"Hindustan Foods Limited
Q2 & H1 FY '25 Earnings Conference Call"
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MANAGEMENT: MR. SAMEER KOTHARI – MANAGING DIRECTOR – HINDUSTAN FOODS LIMITED
MR. MAYANK SAMDANI – GROUP CHIEF FINANCIAL OFFICER – HINDUSTAN FOODS LIMITED
MR. GANESH ARGEKAR – EXECUTIVE DIRECTOR – HINDUSTAN FOODS LIMITED

Moderator: Ladies and gentlemen, good day, and welcome to Hindustan Foods Limited Q2 and H1 FY '25 Earnings Conference Call. This conference call may contain forward-looking statements about the company which are based on beliefs, opinions and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict.

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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, Manav. Good evening, and welcome to our earnings conference call. I am joined on the call by Ganesh Argekar, Executive Director; Mr. Mayank Samdani, Group CFO; and SGA, our Investor Relations Advisor. I hope everyone has had a chance to go through our updated earnings presentation that was uploaded on the exchange and our company website as well.

This quarter's results are an example of the parable of the blind men and the elephant. Each part of this quarter says a different story and my team, and I will try and help address this as much as possible in the next hour or so. On one hand, the FMCG sector continues to contain with challenges stemming from the subdued consumer demand.

However, since most of HFL revenues comes from dedicated business model that guarantees our bottom line, the company's financial performance has been stable. While this was the off season for beverages and ice cream, the company's revenue figures have, in fact, increased smartly.

This is on the back of the shoe business and the ramping up of the Baddi factory which were not a part of the last quarter's numbers. While the revenues have increased, the overall profitability of the company was flat. The profit numbers were affected by the additional costs arising due to the integration of the shoe business, which brings me to the last part of the puzzle. If the overall industry is slowing, will the company continue to grow or is the current flattish performance going to be the norm for the next few quarters.

To answer this, I have to pass back to our previous discussion, where we had mentioned that we are in the process of identifying new customers and diversifying into new sectors to ensure long-term growth. We have identified ice creams, beverages and footwear as high growth avenues that align well with our core strength and operational capabilities. Our focus on these categories is already yielding positive results as we have seen measurable advancements in each area.

In ice cream, we are tapping into the vibrant market with strong consumer demand which is offering ample opportunities for expansion. We have achieved a significant milestone in this quarter by securing two new clients over the past 6 months. This development not only strengthens our market presence but also positions us to become one of the largest contract manufacturers of ice creams in the country.

By aligning with the major players in the industry, we are expanding our reach and reinforcing our reputation for quality and reliability which is essential in building long-term partnerships and supporting sustainable growth of this category. In the beverages sector, we have made strategic acquisitions and expansions that are setting a solid foundation for the future growth.

Our acquisition of the Mysuru factory around 5 years ago marked an important strategic entry that enabled us to extend our operational footprint to Assam, setting up a liquid line there. and then tapping into a key region for beverage production and distribution. Building on this momentum, we have recently finalized a beverage unit in Odisha further broadening our geographical reach and production capacity.

With this foundation, we are confident in our continued growth and market penetration across the country. Finally, our entry into the footwear segment provides us with a unique diversification strategy, leveraging our experience in manufacturing and our commitment to quality to meet the demands of a dynamic consumer base.

While the integration of the shoe factories has definitely hit the financial performance of the company, we continue to remain extremely bullish about this sector and have expanded capacities in the South which would enable us to grow this business rapidly in the coming quarters.

Showing summary, I can say that we are going to use the foundation of the stability provided by our long-term contracts to tap newer opportunities and newer clients. These newer opportunities and newer clients come with a promise of higher returns, but also with the cost of a higher risk.

Together, these initiatives are part of a broader vision to build a robust, diversified business model that is resilient in the face of market fluctuations and capable of sustaining growth across multiple sectors. I will now hand over the call to Ganesh Argekar, our Executive Director; to brief you on the operational highlights.

Ganesh Argekar: Thank you, Sameer and good evening, everyone. I will now walk you through the operation and business highlights for Q2 and half year FY '25. The company has signed up for an additional customer for the ice cream project at Nashik making the site an anchor tenant model. This should enable the company to better leverage the factory.

The total capex for this site is now estimated to be INR185 crores, and the commercialization is expected in April 2025. The estimated capacity in the first day will be 12,500 litons of ice cream, which would have various formats of party packs, sticks, cups and cones. The expansion of capacity at the ice cream plant in Lucknow with a capex of around INR20 crores is in progress and will be completed before February '25. With this capacity expansion, we will be ready with 3 lines of cones for the coming season in addition to the various formats of cups, cones and sticks.

The Board has sanctioned a greenfield plant in North India to manufacture ice cream. This will mark the third factory for ice cream for the company and the beginning of a relationship with a new customer. This will envisage an investment of INR225 crores in phases. The network for the project is being lined up by a project team, and we are targeting to start commercial production for ice cream season starting 2026.

With increased demand seen the beverage category, the Board has sanctioned a further capex of INR15 crores to expand our capacity at our Mysuru plant. This will increase our capacity by over 30% from manufacturing and filling up beverages.

The land acquisition for the Colour Cosmetics facility at Silvassa has been completed with a capex of INR40 crores. The board has sanctioned an investment of up to INR35 crores to acquire a company based in Orissa for bottling mineral water for a multinational company.

With this now, I will hand over the call to Mayank Samdani, our Group CFO, to take you through the financial results for the quarter and half year ended 30th September 2024. Thank you

Mayank Samdani: Thank you, Ganesh. I will now run you through the financial performance for Q2 and H1 financial year '25. First, we'll talk about the consolidated financial highlights of H1 FY '25. The total income recorded at INR1757 crores which is an increase of 35.4% from the same period last year. EBITDA stood at around INR148 crores, which is an increase of 36.6% from last year. PBT is at INR68 crores an increase of 12% over last year.

Now if we go to the Q2 performance of FY '25, the total income is around INR886 crores, an increase of 31% over last year. EBITDA is at INR72 crores, INR72.6 crores, which is an increase of 30.7% increase from last year. PBT is at INR31.8 crores, an increase of approx 2% over last year. The company revenues were blasted from the expansion of our shoe business and the operational scaling of OTC Health and wellness factory in Baddi.

These ventures has been pivotal in strengthening our revenue base and enhancing our overall market presence in these high-potential sectors. Our dedicated manufacturing facilities, which are integral to our operational strategy continued to deliver strong contributions to profitability in line with our expectations. However, the integration of the shoe business, while essential for our diversification efforts introduced additional cost during this period.

This incremental cost affected our overall EBITDA and profitability as we focus on aligning new operations with existing processes and achieving synergy with our manufacturing framework. In terms of cash flow, even though a portion of this cash flow was allocated towards supporting the working capital needs for a fully integrated shoe business and the ongoing scale up at our factory, yet we achieved a healthy net operating cash flow for the first half of FY '25 of INR74 crores, a substantial increase from the -- from INR24 crores reported in the same period last year.

This growth demonstrates our commitment to maintaining financial resilience even as we invest in the growth area. Looking ahead, as our shoe business drivers towards profitability, we expect to see an upward trend in the profitability. Company net worth as on 30th September stood at INR705 crores. Our gross block as on 30 September was at INR1,238 crores. Debt-to-equity ratio stood at 1.03% and cash and cash equivalents stood at INR64 crores.

With the Board adjustment and the constructive discussion with our clients, we now have a well-defined part of capital investment, which is expected to raise our gross block to over INR1,800 crores by FY '26. With this, I would like to open the floor for questions. Thank you.

Moderator: Thank you very much/ We will now begin the question-and-answer session. We have our first question from the line of Faisal Hawa from H.G Hawa.

Faisal Hawa: So Sameer I mean, how is the ramp-up of our footwear division coming around? Would it be a fair statement to make that we are now at around 45%, 50% of growth capacity? And if I may ask, how many footwear measures have you got an entry into? And are we right now approved supplier for like almost all the footwear measures or there were some left? And secondly, about the Dr. Scholl's facility, are we making any progress for all the approvals that have been made? And what is the capacity utilization at that factory?

Sameer Kothari: So Faisal, as far as the footwear business is concerned, you are aware that we acquired a going concern. The going concern already had some of the major leading multinational brands as customers. We actually have inherited an excellent plan roster from the previous customers, and we continue building on that. From that perspective and because of various tailwinds that we've mentioned earlier, including BIS, import duties, etcetera. Demand generation is not a problem as far as the shoe industry is concerned.

It's more a question of integration. It's more a question of driving efficiencies. It's more a question of ramping up the capacities. Second, as far as the facilities, the health care facilities are concerned, you talked about the South IJK facility.

Faisal Hawa: No, I think the Baddi facility, the Dr. Scholl?

Sameer Kothari: You're absolutely right. So in the south, IJK facility, there were no approval spending, the approval which was pending was only for the Baddi facility. And the Baddi facility, like we mentioned in our previous call, last quarter itself, all the approvals, except for the Russian FDA have come through.

We have actually started producing all the products in that facility. I did mention it in our previous interaction as well that Baddi did record turnover in a couple of months in the previous quarter. We do believe that the Russian FDA will come in, in Q1 of -- or Q1 of calendar year FY '25, Q4 of financial year FY '25. Post which, we should be able to resume exports to Russia as well.

Faisal Hawa: So do you see any kind of parallels between how the electronics manufacturing and assembly industry has evolved. And the same thing, how it is now taking place with the shoe industry. Do you feel that something similar could happen and we could be having some kind of a first-mover advantage and also because as an again, always, we have been good at execution, we have some kind of a head start here.

Sameer Kothari: You're absolutely right. I think we are banking on the contract manufacturing of the shoe being evolved in the same way that the EMS space is evolving. I think, to begin with the T1 vendors, which is the immediate vendors of all the brands are setting up capacities or expanding in India as capacity gets built up as scale comes in you will see the ecosystem developing with D2 vendors coming in as well. And yes, you're absolutely right in drawing the parallel between the EMS space and the shoe industry.

Of course, the per unit value of a shoe is much, much lower as compared to the electronics industry. And as a result, the revenue numbers may not be as high from an employment perspective, I think the shoe industry can be as big or as large as an EMS space.

Moderator: The next question is from the line of Nitish Rege from Chris Capital. Please go ahead.

Nitish Rege: So my first question is on the shoe business. So integration of the shoe business has resulted in additional cost, which has impacted our overall EBITDA and profitability in this quarter. So could you provide any quantum of these costs in Q2 and in 1H?

Sameer Kothari: Yes, I'm going to ask Mayank to answer that. Mayank?

Mayank Samdani: So on a very broad basis, Nitesh, the cost indication cost is what we could have better is around INR6 crores to INR7 crores for H1 total H1, right?

Nitish Rege: And in Q2?

Mayank Samdani: This is for entire H1. same in both the quarters because we are indicating from last 6 months.

Nitish Rege: Okay. And by when will the shoe business start contributing to our profit?

Sameer Kothari: So the expectation is as soon as possible. However, there are a couple of operational things which are going on in the North factories Ganesh and team are trying to get the efficiencies in terms of materials, stock availability. If you take a look at our working capital numbers for this quarter, you'll see a huge increase in inventories, etcetera. So Ganesh and team have actually gone ahead and bought material try to ensure that the lines are not starving for raw material as well as other materials.

And in the South, we've just started ramping up the capacity being a very hands-on industry. We have -- there's a huge learning curve. We've had to recruit as many as 500 odd people who are currently being trained as well as who are currently started manufacturing the shoes. I think it will be Q4 of this financial year when South will be fully ramped up to its capacity. And broadly, I would say, around that time, you should be -- we should be able to see positive numbers coming in from the shoe business as well.

Nitish Rege: Okay. And could you also shed some light on the profitability we should expect from the shoe business?

Sameer Kothari: Our expectation is it's going to be very similar to the contract manufacturing business. It's our first year. So I'm hesitant to give you any definitive numbers. But given that the overall business model is very similar to what we are doing I do believe that the number should be similar to our existing businesses.

Moderator: We have a next question from the line of Priyank Chheda from Vallum Capital.

Priyank Chheda: What would be the total investment now in ice cream after the sanctions that we have got from the Board, which is INR225 crores in the North India and a new facility in Nashik, which is around INR185 crores. So total investment in ice cream would go to around INR400 crores, INR500 crores. Earlier, we have invested around INR250 crores, if I am not wrong?

Mayank Samdani: Priyank, that overall will go beyond INR400, INR500 because we have already invested INR250 crores in Lucknow. We are talking of investing around INR400 crores more in these 2 factories. So it will be upwards of INR600 crores when the entire 3 factories entire ramped up and all the investment is done.

Priyank Chheda: So 250 invested in Lucknow where we are investing another INR200 crores and then another INR200 crores in Nasik, right? So total INR600 crores of investment?

Mayank Samdani: INR250 crores we have invested in Lucknow. INR180 crores, INR185 crores we are investing in Nasik and another INR225 crores in another factory in North, which is not Lucknow, that is a greenfield project, new customers, new sites, and this is in greenfield project.

Priyank Chheda: Got it. And asset turnover, I guess, higher in ice cream around three times when we have to look it on a full year basis. Is that correct understanding?

Mayank Samdani: No. Unfortunately, ice cream asset turns are a little lower than the average of us because the investment size is more. So it will go around it will it will be between 2 to 2.5x asset turns in the ice cream.

Priyank Chheda: Perfect. And on the Hyderabad plant of Soaps and Bars where we were ramping up I'm not sure what would be the utilizations have been ramped up with completely? Or is there anything that is left?

Sameer Kothari: So Priyank, the Hyderabad facility was our dedicated manufacturing side. And in case of dedicated manufacturing sites, let's say the shared manufacturing of shoes, the ramp-up is quite quick in terms of our bottom line, right? So after we've ramped up the capacity, any kind of operating leverage from that side does not flow into us, it flows into the customer. So the soap bar line in Hyderabad is actually now nearly more than year and half old. We ramped it up within 3 months of the construction. And since then, it has been performing quite stable, we have manufacturing around 45,000 tons of soap bars there.

Priyank Chheda: Perfect. Just a final question again on the whole of the gross lock of INR1,250 crores. I understand that Baddi facility is one of the shared manufacturing facility around an investment of INR150 crores, which is yet to ramp up. Any other facilities where you think which is a shared manufacturing facility where ramp up can flow into the EBITDA leverage also?

Sameer Kothari: The Baddi facility is an anchor tenant model, which means that part of the capacity is guaranteed by our existing customer. And just a balance capacity is what is available for other customers. So I would be hesitant to say that it's a completely shared manufacturing facility because frankly a major part of our capacity is anchored by our existing customer there.

Coming to in terms of the Joker in the pack, it's actually the Shoe business. The Shoe business is a completely shared manufacturing facility. It has a huge amount of operating leverage, both in terms of operating efficiencies, as well as in case of South in terms of ramping up from a production perspective.

So I would say that's the bigger one. And you know we've invested, I think, close to about INR100-odd crores in that business. So I would say that's the bigger Joker in the pack.

Priyank Chheda: And the further investment into Shoe will be dependent on the utilization that we reach -- or have we also planned something else within the Shoe for further investments?

Sameer Kothari: So we continue to look at opportunities of increasing capacity there. The Shoe business as you would be aware is not a very capital-intensive business, it's more people intensive. So frankly to ramp up capacities in shoe we actually do not require major capex. What we require is a lot of people, we require them to be trained, and then we require that entire learning curve that people need to go in.

Yes, it is working capital intensive, but from a capex perspective, we don't see any major capex happening as far as the Shoe industry -- the Shoe business is concerned.

Priyank Chheda: Just, again, sorry to hop again on the Shoe manufacturing on the industry as dynamics. If you can just throw more light, and since you will be closing it very closely now. It's a new baby in the whole of the game. So how has been the BIS norms, making it more exaggerated to pass faster than the local manufacturing? Plus there has been a lot of confusion around the declared inventory which can be sold off for more than a year. How have been you looking towards this industry as you progress ahead?

Sameer Kothari: So first of all, at the consumer level there is definitely some amount of slowdown as far as shoes is concerned as well like everything else as far as consumption. However that slowdown is not affecting us manufacturers because we continue to see a huge demand for import substitution because of the BIS norms as well as because of the import duties. As far as Stock is concerned, that's something that I can't comment on because that's the brand's prerogative and obviously, the brand is not going to share that kind of information with us.

All I can say is that all our factories are BIS certified, all our factories have an order book which is taking care of more than 100% of the capacities that we have. I think the pressure is on us to be able to ramp it up and to be able to deliver the quantities in the quality that the customer wants. I think that's more of a prerogative rather than fighting for demand.

Moderator: The next question is from the line of Mayur Parkeria from Wealth Managers India Private Limited. Please go ahead.

Mayur Parkeria: Sameer, I had -- again, the last time also I tried to ask, but is it possible for us to give any kind of colour for the various categories? Because now we are a very diversified company, even when we look at electro EMS kind of whether it is mobile, digital electronics. There is some colour, which is available at least in the presentation with respect to some contribution or growth given the situation, is it possible to get some colour on that kind of Food, Beverages, Personal Care, Home Care, Wellness Households, so into Shoes. Some colour which you feel is appropriate for us to understand a little more 2 steps more into the operational understanding.

Sameer Kothari: So Mayur, I'm going to unfortunately repeat the same thing that I repeated last time. While the product categories sound extremely diverse, we have 2 main commercial constructs, right? Third one, which is a smaller part, but 2 main commercial constructs. One is we have dedicated manufacturing site.

Second is we have shared manufacturing site. As far as dedicated manufacturing sites are concerned, whether we are manufacturing Home Care liquids or we are manufacturing, Ice Creams or we are manufacturing Tea. The commercial model remains the same, which is that it is a pay-or-pay contract. So from that perspective, it actually does not make any difference what we are manufacturing as long as it's a dedicated manufacturing site.

From a shared manufacturing perspective, again, the commercial model is the same, irrespective of what we manufacture. So as a company, we actually do not differentiate between the different product categories. What we did realize is that the Shoe business because of the inherent growth in the sector and because of the way the entire business was shaping up. And more importantly, because it was a large acquisition for us.

We did say that we will start disclosing more granular details about the Shoe business and we are happy to do that. But for the rest of it, we continue to maintain that. We're doing contract manufacturing. It's either dedicated or shared as far as dedicated is concerned, nearly 80% to

85% of our Gross Block is dedicated. And as a result, our bottom line to the extent of 80% to 85% of that is guaranteed.

Mayur Parkeria: No, I understand it was just to get a little more vertical colour of the user industries also because we look at Hindustan Food, there's also a proxy of how the various verticals are panning out. One of the reasons of your diversification also has been that we want to go into higher growth categories? So how are the various categories and verticals spanning out was just one of the objective rather than the commercial and the business model. We understand that. It's okay. Fair enough -- at some point of time when you look…

Sameer Kothari: Mayur, that's exactly the reason why we do not want to give granular details because unfortunately, then people will start asking us how much Ice Cream has Unilever sold and how much Ice Cream has Nick sold…

Mayur Parkeria: Not at the customer level but surely. It's okay. I misunderstand. So second question, just to look a little deeper into the numbers, and please help me understand if my understanding is also right here. I'm looking at H1 of FY '24 versus H1 of FY '25, right? INR107 crores of EBITDA versus INR148 crores of EBITDA on a revenue of INR1,300 crores versus INR1,757 crores round of figures.

The margins, as reported, 8.2% and 8.4%, right? So what I was trying to understand, the fact that the profitability is almost flattish or low because of the depreciation line and the interest rise, which has been a large impact. So to understand this properly, we are seeing -- while I understand the team mentioned that INR6 crores can -- additional costs could have helped the margins to be slightly higher.

But when you look at this number of around 8.2%, 8.4%, it tells us that the operating structure of even the Shoe or the Ice Cream and the beverage is not already different from what we had in the existing situation. It is the capacity -- is it because the depreciation and interest is underutilized, is it an issue of capacity utilization? That is one thing.

And secondly, if you are saying that this can be increased further, then are we saying that the 8.4% can meaningfully go up, which means that the incremental business is at a much better margin profile because you mentioned that these businesses are also at similar margin profile. So I just wanted to clarify if my understanding was right into the numbers?

Sameer Kothari: Yes. We would be we've traditionally and always emphasized that looking at margins in our business would kind of lead to distorted analysis. You have to appreciate that between last year and this year, commodity prices have started rising again. So some of our revenues have risen just on the back of the fact that commodity prices have gone up. I mean Ganesh can make a list of items where prices have risen by as much as 20%, 25% in the last 1 year…

Mayur Parkeria: Gross margins are stable. Just I was just -- or rather increase only. So…

Sameer Kothari: The gross margin would happen be stable because it's a pass-through for us, right? So at any kind of inflation actually gets passed on immediately to our customers. And as a result, our EBITDA numbers as far as the dedicated manufacturing side are on don't actually remain the same.

So your margins at EBITDA level and below would probably start falling if our revenues grow disproportionately. For the very simple reason that the EBITDA from a particular factory would remain constant, but the throughput would increase substantially.

Now coming to the Shoe business, and it's a fair question, but it's slightly premature, but I don't think we are in a position to actually give out any kind of details in terms of margin profile, etcetera. We mean into the business Delhi in the last 6 months. I think we don't have a trend. We do not know what the current environment is a normal environment. Is it an environment which is beset by inflation -- how are things going to change in the next couple of quarters.

I would -- we will definitely start sharing some more granular data as far as Shoes is concerned, both in terms of top line margins, etcetera. For the time being, our expectation is that it will have a similar margin profile, whether that expectation is right or wrong, I really don't have any kind of data we have to be able to say it right now. And coming to your last part…

Mayur Parkeria: EBITDA margin are you referring to similar EBITDA margins? Or are you referring to which margin level are you just to another…

Sameer Kothari: I am saying that I do not understand any other margin. So EBITDA, not PBT or PAT -- so I'm not understand any other margin…

Mayur Parkeria: Our reported numbers are already at similar levels. So just…

Sameer Kothari: And reported numbers are also at a similar level because the INR6 crores to INR7 crores loss is coming in at figure, the depreciation and interest is fully captured, right? Since the facilities have already ramped up and our -- the auditors won't allow us to capitalize any of that. So the figure of finance and depreciation is already captured so the loss of INR6 crores, INR7 crores that would have come in directly at the top line it would have flown directly to EBITDA, and it would have flown directly to the PAT number and maybe not PAT but at least PBT number. Like I said, the sorry, did I confuse you enough on that one or should I continue?

Mayur Parkeria: So actually, I was linking -- just since the margins are almost similar even for the quarter on a year-on-year basis, as well as on the half year, in fact, the narrative that the business is not yet efficiently run and on the fact that these businesses are expected to have similar margins. I think it's already there in the numbers.

So where is this disconnect? Or why you feel -- what we're trying to understand that. Is that -- does that mean that it can go up from here, does it mean that the capacity utilizations are a problem, which is just that the PAT and EBITDA difference is not there.

Sameer Kothari: Mayur, I didn't want to do this, but I'm going to take it down. The INR6 crores to INR20 crores number that Mayank spoke about, if -- and that's the big if, right? If we had not lost that money, our EBITDA would have been higher, and I'm just looking at the numbers here, Q2 numbers, our H1 numbers was 148, it would have been 154, right?

I mean it's just a plan addition of 148-plus 6. Similarly, at PBT, which is 68 would have been 68 plus 6, help me here at 75, right? And our PAT number 50, assuming a 25% tax, we would have been around INR54 crores. So from that perspective, all the margins would have changed the revenue would have remained the same.

So margin profile would have become better. To answer your question at the expense of, again, caveating is that I do not have up data, the gross margin in the Shoe business is higher. The EBITDA margin in case of the Shoe business will also be higher for the very simple reason that the Shoe business is an extremely high asset turn business. It has a lot more people rather than a lot more machines. And hopefully, if we managed to turn this around, you should start seeing that both in all the 3 in EBITDA, PBT as well as PAT.

Mayur Parkeria: Great. Last final question from my side, just the Gross Block of INR1,800 crores expected by FY '26, currently, like-to-like, we are at INR1250-odd crores, right? So we are talking of INR550 crores of incremental capex. So 2 questions there. One is, how do we expect this INR550 crores to be funded because on the EBITDA side on the cash flow side, just remaining 18 months, we will not have this kind of.

So how do we expect this? So what can be the debt equity at the end of FY '26? That is one. And out of the INR1,800 crores broadly given the plan which we have, how much would still be Capital Work-In-Progress? And how much would have got capitalized so that we understand that what can be the sector? Am I clear with the question, sir?

Mayank Samdani: Yes. So we have told that it is -- it will be around INR1,800 on the back of 2 new Ice Cream plant which is around INR400 crores and some investment in the current factors which we are doing, right? So currently, we are at INR1,250, crores, INR1,300 crores. And post this, around INR500 crores will be more. So that is how we are going towards the INR1,800 crores figure.

Now to answer your question to fund it, we have still -- we have raised some money in January this year, which is in the warrants form. Some money of that is still to come around INR225 crores is still to come. And because these projects are also dedicated model where there is a debt equity always there, if we even take 1:1 debt equity ratio, then also this INR500 crores can be completed in the next 2 years.

Mayur Parkeria: Okay. So broadly INR250-odd crores versus INR250-odd crores of our own can be -- this is how one can look at it broadly?

Mayank Samdani: Right, yes.

Sameer Kothari: And at the end of FY '26 we expect the gross block to be around INR1,800 crores to INR1,800 crores to INR2,000 crores. We expect that there to be about INR1,000 crores and the equity to be about INR1,000 crores.

Mayur Parkeria: Great. And the second part of the how much of this INR1800 crores because it's phase expansion. So out of the INR400 crores of Ice Cream, how much would have got on the other, which is another INR100 crores, how much would have got capitalized incrementally? Or how much would be CWIP?

Mayank Samdani: So major part of it will be capitalized because one Ice Cream -- Nashik Ice Cream plant will be fully functional by '26. The new plant, which we are talking about will be -- it will be in the Phase manner where 75% of the investment would have been made till '26 and 25% will be remained.

Moderator: We have our next question from the line of Devesh Advani from Reliance General Insurance.

Devesh Advani: Actually, what I wanted to understand is that...

Sameer Kothari: Devesh, can you speak a little louder, please?

Devesh Advani: Yes, so what I wanted to understand is that revenue has grown close to 35% in the first half. So what is the guidance for the second half? And how do you see the bottom line in the second half going forward?

Sameer Kothari: Devesh, we all are dumb founded. We are not sure what we are supposed to answer to this. The politically correct answer is that -- we do not give a guidance right? And the practical answer is that given that maybe 80% to 85% of our business comes from a dedicated manufacturing setup, we have clear visibility of that.

So 80%, 85% of our turnover should get repeated quarter-after-quarter, year-after-year for the next 7 or 10 years. The part about the ramp-up of Shoes is something I think we've already spent a substantial part of the call on -- if you add the 2, you should reasonably get to what our final number for the year should look like.

In terms of the bottom line, again, 80% to 85% of our bottom line comes from dedicated manufacturing. If you see this quarter's number and if you compare it to our last quarter's number, you'll see that it's pretty much flat. The only delta as I was trying to explain to Mayur, in the earlier question was the Shoes business, which has depressed by about INR6 crores to INR7 crores. So you can extrapolate that and then do a sensitivity analysis on how much do you think or when do you think we can turn around the Shoes business.

Moderator: We have our next question from the line of Akhil Parekh from B&K Securities. Please go ahead.

Akhil Parekh: And many congratulations to the team for continuing with the 30% plus growth rate for the last couple of quarters. Sameer, my first question on the legacy FMCG business, right? I mean the client feedback that you're getting, I mean, we've been hearing, obviously, the slowdown has been severe in urban markets, but any possible signs of improvement given that the monsoon was good, can you see some improvement in that part of the business as in -- any feedback from our clients ?

Sameer Kothari: So, like I said, we generally prefer not to act as proxies for our customers. From HFL's perspective, whether they are legacy brands or new brands we continue to grow. Some of the expansion that is happening, which has been announced by Mayank and Ganesh earlier in the call, is being done by the traditional brands or the older brands. Some of it is being done for newer brands, client mix is changing.

So while the broader FMCG market does continue to face pressure, that's something I think everyone knows and is talking about. We are still trying to find at least some sectors or some clients who are growing and trying to pitch for their businesses. So from that perspective, I think this quarter has been interesting. We've been able to sign up a few new customers. We've been able to do some M&A as well.

And we do have now a clear visibility when we spoke about this -- the previous quarter, we weren't very sure about how we were going to reach to our goal of INR1,800 crores on the Gross Block by FY '26. We now have more or less clear visibility signed agreements for that figure. And I think from that perspective, I think this is -- hopefully, we should be able to keep repeating this, whether it is with traditional brands or new brands that's immaterial.

Akhil Parekh: Okay. Sir, second, the price inflation, you already mentioned that the commodity price continue to be at relative level. As the trend remains same in 2Q? And because our gross margins have expanded, right, in the last 3 quarters, part to do with the inflation in part to be with some product mix, any guidance for like, say, rest half of the year, should we kind of build in similar kind of gross margins given that we believe that inflation has remained sticky as well?

Sameer Kothari: Okay. Akhil, so if the inflationary environment persists, and I'm no expert on whether it will persist or not, I'm not sure -- so help me here. I'm not sure why gross margin should improve if it will actually decrease. Yes, that's exactly my question. So if the inflation continues, our gross margin will, I think, decrease Akhil. So the change in the gross margin that I think Mayur or someone else was referring....

Akhil Parekh: Yes. My bad, yes. So that's what I implied like -- this level of gross margin should we anticipate to continue by this next 2 quarters based on your understanding about the price inflation at this point?

Sameer Kothari: So the gross margin for us has nothing to do with the inflation. The gross margin has to do with the product mix. As for the product mix is concerned, broadly, most of the FMCG products fall within a similar gross margin bracket the Shoes business does have a different profile.

But like I said earlier, it's a little early for us to be able to comment on how that's going to pan out in the next 6 months. Give us some time, and we'll be able to give you some more granular data about the Shoe business and how that affects the overall top line and the gross margin of the business.

As far as the inflation is concerned, the only thing that we'll do is it will probably improve our revenues more than that you can give credit to us for.

Akhil Parekh: But as of now, we are not seeing any signs of price deflation that is?

Sameer Kothari: No price deflation . No, actually, we're seeing inflation. I mean, I think just today in economic times they talked about around 6% inflation in the food prices and some of the stuff as well.

Akhil Parekh: And lastly on the capex of, I think, HPC segment, right in Hyderabad, we had mentioned last quarter, but we didn't see anything in the Press Release. So any timeline on which we will be able to complete that the brownfield expansion?

Sameer Kothari: Sorry, Akhil, I missed that question?

Akhil Parekh: I am saying the last quarter, we had announced, I think, around INR50 crores of brownfield expansion in Hyderabad if I am not mistaken. What is the timeline for that?

Sameer Kothari: So we did the groundbreaking just about 2, 3 weeks ago. We started construction there. We are hoping that we get commercialized by May or June latest of CY '25.

Moderator: We have our next question from the line of Priyank Chheda from Vallum Capital. Please go ahead.

Priyank Chheda: Sir, Lucknow plant is, again, an anchor tenant or a dedicated manufacturing side. And as well as the North New Greenfield in the Ice Cream that you are planning, what would be that also would be anchor or dedicated?

Sameer Kothari: Priyank, I'm sorry. Can you just repeat that question?

Mayank Samdani: Lucknow is anchor tenant…

Sameer Kothari: Okay. Mayank heard your questions, so maybe he can answer it. Go ahead.

Mayank Samdani: Priyank, Lucknow is a pure play dedicated site towards the new towards the multinational -- and as of now, because for the new plant, we are -- it is too early to say because we are just starting to look out for the land and if possible, we will try to have another customer in that to make it anchor tenant, it will be better for us also.

Priyank Chheda: Perfect. So in Ice Cream, Nashik is anchor tenant and North would be also anchor tenant, which are the 2 new models, possibly if not get anchor tenant -- so there will be 2 facilities of Ice Cream, which would be anchor tenant model versus -- is that understanding correct?

Sameer Kothari: Okay. So let me just repeat all that, right? So the Lucknow facility is a dedicated site for one customer. The Nashik site has a large portion of the capacity dedicated to one customer and a part of the capacity dedicated to another. So while it's a -- from a perspective of the fact that the entire capacity for Nasik is spoken for, it is dedicated from that perspective which is dedicated to 2 customers as opposed to, let's say, Lucknow or Hyderabad or onto where there's only one customer.

As far as the new Greenfield site, which is coming up in North like Mayank said, it's a little premature. The current contract or the current announcement is on the back of an agreement like not a formal agreement, but an understanding with one particular customer.

Priyank Chheda: Got it. What the whole purpose of asking this was to try to understand the incremental gross block that we'll have, given the current gross block where we have 85% dedicated the incremental gross was that we plan to do, which is around INR550 crores. Would the ratio of 85% to 15% remain as it is? Or is there something changing? I understand the Shoe part, which is completely in our hands. What would be the incremental part in the large party Ice Cream?

Sameer Kothari: So we will continue to strive for maintaining that 80% to 85% part of the Gross Block to be dedicated. The only difference that is happening, which I refer to in my opening remarks as well as that we are signing up new customers. We are getting into new categories -- so from that perspective, it's riskier, but it's definitely still dedicated.

Priyank Chheda: Got it. And on the balance sheet side, now that our debt levels are at 750, while we also have uncalled money from the preference of almost around, I guess, more than INR200 crores, INR250 crores. So how would we think about it? What would be the gross debt number that we should think for FY '25 and '26?

Sameer Kothari: I think Mayank just mentioned that earlier.

Mayank Samdani So for this -- the new capex which we are amortizing for INR550 crores, it will be a mix of debt and equity of 1:1 because as you rightly indicated that -- we have the warrants money to come in around INR250 crores. And is, if we take the 1:1 leverage also, it will help us in getting the capex, which we are advertising right now.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Mayank Samdani for closing comments. Over to you, sir.

Mayank Samdani: Thank you, Manav. We are currently navigating integration challenges. However, with the promising outlook in the footwear industry, we are confident in our ability to deliver strong results. Our recent acquisition in the beverage segment further reinforced our confidence in expanding our footprint within this market.

Overall, at HFL, we maintain a positive outlook on our performance trajectory backed by these strategic advancement and our commitment to growth. I take this opportunity to thank everyone for joining on the call. I hope we have been able to address all your queries. For any further information, kindly get in touch with our -- with us or the Strategic Growth Advisors, our Investor Relation Advisors. Thank you very much, and a good day.

Moderator: Thank you. On behalf of Hindustan Foods Limited, that concludes this conference. Thank you for joining us, and you may now disconnect your lines.