"Agro Tech Foods Limited Q1 FY 2016 Earnings Conference Call"

July 27, 2015

ANALYST: **MR. SHIRISH PARDESHI –EXECUTIVE DIRECTOR AND HEAD OF RESEARCH - ANAND RATHI SHARES & STOCK BROKERS**

MANAGEMENT: **MR. SACHIN GOPAL – PRESIDENT & CHIEF EXECUTIVE OFFICER - AGRO TECH FOODS LIMITED**
MR. ARIJIT DATTA - CHIEF FINANCIAL OFFICER – AGRO TECH FOODS LIMITED

Moderator: Ladies and gentlemen good day and welcome to the Agro Tech Foods Limited Q1 FY 2016 Earnings Conference Call hosted by Anand Rathi Shares & Stock Brokers. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shirish Pardeshi. Thank you and over to you sir!

Shirish Pardeshi: Thank you very much Lizann and good afternoon to everyone for taking out time attending this conference call. We have with us Mr. Sachin Gopal, President, CEO; Agro Tech food Limited joined by Mr. Arijit Datta, Chief Financial Officer. I think we have lot of things and exciting things happening in the company, so probably Sachin you can start giving us the overview for the quarter and maybe some more details what excitement is there.

Sachin Gopal: Thank you and good afternoon everybody. Thank you for taking the time out to be with us today. As usual we will walk you through the P&L and the results and whatever are our highlight comments. I will also spend a few minutes this time on the subject of food safety because that is something that is obviously a relevant question from an industrial standpoint, so we will give you some update on that.

The first point, as far as the P&L is concerned as you would have seen there was a topline growth of about 1% that is for the total company. We will break it up for each of the different businesses for you and then go onto the next lines in the P&L.

We take first of all Sundrop Oil, Sundrop Oil ended the first quarter with a volume growth of about 7% and a net sales growth of about 3%, this volume growth excludes the free oil that we give for example when we say five liter plus one liter free so if we include the free oil it is about 11% to 12% so in total therefore an index of about 111 to 112 if you would remove the free oil comes onto an index of 107 and then with a negative variance of impacts of primarily of mix it comes down to 103, what this does say therefore is that we are starting to be in a comfortable position, we have always said that we need a net sales growth of about 98; 98 to 104 roughly is a safe zone for us to be in and we are therefore kind of in that range now, so we are starting to be a little more aggressive on pricing and then we will see and watch how it goes.

I do not have market share figures for you for the segment because as you know, as we announced to you, not I think in the last call but probably the one before that, that our advertising fee had come out with a fairly aggressive price increase, so we told them that we are going to discontinue it. We do not have oils data but as you are aware that when we exited the last quarter of last year we had a share probably of the premium segment of about 45% and our competitors had about 55% so with a volume growth of about 12 odd percent, we will see what is our competitors reports, in terms of their volume growth and we will try and use this as the base number to see how our share would be progressing over the year.

The commodity crystal business was significantly lower in both volume and net sales and volume was down about 9% and net sales was down about 10% so the commodity side is usually subject to both volatility and edible oil pricing and also subject to inflow of new competitors which happens on a routine basis, so we will see how this settles down. The margin impact of this is negligible but it is more from a top-line perspective that it does have some impact. We have excluded the commodity business, we just left Sundrop and Food business probably our total topline growth would be in the region of about 3% to 4% for the quarter.

As far as the food business is concerned we continue to see growth in the food business driven by both peanut butter and Act II Snacks. Peanut butter grew by about 19% on a quarter-on-quarter basis and Act II Snacks in total grew by about 6%. As a consequence total foods net sales were up about 7% and volume was up 13% in total for all foods and the volume growth was the same figure as well for Act II at about 13%.

Now we will take peanut butter first. We continue to see strong momentum in peanut butter and we have also now started rolling out the sachet packs, if you would have seen, you probably would have seen in the market by now we rolled out a 30 gram Rs.15 sachet and it is going very well, that process started about a month ago and it has had a good response, so as of now we are on air with peanut butter and I would say it is in good shape and we would certainly expect to see further acceleration, bear in mind that the Q1 of last year for peanut butter was the quarter when actually our shipments also include and I would have mentioned this in that quarter's results that our shipments also included some amount of inventory pipe lining because we had not been able to supply the market for the entire period through about late December to end March or probably early April, so there was also some amount of pipelines to be replenished. It is difficult to give a call on the exact number but overall I think looking good and completely in line with our expectations. Let me finish off peanut butter. In terms of spending we spent about close to 2 Crores on the spreads category in terms of media spending. The figure as per the audit agency is about 1.9 Crores, so broadly there. Our major competitors also continued spending in the spreads category Dabur spent about 2.3 Crores behind Dabur Honey, however Uniliver significantly increased the spending on jam; let us say in FY 2014 they would have spent 21 Crores, in FY 2015 about 30 Crores, in the month of June alone they spent about 10 Crores 9.7 Crores is the precise figure. We think that probably that is an one-off because there must have been media commitments which would have been made to the media industry and then given all these circumstances that happened on the noodles category it is probable therefore that some amount of money got shifted from one category to the other, that is only a conjecture as far as we are concerned but it is a possibility, so we do not really expect this to continue and we therefore expect the category to revert to reasonable share. As far as our spending our eyes are there. We had about a 12% share of spending for the quarter and we think that is in good shape for us to deliver our growth objectives.

Coming now to the Act II business and I will break it up between the three components that we have which is bag snacks; bag snacks includes ready-to-eat popcorn, extruded snacks and now the more recently launched tortilla chips. We rolled our tortilla chips. If you remember in the last quarter I said that in about eight weeks time we would start the roll out of a new product, so that rollout started out many of you had asked what exactly is the facility that we have put up in Unnao. The facility in Unnao is a reasonably broad-based facility. It includes **(indiscernible-7.58)** facility for some processed foods. It also includes an extruded snacks line and it also includes a tortilla chips line, so that part is starting to do well. I would say we have had a very good response to the product. I think it is a great product. We have been selling tortilla chips in any case for a long time in the vending business and some of you had asked when will it come into retail, so the answer is it has happened now, for the last few weeks we have been selling it and I would say response is very good. As of now we are still trying to scale up the line to its full capacity but overall very good response, so bag snacks now becoming reasonable. We would have done little under 5 Crores of bag snacks in the first quarter, so that means it is starting to become a sizable business for us. In terms of the total Act II portfolio it is now in this quarter accounted for about 11% and I think this will grow our time. As we told you earlier in a 500 Crore Act II business we see about 200 – 250 Crores coming from bag snacks. The trick obviously for us is to be disciplined about it and to be able to create a business category without spending a lot of money on media while ensuring that our media resources are focused behind what is really the strategic core of the brand which is ready-to-cook popcorn.

The second part is the vending business. The vending business had a very, very good growth this quarter, however we need to be careful about that because that is business which is much more vulnerable to pricing in the market place since at the end of the day it is an institutional business so while we are happy at the growth that we saw in terms of the vending business which is I think net sales were up about 16% but it is something that we need to be careful about. In terms of our ready-to-cook business that was actually the weakest amongst all the three categories, that was under 5% and that driven largely by some of the choices that we made in terms of the media spending behind the brand. In total we spent on the Act II brand about 3 Crores in this quarter versus about 4.6 Crores last year in the same quarter. While overall we expect to improve our advertising investments over the year, there is one significant change that we are making as we go forward which is we are trying to ensure that it is more balanced through the year, so let me give you a perspective, last year on the Act II brand we spent about 13 Crores in the total year but after 13 Crores in the back half we only spent 2.8 Crores and some of you have pointed this out to me actually that in Q4 our A&P spending had come down to a relatively low percentage, so historically we have also spent very large sums of money in Q2 and Q3 and the genesis of that always has been that the monsoons and starting June I would say the month of June we were accelerating our spending but this year we intend to have a more balanced flow of it, that is also due to one other factor which is that we are starting early signs and we have sensitive data, we do not have a lot of data but we have early data to suggest that hypothesis that if we spend behind ready-to-cook is also having a beneficial impact on ready-to-eat snacks if that is the case that is a big deal because it means we can be very, very efficient, we can compete in bag snacks effectively without investing a lot of money in A&P and therefore deliver good value and get scale and therefore improve margin over a period of time, so we expect to continue to see this improve as we go by, so roughly expect therefore that we continue to spend on a more regular basis every quarter and that should improve therefore both the ready-to-cook part of the business and as well as the ready-to-eat part of the business, so we should see a quarterly improvement or at least a semester wise improvement given the difference in spending in **(inaudible-12.15)** that is one part. The second part is that actually we also saw good volume growth in Act II but we are now as I mentioned to you started to spend on distribution expansion, we had talked to you that we would be hiring about 200 odd people and we have actually completed the recruitment process and we increased the number of people on company rolls by about 210 salesmen, however the model that we are following is one that we followed in the past, they work basically to replace the distributor salesmen in the early days, so let us say we have a thousand distributor salesmen right now in the street, this 200 is a 20% increase in that and therefore should give us a coverage of increase of anywhere between 50000 to 80000 to 90000 stores depending on how the year progresses, so the investment in the company salesmen is in our P&L so if you look at the advertisement actually you will see there is an increase in employee cost, this is something that I had mentioned to you about I think two quarters ago, you will see this year our employee cost will go up but that employee cost is largely going up because of the investment that we are making in the salesmen and however there is an associated investment with it of supporting the distributors in terms of van, so we plan to supply the salesmen and we have told the distributors you supply the van and we reimburse the cost of the van, so the cost of the van operations that we are subsidizing right now is amounting to about 50 basis points of the total P&L, so assume that we sell about 60 Crores of product every month about 50 basis points about 30 odd Lakhs in the cost of the reimbursement of those van operations. Now both the cost of the salesmen and the cost of the van operations will obviously come down as a percentage over time as we get scale because as we get scale the amount that we need to subsidize will also come down but right now it is going to be there and reflected in our P&L, that also explains in some measure by the value growth in our food business, it is lower than our volume growth. So a combination of mix and the incremental expenses that we are bearing but all giving very, very good results I think we are in very good shape and unlike I would say last time when we actually got to a peak of about 550 or 600 salesmen but that time we did not have the portfolio now we have the portfolio so it is obviously giving us very, very good results. So that covers the picture as far as the topline is concerned.

I will come now to margin. The total margin for the year as we measure it and report it, for the quarter was about 42.7 Crores, about 43 Crores compared to about 45 Crores in the last year which means that actually we ended the first quarter with a gross margin of about 24% versus prior year of about 25%. This is different from what has been in the past because in general we have been very, very focused on margins, however I think it reflects two things, one is as I said earlier it reflects at least 50 basis points of this is coming about due to the van subsidy that we are currently making and also there is another 50 to 70 basis points probably which is coming about due to the higher cost of manufacturing investments that we are making so if you look for example, as you see that depreciation and amortization bills is about 3.8 Corers for the quarter versus about 3.3 Crores for last year same quarter, so the 50 Lakhs coming about we got it across depreciation alone and there is obviously associated cost which are in addition to the depreciation of the plant, so right now for a temporary period of time I think we can expect to see gross margin coming under pressure as we invest in both distributor van operations subsidies if you will, which is therefore reducing the amount of sales that we recover from our normal selling price and as well some amount of cost increase because on the food business we have now absorbed most of the capitalization of the plants that we have invested in and this would continue, however the moment we start to gain operating leverage as we get volumes from the plant both the distribution cost will come down because the subsidies will come down because inherently the distributors will start to make the money and at the same time our absorption of overhead will improve as we keep building up volume, so I think it is a little different if you will company entering a new stage now where we are going to be more dependent on volume growth now initial indicators of volume growth looking good, few categories could be better, but certainly looking good and we therefore now need to just continue to grow volume expand distribution because we have already done the hard work of setting up the plants.

In terms of plant updates, on the subject we continue to progress well as far as our fifth plant is concerned which is Guwahati and we expect that we should be able to start production in the next fiscal year and I think I am also happy to say that we were provided land near Chittoor on the Tirupati-Chittoor road. We acquired less than under 4 acres of land there and we will now start with the work of change of land use, application for commission so on and so forth, however I think we have a good government in Andhra Pradesh fortunately and we do not expect that to be any challenge and therefore expect that we should be able to make good work in terms of the progress in that.

Advertising and promotion which is the next line actually lower than last year and you can see that which is we have spent about 11.1 Crores in the quarter in ad versus about 14 Crores in the last year same quarter. Both advertising and consumer promotion were lower than last year, so we have been phasing of investments of marketing investments that we are doing is equally applicable to both advertising and consumer promotion although the drop in consumer promotion was greater than the drop in advertising but that sort of the phasing of the advertising which we are doing in a planned manner so with that we have a more even spread across the year which also means that it will lead to a gradual improvement in trajectory particularly from a semester-on-semester perspective we should see and then will help us next year at the end of the next fiscal so we embark on a more continual and steady state investment and growth situation. I have already talked to you that the addition of the salesmen. The good news is that we were able to cover in the first quarter most of the increase in the salesmen cost through other areas of SG&A so our estimate is that the incremental feet on the street this year will cost us about 4 Crores and our plan is actually that almost all this 4 Crores should be funded by savings in other elements of the SG&A so I think even though we run a reasonably tight ship there is still room for us to do better on cost and so far in the first quarter I think we were able to be on track our SG&A reported was about a shade under 26 Crores for the quarter and that compares with about a little lower 26 Crores for the same quarter last year. So in effect therefore we are happy with the situation that we were able to become more cost effective on the administrative side and help to pay for some of the selling expenses, the incremental selling expenses and distribution expenses. We will see how it grows and we will see it reporting to you just on a quarter-on-quarter basis.

In terms of interest nothing much to write home about. It is pretty much similar to last year, however we have started the import of a reasonable amount of corn and therefore you can expect to see over the year that our interest cost are actually going to go up so we will keep you posted on that on a quarter-on-quarter basis but I expect to see this increase because our inventory of corn is going to go up and we will see obviously from a P&L perspective how do mitigate the higher interest cost. I think so far our borrowings are in the region of about 50 odd Crores if I remember correctly, and there is some similar level of corn I think probably that we are holding right now probably a tad under so most of the borrowing going towards the inventory holding so this will I think increase as we go by and release probably for the next I would say four to five months after which then it will start to come back, so you can expect to see that in the P&L.

As a consequence on the fact that we were able to actually improve our profit after marketing expenses and we were also about to control our SG&A expenses our profit before tax is up about 12% versus last year however profit after tax is lower by 14% because as you know the benefits of the Section 80 IC of Kashipur have ended on the March 31, 2015 and now we are basically left with only the benefits on account of R&D expenditure which will probably give us an effective tax rate in the region of about 31% it would be plus or minus a little bit.

From an other indictor perspective I would say **(unclear-21.48)** I gave you the spends on peanut butter from the industry, I will also now give you the spends now on the other two categories that we compete in that is edible oils and snacks, so in the snacks category we spent about 2.9 Crores in media in the first three months in comparison Lays spent about 7 Crores Kurkure spent about 14.7 Crores and Bingo spent about 7.2 Crores all the other players spent about 2.8 Crores, so we remain very much formally in the number four position and as we continually improve our business we will see how we manage it going forward but as I mentioned if you do look at the trade today you will see Act II in a very, very strong position certainly in the modern trade and we are also taking steps now to ensure that it happens in the traditional trade.

In the oils segment the total media spend as reported by Nielsen was about 1.5 Crores, I think that is also the figure that we have in our books. Saffola for the quarter spent about 10 Crores and Fortune Rice Bran is now at a much low level, they spent about 20 Lakhs in the quarter, so no significant spending by Fortune but Saffola continues to invest both in edible oil of about 10 Crores and I think from a brand perspective there was probably another 6.5 Crores that they spent on the oats category, so probably on the total brand they would have spend about 16.5 to 17 Crores in this first quarter.

That covers media spend, it covers the overall highlights of the business. Two other things that we need to tell you is that you see that depreciation and amortization is higher than prior year but it is lower than the last quarter of last year and the reason for that is that there are some changes to the depreciation rates which are there as a consequence of the Companies Act so when we declared Q4 results we already took those into account in the last quarter of last year that is why on a sequential quarter basis the depreciation is lower however on a quarter-on-quarter basis on a calendar year it is higher so that was the other part which sort of look odd in the P&L. The increase in employee benefits have already covered it is now 10.4 Crores versus 9.9 Crores and we will keep you updated as we continue to progress the distribution expansion fee and lastly there is one other part which is from day sales outstanding perspective, we did some analysis of the day sales outstanding to understand really where are we relative to our competitors, so we did an analysis of about six companies including ourselves so they are Britannia, Dabur, Marico, GSK, Nestle and

ATSL and this is our calculation and I am sure you guys are much smarter than us so you would have done calculations if you have some data by all means send it to us. We found that actually Britannia and Nestle were bunched together, they have always been about four to five days. We did exercise from FY 2011 to FY 2015 so four to five days has been historically the DSO of these companies which means pretty much largely selling on cash, then we found that Dabur actually has been consistent at about and we took the standalone figures for Dabur at about 22 to 23 days and GSK in the five year period started off at 8 days but actually ended last year at about 27 days so both GSK and Dabur now running at about similar level and then both Marco and us actually starting off at about 18 days and now down to about 10 to 12 days so we feel that there is some opportunity for us to be able to drive our range through effective leveraging of credit so we started to give credit selectively, where we find there are gaps in what our distributors are holding and the results of that are very good in terms of the expansion of range with our distributors, so just wanted to let you know therefore that you can expect to see some amount of increase in our DSO, as we moved enough a little bit because we are going to be very, very focussed now on driving distribution very hard, we have got a balanced spending more or less of media, they have the right product portfolio but we do need to ensure that we are not over tight. Edible oil businesses generally and historically have been always very tight on credit, but that would not necessarily work for foods business but this was one part which we had not really I would say focused on too much but it was certainly an area of opportunity for us so on a selective basis we will see how it is that we drive credit, so I just wanted to let you know that.

Now last on the subject of food safety as you are aware and there has been a lot of news about it, what we have done is therefore is that and you might be aware if you have looked at our website we have put a link on our website for all investors so anybody can see it clearly, it is absolutely transparent. If you go to our website atfoods.com specifically if you are in front of your computer right now and you go to the segment on investor relation, then under investor relations you go to other information and under other information you scroll down you would find a link to something called FSSAI Approval. So if you click on that a page will appear and on that page is a list of all our products and a link because these have all been approved on a year-on-year basis so you see FSSAI published and this is available on their website which product they approved in every year, in addition there are a few other products also that are approved but which are not there in the website but we wanted to make sure that this was available to everybody in the domain of public information, so if you click on that you will see we have given our products and we have given the relevant link for that set of products of approval from FSSAI website, so you can actually see all the products, the approvals that we have received from FSSAI over the last three four years and you will see products that we have already launched and there will be products that we have not launched, so in a sense this is some amount of information available if you will to the general public in terms of what we have applied for and what we have not launched so far. So that is available and therefore just whatever we are producing now is in full consonance. You would have also noticed this is on page 4 of our annual report which obviously got finalized well before the whole issue came up in respect of Maggi and the noodles category. If you go to page 4 you will see actually under section 8.4 we mentioned that as a matter of abundant caution imports of snack break chocolate pudding were temporarily suspended in FY 2015 to avoid the risk of containers being held up at ports and subsequently being written off, so this of course is which has taken I would at least two years. It is a two-year process and you know obviously there is debate and it takes time to bring everything in to a full alignment but I think hopefully we are in good shape on this one.

The other part is we also did an exercise and this will probably be useful to you guys, we did an exercise where we took all the products that were approved by FSSAI in these four years and our R&D team actually removed from it all the ingredients, so we therefore were left with what in our opinion is finished goods, so it means which product has, which company has how many products which are approved. It is possible that the terms of approvals may change but that is something that is not in our domain and we found actually the number one company in terms of product approvals issued by FSSAI was ITC. In our calculation they had about 55 approvals representing about 10.5% of the total approvals, number two was Nestle at 45 with about 8.6% of total approvals and number three was Agro Tech foods with about 40 approvals and 7.6% and you can do that exercise yourself as well and obviously it depends on what filter you apply but overall I think it means that we are in a reasonably good shape in terms of the approval of product approvals available to us. I do not think the food industry will become like pharma industry where the future of the company is exactly identified with the number of patents held if you will because you could have 100 approvals, we could have 40 approvals and the size of price might not be the same as for somebody who has only eight approvals, so it is not exactly a one-to-one correlation with business potential but overall I think it is a reasonably good indicator of where the company stands in terms of its due diligence and application of law and consistency from a regulator perspective. I am sorry I apologize, I took more time than normal but there was a lot to be covered so with that I shall close my one way dialogue and we can open to questions.

Moderator: Thank you. Ladies and gentlemen we will now begin the question and answer session. The first question is from the line of Shirish Pardeshi. Please go ahead.

Shirish Pardeshi: Hi Sachin, I said in the beginning there is lot of excitement happening in the food space and you exactly narrated and of course you would have answered some questions but still there are three broad questions in the line of business what you are entering and you are trying to have staggered approach launching new products you have already displayed you have got tortilla chips which was launched how big and what big is the opportunity in terms of if you are trying to get this product may be after three years or five years?

Sachin Gopal: Should we take all the questions and then I can answer all of them.

Shirish Pardeshi: So the other question is that you talked about Guwahati and you also talked about Chittoor so what kind of Capex and maybe if you can give the timelines when the capacity will be up and running probably one would like to understand you mention sometime back you would like to build up the capacity may be 100 to 150 kilometer area so is that project is on or this is out of way. The third question is that the volume growth is now you have tackling saying that the volume growth is back I think last five, six quarters the volume growth was muted so I think is that the trend of going forward you will have further issue.

Sachin Gopal: Thanks Shirish. Already from a total business perspective the food business opportunity remain large, if you do the exercise, I think Citibank had done a very good report in July, I think they tend to do it every July, and if you look at it as per that report the food business and that excludes the beverage business in India is about $22 billion, the US is about $310 billion, China I think is about $146 billion, Mexico is about close to $60 billion and Brazil is about $90 billion. If I look at other estimates that I made of the business about six years ago was probably the food business was about $8 billion so that means in less than a decade we have more than doubled, so I think it is quite reasonable to assume that by the year 2025 the Indian business will be worth at least $50 billion, I do not think it will be less than that. So the opportunity will remain large. We, I think just need to be disciplined in our approach to it. We have gone from one category in the last five years to three categories. Five years ago we would have talked only about edible oil, today we talk about edible oils, we talk about snacks and we talk about spreads and in each of these three categories we are now in terms of share of spends the number two player, in edible oils we are the number two player, we spend much less than our competitor, our results are not bad though and I would say in spreads probably number two to number three, Dabur in the first quarter was bigger than us, Unilever was the biggest but I think that is a onetime which is associated with all the issues that they have faced from a regulatory perspective and I think we are at comfortable number two/number three and in the snacks business we are a clear number three player now today after Frito-Lay and ITC and delivering very good results. I do not know if you recall that there was an article in the Economic Times some time ago where they had taken snacks that talked about different companies performance and I think the data was based on AC Nielsen and they had talked about I think Frito-Lay's turnover was reflected at about 3000 Crores and they talked about a 1.5% growth for them, 1.5% at consumer price of 3000 Crores about 45 Crores, if I translate that into company revenue price it is probably about 30 Crores with a spending of about 90 to 100 Crores and here we are probably growing bag snacks incrementally, if I take our current rate probably by about

10 to 15 Crores a year with no investment, because all the investment is going behind ready-to-cook popcorn so that means that even though we are number two/three I think we are in a very, very strong position and that is reflected on the shelves today. As I told many of you go into the store go into a modern trade store in Bombay and you will see the sheer scale of impact that Act II has today and that is only improving. Now specifically on tortilla chips the answer is I think it is a nice category, if you look at the US it is a pretty large category, I think it is a billion dollar category I think if I remember correctly and if I look at data for the UK tortilla chips and popcorn are probably about the same levels or probably tortilla chips is bigger than popcorn. So in a sense therefore it seems to be a nice category. We have got our own manufacture. For the institutional business earlier we used to buy from a third party but this is a line that we have imported ourselves. It is a pretty low cost, plant and machinery investment is very low and I think the product is excellent, I would say it is a nice category. When will we invest advertising resources only then we see that business has become A&P ready our experience is that business needs to be in the region of about 15 to 20 Crores or at least 10 to 20 Crores for it to be A&P grade and we also need to know that we have the right margin structure. If you go in to history we spent on Act II popcorn only when it was about 14, 15 Crores thereabouts and therefore we need to be sure about that. Is it a nice category, the answer is yes but then all three are nice, ready-to-eat popcorn is a great category because we have strong competitive advantage and as we set up more plants we are able to reduce the freight as a percentage of sales, so that brings me to your second question Shirish on Guwahati. The capex timelines we would expect to see Guwahati kind of finished by the first quarter of next fiscal, construction is under way; it is at a good clip, so probably finished at first quarter probably semester one of next year we should be able to start servicing from Guwahati. In terms of Chittoor we just got the land, let us see how long it takes actually in terms of the change of land use because we will obviously not be able to start construction till all that happens but all the signs are good and so we would expect to see that in the next 12 months or so, we should certainly be in a position to do that. Our investments are not likely to be large. Guwahati, if you know the total investment is unlikely to be anything different from the range of about 10 Crores or so 10 to 12 Crores and I think Chittoor excluding the land the land was relatively low cost on Guwahati, Chittoor because it is a slightly larger plot of land the land bill is a little higher and I would say even so probably 10-12 Crores in that ballpark so we are not actually looking at large capital investments now behind our current businesses. In other word both peanut butter and snacks we are not seeing large capital investments, we are yes, we will be making investments in the new categories that we will be launching so the next three categories if you will some of those investments we have already made and we are in the process of making products, doing consumer home visits, applying for product approval, that is a long process. If the current system of product approval remains we are looking at about two to three years but the good news is that we have a large pool of product approvals

which are already there, so all we need to do is make money on these, make them efficient make the businesses efficient, make them profitable and that will give us the time to make the products for the next three categories that we envisage entering and do the product approval so by the time these businesses are in auto mode we are ready, we are not looking then where we can go up to this lengthy application processes. Volume growth I think the volume growth is a direct result, direct correlation with distribution expansion. As we expand distribution we feel this in earlier years with Act II also. As we expand distribution we get volume growth now that was the reason why we did not expand distribution for the last two years if you will because you are making the investments in manufacturing but that part is over, it is more or less done for us, and it has pretty much paid off, we have done it, there is no debt on account of capital today, so we are in a comfortable position on that so you can expect us to see making investments in distribution reasonable you can see that. If you take the impact of 210 people at a landed cost of about 22000 per person that is about 5 Crores, 4 to 5 Crores is the level that you are talking about on investment on people alone and there is probably another if I take 500 basis points on a 60 Crores whatever business a month that is another 4 to 5 Crores, you are talking about 10 Crores a year that we are currently investing in our P&L this year now part of that is getting recovered it is not all incremental because we are trying to ensure that the cost of salesmen is paid for some SG&A savings, the cost of the van subsidies is reduced because our distributors keep selling more so the margin pays for it. The subsidization goes down but you are looking at either which way at a broad level you are looking at about 10 Crores of investment, that is on top of the 10 Crores investment that we made last year the manufacturing cost increased by over 10 Crores, probably in the range of 12 Crores or something like that so these are large investments that we are making I would expect therefore that we are unlikely to struggle on volume growth either on foods or on oils, it is highly unlikely, what are the exact numbers, I do not want to commit and say we will be at 10% volume growth on oils because we will take our call, we will take our call if we feel it make more sense to make more margin we will go for more margin but with distribution expansion I would say running in 20% increase in feet on street a good high quality salesmen I think the volumes are to look good. We will have to phase out the balance part out which is how do you get the pricing, how do you make the margin, how do you quickly make sure that you get the operating leverage both from the distribution side and on the manufacturing side which is big size of price but I would say volume should look good.

Moderator: Thank you. The next question is from the line of Lakshmi Narayanan from Catamaran. Please go ahead.

Lakshmi Narayanan: I have couple of questions, first is you mentioned that you import raw material but when I go through your annual report it says that 99% is actually indigenous, just want to get some clarity on that, second is that you started a subsidiary in Lanka and given that Lanka is a good market for breakfast and also for spreads if you can just elaborate more on that and the third is on the bag snacks which is essentially the popcorn ready-to-eat if you can just throw light on what kind of volume growth you are expecting and finally you can take this question if you have time if I look at the overall sales in terms of the topline, the growth has been lower whereas the volume growth has been quite encouraging and you actually describe is it because of I am actually reading the excise number included and hence the topline looks subdued on how was it so these are my four questions.

Sachin Gopal: We missed you by the way at the AGM in Hyderabad. I will take the question two three and four first and then I will request Arijit just to look at that specific page in the annual report which page is it where you talked about the raw materials.

Arijit Datta: It is in page no 84 consumption of raw material that is only 1.06% raw material

Sachin Gopal: Let me first come to Sri Lanka, yes Sri Lanka is a good market you are absolutely right it is actually as you are aware Nestle Sri Lanka is about a 1100 Crores company so it is very old I think they have more tetra pack machines than Nestle India has because it is a large beverage market as well. The answer is yes, it has a nice breakfast category and it also has a large snacks category however ready-to-eat snacks probably are easier to penetrate in with ready-to-cook popcorn so we have been actually working on this subsidiary for a while, it has taken as I think about a year or so to be able to ground it and we will now figure our way out. As of now we are exporting product to Sri Lanka but that is not very viable and in any case because of freight and nitrogen flushing, nitrogen flushed products so on and so forth so we are figuring out what to do in the market and how to actually ship product from India and then do some form of manufacturing activity there which makes it profitable. There are some good options that are currently being evaluated, however in our time pecking order it is the lowest on the priority so in other words we expect to see the Bangladesh plant going on stream first because I did not mention it but in Bangladesh we had our equipment actually it was lying at Chittagong Port for a significant period of time several months it took to clear but that is cleared now and the equipment is now in the plant, so I expect that over the next couple of months we should be able to commercialized that equipment and start production in Bangladesh. Sri Lanka will follow. The model for Sri Lanka and Bangladesh is likely to be different. They are both different markets of different sizes. One is a population of 150 -200 million people and other is 20-30 million people so clearly the scale of investment that we will be willing to make is likely to be different in both these markets. The process of course is we have to tailor it but I think we have a product portfolio which can do well in those markets. That will be my answer in Sri Lanka. In terms of ready-to-eat popcorn why do not I just give you the growth rate here. In total it would be in the region of about a 150 index so ready-to-eat popcorn for the first quarter will be 50% up versus last year and we see more deceleration in that as it is going forward, in fact as we continue to expand, we should only see an acceleration of that and that is good because remember and Shirish asked the question and I did not answer it fully which is that our game plan was we need seven plants and with seven plants will bring down the average distance travelled from about 1200 kilometers to about 300 kilometers with three plants it comes down to about 600 we are already at six plants meaning in terms of the infrastructure that we are putting up so 300 kilometers certainly on ready-to-eat popcorn despite the fact there is the bag snacks we will be able to bring down the freight to single digit percentages so we are going to sub 10% it is already gradually coming down from the 20% to the 10% level at 7%, 8% we are in good shape literally. So I think after that we will have to refine the product mix and the packaging and the flavors and other things and then once we can make it profitable I think it will become an A&P grade material so we can invest behind it, so I would say good volume growth and right now I do not need to see any challenges on maintaining that 50% level. Obviously the proof of the pudding is in the eating, so next quarter if you ask me the question I will be able to give you what is the actual number and in terms of topline, the answer is yes it is muted even if we exclude the Crystal part it is still 3% to 4% but that is because of the percentage of our food business to the total, it is right now running at about if I remember we closed about not 25% I think at fag end of 25% for the first quarter probably it was I think 23% or 24% that tracking very well clearly as the base of our foods business as a percentage of the total improves the bigger it becomes and the more we are in categories which are growing at 50% the faster will be the total impact that is a mathematical calculation so the actual delivery will depend on what the share of the foods businesses is and how much we are growing it. On edible oils clearly we need to be cognizant of what is the strategic role of the edible oil business not to get distracted to say suddenly oh by the way we have got a 12% volume growth so let us go for more volume it is not going to work exactly like that, So that is one part.

On your part about pricing and volumes part of it is mixed so you ask part of it is mixed and that is the reason why value is slower than volume which is tad different if you go through the last six seven years but it looks like the new face of the company now, there is certainly aggressive volume growth will be called for and inclusion it will happen and it is also happening in oils. At least from what we can see this quarter and also some amount of the investments, see I said 50 basis points is the impact of the van subsidy now that is going away from the topline so the same volume growth is giving us now a lower value growth so that is the answer there is no other components it is not that we are doing more trade deals or trade promotion or anything than before. We are very disciplined about that. We always had done and I hope that we will continue to be there.

I have just looked at the data that you mentioned. Page 84 is the consolidated balance sheet, so we are not able to see the point that you are making we are not able to get that data point. Sorry about that, but just to answer your question all the corn that we import for popcorn is imported, all the corn that we buy for tortilla chips is made in India, all the corn and rice grits that we buy for extruded snacks and potato flakes are made in India and all the edible oil that we buy is bought in India. It may be imported. It may be locally made.

Moderator: Thank you. The next question is from the line of Percy Pantaki from IIFL. Please go ahead.

Percy Pantaki: Sir my first question is on the foods business basically there is 13% volume growth and a 6% to 7% price growth so just wanted to understand the reason for the difference between the two, if you could split it up between pricing and mix secondly just wanted to understand your distribution right now for snacks if you can give me some figures or numbers of outlets covered currently what that number was 12 months back and what you expect it to be 12 months and 24 months from now on that would be helpful and thirdly if you could just throw some light on your ambitions or targets for the overall snacks business for the next three to four or five years what is the kind of top-line that you plan to garner from this business that is it thanks.

Sachin Gopal: Thank you Percy. Thanks also for your report on rural India. On foods the difference between 13% and 7% is I would say what we said earlier a part of it is due to the van reimbursement that we are doing which is 50% on the total topline but it is obliviously more, it is 50 basis points from the total topline but is more on the foods business because about 50% of the product that we sell through the vans are foods as compared to the total company where about 23%, 24% of our volume is foods in the new outlets been brought up under coverage about 50% is foods right, so that gets a disproportionate allocation of the distribution investment and the other part is mix. As you have seen earlier and I mentioned that we had like a 16% growth in the vending business but obviously the net of realization on the vending business lower per kilo than it would be for the consumer part of the business so I would say it will be more mix than pricing and some amount if you will the subsidy that we are giving for van support and overall if you look on a line-by-line item in terms of net sales per tonne it is not dramatically different so it is not that there is any one line item where net sales per tonne is going down really, and if anything it will be very, very minor the main difference will be on account of factors that I have just said, so that is one, second on the outlets covered well see you do the math, if you have salesman who is covering beats on a fortnightly basis theoretically, theoretically a salesman should be about 450 stores on a fortnightly basis that is theoretical calculation, that does not mean that is the actual, so that means if you have 200 people on the road they can add about 90,000 stores our old coverage was in the region of about 200,000 to 250000 stores, it is difficult to give exact precise numbers in a country like India so the theoretical number is probably 200 people can give you a 40% to 50% increase in your coverage but it does not exactly work like that because as you start this journey you go to the retailer, he says okay you have not come earlier or you came and you have not come for a long time so I need to see whether you will come again next time et cetera, et cetera or you say okay let me buy one SKU today and all the others I will buy I want to see you coming regularly for about two, three months and then the full range can go in so it takes time which is I said probably the number is anywhere between the 50000 and 80000 to 90000 by the end of the year but I think at least for 25% increase in our converge would definitely be a safe number to assume and if it is more we will give you the details as we progress during the year.

Our ambition for snacks clearly we said Act II will be a 500 Crore brand and let's see how the time goes and how we are able to enhance our growth rate as we move from the first semester to the second semester because of the more consistent phasing of advertising that we are planning and we should certainly be there, over what period that is exactly difficult to say, that depends on the CAGR where they are able to do but I think we have a very good portfolio we really have a good portfolio now, what we are going to manage is range selling for the full portfolio and also at the same time we need to ensure that we have the right focus on instant popcorn because that is really going to be where we have the maximum competitive advantage and the best supply chain structure for profitability so we need to balance that so on one hand as you have more SKU you have more offerings to the trade but also on the other as you have more SKU you run the risk of dilution of focus of the salesman, so how do you balance this speed, so we have the portfolio now. We need to land that with the retailers but we also need to balance the focus on the more profitable part of the business so I would say it is a new phase, it is a new phase for the company but certainly different but very nice phase to be.

Moderator: Thank you. The next question is from the line of Prakash Kapadia from iAlpha Enterprises. Please go ahead.

Prakash Kapadia: Sachin I missed the ad spend number of Sundrop for the quarter if you could just tell me that and if you could give us some sense on how much of distribution led growth is still possible in the edible oil business and if you were to get and expand this current volume growth how critical is addition of newer customers or upgradation in our portfolio and also if you could let us know what is the Sundrop Heart contribution to our edible oil portfolio?

Sachin Gopal: The number of Sundrop figure for the quarter was we ended with the volume growth of 7% excluding free oil.

Prakash Kapadia: I wanted the ad spend I noted the oil growth.

Sachin Gopal: The adspend was 1.5 Crores. Distribution led growth I would say still significant and in terms of the total portfolio of course as we go to newer stores the initial productivity is on the edible oil, if you get the productivity of say seven stores of oils then about five will be for the lower oils and one to two stores will be for the more premium oil but definitely still a large number. What is the actual number, it will be very difficult for us to call because as you know we now no longer buy in the audit, so we will not be able to say that hey this is the number of stores. Obviously from a competitive perspective in a good position as far as the distribution was concerned as we exited the audit but what will be the exact number as we go forward I would not be able to give you a number on that.

Prakash Kapadia: So it will be a combination of distribution led and newer customer addition for sustenance of this volume growth.

Sachin Gopal: Yes, if we continue to add coverage at the rates that we are adding right now we do not see that as a challenge and your last question regarding share of Sundrop Heart it is between 15% and 20% of the total Sundrop oil business.

Moderator: Thank you. The next question is from the line of Ajay Thakur from Anand Rathi Shares & Stock Brokers. Please go ahead.

Ajay Thakur: I had just one question, wanted to get clarity on your long-term strategy on both margin, volume and market shares for the edible oil category has there been a change in that or is it still that you would be preferring your margin ahead of the volume and the market share?

Sachin Gopal: Ajay I would say no change in our long-term strategy, this quarter also Sundrop oils made the margins that we had planned for it to make and it is clearly going to be the carrier of the company and so there is no change in that. Our mission is to become the best performing most respected food company in India and we will continue to drive very hard our food investment, like we are back on peanut butter and Act II snacks, so yes we have always set a floor of about 40% in terms of share of the premium edible oil market, we said if it is less than 40% we will start to worry about it but honestly right now I do not think we are in that camp. If we had closed last quarter at about 45% share of the segment and effectively from a market share perspective we have had a 12% volume growth we would lose share only if our competitor delivers more than 12% volume growth so we will wait for their running announcement to come and we will take a call. If they have delivered under 12% that means we have gained market share, if they have gained more than 12% that means they have gained market share and we will make a mathematical assessment of what is the number based on whatever is their growth figure. Just on volume as I said right now obviously looking good, double digit volume growth is a reasonable phase to be in, even though a part of it is free and part of it net sales realization is lower because of the mix but if we continue to expand distribution, coverage expansion gives a lot of momentum to a company and that certainly I think where we are today so I think now just a question of how to make it all fit within the P&L that is really a challenge more than everything else, how to fund, last year we funded 10 plus Crores on manufacturing, this year we are trying to cover another 10 Crores of distribution cost, those are relatively large number for a company like us with a profit before tax of 45 to 50 Crores so how do we make all the pieces balance I think that is really the main challenge that we have today.

Moderator: Thank you. The next question is from the line of Pratik Gandhi from Geecee Investments. Please go ahead.

Pratik Gandhi: One question with respect to do food category wherein we have some aspiration that 50% of our revenue we expect to be coming from food in coming years so how do we expect this category is it more driven only by the two key sub categories which is of Act II and peanut butters or if you plan to add more subcategories in that and secondly in terms of margins focus is more on improving the food categories performance how do we and likelihood of increase in the ad spending how do we see the margins moving up, thanks.

Sachin Gopal: So the answer is yes there are these two categories but we are looking at this point in time in at least three new categories and in two of those three new categories we have already made the capital investment, it takes time to make product and so we are now at the stage either that we will start plant installation very soon or we have already installed the plant but we still need to make trial product, check it, make sure that we have a clear win with consumers and therefore are able to file for product approvals and the third category is still under evaluation. We have probably invested some capital **(inaudible-1.3.59)** small amount, so the answer is I would say at least another three categories to be able to get to for our future ambition. It is possible though that if we look at the capacities that we have currently built up that even the current businesses can take us very close to the 40% to 50% mark, if you look at it there already touching 25% give it one way or the other and we still have significant capacities available so it is probably the three new categories been come in at a stage when they are somewhere between 40% and 50% and then they will then help us to address the next turn of 50% to 80%. In terms of margins I think the key now really is to get operating leverage we already have the plants so those are up and running as I said 10 to 12 Crores last year on additional manufacturing cost, 10 Crores odd on distribution, so let us just see now how we can get operating leverage. Our calculation is that we just do the manufacturing overheads right at the growth of food business from our current capacities we could add at least 200 basis points from margin on account of that right, it could be a little more but let's say at least 200 and then there is probably another I do not know 50 to 100 basis points which will come from distribution because as the units become profitable we will also therefore not have to make these investments on the subsidies on the foods business I am talking about, so I think there is probably a play somewhere between 200 and 300 basis points in total, it is difficult to call out the exact number obviously right now we are going to go through the phase where we feel the full impact of these investments particularly in the early part of the year first two quarters because last quarter of last year we already had incorporated these into our diet but that is roughly the play and then after that we probably should get the balance improvement to get the 30% margin on account of product mix. In terms of A&P investments we see ourselves continuing to be very disciplined. At our current level of strengths as I mentioned earlier we are number two or number three player. In each of the categories that we compete in our growth rates are very good. If you look at right now even though we might be the number two spender in the edible oils category I doubt very much that we are the number two volume growth delivery right, we will see when the results comes out in the next ten, fifteen days, this is on the snacks business, last year we were one of the fastest growing snacks category in modern trade. We do not have data for the other snacks on Nielsen and this is supported by the data that I just shared with you from published information from the media and ditto on spreads last year we were the fastest growing spread in the market, again we do not buy data but we get data from customers and if you buy Euromonitor some of you may be doing it you will see Euromonitor records that the entire spread category in India has been driven by Agro Tech Foods in what they call the nut based spreads segment so we are able to drive category growth and we are able to drive that with the reasonably low percentage in terms of A&P to sales we do not see that changes. As we enter new categories as well we will be entering categories where we have the capacity to compete so let us assume there is a category where the category spending is 300 Crores a year for example we are likely to enter that, however if the category spending is let us say 100 Crores a year then they spending 5 to 10 Crores we can get between 5% and 10% share of spend. If we have a good product to match that then we have a viable business proposition so actually it is not based onto that. Do not expect to see too much change or suddenly we say no now we will spend 12% of sales you all ask me what is our average good spent I have always said 7% to 8% and we are today I am not sure what the figure is for the first quarter probably in the region of about 6% so that is the kind of range we feel comfortable we can do good business and therefore have a nice profitable business.

Pratik Gandhi: Sir just one follow-up on edible oil category when we are saying that okay we want to be a 50% of revenue coming from food is it imply to assume that your edible will start declining and the food will gain and that is why basically we will get 50% incremental or this is on the basis of assumption of 4%, 5% growth in the edible and over and above this with the food category will grow much faster.

Sachin Gopal: The answer is no if you look at the last five years actually our Sundrop oil business has not declined in any share manner of all, so the answer is no I think we have been successful in kind of holding the total business and I think so but it depends if edible oil prices drop by 30% tomorrow we may have more option but to drop but let’s see how it goes.

Moderator: Thank you. Ladies and gentlemen due to time constrain that was the last question I would now like to hand the floor over to Mr. Shirish Pardeshi for closing comments.

Shirish Pardeshi: Thanks Sachin and Arijit. My sincere apology to all the other participants due to constraint of time we could not allow the other participants to ask questions but I think it is very interesting and Sachin has already made the journey more interesting so we will wait for another call next quarter, Sachin do you have some closing remarks.

Sachin Gopal: Thanks Shirish thanks for organizing the call as usual. I appreciate it and thanks to all for joining in. Have a great day, good month and everything, bye.

Shirish Pardeshi: Thank you.

Moderator: Ladies and gentlemen on behalf of Anand Rathi Shares & Stock Brokers, that concludes this conference. Thank you for joining us and you may now disconnect your lines.