"Hindustan Foods Limited
Q4 FY 2021
Earnings Conference Call"

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Mr. Ganesh Argekar, Executive Director, Hindustan Foods Limited
Mr. Mayank Samdani, Group CFO, Hindustan Foods Limited
Mr. Vimal Solanki, Head Emerging Businesses & Corporate Communications, Hindustan Foods Limited
Mr. Bankim Purohit, Company Secretary, Hindustan Foods Limited

Moderator: Ladies and gentlemen, good day, and welcome to Hindustan Foods Limited Q4 and FY 2021 Earnings Call.

This conference call may contain forward-looking statements about the Company, which are based on the beliefs, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve address then uncertainties that are difficult to predict.

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 for 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. Sameer Kothari, Managing Director, Hindustan Foods Limited. Thank you and over to you, sir.

Sameer Kothari: Thank you very much. Good afternoon and welcome everyone to our Q4 FY 2021 earnings conference call. I apologize for having kept you waiting for a few minutes, we were facing some technical issues. I hope each of you and your families continue to remain safe and healthy during these COVID times.

I am joined on the call today by Ganesh Argekar, who is the Executive Director on the Board; Mayank Samdani, who is our group CFO; Vimal Solanki, who is our Head of Emerging Businesses & Corporate Communications; and SGA, our Investor Relations Advisors.

I hope everyone has had a chance to go through our updated investor presentation, which was uploaded on the exchange, and on our Company website.

Coming to the financial performance of our Company:

We had a record year and a quarter, with the highest turnover, the highest EBITDA and the highest PAT in the history of the Company. However, the second wave has had a major sobering effect on our exuberance. The loss of life, and the suffering has been a reality check. And while the Company and its operations have not been affected, it has made us far more circumspect than what we were earlier.

While the FMCG demand continues to be resilient throughout the pandemic, the effects of the spread of COVID into the rural areas needs to be seen. With the abatement of the second wave and the expectation of normal monsoon, we believe that the FMCG industry should escape unscathed. Like a lot more intelligent people than me have recommended recently, I am hopeful that the government will take steps to stimulate demand in the rural areas by announcing some fiscal stimulus.

In the meantime, coming to Hindustan Foods specifically, all our factories continue to operate at optimal capacity utilization, and we are taking all adequate precautions to maintain the safety and health of our team members. In terms of a medium-term view, I have mentioned that before, that this disruption caused by the pandemic will only help the concept of contract manufacturing in the FMCG industry. And we continue to remain optimistic about this and about the long-term potential of the industry.

Based on this optimism, we have and continue to put our money where where it is required. I am pleased to inform you that both the new factories in Silvassa have started production and we expect them to completely ramp up in this quarter. In terms of the new projects in UP and Hyderabad, we have unfortunately been hit by the localized lockdowns, and more specifically, by the unavailability of steel in the last month or so. Our teams are working hard to ensure that we will meet the project deadlines in spite of all these hardships. And we are hoping that normalcy will return soon enough, not causing any serious delay to the projects.

In terms of misses, the jinx with our beverage foray continues, and in this quarter, which was the peak summer season, unfortunately, the entire season has been washed out. We had a full order book for our beverage factory this year, like last year, but unfortunately, we have not been able to produce to the full capacity. In order to hedge this risk, we have now started working on our personal care and home care facility to be set up in the same campus. We are confident that with this new facility, we will be able to de-risk the beverage business, especially the seasonality of that.

Another casualty of the COVID restrictions have been our merger application, which was filed nearly six months ago. I am pleased to inform you that we have finally started seeing some light at the end of the tunnel, and Mayank will share some details on the merger of our beverage plant in Mysuru and the malt beverages factory in Coimbatore.

Lastly, I just wanted to touch upon some of our long-term plans:

We continue to remain as optimistic and aggressive about our growth plans as we were a few years ago, when the Company's turnover was Rs. 20 crores. We are confident that we should be able to hit our goal of Rs. 2,000 crores in this financial year and are working hard to set our goals for the next few years. We had promised in our last call to give guidance about what we are looking for in the next few years.

But this second wave is a symbolic of the phrase which I have come to love in the last few months. The phrase is, if you want to make God laugh, tell him your plans. COVID and the pandemic has upended the plans for all of us. Having said that, we will come back to you next quarter with some more clarity on our future plans and our future goals, as we expect the haze around the COVID second way to reduce in the next couple of months.

I will now hand over the call to Mayank Samdani, our Group CFO, to take you through the financial results of the quarter and the full year ended March 31, 2021.

Mayank Samdani: Good afternoon, everybody. This is Mayank here. I will get you through the financial results for the quarter and full year.

So, first we talk about the quarterly performance of Q4 FY 2021. We are happy to share that the growth momentum in the business is in line with our guidance, in spite of some of the hiccups caused by the pandemic. Our total revenue for the quarter grew by 95% year-on-year and it stood at Rs. 483 crores, which is very close to the guidance we have given. This was on the back of the ramping up of the Hyderabad factory, commissioning of the Silvassa unit and continuous increase in the raw material and the packing material prices, which were passed on to our customers.

Our EBITDA for the quarter has seen a growth of 50% year-on-year, which stood at about Rs. 27 crores as against Rs. 18 crores in Q4 FY 2020. Our PAT has registered a growth of 95% year-on-year, which stood at around Rs. 11 crores against Rs. 7 crores in Q4 FY 2020.

Now if we talk about the performance for full year 2021, our total revenue has registered 80% year-on-year growth for FY 2021, and it stood at around Rs. 1,389 crores as against Rs. 773 crores in FY 2020. As compared to the last year, the Company's sales increased due to ramping up of Coimbatore facility, Hyderabad facility and Silvassa facility, and the inflationary effect of the input prices in last two quarters.

Our EBITDA for FY 2021 has seen the growth of 51% year-on-year, which stood at about Rs. 86 crores. We are able to protect our EBITDA from the increase of raw material and packing material prices, by passing on the same to the customer. However, it did affect our margins. The operational leverage benefit due to the ramping up of the factories, helped in shoring up the PBT and PAT margins.

Our PAT has registered a growth of 60% year-on-year, which stood at around Rs. 36 crores as against Rs. 23 crores in FY 2020. PAT of FY 2021 includes benefits from reversal of the excess provision of tax for the year 2019-2020 to the tune of Rs. 3.8 crores, the same has been adjusted after the filing of the returns. The strong business performance was well supported by strong operating cash flows, which grew by more than 4x to approximately Rs. 74 crores. This was due to the strong operating performance led by optimal management of working capital.

Our net worth for FY 2021 stood at around Rs. 224 crores. During the year, we focused on sweating our existing facilities which has helped us to improve our net fixed asset turnover to more than 5x. This has led to an improvement of return on capital employed as on 31st March, 2021, which stood at around 19%. However, we are confident to improve this return on capital employed further. The factors that give us such confidence is that this was achieved in a year where our first quarter earnings were hit by COVID. And also, in a year where a large part of our CAPEX is yet to deliver the full capacity either due to the ramping up process or it has not been capitalized as yet.

As Sameer mentioned in the speech, we have been constantly investing in CAPEX. Company has invested nearly Rs. 200 crores in last two years. In addition, we are expecting to invest additional around Rs. 200 crores in next one year for manufacturing of personal and home care products, and food and beverages products. Despite, consistently investing in our CAPEX, our debt-to-equity ratio stood at 0.97% for 31 March, 2021. In this low interest regime, we will continue to use debt to fund our expansion, while being completely aware of our responsibility towards the maintaining the proper mix of debt and equity.

With this, I would like to open the floor for questions.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Faisal Hawa from H.G. Hawa & Co. Please go ahead.

Faisal Hawa: Congrats for a good set of numbers and almost reaching the target, at least on a quarterly run rate basis. My question is that, can you give an example of around three CAPEX decisions that you have refused over the past one year? This will give us an idea of how your mind runs on key capital allocation details? And second, is it possible that we give capacity utilization numbers of most of the factories, as now we will be constantly adding factories, so it's almost like retail franchise where there is same stores growth under new stores growth. So, we will be able to better understand where the growth is coming from.

Sameer Kothari: Faisal, you asked a couple of questions, I am going to start with the capital allocation strategy. Instead of giving you examples of decisions which we refused, I am going to give you an example of a decision which we did and we went strong. So, for example, we decided to invest in a shoe manufacturing unit which we acquired in Mumbai, we decided to allocate nearly Rs.

2 crores of capital towards goodwill. And I think in total, we paid around Rs. 5 crores for the entire unit. This was a shared facility and in spite of our best efforts, we have actually made a mistake, and we have lost money in it.

So, what I can tell you about the capital allocation strategy, and what we have discussed with the Board is very simple. If it is a dedicated site, which has a take-or-pay contract, we have no limitation on the capital that we will allocate to such a project. And that's visible from the investments that we have done which are upwards of a couple of hundred crores in one particular site. If it is a shared facility where we believe that there is a lot of potential, but there is a possibility of us going wrong, like we did in the shoe factory or like we did in the Mysuru beverage factory, the Board as well as the management has decided to restrict this capital allocation to around Rs. 10 crores to Rs. 15 crores.

And third, that in case of capital allocation, what we have decided as a corporate policy is, in case of shared facilities where we believe that the operating leverage is very high, we will fund this capital using equity. While in case of the dedicated units, we will be using a judicious mix of debt as well as equity, because we have a take-or-pay contract. So, I hope that gives you some idea about how we look at capital allocation.

We are a contract manufacturer with relatively very thin margins. We are very, very seized about the fact that we cannot afford to make too many mistakes as far as capital allocation is concerned. That does not mean that we will not make those mistakes. We will, but we are hoping that those mistakes will be small enough in the grand scheme of things, so it does not affect the working of the entire Company. I hope that answers your question, Faisal?

Faisal Hawa: Yes, fully. It in fact more than makes me understand your thought process in allocating capital.

Sameer Kothari: Okay. The second question you asked about capacity utilization for our site. Unfortunately, we do not want to get into a situation where we are talking about capacity utilization or growth in a particular area or in terms of product category. Just because we manufacture for competing brands in case of other sites, etc., we do not want to give away information about what we are manufacturing, how much we are manufacturing and stuff like that, for obvious reasons. You are absolutely right that as a Company as a whole, we will continue to invest in more and more factories.

All I can say is that as a shareholder, and as an analyst, when you look at the facilities which have the take-or-pay contracts, they will continue to have the same figures in terms of growth as well as EBITDA for the tenure of the contract. So, from same store sales perspective, what you talked about, our same store sales are actually guaranteed for the tenure of the contract, for the next 5 or 10 years. We know that we will deliver the x amount of sales from that facility, and the new ones will add to those sales. So, I hope that gives you some idea of how to look at us in a situation where we are growing rapidly.

Moderator: Thank you. The next question is from the line of Keshav, from Randstad Investors. Please go ahead.

Keshav: Sir, my first question is that if Vanity Case is anonymous to Hindustan Foods in terms of clients, or is there a clear demarcation of it? And the second part to the same question would be, how do you choose between Hindustan Foods and Vanity if you get an opportunity to board a fresh client?

Sameer Kothari: Keshav, Vanity Case is the name of the group. As you are aware, we have been doing this business for nearly three decades now, under the name and aliases of Vanity Case. Hindustan Foods became a part of Vanity Case only in 2012-2013. However, since 2012-2013, all new businesses as well as all new customers are being brought into Hindustan Foods only and not in Vanity Case's other group companies. What we had agreed in order to address the minority shareholders' concern, that we will assimilate and merge all the business or Vanity Case into Hindustan Foods over the next couple of years. We started that process around two years ago when we did the first merger of the Hyderabad facility. We are currently at the NCLT, doing the merger for one more facility of ours, which is in Coimbatore. And we are hoping that in the next couple of years, we will be able to merge the entire Vanity Case business into Hindustan Foods.

And to just give you some more colour around that, more than 90% of the group's business is in Hindustan Foods, just around 10% of the business is going to remain in Vanity Case's other group companies once this merger is done.

Keshav: Okay, perfect. Sir, my second question would be, when you say, being an organized player helps at your part, still do you have any other competitors, maybe listed or unlisted, having relevant market share vis-à-vis you or better?

Sameer Kothari: So, I am hoping not better, Keshav, I am hoping we are the best, but you are right. Obviously, we have a lot of competition, right. And I have tried to address this ~~this~~ before that we have competition from regional players, people who are very well entrenched in a particular region. So, when we go to states like UP and we compete with someone who's been in UP who has the experience of running factories in UP, etc. We also have competition from domain experts, so when we decide to get into a beverage factory, or an ice cream factory, or a home care facility, we compete with people who have been manufacturing ice creams for all their lives, who have been manufacturing beverages for all their lives, etc.

The aspect which sets us apart is that, we are agnostic about the product. You would have noticed that just in this quarter, we have actually started manufacturing knitted shoes, which is sports shoes, which is a completely new product category for us. We are completely agnostic as far as product and geography is concerned This is our first venture in UP, which we have announced a couple of quarters ago and we are hoping that we will be able to start production

sometime in this financial year. So, we are agnostic about product category, we are agnostic about location. And we have a very clear idea, or rather a mandate from our Board, that we ought to diversify our customer base enough, so that we are not dependent on any single customer. So, I think that's what sets us apart from our competition, because you have a lot of players who focus on a particular geography or focus on a particular product or focus on a particular customer.

Keshav: Yes, I was actually about to ask that as a follow-up only, that is your ability to handle a diversified portfolio your moat, but you clearly mentioned it before that. Can I ask another one, very quick question. So, sir, a typical long-term contract for you is 5 to 10 year timeline, right?

Sameer Kothari: Yes.

Keshav: So, sir, under what conditions would these contracts be scrapped before the timeline or has such a situation occurred in the past?

Sameer Kothari: So, I mean, periodically contracts can be cancelled at any point of time. The way the contracts are structured, if the contract is cancelled, they have to repay the customer has to repay, the entire project investment, which has been made on the project and, I would hate to use the word compensate, but at least do something for the loss of profit that occurs because of the cancellation of the contract. Having said that, yes, we have had certain occasions where contracts have been cancelled. And yes, we have had the occasions where our counterparttieshave risen up to the occasion, and met the entire contractual requirements, both in letter as well as spirit.

Moderator: Thank you. The next question is from the line of Akash Zaveri from Perpetual Investment Advisors. Please go ahead.

Akash Zaveri: Congratulation for an amazing quarter and a wonderful year. Also, just wanted to know, is there any discussion for any investment related to the PLI scheme?

Sameer Kothari: Akash, so the PLI scheme was announced a couple of months ago, the rules have actually come in just about a couple of weeks ago, or maybe three weeks ago. We are definitely trying to evaluate what we can do, we are making representations to the government for it. I am not in a position to tell you anything definite about what is happening. But as soon as something happens, we will definitely inform the stock exchange and all of you.

Akash Zaveri: And just I have a follow-up to that. So, this would be only in the shared facility, right, or would it even be for a dedicated facility? Because I am coming from, if it's a dedicated facility, would you have to pass on the benefit of PLI to the client?

Sameer Kothari: So, that's a very interesting question, Akash. So, in case of PLI benefit, as a contract manufacturer, it's going to be an interesting tug of war between how much percentage of the benefit will be passed on to the customer versus how much will be retained by the contract manufacturer. And I think that's a tug of war which is going to happen with all the contract manufacturers who are in the market, whether it's in the electronics field, whether it's in the home appliances field or whether it's in the homecare and personal care, FMCG field like us. I frankly don't know how it's going to pan out. Because the PLI scheme itself is too new. We will find out, I would say, in the next year or so, about where and how those proceeds are split between the customer and us. So, let me just clarify, I think your point is absolutely valid and bang on, that I don't think, as a contract manufacturer, we will be able to retain the entire benefit of the PLI scheme. I don't think that's going to happen.

Akash Zaveri: Okay. And just a question that, year-on-year our EBITDA margins have slightly declined, but that's due to a change in mix. So, for our business, isn't it futile to look at margins, so as a business we should focus on ROCs, right, is my thought process correct in that aspect?

Sameer Kothari: Absolutely. So, I will be happy to hand it over to Mayank who can give you some more clarity about why the margins have declined and what happens. But principally, you are absolutely right, that looking at ROE, ROCE is the way to look at us for sure. Akash, do you need any more colour on the margin profile, I will be happy to ask Mayank to give you some colour around it.

Mayank Samdani: So, Akash, yes, you are absolutely correct that our EBITDA margins have decreased, but this is because of the increase in raw material and packing material prices, which we have passed on to the customer. But due to the percentage on sales, it appears that margins have gone down. And also, the mix is also as you have rightly mentioned. But we are sure that we will continue to be in range of 5.5% to 6.5% of EBITDA margins going forward.

Akash Zaveri: Okay, perfect. And just a follow-up question on that. Is there any kind of automation or cost efficiency capital expenditure that will help us improve our ROCEs going ahead? Is it possible for us to take on any automation no cost efficiency, capital expenditure, which will help us improve our ROCEs going ahead?

Sameer Kothari: So, that's a continuous process, right? So, we are as brick and mortar as you can get. So, we are doing manufacturing, so any cost saving proposal, anything which reduces labour cost, anything where we can do some automation and do a cost benefit analysis and see if the amount of investment in the automation is repaid within a couple of years and will add to the ROCE, we will definitely consider.

Akash Zaveri: I just want to squeeze in another question. So, the knitted-wear footwear category that we have gotten into, so are these from top brands like Nike, Adidas, like Tier 1 sort of brands? Or are these regional players? What is the kind of customer base? If you could answer that question for us.

Sameer Kothari: What's happening with the knitted-wear here is that, thanks to the government's Aatmanirbhar Bharat plank, the government has imposed substantial import duties on imports of finished shoes from China. So, not only the regional brands, but all the international brands are also definitely looking at Make in India. This is an evolving phenomenon, we have just gotten into the category now. One thing is very clear, we will continue to do contract manufacturing, which means we will not be launching our own brand of sports shoes or anything. And we are happy to work with any customers. I can't discuss with you which particular customer we have signed up with and how much we are manufacturing for them. But as a principal, happy to work with anybody.

Akash Zaveri: Okay, perfect. And just one last question from my side. So, now with our current quarter run rate and the capacities that we have coming up in UP and Hyderabad starting this year. So, we know the way to reach about Rs. 2,000 crores or Rs. 3,000 crores in annual turnover by FY 2023. Just wanted to get an insight on how we plan to move from Rs. 3,000 crores to Rs. 5,000 crores or Rs. 6,000 crores in annual turnover? If you could just comment on that.

Sameer Kothari: You didn't listen to my opening remarks, which said that if you want to make God laugh, tell him your plans beyond FY 2023. So, on a serious note, we discussed it internally and we do have a target that we are working on. We were a little bit more circumspect in giving out this target right now, because frankly, the COVID second wave came as a complete surprise, not only for us but I am assuming for our entire country. We do not want to get into a situation where we publicly talk about something and then find out that some extraneous factors, something which we have no control upon, ends up completely appending those plans. We will definitely, by next quarter, hopefully in the next investor call that we attend, we should be able to give you some more clarity on our numbers going ahead.

Moderator: Thank you. The next question is from the line of Shubham Rajgaria from Westbridge Capital. Please go ahead.

Shubham Rajgaria: Congratulations on the great numbers. Just one question, building on the margins front. We have seen some decline in gross margins as well as EBITDA margins even quarter-on-quarter. If you could maybe help understand what has changed in this quarter, especially on a gross margins front.

Sameer Kothari: Shubham, like Mayank was trying to explain to Akash. So there has been some crazy inflation in a lot of raw materials, plus packing material prices, in the last two quarters. What ends up happening is, given our business model is that we pass on those costs to the customer, it results in an increase in sales, and which results in an increase in denominator. So, just if you look at it mathematically, our margin percentage would go down in case that there's an inflation, we are just passing on the cost to the customer. In addition to that, this is what I am talking about for the last couple of quarters. If I look at it over the last two years, I think the product mix and the business mix has changed, I will not say completely but rapidly or significantly. A large part

of our business a couple of years ago was shared manufacturing, the shoe business and leather business contributed to a large part of our business where the margins are far healthier. And when I talk about margins, I am talking about gross margins, based on sales as a denominator. So, the margins are far healthier in case of a shared facility. They get far thinner in case of dedicated facilities. And what you are seeing is a mix of both, which is change in the product mix, change in the business and also inflation. However, as a Company, like we spoke to somebody else earlier, we focus only on the absolute number of the gross profit and the EBITDA. And we look at how we can control our operational costs. Because for us, looking at percentage of sales as a metric, is not the right metric for us.

Shubham Rajgaria: Thanks, Sameer. And on that note as you rightly pointed out that the operating cost has been very, very controlled and congratulations on that. But just curious, I saw that other expenses rose sharply this quarter compared to Q3. If you could maybe shed some light there, that what has happened there and what do these other expenses contribute? And, on your remark on the shared versus dedicated facilities, if you could help us understand how has growth been in the shared versus dedicated facilities this quarter or year-on-year?

Sameer Kothari: Sure. I am going to request Mayank to give you the details about the other expenses and the operating margins.

Mayank Samdani: Shubham, this quarter, all our factories were running at full capacities. So, obviously some or the other expenses have increased due to that. But we are controlling all the expenses, as Sameer told you. So, this was a major reason, and some expenses like testing expenses, outward freight etc and sharply, because of the product mix also.

Sameer Kothari: Shubham, your second question was?

Shubham Rajgaria: The percentage of share, dedicated versus shared, and how has growth been in both cases.

Sameer Kothari: Shubham, given the capital allocation that we are doing, we are investing a substantial amount of money in dedicated facilities. I think for the next couple of years, we will continue to see a disproportionate amount of growth in terms of absolute numbers in case of the dedicated business. The shared facility business for us is doing very well. But given that, both as a policy as well as a decision, we are restricting our capital allocation to the shared facility business. Frankly, it will get compromised in favor of the dedicated factories.

Moderator: Thank you. The next question is from the line of Amit Chordia from World Foods LLP. Please go ahead.

Amit Chordia: Sameer. I wanted to understand how broad the spectrum of your products is going to be, right? You are now making shoes to ice cream, so is there going to be everything in FMCG that you will make, or you have some dedicated area?

Sameer Kothari: So, Mr. Chordia, we basically said that we are completely agnostic as far as products are concerned. We will restrict our business to FMCG, we do not intend to get into contract manufacturing of phones or contract manufacturing of electrical appliances, etc. But within the FMCG space, frankly, we are open to any kind of products. Like you rightly said, we are going from ice creams to shoes, we are manufacturing infant food formula, we are manufacturing home cleaners, toilet cleaners. So, as far as product category is concerned, we are agnostic about it.

Amit Chordia: Okay. And with the pandemic are you finding some exciting sick units that you can look at as inorganic acquisitions?

Sameer Kothari: So, we continue to look at M&A as a very important part of our growth strategy, Mr. Chordia. As you would have seen from the history of the Company, we have acquired a bunch of companies. You are right that this current situation has led to a lot more attractive opportunities being presented to us. I am not able to discuss anything in specifics, but in principle, absolutely, yes.

Moderator: Thank you. The next question is from the line of Keshav from Randstad Investors. Please go ahead.

Keshav: Sir, recently on a mid-sized FMCG companies call, there was a reluctance by the management to go for contract manufacturing in future, because for them in-house manufacturing helps them with more control over processes and the product overall. So, sir, when does a company with an in-house manufacturing base already decided to go for contract manufacturing? And is there value for big and small FMCG players alike?

Sameer Kothari: Sure. So, Keshav, the normal evolution is as follows. The company would do contract manufacturing in a bunch of possibilities. One, if it is a new product, is a new product extension, and they do not have the facilities or they do not want to invest money in setting up the facilities for that product, the FMCG brand would look at doing contract manufacturing. They would come to somebody who has a shared facility like ours, and we would be happy to do contract manufacturing for them. The other possibility is that a large established brand is running a promotion, has got a seasonal demand and has got a demand which has come in. I mean, to give you an example which is pertinent, about COVID, suddenly hand wash, hand sanitizer and cleaning products demand went through the roof Capacities are sticky, you can't generate capacity as quickly as the market moves, that would be another avenue for FMCG brand to look at contract manufacturing.

In both of these cases, they would look at shared manufacturing facilities. The areas or the time when they would look at a dedicated manufacturing facility is a completely different scenario. You would look at a more mature product, you would look at a product which has been around for a while, you would look at a product where the FMCG Company is very confident about the

performance for the next 5 or 10 years. As you can imagine that most of our dedicated sites work for large FMCG brands, and the reason is very simple. If they have to give us a commitment or visibility on their volumes for the next 10 years, they better have tremendous confidence about the performance of that brand. And they also must have some track record and history, trends, about the performance of that brand.

So, in terms of evolution, you look at new products, you are happy to do contract manufacturing if you do not have shared facilities. In case of seasonal products, again, happy to do contract manufacturing if you do not have facilities. In case of the medium brands or midsize brands, like you rightly said, it is a toss-up between whether you want to allocate your capital to manufacturing assets or whether you want to allocate your capital to marketing. A lot of companies decide, and for reasons which are pertinent to that Company, they decided that they want to keep the manufacturing in-house and they are happy to invest money in it. A lot of the other companies decided that they would get a bigger or a better return for their buck if they invest that money in marketing, as opposed to investing it in manufacturing assets. The second category of those companies would come to us and ask us to do contract manufacturing, the first ones would not. The third one, like I said, is a very evolved product. So, if you look at the product lifecycle, these are the products which have been around for a while. And in that case, the brands would be more than happy to look at contract manufacturing, because there is a definite arbitrage in terms of what they can do versus what we can do.

Keshav: Alright. So, if we see on a global basis, between developed economies and India, and if you were to develop a metric as to how much of production happens through contract manufacturing and FMCG vis-à-vis the total production, so do you already see India moving in that direction? And what is your vision for next 5 to 10 years, just purely going by that number?

Sameer Kothari: So, global comparisons are a little difficult, because global comparisons, FMCG especially has to do with consumption. So, if you look at a country like the U.S. or Europe, the consumption patterns are not like India. The second thing that happened is, since they opened their markets, a lot of the FMCG products that they use are made in other countries, including China. So, from an historical perspective, I would be very, very reluctant and I will be averse to draw parallels between what happened in the U.S. or what happened in the Europe, as far as contract manufacturing is concerned. The one aspect which is comparable is the evolution of a contract manufacturer in the U.S. or in Europe.

What happened there is, contract manufacturers grew, and after having grown they got into contract research, as well as contract development of products, and then brands basically relied on contract manufacturers to develop new products. A bunch of Italian companies have pretty much defined everything that is to be done in colour cosmetics, they define what are the colours of the season, they define what products will be used. And then all the colour cosmetic brands, which includes the L'Oreals and the Unilevers of the world, will basically pick

products from these contract manufacturers. I think that's going to be the evolution in India. India of course, is atypical as we all know. The taxation system, the entire consumption matrix here with 1 billion plus population will probably throw out different business models, and I would be very, very averse to comparing it to what is happening in the U.S. or Europe.

Keshav: Got it. Sir, when you sign a new customer and decide to set up a manufacturing facility for them, so who funds the initial CAPEX? Is it completely upfront funded by the client or partly funded, in the sense there's cost upfront?

Sameer Kothari: So, it depends on the contract, right? So, if it is a dedicated facility where the customer has a lot of confidence in their brand and can give a guarantee of take-or-pay, and more importantly, if we have got a tremendous confidence in the customer as a counterparty, we will invest all the money. In case of certain customers where either they are not confident about the product or about the brand or we are not confident about the counterparty risk, we might ask them to de-risk our investment by either contributing some money or giving us some assets or something like that.

Keshav: Okay. So, right now, all your dedicated clients are all big companies, so am I right to say that whatever CAPEX has happened on the dedicated side has all been funded by you till now?

Sameer Kothari: Yes.

Moderator: Thank you. The next question is from the line of Amit Chordia from World Food LLP. Please go ahead.

Amit Chordia: Are you seeing inquiries like from a China-plus-one perspective from the larger companies like the chemical sector is seeing?

Sameer Kothari: Amit, China-plus-one, so the short answer is, yes. The long answer is, depends on the product. The short answer is, for example, the knitted shoes example that I gave earlier is business which is moving out from China and going into other countries. The long answer also is that the China-plus-one is not going to happen overnight. Just the lack of infrastructure in India as compared to other countries is going to ensure that China-plus-one strategy for it to be meaningful for any brand owner is going to take a few years. So, what we are hoping is that in the next couple of years, this China-plus-one strategy will play out in favor of Indian players. I do not expect it to make a huge difference to any of the Indian players in the FMCG industry in the next year or two. I cannot say anything about the chemicals and pharma API manufacturers.

Amit Chordia: And with climate change becoming a major concern, especially in the Western world, are you building processes and factories which are more environmentally sustainable? Is that a thought in the design?

Sameer Kothari: So, absolutely. And not only is it a desire, but it is also required. I will give you an example of a small Union Territory called Silvassa, where the local administration has necessitated that a part of your power must be generated out of renewable sources. So, as a result, I think the government is doing a fantastic job in encouraging sustainability from an environmental perspective, there is zero discharge policies in most of the states, in case of our largest facility in Hyderabad, we are trying to become a facility which would take zero water from the ground, we are trying to ensure that all the water requirement comes from above ground sources. And the government is also helping and pushing in achieving this. In addition to that, since most of our customers are multinational companies, they have their own requirements in terms of social compliances, environmental compliances, which we must cater to. So, it is not only that we desire to do it, in most of the factories, we are also required to do it.

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

Chirag Patel: I track your Company since quite long, and I was really impressed with your performance and the decisions you have taking in last few years. I just want to understand, like any stress plant which you acquire for a contract manufacturing capacity, what are the key parameters which are common across the plants, which you give more weightage, when you look at stressed acquisition?

Sameer Kothari: So, in case of stress assets, I think the first thing that we would look at is basically the stress. I mean, given the fact that the Company and the management is extremely focused on ROCE and ROEs, the greater the stress the more attractive the asset must be. Having said that, what we look at is, in addition to the stress value or the distress value, we would look at whether we would be able to add value to that asset. And again, I would like to draw an example of ATC Beverages, which we tried to take over. We were very confident that we will be able to add value to the business. And frankly, we have done our best, we have been able to get customers and we have even managed to get the order book to be full for that Company as compared to the fact that for nearly 15 years they have not been able to get the capacity utilization beyond 30%. We were able to get to a situation where, at least on paper, we were booked for 100% of the capacity. Unfortunately, in both the years COVID hit. But from a management perspective, I am extremely pleased that we got an asset which was stressed, we got it at a very good value. And we were able to add substantial value to the business itself. I am quite confident that we should be able to get it up and running as soon as these COVID pandemic restrictions are lifted. And I think we will be able to create some substantial value out of that asset.

Chirag Patel: Okay. And any threshold which we put before entering into such an acquisition contracts, in terms of amount that we don't want to spend beyond this figure for this particular asset or something like that?

Sameer Kothari: So, that depends on the nature of the business, Chirag. Like I mentioned earlier, when I think Faisal had asked me about the capital allocation strategy, very clearly the Board has told us that that we would look at a shared facility if we are investing between Rs. 10 crores to Rs. 15 crores, anything above that we would necessarily look at an asset which has a contract or a confirmed business. Whether it is stressed or not, that is irrelevant as far as the capital allocation strategy is concerned. So, we are not going to buy an asset and keep it just because it is available cheap.

Chirag Patel: Okay, got it. And my final question, is there any plan to launch our own brands going forward, moving from contract to our own brand manufacturing?

Sameer Kothari: Chirag, since you have been following the Company for long, I am hoping that that you are happy with what we are doing. We have no intentions of getting into brands or changing the focus of the Company from a B2B into a B2C Company.

Chirag Patel: Okay. And is there any plan to help with the brands which are associated with us to provide them like supply chain kind of services or to make them that shipment also back end kind of services other than contract manufacturing in future?

Sameer Kothari: Absolutely. So, we do private labelling. Ganesh is here with me and Ganesh can talk about how he helps people with vendor development etc., I will just hand it over to Ganesh.

Ganesh Argekar: In terms of development of vendor, we have a full-fledged procurement team from the head office, who are in continuous touch with the customer. They also coordinate with the customer, the procurement team, and we develop the vendor. So, if there is vendor A, we on our own develop vendors, and we deal with all the vendors over here in the business in the industry. We share this knowledge with them. And what we do is that we decide upon a particular way, that if any cost saving from that vendor would be shared with us in principle. This is what we do.

Sameer Kothari: In terms of the help that Ganesh's team offers to the brand, Chirag, we actually also help them with vendor development, design development, packaging development. So, because Ganesh's team has so much experience in dealing with various forms of packaging, if a customer or a brand comes to us and says they want to launch a new product, but this is the kind of packaging that they are looking for which they are not able to get, someone in Ganesh's team helps them connect with the right vendor, and so on so forth. In addition to that, we are in the process of setting up and recruiting people for R&D, where we will start helping people for formulation as well as product development.

Moderator: Thank you. Next question is from the line of Rajan Shah from Manasvi Securities Limited. Please go ahead.

Rajan Shah: Congratulations, Sameer and team, for great numbers. I just have one question, Sameer, for you if we can answer broadly, is that, you guys are pretty much the largest contract manufacturers in India at this point, and pretty much the best that we can have. What is something that you look up to is my question like, is there a benchmark or some competitor that's not in India but a global contract manufacturer that you aspire to match at some point in the future?

Sameer Kothari: Sure. So, Rajan, thank you for your kind words. So, a large part of our growth as well as our vision has been based out of pharmaceutical industry. I think the Indian pharma industry has done a phenomenal job of evolving from a contract manufacturer to a stage where, I mean, maybe this is not the right time, but we are effectively the pharmacy of the world. So, if you ask me what we are looking up to, we are looking up to a bunch of pharmaceutical companies who are doing some phenomenal job in terms of contract manufacturing for global brands, global pharmaceutical companies are doing a fantastic job of it.

In terms of specifics, the other Company that we look up to is also companies in the colour cosmetics area where, like I said, the contract manufacturers now define and decide the agenda for brands. It would be a great achievement if we can get to that kind of level where, let us say, if a brand wanted to launch an environmentally friendly home cleaner or a personal wash, that they would come to Hindustan Foods because we will be the technological leader in terms of providing that solution. So, that is the kind of aspiration or ambition that we would look up to.

Moderator: Thank you. Due to time constraints, that was the last question. I would now like to hand the conference over to Mr. Vimal Solanki, Head Corporate Communications and Emerging Businesses for closing comments.

Vimal Solanki: FY 2021 will be imprinted in our memories for a long, long time, as we collectively face tough times. However, owing to our strong and resilient business model, as also commitment of the team, this year ended as the best year in the history of the Company. I am sure we would have done even better without this virus hovering on our heads. Luckily for us, pandemic or no pandemic, people don't stop drinking tea and coffee or washing their hands and hair and clothes and floors and toilets or having babies and feeding them baby food. So, luckily the need and demand for contract manufacturing in the FMCG industry has only been growing year-on-year. We are in continued discussions for new projects with new as well as our existing customers. We are confident we will keep adding new names to our list of customers. We are confident of achieving our goal of revenue of Rs. 2,000 crores by FY 2022.

I take this opportunity to thank everyone for taking our time and joining on this call this afternoon. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or SGA, that is Strategic Growth Advisors, they are our Investor

Relations advisors. We hope to see you with better results, better performance next time. Until then, take good care, stay safe. Thank you.

Management: Thank you. On behalf of Hindustan Foods Limited, that concludes the conference. Thanks for joining us. And you may now disconnect your lines.

Disclaimer: *The Transcript has been edited to remove and / or correct any grammatical inaccuracies or inconsistencies of English Language that might have occurred inadvertently while speaking.*