Agro Tech Foods Limited

31st January, 2023

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NSE Symbol ATFL, Series EQ-Rolling Settlement

Dear Sir,

Sub: **Transcript of the Analyst Call pursuant to the Unaudited Financial Results for quarter and nine months ended 31st December, 2022**

In continuation to our earlier letter dated 11th January, 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 25th January, 2023 for discussing the Unaudited Financial Results of the Company for quarter and nine months ended 31st December, 2022 approved at the meeting of the Board of Directors of the Company which was held on 24th January, 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.

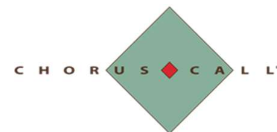
Thanking you,

Yours faithfully,
For Agro Tech Foods Limited

JYOTI CHAWLA
COMPANY SECRETARY

ATFL an affiliate of

"Agro Tech Foods Limited
Q3 FY '23 Financial Results Analyst Call"
January 25, 2023



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 SHARE & STOCK BROKERS LTD.**

Moderator: Ladies and gentlemen, good day, and welcome to the Agro Tech Foods Limited Analyst Call for the Q3 FY '23 financial results, hosted by Anand Rathi Share and 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. Thank you, and over to you, sir.

Ajay Thakur: Thanks Darwin. Good afternoon, everyone. On behalf of Anand Rathi, I welcome you all to Q3 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 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, and good afternoon, everybody. As usual, we'll walk you through the presentation, which has already been uploaded, and then we'll take questions after. So thank you for joining us once again, and we'll start the meeting without delay.

All right. So on the second slide, we see company really rallied to become the best performing and most respected foods company in India, and we certainly believe that we are right on track to be able to get that. In terms of the quarter 3 key performance highlights, the overall headline is, we've seen a steady foods growth. It's not been a strong foods growth. It's been a moderate foods growth, but it has been steady, and we've also seen improving margins. So we delivered foods revenues of about INR 116 crores. This represents a growth of about 7% versus prior year. I think our diversified portfolio has helped us to achieve the moderate growth that we have delivered because we have multiple lines. Otherwise, if it was just a Ready to Cook business, it would certainly not have been able to deliver this.

So that Foods volumes are having a good portfolio. The key thing, however, is for us to be able to get the RTC, to overcome this RTC base impact, which is a very big base. It's almost double of what it was a couple of years ago. So there's been a huge lift in our average monthly selling rate, almost double. But the thing is that's already in with us, and we need to figure out how to continue to grow it so that we are on track for our overall 20%-odd growth in the foods business that we'd like to have. So we'll talk more about it today.

Staples margins, I think, are holding up well. Year-to-date, we have had a gross margin of about INR 53 crores. Prior year, for the same period, it was about INR 55 crores. So that's good. I think there was a lot of questions at the time that the Ukraine war had started. But overall, I think we've kept a fairly clear priority in our minds in terms of gross margin, on the volume -- on the margin, which is volume choice, and that has played out reasonably well. So there has been a cost in terms of volume, and we'll refer to that and come back to it later.

During the last November meeting, some questions, many of you had asked, can you just share a little bit more about -- in terms of the reading of the results that we gave in terms of what is the overall profitability of the foods business. So we don't do any segmental reporting, and I don't think we're also going to have the scale in the near term, which necessitates it, but we have provided some information today to you.

What it does is, it's giving the breakup. So you'll see there's net sales that's in the first row. In the second row, gross contribution. So that's net sales less raw material less packing material. So that will correspond, when you look at the P&L that we published, to less cost of material consumed, purchases of stock in trade, and cases and inventory of finished goods and stock in trade.

So if you do the math, for example, on the total company, you'll see we've got net sales of about INR 225 crores. And then if you adjust it or from it deduct the first three rows of the expenses lines, it will give you a figure of about INR 78 crores. So that gives you an aggregate gross contribution for the company of about 35%. Now the aggregate, however, is very divergent when it comes to the individual category.

Foods is now a little more than 50%, 50% to 55% of our business roughly depending on which quarter you look at? So half our business is running at about a 24% gross contribution. That's the entire Staples business. Here we are not differentiating between Premium Staples and Mass Staples.

And the Food business, and that's the good news, is now back to our historical 45% level. So we used to be at 45%, 46% gross contribution level. At our peak, we probably even crossed 50. That was a very high share of our Ready to Cook business. And 50% is a benchmark. There are companies like Nestle probably at around that level.

And the 45% to 50% range is good, is the right range to be in if you want to have a 15% to 20% EBITDA margin. Because then depending on what your mix is, if you are able to control all your costs, which is SG&A, manufacturing costs, advertising and promotion, damages and leakages, transportation and warehousing, if you're able to control it at 30%, you'll make a 15% EBITDA margin with the 45%.

Conversely, if you have a 50% gross contribution, then you need about -- you can probably have even 35% -- all these expenses within 35% to make it to the 15% EBITDA margin. So we will give you a visibility of this from now on, in terms of how is the gross contribution tracking on the food business, because this will be important for you to know, okay, are we headed in the right direction? Because at the end of the day, if we have a GC in the range of 45% to 50%, I think we are okay, and on track for that 15% to 20% EBITDA margin that we want from the business.

With good margin visibility, A&P investment we increased in this quarter. It's up by about INR 2.6 crores versus prior year. You'll see this later also in our competitive spend chart. And this

also will help to address the Ready to Cook growth. We upped the spending on Ready to Cook from about INR 1 crore a month to INR 1.5 crores a month in December. We're doing that in January as well. And we will continue to invest, so that we get the Ready to Cook business to between 10% and 15% growth, so that in aggregate it's the non-Ready to Cook business growth at about 25% to 30%, and this grows at about 10% to 15%. In aggregate, we are delivering in line with our historical CAGR of about 19% or more.

You'll see a change of about INR 1 crore in this P&L due to an employee benefit that's largely due to hiring. So we have hired more people. There are more people on the ground, more people on street with some supervision. So all of those, it's largely accounted for by that. And in other expenses, there's about an INR 1 crore increase versus prior year due to higher travel.

So travel is getting normalized. We are restoring it to earlier levels. Still not fully there, I would say, because cost of travel is very high. But we are making a gradual progression towards that. And as a consequence, you can see profit before tax and profit after tax for the quarter at about INR 9.3 crores and INR 6.8 crores, respectively. So those are the high-level comments on the P&L. We will be happy, obviously, to answer any questions that you have later.

The next chart that we have is performance highlights by category. So we are already familiar with it. The five foods categories and the Edible Oils category. And now come to the Ready to Cook Snacks category. As you can see, we continue to have about 5% or lower volumes versus the prior year, which in our view is largely due to the COVID-19 base impact.

Elevated level of media investments have been initiated for Popcorn starting December, as I mentioned earlier. This will help us to get to the desired levels of growth in FY '24. Establishment of the INR 15 price point for Instant Popcorn is underway, supported by retail demos, and you'll see more of this as we go in the trade. Roll out of Pizza and Pasta Sauces has commenced, and development work is underway for broader Snacking Cookies portfolio to support the whole RTC growth in FY '24. And that includes Plant Meats, which we talked about earlier.

The next category is Ready to Eat snacks. Here, as you can see, we continue to have strong growth. It's about 40% up in volume and about 50% up in value. But as you can see in quarter 3, the gap between volume and value has narrowed down. So that decrease is happening because we are starting to lap periods which contains price increases in the prior year. So going forward, you can expect that value and volume will start to better mirror each other. You may not see so much of a gap between the two.

Sweet Snacks, which we talked to you about last time, are starting to gain momentum. That's really Caramel Bliss and the Sundrop Duo Cruncheez. And actually, the impact of greater scale in ready-to-eat popcorn, the increased share of sweet, and a greater absorption of overheads by breakfast cereal is significantly enhancing the profitability of Ready to Eat Snacks. So for those of you who will recall, who either met us or you asked a question in the call, we have always -- our position has been that Ready to Eat Snacks is the conveyor belt of the company. This is what

carry it, and we have seen that. In areas where we have plants for ready-to-eat popcorn, where we are able to service the distributors there in a close proximity, our coverage is much-much better than in areas which are distant from the plants.

So I think this is critical for us in terms of our coverage expansion. And the only thing that always has been at the back of our mind is how will we be able to actually make this category profitable. Because at the end of the day, EBITDA margins on RTE Snacks are lower than they are on a category like chocolates or ready-to-cook products.

But the good news is that we are, I think, getting closer to finding that answer. We've seen a significant jump this year in terms of profitability, helped by each of these three types. So this is good. And therefore, we believe that everything is right now, meaning that we should be in a stage where all of this conveyor belt, if you will, is self-funding. So it's not eating into resources that we would otherwise need to require to build the other four categories in terms of media and other promotion activities.

So we will continue to drive both the scale of the savory and the share of sweet. This is absolutely right. And going forward, it will remain a good direction. But it's a satisfactory outcome as we see it for the first 9-months of the year, and it seems like it's very much in place. So that's good.

The next category is Spreads and Dips. You can see here that we've still got a fairly steady volume performance. And as we mentioned to you about must be more than a year ago, maybe 18 months ago, we felt that we had lost some share or were losing share in this segment. We think that whatever share we had lost, we've more than regained, if anything, gained a little extra. And we've also, therefore, been able to increase our share in many segments. We have modern trade data where we do get data from our customers, and it shows that we are absolutely solid in terms of our share position from the data that we've seen, and I think almost any share that Unilever has taken has been from the other players.

So only yesterday we were in the trade and looking and one of our older competitors was out of the store and the number of players physically available is now reduced. Our assessment also is that new competitors are struggling to find relevance. So in a sense that we are there, we've built the category, we are in very-very strong share.

And those large FMCG players, you've all seen the Unilever investor meets, results, and the charts, and even the DTC players are really-really struggling to find relevance in the category. So I think it is evident for the most in the foods business. At the end of the day, the food business, one of the reasons is the great foods is a great business is it got very good moats. Consumers don't move so easily away from you and you are able to, therefore, have a very-very strong share position. So I think we're in a very different space from where we were 18 months ago. So all looking good.

We started the roll out of the new high-protein variant, which is PeAq. It will take its time. We are doing -- we have to go through the process of distribution expansion. It will have to be

supported by things like gym retailing. That said, oral care companies do doctor retailing, we have to do gymnasium retailing, talking to people in the gyms. So it will be a slow process, but it will be a very effective process. And over time, therefore, we expect to establish the PeAq brand name not only specific to peanut butter, but establish it as a high-protein offerings, and therefore, it will lend itself to many other areas like granola bars and protein bars, so on and so forth.

We also expect going forward that the gap between volume and value to narrow as we lap the prior year price reduction in peanut butter. So quarter 4 is a quarter in which we started rolling out the lower prices of peanut better, and that's why you've seen there's almost been a 1,500 basis gap in terms of value being lower than volume because of that price reduction. We are now past that stage, because the base will correct itself. The gap, I think, in a month like January will probably come down to about only 2% or 3% in terms of net sales per kilo.

So we would expect that in quarter 4, I think we should expect that the gap between the two will decrease. And therefore, next year, we will be projecting probably a value growth ahead of volume growth. Because now that we've actually taken care of our share position, we need to focus also on margin improvement. We've written out our gross margin check to be able to defend our position in the category, but that's done now and it's all settled down.

So some work we will do on margin improvement. This includes some pricing, which is underway, which is work in progress right now, supported by a greater focus on higher margin SKUs. Obviously, we'll keep an eye in terms of our total share of the category, but we feel that it's in good shape and therefore, merits this improvement. And we will continue to build Chocolates, Spreads and Dips.

These are small categories for us, and they will take time, but we'll keep nurturing them as we go along. So that each of these categories individually in the next few years can get to about INR 20 crores, INR 25 crores. So that at that stage you don't have to look around for new things to do. We already have the categories in place, and then we have more advertising resources, which we will, as gross margin on foods becomes better and foods becomes a larger part of the process, we will have the money to be able to invest in these categories.

Next page is on Breakfast Cereals. As you can see, the numbers are looking very good. Expansion of Center Filled Cereals and roll out of Value Added Oats ensured strong category growth. So we are up 54% in volume and 54% in value. There could be a few pieces movement here in the sense that we are taking some amount of pricing in some of these, where we feel we have headroom for pricing. But there have been new, if you will, variants, like say, Value Added Oats, which come in at a lower revenue per ton. So how exactly it balances, I'm not able to say precisely right now.

So broadly, volume and value will be in a certain range within each other. The Center Filled Cereals are really doing very well. You can see that if you go to the competitive spend chart, you'll see that Kellogg's has spent money and Tata Soulfull has also spend money. This is good

news for us, because we are riding it. And it's one of the reasons we've a very-very good growth, because we have a great product. So that's good. And we've introduced a Cookie and Crème variant, which is -- with the launch of Oreo, there has been a taste establishment in India of Cookie and Creme, and the product is very well accepted. So we've been retailing it now for maybe two to three months now.

We also have another product, which is a bit like the Kellogg's Chocos, so that's what we call Shells. So we've reworked this product and it's being rolled out now to improve our bottom of the pyramid offering. The earlier product we felt was a little hard and needed to be corrected. And this will support broad-based growth by the time we start advertising Center Filled Cereals.

The Center Filled Cereals along with Duo Chocolate is one of the -- they are the two candidates for advertising support as we see the margin opening up, which is evident even in this quarter. So that will be a strong candidate for receiving some media support. But at the time that we advertise this, Center Filled Cereals cannot reach a INR 5 slot. It's not possible. The number of pieces is very little. So the Shells product has to do the work.

So it was important to rework this, and I think this is also being done. That way when we advertise the franchise, we get the benefit on Center Filled Cereals, and we also get the benefit on the Shells product, which is available at a lower price. Overall, very strong momentum, you can see, driven by very high-quality offerings. Our products are excellent. And I think you can ask anybody that and our products have been outstanding. We will continue to focus on volume growth, including distribution and on-shelf presence to improve category profitability through operating leverage.

So as I talked to you earlier in the context of Ready to Eat Snacks, there's a lot of overhead that is currently being absorbed by the Breakfast Cereals line now. So with volume, we should get the benefit in terms of both the fixed cost and in terms of depreciation and therefore, see an improvement. That is the work we have. It's just that we need to time the advertising and so on and so forth, how we're going to be able to get the best benefit.

The next slide, if you can just go to, is Chocolates. We have had definitely less than desired growth in this category in quarter 3. We struggled with the optimization of simultaneous production, packing and shipping of multiple SKUs. And this was really not completed during the quarter. We got a second line, and there have been challenges out of Germany, as all of you know, Germany has struggled. It was there in the Hershey's call also, the global call, I think about a couple of months ago, where they had talked about it, because Germany is the primary machinery supplier for chocolates even to the United States. And they're very good at it, but they've had challenges.

Countries have challenges aside from energy, labor shortages, etcetera. So we installed the second line, but there have been still some challenges on effectively scaling up and having a very good rhythm in the plant. So we are working towards establishing the required supply chain for the category in Q4. Q4 and Q1 anyway are good times to do it because starting February,

March, then the weather, temperatures go up. And therefore, we need to be a little careful. Everybody's volumes also come down a little bit. Obviously, year-on-year it doesn't matter. But it's there. So it gives some breathing space to the plant. We're also, as we've told you earlier, looking to establish an almost INR 100 crores-plus capacity in Hinjewadi. So all that work will be underway, and I think we should be able to use the next few months between now and when the monsoons occur and then the next season starts, to be able to close this piece.

We've had an excellent response to retail display initiatives wherever we've done that, which really confirms the validity of this growth lever in the large and profitable Chocolate confectionery category. So as we mentioned to you, we are going to test the limits in this category, see up to what point we can get with display without spending significant amounts on media, because we want to focus our media right now on the Ready to Cook category, so that we are able to get that growth rate.

So we will rely quite heavily on display. And this category responds very well to it. So there's no problem. So only yesterday, I think, I was in a store here and we had almost between 15 and 20 secondary displays of chocolates in that store. And even in the main category, I would say we had a good couple of shelfs, very nice, very nice, despite the fact that some of our offerings are small in size, but overall excellent position to be.

Steady shipments have also been established in the important Gifting category. Gifting is an important category for Chocolates. As you know, it is a convenient category to give. So it takes a little while to get it right. But specifically we've got now a couple of gift packs which are very good, and they can handle high temperature, high moisture conditions quite easily. So we are happy with that.

The key work right now that we are doing is really capacity. We need to work on expanding the capacity. We need to work on increasing the productivity, because we need to establish what are the right processes, how do we get the exact output in each part of the line. These are just technical details, but this has to be done. And also automation. There is a lot of labor in Chocolates and secondary packaging, and we need to automate that to the extent that we can, so that work is also underway. So in fact, I think probably next year as we deploy our capital expenditure plan, probably there will be more investment in automation than we've probably done in the earlier years as we are trying to scale up and therefore reduce our manufacturing costs.

In terms of Staples, that's the next page. In Premium Staples, you can see volumes are down minus 15% and value is down 10%. This is really for the quarter and aggregate is about 12% and 6%, which is probably you can treat the aggregate as representative in overall context for the year. Individual quarters may vary a little bit. So this is really the cost of being focused on margin. We are very focused on margin on Staples. And from a margin perspective, we believe we've done well. We've lagged the downward slope of the pricing probably a little bit, but not so much.

And therefore, we're okay, we've come out well, I think, through the entire Ukraine war, and the consequent volatility in the market. And Mass Staples really reflects the exit from Crystal, because there is only one month of this quarter where we had Crystal in the prior year. So starting quarter 4, there will be no Crystal in the prior year. So you can expect that you will not see this kind of negative start in quarter 4.

We are also working on the execution to make Premium Staples more broad-based. This is underway. This will help to provide procurement scale. And possibly also, as we are finding, as we're starting with oats, reduce the total cost of manufacture for the foods business. So we're not making any investments in Staples.

We don't do that in Edible Oils also. But we do invest in packaging machines at our third-party packers plants, in our partner plants, because those packaging machines are specifically for our laminates and our packs. So we don't intend to do any capital deployment in terms of manufacturing or processing on these Staples. If we are buying oats, we'll only be using -- segregate into our plant, pack it, and ship it out.

But each of these elements will help us to also give scale to the plants. So this is -- earlier, we had talked about procurement scale, but what we are also seeing is that it will probably help to get us lower product overall manufacturing costs. And that's good for us. Because obviously, a big part of our margin improvement is going to be focused on how do we reduce the cost of manufacturing? And the more broad-based we can make it, the better off we are. So that's interesting site development. Roll out of oats has started and we'll start to see our oats and it's doing well. Also, Staple items are also under development.

Here, our focus is always going to be, as we told you earlier, I think that we are already buying, but where we see the benefit of scaling up. Meaning, instead of getting smaller quantities, we may get full truckloads, then we see a corresponding reduction in price. This happened in oats already. And it's going to probably happen in a couple more categories. And as we do that, we therefore improve our margins in the foods business across the board. So it's really a nice balance of Foods and Staples, and we'll see how to continually optimize it.

Mass Staples, as I mentioned, reflects largely the exit from Crystal in FY ’22. So the key thing really here is, and this is not just true for us in the company, it's true for all people in the Food business, the more pricing everybody has taken in FY '23. And in the US, it's pretty common, you'll see companies that have taken maybe 15% price increase, who had 8% volume drop, it's possible. Or it could be different, you took a 10% price increase and you had a 5% volume drop.

What is going to happen as everybody enters FY '24 is your revenue per kilo is likely going to be lower than what it was in FY '23. Because FY '23 saw a significant increase in prices. This is true for our Premium Staples business as well, and even for Mass Staples. Where FY '23 has seen an increase in price, so your revenue per kilo has gone up. And then you are exiting FY '23 at lower revenue per kilo as compared to your peak in FY '23. If that is the case, then it's reasonable to assume that unless there is a significant change in global demand patterns over the

last 12 months, your average revenue per kilo on some of these staples, or anything for that matter, is where you've taken this kind of prices, is likely to be lower next year than it is in the current year.

And depending on how volumes play out, how many consumers come back, how many don't stay, you do need to have a plan to be able to offset this revenue. It doesn't really represent the margin risk, because margin, as you've seen in the Staples business, is not necessarily correlated with volume. It's correlated in the long term, but not necessarily in the short term. So we are working on plans to see how these additional Staples making broad-based, we are also able to offset the revenue impact, so that in total we are able to do a reasonable job from a total P&L perspective.

All right. So the next is competitive update. I'm not going to spend too much time on this, because I think I've spoken a lot right now. So you can see pretty much on Snacks, there's -- you can spend more time on the charts later, but there's a visible shake out. With money becoming tighter, a lot of the actually fringe players are just cutting back now. People will come into the category on an opportunistic basis.

And really spending is now just six players, when we actually looked at this chart. So if you see, the six players are Agro Tech; you can see Frito-Lay; you can see ITC; you can see Crax, which is DFM Foods; you can see Prataap Snacks; and Too Yumm, which is very steady in terms of its investment. Other than that, everybody is a bit -- they come in, they leave, right, just these are fringe players. And I think we are going to see more of this shake out in other categories as well, because as money becomes tighter, a lot of the other people, who came in because there was easy availability of money, will simply not have the resources to be able to last it out, which is good news for a company like us.

Go to the next page in the spends. So again, you can see Unilever now in total spending almost about close to INR 100 crores in that rate. Their own cost of buying will be a little lower than that, I'm sure, given their scale. So that's a fairly significant amount of money. And as you saw, they were not able to renew their national share of peanut butter in their call. So it really means that we've come out very-very well out of it. And again, spending was dominated by long-term players. So the fringe players are exiting. You can see that very visibly in peanut butter. You can see that even in honey. The people who came in and said, oh, by the way, we'll do a good job and entered, leaving gradually.

So again, same as the Snack story, if you look at it. Just step back for a minute. And you say, yes, it seems to make sense now. It is only the long-term players who are going to make, who are committed, who set up their own manufacturing, and who've been investing consistently in their brands over a period of time, who are now actually going to have a very-very good runway ahead of them.

Breakfast Cereals, again, fairly similar to last period. Kellogg's continues their broad-based support. Nestle has discontinued support. So they came in, but they really haven't spent any

money last year or this year or the year before this. And whatever they have, I think they have. And Tata is investing some amount of money, and we are happy with that, because they invest some money on Center Filled along with Kellogg's and that's good for our business, because we honestly have very-very good product. So it helps us to build up to that INR 20 crores, INR 25 crores, INR 30 crores levels that we want and need to be able to invest behind media.

In Chocolates, if you see, it's again just the major players that they are all spending consistently. Cadbury is certainly doing that, so is Nestle, so is Ferrero, so is Mars and Hersheys, but all I would say, it's pretty much dominated by multinational companies. And that's good for us because we operate with very-very high margin. And so the margin table is very high, and we have, therefore, a lot of headroom in terms of pricing once they're able to get the scale that they're looking to get.

Edible Oils. As you can see, we have not really spent money for several years. The interesting thing is the mass oils share of spending is really increasing and increasing. So we've always had this row called tracked brands, but if you look below it, you will see others. Others are all the regional brands. And we can see now, at INR 800 million for quarter 3, which is INR 80 crores, out of INR 137 crores, more than 60% is by all the small brands.

So it's not even that the other national players, the lower-priced national players are actually having a double share of oils. They are also coming down in terms of the share of oils. So this means what we have positioned always, that this is not a category that we should spend money on, and we took the right choice several years ago to invest our resources in the Foods business.

I'm not going to spend too much time on the other charts. The Noodles, the Pasta. I think there is some amount of shake out, which is visible even in Noodles. So I'm going to just continue. Noodles, Pasta, Soups, you have the data. You can compare it with earlier periods. Not much change. Therefore, if you can just go to the last page, which is quarter 3 and year-to-date summary.

I think we've largely navigated commodity inflation without derailing our volume trajectory in foods. At the beginning of the year, we were very concerned that with this kind of a commodity inflation, if we make the wrong moves on pricing, could it derail our overall growth story? And I think, we have a moderate year-to-date growth of 10%. And that's, I would say, not really due to any pricing. In fact, if you see our revenue per kilo on a month-on-month basis, we are exiting in a very nice manner on the foods business.

So that next year we can seek improvement in revenue per KG and also seek growth in line with our normal expectations. And work is underway. The one thing we need to address is the base impact of COVID on RTC volume, which we are underway. And the moment you understand something is a priority, you work on it. You saw that on peanut butter. We took whatever action we needed to take and we got our volume and share back. So this will happen. Of course, in this category, we are just part of the category. So media starts to play a role, and we'll see what are

the levels, because at the distribution level that we are, media is really the most critial thing to be able to drive customer expansion.

Oil margins are stable despite the impact of the Ukraine war. The higher margins have come, however, at a cost in terms of volume, and you've seen those volumes charts earlier. And therefore, planning is underway to address the consequent impact on next year. So we need to have all the right actions in place, so that we do the right things strategically. But we have adequate time to plan and execute them.

So obviously, oats is one part of our expansion into Premium Staples. But there are a couple of other products also that we are looking at, which we are already buying, and just say, oh, okay, I think this could be a good option for us. This will fit well under our brand. And by the way, if we buy this in bulk; instead of paying INR 190 a kilo, we pay INR 150 a kilo. So that works beautifully. You get a procurement scale, and then when you pack it at your plant, you also get some manufacturing overhead absorption.

Foods margins are recovering to pre-COVID levels with expectations of further improvement in FY '24. So you can see that it's bounced back and the gross contribution is a good measure, again, North of 45%, and we expect to see further improvement. And a diversified Foods portfolio clearly helping to ensure a steady, sustained and profitable growth. So I think that's pretty much it from my side. And Srini, anything you'd like to add? No? Yes. So I think we are on our way to becoming the best performing, most respected foods company in India. Not there, but on our way. Okay, I'll give over to you.

Moderator: The first question is from the line of Percy Panthaki from IIFL.

Percy Panthaki: Sir, two questions from my side. Firstly, on the gross margin. So basically, as it is reported in your SEBI format, your sales minus COGS is what I'm looking at. And if I look at the gross margins over a 10-year period, they are roughly flattish. They might be range bound 200 basis points here or there, but roughly flattish. And in this period, we have hived off or materially reduced Crystal exposure. We've also increased food salience very materially. So all these benefits really, I mean, why are they not showing up in the gross margin line in any material fashion? That's my first question.

And of course, the corollary to this is that when do we see it showing up and to what extent? The second question is what constraint do we need to address if we have to push up our foods growth from a high-teens kind of a consistent level to 25% level. Because given the scale at which we are and the amount of new products that we are launching and their contribution or what their legitimate contribution to the sales that it should be, it seems to me that 25% growth would be a more suitable growth than a high-teens kind of growth. So just wanted to know what do we need to do in order to get that kind of a growth? So these two questions from my side, sir.

Sachin Gopal: Thank you, Percy. Thank you. These are both, as usual, very good questions. So I try and answer them to the best of my ability, okay? So see, on gross contribution, which is -- yes, as you

correctly said, net sales less the first three rows in other expenses. It would -- I mean I will not be able to confirm the exact figure like the trend for 10 years. I'm sure you've done your homework and it's correct. But I'll tell you, here's the deal. See, if you look at it over a 15-year period, our gross margin, and I think that I published this in one of our annual reports, when we started the journey, it was in the region of INR 60 crores to INR 65 crores, something like that for the total company. That time, food was only about 2% of the business.

Now in this 15-year period and somewhere around maybe in the seventh or eighth or 10th year of the journey, you'll be able to see it in that graph in that annual report. We brought up the -- because of oil pricing, we took up the margin on oil to almost INR 145 crores -- between INR 145 crores and INR 150 crores. At the same time, oil was going up, INR 5 crores, INR 10 crores, INR 20 crores, INR 30 crores. Now what happened as a consequence and with that pricing, there was obviously price still asked to be. And therefore, we entered a period where actually the premium staples were declining in terms of volume. And that is then, therefore, we took the opportunity, if you remember, three years ago, to do the price correction.

So if you look at this period, in 15 years, there's a part where we took up pricing of oil and also food margin was growing, but food margin was not a big contributor. Then there was a second part, where oil margin was flattish towards declining. Now food was trying to continuing to build. And then the margin actually on oil, as you know, if you look at last two years' data, is in the region of about INR 70-odd crores.

And we have also told you that kind of -- that is the level at which we think we can reasonably settle down INR 70 crores plus minus. So the reason why you're seeing the data, and your analysis is showing that, and I'm sure the analysis is correct. Because you're looking at a period when oil margin was being compensated for -- by food. Food was growing. Oil was declining. But food was not able to offset the decline in the oil margin.

So in aggregate, it was flat. But now look at it at the end of this period. 15 years ago, 99%, 98% of our margin was coming from oil. That was in the region of INR 60 crores. Today, 15 years later, the aggregate margin has gone to whatever it is, about INR 170-odd crores or something like that, in that ballpark. But now the dominant part of it is coming from foods. So with this, this is what we commented on earlier also is that now that this has happened, that transition has happened, you will see, you have to -- we have to see a growth. It's going to happen. It can't be stopped. Because even if there is a risk in oil, you can say no, but there is a risk, the amount, the materiality of that has come down.

So with oil making INR 100 crores plus margin. I think that given the number in one of the earlier calls or reports of -- in the region of INR 110 crores to INR 120 crores. Once the dominant part of our margin is coming through foods, it will grow. But mathematically, this is a period where you saw a replacement of oil gross margin to food gross margin. So that's the answer to the first question.

The second question is what concerns do we have to overcome. So I think Shirish, also asked this question, you know something but, we'll be going at 35% exactly the point that you made. And the answer is, yes. We'd also like to grow at 35%.

In fact, when we do our capacity planning, we do our capacity planning working on 30% to 35% because we actually don't know in these five categories, we may posture it and say, okay, I think I'll get this growth in this category in this year, but it will not necessarily workout. That's why you want a diversified portfolio because we never have the forecasting accuracy to say accurately for all five categories, how each one of them are going to grow. Some things will do well, something may not do well. Some assumptions will hold good, other assumptions may not hold good.

So we certainly do our capacity planning on that basis. And after that, frankly, we'll be largely a function of how much money we have in the P&L. And as we mentioned in our third chart, the better once we have good margin visibility, then we will invest more also. We meet the bottom line also, but we also need the brand investments.

So we'll certainly do it. And if you see, for example, for the last few years prior to this, our advertising spend has come down, to about, I think, maybe 4% to 5% or something like that. But now if you see the last quarter, the advertising spend will be in the region of about 6% to 7%. So I think advertising is key. We will be -- you can influence a category up to a point with the up to maybe 30,000, 40,000, 50,000 stores. We can influence it with retail contract.

We built the popcorn business like that. The first 50,000 60,000 stores were all built. But let's say, a brand is now available in close to 300,000 stores, you're going to have to rely on a little more media. And I mentioned it earlier. If you remember, I said that innovation is a large part of our business, but innovation share will come down over time because the business would have become so big. So that's what we are working towards.

And let's see, I mean we would like the 25%. But we don't want to pursue a 30% or 35% one year, and then fall flat the next year. We are not going to do that. We're not going to say, oh, by the way, let's spend, so many million dollars, and this theme occur. It doesn't occur. Food is a business which is built over a period of time. The best example of that is don't look at our business, look at Hindustan Unilever, peanut butter. It's visible to you, INR 100 crores and single-digit share -- with single-digit share. So money is not the answer. And that's why it's such a great business. Because nobody can just come and spend money and eat your share of the cake. So thank you Percy, for asking both very strategic questions. Thank you, for that. Happy to here.

Moderator: The next question is from the line of Shirish Pardeshi from Centrum Broking.

Shirish Pardeshi: Three questions. I think extending from the previous participant. And I don't recollect exactly, but maybe about five years before we had this interesting conversation that you set up a target, not exactly in the target, but we had the discussion and you said 40 and 50. When we reach about 50% food portfolio, we should be aiming to get 40%. Now I'm not sure whether we reach there,

but I need to check because now we have a significant portfolio which we have developed. So where do you think, what are the heads and misses and what can come up in next -- if we need to fix -- what -- where we can expect the gross margin to move non-staple portfolio?

And then second question is on high-protein PeAq. Maybe if you can share some on-ground details where it has gone, whether we have gone only in e-commerce or modern trade? And what kind of opportunities in three years we have seen? And third, on the staples, what we learned that Saffola has dropped the five-liter in prices and this -- they are giving a good competition to the other players. So have we taken any pricing correction in the quarter which is gone by or maybe in the month of January on the Sundrop portfolio, Heart?

Sachin Gopal: Thank you, Shirish. All very good questions. So I think to answer your question, what kind of gross contribution do you expect from the foods portfolio? I think we're already, as I've shown in this table, at about 45%. We see 48%, something like that, 49% maybe even, but in that ballpark, as something which is doable. This will come largely due to a couple of reasons. One is as we invest more in media, we'll always have definitely be able to hold more pricing power. Second is, as we get procurement scale.

I gave the example just off of staple, which we are currently buying at INR 192. And we have it coming in with scale, it's gone down to INR 150. So there will be pieces around this where we also benefit coming through in terms of packaging material as we get more scale, single SKUs become larger. We have some of the SKUs already visible to us. There are parts of within our packaging vendors can actually, they can also drop the price because they get bigger runs and longer run. So each of these pieces is going to contribute to this.

And that, as I've said earlier, is a very-very good gross contribution to work on. Now how does this translate from a profit profitability perspective in the EBITDA? That's where that 30% to 35% piece comes in. How do we have all our costs, in that region of 30% to 35%, depending on whether we are at 45% or 50% in terms of gross contribution? So that includes advertising, that includes transportation and warehousing. That includes our SG&A and it includes manufacturing expenses.

I would say, we are pretty well controlled already today. If you look at the size of our business and you look at our employee visual, we are probably very-very good in terms of our SG&A structure. I mean I'm sure there must be somebody who's better than us, but I think we'll be probably in the top 3%, 4% in terms of SG&A control. I think even in terms of A&P, we are very tightly controlled.

We have always told you we manage this A&P within 7% to 8%. And I think that's why we see us and ourselves when we're getting the results. We'll probably get some benefits for scale and transportation, but we don't see those as being the full game changer, not more than 50, 100 basis points. Because we already like, for example, in backslash shipping full truckloads to a distributor.

Okay, where they're going to say, okay if I get more scale, I'll get a better price for each of the lanes that are reverse optional. But I would say that would be limited. The biggest size of price in the chain has to come from our manufacturing cost. And that will come with scale. And a lot of people have asked me this question over time saying, Sachin, so what is that scale? How do you define it?

And my answer is always this, and over the many years, and you will probably have asked me this question earlier. When you said, okay, at what level will ready-to-cook popcorn be a very profitable business. And I told you then probably 15 years ago, INR 200 crores. And I'm sticking by it.

I can see, we can already see the business. It's in that ballpark, and we've got the right manufacturing cost structure. So I think as each one of these categories starts to get closer to INR 200 crores, they will all get scale. It will fall into place. Today, the manufacturing costs on some of the categories will be very high. It will be very high. And the reason is we simply don't have the scale in those categories. So in category after category, we are seeing that. All right.

In terms of high-protein PeAq, the opportunity is large. Protein is a large opportunity. One of our directors, who is also on the Board of Parag was telling me, for example, that they are looking at about an INR 200 crores business on whey protein this year. So it's -- that's a large business. And you can see MuscleBlaze and all these other guys. But the thing is that I think we will -- we are not going to be just a protein player. We are not going to be like, if you will, focused on only protein.

I think we will be playing in the area where there will be more blended protein. So it's all work in progress. So we know where we are, some amount of plant protein, some amount -- I mean, some amount of vegan protein and some amount, very rice protein. And we'll work around it. It's very-very early days, Shirish. I think -- we think it's the right thing to do. And we also think it will lend itself very well to things, like as I said, protein bars. And protein bars are going to be a big thing in India someday. Not necessarily now. It's still a small business. But we are just working on that, and we'll keep you brief. But it will take time.

In terms of staples, yes, our competitors have reduced prices. And I think we are naturally, it's an area which we track. And we will also deal as appropriate. The only thing is I would like to reinforce to you that, especially for the competitors that you called out. Our focus is margin, we need the margin. And then we do the best possible job in terms of volume. It is not that we are going to do volume at any cost. We're not going to do that. Because for us, the role of the portfolio is different from other companies. Competitor A may have one role. Competitor B may have one role.

I'm not saying that that's right or wrong, it's right for them. But for us, the role of the premium staples category is to provide us with a sustainable margin. So obviously, we can't have volume continually declining. And so by the way, margin is going to remain stable. You need to be able to show it up, in the right manner. And we've done that in the past. You saw when we did the

price correction two years ago and significant, we got a lot of volume. So we were -- I mean we were able to arrest that volume slide, if you will. So it's okay. But I would not like to compare ourselves in our actions to what our competitors are doing. We will do what is right for us. And that doesn't mean it's wrong for them. It just means it's wrong for us. We respect them. They're all competent people. So that's it. Thank you, Shirish. Happy New Year.

Moderator: The next question is from the line of Ajay Thakur from Anand Rathi.

Ajay Thakur: Just had two questions from the investors, I wanted to get them addressed. You have mentioned about the gross contribution this time around, which actually excludes the direct manufacturing costs. It only includes the raw material cost and the packaging cost. So just wanted to get a sense what would be the like-to-like gross contribution margin if I'm to look at it for the current quarter versus the past few quarters?

Sachin Gopal: Okay. Anything else?

Ajay Thakur: Second question was more on the -- can we get the broad share of each of these food sub-segments. So like for instance, the RTC, the RTE, and the spread category, so on and so forth, what will be the broad breakup of those in the food segment?

Sachin Gopal: Okay. So first question is on gross contribution. I think, Ajay, basically, historically, from -- and we've obviously -- we are giving this information to you in response to the questions that were raised in the Investor Day. Would have been in a ballpark, pre the commodity inflation, of 45%, 46%. So that's why we feel that we are in the right space in terms of gross contribution because as I said, and I was doing the math, and I could be wrong, for next year. But I think the figure that I was 52% and 30%. 52% gross contribution for the business and 30% cost of sale.

So that's why we think that 45%, 50% is a good range. And historically, would have been the case. This would have dipped only in quarter 1 of this year, when the commodity prices went up in this period, in and around quarter 1, immediately before and immediately after. But by and large, it's a very-very sustainable level for us. In fact, we would have some opportunity for growth.

So I was with our Chairman, again, yesterday, in the trade and he was comparing, let's say, our pricing with, let's say, in the chocolate category with Nutella or our pricing in peanut butter with Kissan or our pricing, I think it was, let's say, in breakfast cereals versus the Kellogg's. And the comment was, you've got a lot of room for pricing. And then I said, I think, yes. I said -- and we'll get that pricing, that has to be very significant, like a 30% difference. I think we'll take it. But in many of these categories, we need scale. So we need to attract the consumer to us.

We're not going to attract the consumer to us today, if we go into parity pricing because they'll say, okay, then there's no reason for him to -- him or her to move. We're already happy with their current offering. So we need a reason. We've got the reason. It's profitable already, it's at 45% plus. So we think we have enough headroom in each of our categories and chocolates also would

be a similar case. In our headroom and in the future years as time goes by to get closer to the 50% mark rather than being closer to the 45% mark. So this is not a new number. If the number is there historically, it's just that the question was asked and we wanted to put it forward. It's an answer to your question. That's all. Okay. But we will do it, and we'll report it to you regularly. And you can do the math yourself. You can do the math, using -- looking at our P&L, and you'll know that it's all question. All right.

In terms of share, honestly, we don't buy any retail audit data. So I can't give you any share. But I can tell you, wherever we get data from our customers, our modern-tech customers, they do share the data with us. And I can tell you, for example, that in ready-to-cook popcorn, we will be, whatever, 90%, 95% share. In ready-to-eat snack also in modern trade, it would be quite good.

I don't remember the last time there's a number on cornflakes. But I think, it was in the region of 8% to 10%. And on spreads, I would say, modern trade, it ranges between -- on peanut butter, it would range between 60% and 70% with the customers in modern trade. But we think that in traditional trade it is lower, and therefore, we've always given you -- we quoted a Euromonitor figure in the region of about 40%. And I think that is a reasonably correct.

In breakfast cereals, it will vary depending on the category. But I would say, in center-filled cereals in the modern trade, we'll probably be about 1/3 of Kellogg's center-filled cereals. But in traditional trade, we would be -- the ratio would change dramatically. And in fact, that's why we always say in cereals-as-a-snack, I think, we are the clear leaders. And if you will -- and on chocolate, it's brand new. So it's INR 15,000 crores category. So we have a lot of scope. But I can tell you for the customer that I was with yesterday, probably we have a 3% to 4% share of the chocolate category with that customer. So that's the kind of data that is available with us.

I guess I could give you more. Maybe one day when we have more money, we'll buy [inaudible 0:55:13], only just so you know what, it's for players better to let the money flow down to the bottom line because we got used to managing without data quite happily. All right. Okay. Thank you.

I guess the last question now, yes, last one, and then we conclude.

Moderator: The next question is from the line of Chirag Maroo from Keynote Capital.

Chirag Maroo: First of all, thank you so much, Sachin sir, that you have provided some clarity on the gross profit contribution from the food and it has been highlighted in your financials. One thing I would like to know is, like if I am looking at it correctly. If contribution from food business is around 45 percentage, I'm seeing that our food business is doing about 30 to 32 percentage gross margin.

And the fall -- the increase in gross margin for the current quarter is majorly driven by the oil business, which is currently doing around 38, 40 percentage gross margin for this quarter. And

I have generally seen the products that we are in food business, they show a gross margin of around 40 to 50 percentage, a general range.

And currently, we are at around 30 percentage. Just wanted to understand, what are the steps you are going to take to bridge this graph from 30% to 40%. Or will it be more related to the pricing of the product? Or will it be more related to reducing the cost of the manufacturing? That is question number one.

Second question is as you have suggested that the product is getting well accepted in the market, the new SKUs or new products that you're building. How is the production getting ramped up at our manufacturing facilities? And third question is more related to the accounting thing, where I'm able to see that pre-COVID our other expenses was in the range of 15, 16 percentage, as a percentage of sales, whereas now it has gone up to around 17 to 18 percentage range. Is it because of the product mix? Or is it there are kind of one-off expenses that we are incurring in this particular here?

Sachin Gopal: Chirag, one question. On your second question, I didn't get it.. You said something about production of some products, I'm not sure.

Chirag Maroo: Sir, it was related to if we are seeing a good acceptance of our products that we are manufacturing related to peanut butter and maybe related to chocolates, maybe related to snacks. If we're seeing good acceptance, I just wanted to understand how the ramping of the production of the particular product is going on. And as we are expecting that food business would grow at 18 percentage rate. Just wanted to understand if we are able to produce that much amount of products too?

Sachin Gopal: So first of all, in terms of the food, the answer is both. You said it, what is -- how is the gross margin, which is gross contribution less all the direct costs, right, which is the manufacturing costs and the transportation and warehousing and the damages and leakages. How will this grow, will it be due to the cost of manufacturing or will it be due to pricing? The answer is, both.

So as we scale up, because remember, the first level is gross contribution, which is what all of you asked the information for. Which I'm thank you for pointing it out. That will come through pricing and procurement. At a high level, if our margin is going to improve, it needs improved pricing. And that's, as we've talked about, there's a lot of headroom, you yourself have commented.

So we've got headroom on pricing, but we'd also get it through procurement. As we procure better, we scale better, those costs will come down. Also, our manufacturing costs will come down, procuring. Our manufacturing cost will come down because we are now producing a much larger volume on a large part of the capital that we've already deployed. I'll come to a little more detail on that.

So I would say, both of them. You're going to get -- we would expect to get more in pricing, but we would also get -- expect to get a lower cost of manufacture. And as for that, the fact that we

would expect more procurement due to scale. The one example I gave you of the commodity. And maybe that's a commodity that we enter in six months to nine months' time. But that is how we see it, okay?

In terms of the products and -- yes, as you said, and I have also emphasized the acceptance of our product is very good. How do we ramp this up in production terms. So what happens is that, look, we have spent maybe less than INR 400 crores on setting up six to seven plants. And we entered five categories. That's a very small investment, in terms of the sheer number of categories.

Probably, if it was one of our larger competitors, they would have spend that much money on just one category alone. So what we have done is we set up a plant. And then we install all the right machinery. The first stage of machinery that we need. But then we don't spend so much money on the upstream management of that production or the downstream management of the production.

So I'll give an example, we have an extruder product, and we put in an extruder, we put in an oven. The important that the oven wheel install will be twice the capacity of the extruder. So usually, right now, because we are deploying with very limited capital, making very tight choices. We say, okay, let's go with one extruder. The moment we get the scale, we add in a second extruder. So our incremental capital is not on the entire line. It's just on the second extruder. I mean if the oven can handle three, then we can probably build on three extruders.

At the same time, we will also expand in a gradual manner, our upstream business. So for example, how much space do we need for corn, rice, corn rice, corn flower, rice flower, corn, anything like that. They get into this. And then also with the downstream, which is how many more packing machines do we need, suppose we put in an additional extruder, we need more packaging line. Then we also need a slightly larger warehouse to handle those, and we also need more loading base to handle it.

So what we've done in our capital, the way we've constructed it is we've consolidated on the core. Because if we try to do all this, we might have needed a lot more capital. So right now, as we scale up, we already have the core impact. After that, we just need to keep investing in upstream facilities and downstream facilities. Upstream facilities, we also, I would include land, building in that.

So right now, for example, we think that the land bank that we have currently can certainly take us to maybe about $200 million of turnover, $250 million. The land bank, may not be exactly, because over time, as we see which locations and so broadly. Now however, just yesterday, at the Board meeting, we saw the approval for a resort, expansion of civil work in this. Now civil is related to upstream.

So these are not necessarily brownfield projects, not brownfield projects, but they are more like where you're just expanding space in the same plant. And that's how we continue to increase. Because we have to balance a tight capital budget along with our aggressive growth expectations.

And the third is, in terms of all the other expenses, see, basically, the other expenses also include manufacturing expenses. And in manufacturing, the most efficient part of our business is the ready-to-cook business because that's the largest part of our business. So as we have a higher mix this year, from non-ready-to-cook. Because if you see our non-ready-to-cook business, I think grew by about 25% this quarter. And you can -- you'll be able to do the math right. I think last quarter, we called it also. You'll see it in the headlines. I think it was in the region of 25%, 30% only.

So there's been a greater contribution of non-ready-to-cook in our total product mix. Non-ready-to-cook has a higher manufacturing cost. Because it's got more depreciation. It's got more processing. It may have more energy because of frying, etcetera, or oven, or baking, etcetera. So that will also have an influence on our other expenses. And aside from that, I think other expenses also includes travel. So as we called it out in the presentation, I think it's, other were about INR 1 crore versus last year, versus last year's quarter. But I think on a year-to-date basis, our travel expenses have probably gone up by more than INR 3 crores. But the answer to your question on versus pre-COVID is that the mix is different. That's all.

Chirag Maroo: Sir, can I just add one follow-up question?

Sachin Gopal: No. A follow-up will give you in next quarter.

Chirag Maroo: Because it was more related to the first question only.

Sachin Gopal: We'll answer. We'll try and answer your questions. Thank you -- wish you all a very-very Happy New Year. And all the best, wishes to your families, and we'll talk to you in a few months' time. Cheers. Ajay, over to you.

Moderator: Sir, we have one participant in queue. May we take this one last question, sir?

Sachin Gopal: Please apologize, but we'll just have -- we have to get into some meeting also, right.

Moderator: Thank you. I would now like to hand the conference over to the management for the closing comments.

Sachin Gopal: So thank you. Thank you, guys. Thank you all, ladies and gentlemen, for taking the time out to be with us. We appreciate it. And hopefully, we are being able to give you all the information that you need. So have a great quarter and a great year and everything else. Okay. Cheers. Thank you.

K. P. N. Srinivas: Thank you.

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