can see we've had a steady spending behind, steady spend behind Sundrop Spread over time, which is in the region of five or close, five to six close we've been spending. Over time, we will, as we mentioned earlier, transition this towards more sweeter spreads. And as far as the Kissan is concerned, they continue to spend money, so which is good. And you know, even if they continue to spend money now, as we are able to expand our nano-pack distribution, launch it and expand distribution, we will, that advertising will actually be a tailwind for us. So that will be very, very good. And the probability of there being able to introduce that we believe is very, very low. So that will be game changing and we'll keep you posted about it.

Page 15, please. So breakfast cereals. Here you can see there's a significant spending behind the fills category, 34 plus, which is providing tailwinds for ATFL. And in fact, if you do a diagnosis of this chart, it's very interesting. It shows that actually the extruded part of this portfolio, which is Center Filled and Kellogg's Choco, the extruded cereals, has actually held their share of the total cereal category at about 25-odd percent.

The other part of the category, which is Corn Flakes, if you look at Corn Flakes, Corn Flakes has also been steady at about 25% of the category. What has changed, however, is the share of oats as a category of breakfast cereals has come down. Four years ago, if you see, it was almost 50% of the category. And now it's getting closer to the 25% mark. And the share of muesli and granola has increased. And that's kind of what we've seen overall in the businesses, that if you introduce a staple and you spend advertising money behind it and you say, it's a premium price and I'll make it work, it will give you some revenue in the near term.

But what will happen is that other competitors come in with oats offerings and those oats offerings are very good value, then the profit pool that you have gets diluted. It gets compressed. So clearly the entire action is between still increasing and therefore, and you can do the math, you guys are much smarter than we are, is going to be behind more value-added products. It could be cornflakes, it could be extruded cereals, and it could be granola and muesli.

So maybe we'll drop in some pie charts in the future just for you to see how it's moving and that will give you an indicator of which way or which one of these subcategories are we investing in the right subcategories or not. The next chart is chocolates. And you can really see the power of this chocolate category. It's incredible. You can see that the spends last year were in the region of INR1,500 crores. And if you go back to FY'18, you can see that the spends are INR650 crores. So that means in a five-year period, the spends are more than doubled. And that's really reflective of the profit pool of the category.

If you look at the gross contribution of [Mondelez 0:32:58], it's an unlisted company, but it will cost you only INR100 to pull it out. Look at it, it's in the region of about 60%. We're at 46 and saying we'll get to 48 to 50. Model S, 60, 60. Now granted that they've been here for so many years. But the fact is that those are the kind of contributions that it is possible to make in the category. And these are the categories for us of the future. This is where you really need to invest our time and money.

Not in commodity type of categories. And in fact, if you go to page 17, you'll see this reinforces what we've always told you about Edible Oils. You can see Edible Oil last year spent INR207 crores. You can see that figure of INR2,074 million. And you compare it to the same FY'18 that you saw in chocolates in the last slide, it was INR356 crores. So the spending now, the 356 was an aberration because the prior year less and the subsequent year was less.

But conceptually, even if you aggregate it out, there's no change. So in a five-year period, you're not really seeing any change in the spending, whereas in chocolates, it's gone up by double. And that's reflective of the profit pool of the category. So that's why we said we want to become the best performing, most respected food company in India. And to do that, we have to transition from being an Edible Oil company to a foods company. That's really important. And obviously, you know, we do, we have to keep up the base of Edible Oil for as long as we could, which I think we have and, you know, keep up the margins. But that is why it's so important for us as a company to have a greater share of foods and within foods, we focusing on all the right categories, because if we focus on the right categories or the wrong categories, our chance of success in the long term is always going to be poor. It's always going to be. But if we focus our energy and select the right categories with the right margin profile, then we will always be guaranteed short term success.

So just an interesting perspective. I'm sure you guys can analyze this data a lot better than I can. And really, that's come brings me almost to the second last slide of the presentation. So that's really a update, FY’23 update on our ATFL growth trajectory. You can see we started in FY08 with a INR36 crores food business, right? That is when Edible Oil is the largest part of our business. And you can see growth rates have gone up and down during this period. There were years of 35%, 60%, then followed by years of minus 11, then 35 again, then 5, then 18, then 8, 10, 8, 0, sorry, right, 15, and then 35, 15, and now last year 9.

So growth rates have gone up on a year over year, growth rates will vary. There is no question in our mind that there will be some years where we'll outperform the 20, some years there will be a little less, right? But overall, if you look at the trajectory, it's great. Because we built up the business from 36 or close to about INR137 crores. And you don't need to be a genius if you look at this graph to know where it's going, right? It's going to a very, very good place. So thank you for your support over the years for all of this, right? And I'll go now to page 19. Therefore, summary, I think we've largely navigated commodity inflation without derailing our volume trajectory and growth.

The growth is moderate, no doubt, but there is a very good reason coming out of COVID and that's okay. This is monthly trend, we are now overcoming, I think, the base impact of COVID-19 on RTC volume. Even if I look at the last quarter, Jan-Feb was really tough, because Jan-Feb last year was up almost 20% of a prior year. And that was up on a very, very big base. So as people are coming in, as schools have reopened now, I think school reopening took place around July last year. And work from home kind of started to end between April and August or September, depending on the nature of the company.

So probably through quarter one, by quarter one, quarter two, I think we should start to see the return to growth. And that will get us to back up to that 15-20% growth rate that we've always had, or what is our cumulative average growth rate of and it was 19%, maybe it's down to 18% this year, because last year was 10. But that's okay. Stable margins, stable, despite the impact of the Ukraine war, significant cost in terms of volume, together with lower exit NPS per kilo or revenue risk, but we are working underway to address this risk.

Foods gross contribution recovered to pre-COVID levels. And a diverse food portfolio clearly helping to ensure a steady, sustained growth and profitable growth. Clearly we didn't have a diverse food portfolio, then if we had only a ready to cook business today, that would have gone down by 5%. So that's the benefit of a diversity in many ways it helps. So that's it. So Ajay, thank you very much. And we are open to questions now. So go ahead.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Soham Samanta from Centrum Stock Broking. Please go ahead.

Shirish Pardeshi: Hi Sachin. Good afternoon. This is Shirish. Thanks for this. So just two questions. When you look at the slide where you have given the ATFL growth trajectory in terms of food, now we are INR437 crores. The growth is very, very volatile. And there are many reasons and we do understand capacity addition has taken a slower pace. But now you have a larger capacity, which is in your hand. How do you see next three to five years growth in terms of food? And the second question is that though we have seen the volatility into the revenue also has the volatility into the margin. So in a steady state now food is stabilized. So what kind of margin expectation we should be building in next three to five years?

Sachin Gopal: Okay, thank you. So, both of the questions really should be thank you. I'm sort of forward looking and as I know we are not going to be able to give you any forward-looking projections, but I can provide context for that. So hopefully that should do the job. So if you look at it, see the growth trajectory has, I would say, rarely been limited by capacity. Capacity is not really; I don't think it's been an issue. And even during COVID, in the first wave of COVID, where everybody scrambled and we scrambled too, and hopefully we scrambled well, I don't think we lost much in that period, right? Because we were able to scale up.

We've always had adequate capacity, I would say, at any point in time. Last year is probably the one thing that, I called out in the chocolate business where, we were on the back foot, right, trying to balance supply and demand and to produce the right quality product. But overall capacity, I think we've always been planning adequately for. The variations in growth over this 15-year period, and you can see, and it always does, it goes up and down, would be many factors. For example, in one year in the past, we had a large vending business, if you recall in our popcorn business, right, that was about INR25 crores, INR30 crores.

And that kind of went out, right, because our largest customers decided to procure from outside, and that's always an issue in the institutional business, which is why we didn't build back that business later in a conscious manner, which is why should we risk any institutional business and impact on our revenue. Similarly, in one of the earlier years, I think where you see zero growth, you will see we had actually, put a lot of focus on distribution and stock pressure in the trade. And then that stock pressure resulted in inventory, and that inventory resulted in lower shipments in the prior year, resulting in zero growth.

And the same is explained also with the high growth months, right. So, if you see the high growth months, right, maybe we drove in the past, distribution very aggressively or stock pressure very aggressively. In the two years ago, a lot of the high growth was driven by COVID. Right now, we are managing a slightly lower growth due to the fact that the basis of COVID, right. So, I would say it's not really capacity. That is just the macro factor, but whatever are the factors specific to either the category, our customers or things that we may have done along the way, right, in terms of, maybe we pushed harder than we could.

Because food is very different from personal care. Personal care, you have very long shelf life. There's no real issue on shelf life, right. So, you can do it. But in food, if you push too much, then you, so, you can pay the price for it the following year, right. So, you have to be just very careful, you have to supply to demand and that kind of more or less what we've largely done during the past many years. Okay. As far as volatility and margins is concerned, actually, at a gross contribution level, by and large, in the food business, it's been in that 46%, 46%, 47% range, I would say. The only difference is that it depends on operating leverage, right.

So, in the period where, let's say, you, coming out of seasonality, you have lower volume, then automatically the gross margin that you deliver will be lower, right. So, to put it into context, the, I would say, historically and let's take before COVID as an example, we would always have been in the, on the total food business, a gross margin of about 26% to 27%, okay. And right now, it is lower than that, largely, obviously, there was a quarter one impact and as we are coming out of it, since

RTC has not grown, right, and the other parts of the business has grown, that has diluted that margin. But as RTC comes back and that starts to grow and overall volumes grow plus the RTC part grows, I would say we should be getting back to that 26% to 27% very, very fast. Okay. Going forward, I would say on margins, look, it is going to come through operating leverage, 100%. It is going to come, it will come, there will be some improvement in GC, right, and that will be driven by pricing and maybe more procurements in scale and procurement efficiencies due to scale, right, and even lower wastages in the plant in our below material, but a lot of it will come through, most of it has to come through operating leverage.

And that operating leverage is there across the supply chain. It's there in manufacturing, it will be there in transportation, all the transportation is there. And even in terms of distributors, right, because we do, we do invest behind distributors to support the expansion of distribution, and even more scale that comes up, right. So I would say that's pretty much it here. Okay. Thank you.

Moderator: Thank you. The next question is from the line of Vimal Sampath, an individual investor. Please go ahead.

Vimal Sampath: Yes, good afternoon.

Management: Good afternoon, Vimal Sampath. How are you?

Vimal Sampath: So about three, four quarters ago, there was a lot of talk about new products like soups, cocoa and now what we are seeing and even this hummus and things like that we have scaled down. I mean, is there a change in strategy? I'm not able to understand. I mean, are we going to focus on those products? Because soup is a very good category. I just want to understand. I mean, is there a change of strategy?

Sachin Gopal: Okay, thank you, Mr. Sampath. What else? Anything else?

Vimal Sampath: The second question is capex is mostly on chocolate. We have about 26 crores now, work in progress, WIP. So is it only on chocolates or other products also are included? Okay, thank you. Third question is, see, I mean, we are spending on in-store advertisement. Same way, if we have an institutional division, our products, like our peanut butter and all can be placed in five-star hotels, the breakfast spreads what they have. If we sacrifice margin there and we put it there, it's a kind of advertisement, just as in-store, you are having demos, this will be a kind of in-store demo. And we need not spend on advertising. This will be an advertisement in one way. Have you looked at that? These are the three questions.

Sachin Gopal: Thank you, Mr. Sampath. Yes. So on the first point, which is no, nothing has changed as far as the new product development is concerned and whether it's cocoa products or soups, as you correctly said. In fact, I dropped some of those spend charts from the other categories, because I think we are still tracking them and we review them internally. But for the sake of brevity for this group, since they are not in those categories right now, so there's no change in strategy. It's just that we need to balance in each of our categories that we are competing in the rate of introduction of new products.

So right now in the ready-to-cook popcorn business, our single ready-to-cook segment of the business, our single greatest focus has been getting the RTC business back to growth. In fact, we've even compromised and made some changes. Let's say the people who are doing demos of pasta, we asked them to get back to popcorn. So because that is the core of the business. We need that to be growing at that 8, 10% for our algorithm of 20 odd percent to work. So not less than that. So that is why you see it.

And I think as we return to growth on ready-to-cook popcorn, you will see more focus behind that. Meanwhile, the development of all of these plant meats that we've talked about, all that development work is underway. Many products are actually completed, but right now being held in abeyance. I'm sorry for the pronunciation. Because we need to ensure that we don't overload the entire selling system, given the fact that this part of the business, which is 50% or thereabouts of our food business, we need to get it back to growth. So no change in that. But yes, timing. We have to moderate our timing to be successful. Your point on capex is 100% correct.

Most of this is on chocolates only. There is very little capex investment per se that we are doing in machinery outside of chocolates. Obviously, there's some, but the bulk of this is chocolates. And that is designed to build up that capacity that we talked to you about, 100 odd crores of chocolate revenues. And lastly, yes, we have institutions that that's not a... There's no right or wrong in this business. It's just that, with the energies that we have and the field organization and the organization that we deploy with the engineering that we try to run it, we have to be selective of where we need to focus.

We had a vending business, the institutional business for popcorn, as I mentioned earlier to Shrini's question. But then we said, okay, it's better for us to spend our money on retailing. Remember, if you look at our wage cost, we are running at about 7% of sales. That's the number. If you look at that INR62 odd crores, we're running at about 7% of sales. Now that is kind of not very high for a food business, for a company, for any food business. Of course, you can argue that we have 50% or a little less than that of our business is staples and staples business or commodity type businesses, even in foods, will run with lower wage costs.

But either way, the wage cost is not high. It's comparable to many companies who are privately owned and there are a lot of unlisted companies and we can share those details with you. If you want, you can... Or rather, you can just pick them up and see, as I said, a INR00 a shot. So within that, we have to make choices. And the institutional business, yes, it does provide trial. Yes, it can provide visibility. For example, you could say, oh, by the way, now let me get listed in IRCTC, so on and so forth. And there are people who do that. But our core is building a nice, strong, resilient retail business. That's the core.

And that's what great brands are built around. So our focus will be there. If there are opportunities, we'll certainly take them. But we are not going to be investing too much of resources behind it. It will have to be very, very... because we understand that finally in these businesses, you are replaceable. It's like the food service business has really grown this year. But the fact is, you are replaceable because the person who owns the customer can decide whether he wants to give your ketchup or your mayonnaise or your mustard sauce as compared to others. Or peanut butter or whatever. So just, food for thought, we can chat more about it. But thank you, Mr. Sampath. Good question. Thank you, sir. Okay, Ajay. I think, we have got time for one more question now or two more. I don't know.

Moderator: Sure. Thank you. The next question is from the line of Vivek Kumar from Bestpals Research and Advisory LLP. Please go ahead.

Vivek Kumar: Hi, Sachin ji. I think you have mentioned briefly about this category, but like, ready-to-cook popcorn is already INR200 crores. And that has been like, because it's been the largest, so that category's growth determines the overall growth. When do you think we will be able to build chocolates and spreads as another greater than INR100 crores categories or whatever is in your company's plan? And when do you think then this each category, one pulling down, one going up, these kind of things are more like, we have at least one, two, three pillars instead of one big pillar ready-to-cook popcorn. So if not these two, maybe some other categories which you may be thinking of. So that was my question.

Sachin Gopal: Okay. Thank you, Vivek. That's a very important question. See, I think the next two categories which will reach INR100 crores are ready-to-eat snacks and spreads. Right? Both of these are -- I would say, our expectation would be that they should either nearly touch or cross the INR100 crores mark in FY '24. And that's basically whatever are the growth rates that we have today and the size of these businesses last year.

Chocolate is an incredible opportunity, but it will certainly overtake all these other businesses. It will overtake all the other businesses, meaning if we manage it right, it's possible that chocolate could be our largest category, I would say, in about five years to seven years. It's possible. Okay. Because as I shared the data with you, already in so many stores, in the stores where they are listed and displayed, the sale is equal to popcorn. So that means the potential of the category is there. And it's not talking about category potential in a broad macro term.

It's saying that these products which our company is selling are proven to generate a revenue equal to instant popcorn or ready-to-cook popcorn, both microwave and instant popcorn, in these stores. That's a data point. That's irrefutable. So now the question is, what will be the guide path to that? We also have a reasonable idea of what are our gross contribution on these products, because we are making them now. We know what is our revenue, what is our raw material, etcetera. So we need to figure out the business model. How are we going to actually get there?

But I've said, maybe three years ago, I said, this is going to be the category of the future. And it will be. So I would say, to the first question on INR100 crores, well, the INR200 crores categories in the near term, we would expect now would be spread, would be ready-to-eat snacks and spreads and over the medium-to-long-term, the bigger play will be chocolates. And that's why we are making those investments that we are making. Okay.

Vivek Kumar: Thank you.

Sachin Gopal: Thank you, sir.

Moderator: Thank you. The next question is from the line of Devdutt Shah, an individual investor. Please go ahead.

Devdutt Shah: Hi, thanks for taking my question. I was just wondering when we are trying a new product and testing the waters when it is in the traction phase of understanding how well it is being received by the consumers, at what point do we decide to kind of say that, let us stop putting in any efforts or resources into this new product. This is probably not working. Can you give any color on that?

Sachin Gopal: Okay. Anything else Devdutt?

Devdutt Shah: Yes, one more. I'm just wondering with regards to RTC, RTE and chocolates, already big enough markets in terms of its potential, why would we not choose to only focus on those three? And as an extension of that question, is it really worth competing in the spreads and the cereals category?

Sachin Gopal: Okay. All right. So, I think the first question is a very sort of deep one, which is, when do you give up and say, this is not going to work? And the answer is, I don't think we do. So, we believe that nothing is really impossible unless there is enough data to clearly substantiate that it is impossible. And the whole part of building a business from scratch, as we have done on this food business, as you see, it was about INR35-odd crores, is that these are challenges we face through the years. So I can remember a time when the ready-to-eat popcorn business was 5 tons a month. I know it is, we were selling 50 tons a year. Today we sell it in 1,000 of tons. Okay.

So, and there was no way out. So you are confronted with those businesses, every, with those challenges every day. If you tried, if you said, I will give up, you will probably give up on 95%

of the stuff, because nothing happens. Every time you go out, you face a problem, you solve it, then again, a new one will come up. And that's a part of ongoing business development. Especially, if you are building a business from scratch. If you inherit a legacy business, somebody else was doing the business, you came in, you said, okay, now can I grow it by 8%, 10%, whatever, that's a different story. But if you want to build businesses from scratch, it requires a tremendous amount of tenacity. So, one of the reasons, and I'll give you -- I'll share with you a thought, which will prove this point and you can double check it later.

If you see most food companies, big food companies in the US, don't rely so much on organic growth as they rely on acquisitions. And the reason for that is that this task of in the food business, you have machinery and you have recipes. Now the machinery can work with the recipe, the recipe may not work with that type of machinery, then you need to modify the recipe, then you need to go back, then you need to see what is going to make it efficiently. This process is an ongoing process. So for large corporations, it's very difficult to manage this.

An entrepreneur does it because an entrepreneur is everything. He or she is doing manufacturing, R&D, selling, everything else. So the end result, therefore, is entrepreneurs typically build businesses in North America and then they sell them to larger companies. Because larger companies have the balance sheet to be able to make that acquisition, but this trial and error and ongoing brain chew, if you will, that is required, that they don't have because they are bifurcated by functional silos. So we rarely give up. Even if we give up today, we may revisit that same thing five or seven years later.

So nothing is actually ever given up as such. We will initiate, we will test, then it may go into a little back burner. For example, Chocolate Spread is a good example. We initiated, we got some shares, got some mileage, but we say, no, now we need to review the recipes, we need to modify the facts that are there. Now there'll be some other things that we're going to do starting this quarter. So these processes are ongoing. It's all problem solving at the end of the day. So you can't. Management finally has to, is paid for problem solving. You're paid and otherwise you'll never have a shot at building businesses from scratch. That's not possible.

So, on RTC and -- each category will -- has its own benefits. And these five categories we've chosen because we believe this will be fast, fast growing five food categories in the future. Or, going forward. And honestly, they not only produce results on their own, but the learnings across categories are incredible. They are just incredible. One of the reasons we are able to get shared in breakfast cereals without spending a dollar in advertising is because we have an RTE snacks business. So we already have a bag snacks, if you will, supply chain, which is set up nationally. And then, we can, we have a competitive advantage versus anybody.

There'll be a few more other products that we roll out this year, which will really demonstrate the cross-pollinization of technological advantage that comes from being in multiple categories. It is an incredible benefit. So being in a single category is not a great way to build growth for many reasons. It's not great for your distributor because he doesn't get the revenue from the beast that he's covering. It's not good for you as a company because you don't get the scale. And you don't get this network effect that you get when you complete in many categories.

So we've not chosen categories which we believe we don't have a future. Or let's say we're doing a plain old business. And about 75% of the market is plain old, more than 75%, 80% of the total market must be plain old. And we have always said this is not a business, this is not a food business. It's a staples business. But it will never have in the long term a decent margin. It cannot have. It's a single commodity. So we put it under staples. So we've told you why we are doing it. And what the businesses of choice, where we believe we can have a profitable business, like we showed you Chocolates, advertising spend has doubled between FY '18 and FY '23. And advertising on edible oils has gone by half over the same period.

Now you may choose some other year as a base or whatever. But the story is explained. You have to choose great categories. And the categories that we compete in are all categories with high GC. Very high GC. For a company like even Kellogg's, I don't think they'll be operating at less than 55%, 60% gross contribution. They haven't done their last year's filing, so I don't have the figures. But these are the best playing grounds for all of us so that we can take share and we can get volume growth and it can be profitable for us. All right. Thank you, Devdutt.

Devdutt Shah: I understand.

Sachin Gopal: Sorry, that's it. I don't mind. I can hear, but I won't be able to answer your question. So why don't we keep it for next time. Yes. Okay. All right. No hard feelings. I still love you. Okay. All right.

Moderator: Thank you.

Sachin Gopal: Okay. Thank you, Ajay. Thank you for the call guys, Darwin. Take care. You guys have a great day and a good quarter.

Management: Thank you, Ajay.

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