



“Hindustan Foods Limited
Q4 FY ‘25 Earnings Conference Call”
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This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the website of the Company on 21st May 2025 will prevail

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Moderator: Ladies and gentlemen, good day, and welcome to the Hindustan Foods Limited Q4 and FY '25 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star, then zero on your touch-tone 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, Anushka. Good afternoon, and welcome to our Q4 FY '25 earnings conference call. I'm joined on the call by Ganesh Argekar, Executive Director; Mayank Samdani, Group CFO; Vicky Solanki, Head Corporate Communications; and SGA, our IR advisors. I hope everyone has had a chance to go through our updated earnings presentation, which was uploaded on the exchange and our company website. We are pleased to share that Hindustan Foods Limited has crossed the landmark threshold this financial year with our PAT surpassing INR100 crores for the first time in the company's history.

We are pleased that we were able to achieve this in spite of the softening consumer demand and macroeconomic headwinds. This was possible only due to our passionate and committed workforce of nearly 7,000 individuals. To recognize their contribution and reinforce our commitment to long-term value creation, we took 2 important steps this year.

First, we completed a preferential share allotment in our footwear subsidiary, giving them a tangible stake in our collective future. Second, we rolled out an ESOP scheme at HFL aimed at rewarding high performers, enhancing retention and attracting the next generation of leaders who will power our journey ahead.

Another factor which has led to this milestone has been our decision to identify and execute and scale growth opportunities across diversified product categories like ice creams, shoes and beverages. This diversification across new customers and new products has also changed the nature of our business. At a very top level, this change will reflect in the changing share of shared manufacturing business as opposed to the dedicated manufacturing business that we do and will also be reflected in the changing profile of our customers.

As the pie of the shared manufacturing business increases, we expect to see better margins and a resultant increase in the ROE. As management, we track both the businesses differently, including our expectations on returns and margins. And as a company, we will now start

disclosing this to our shareholders and investors for them to be able to track our performance as well. Mayank will explain this in detail shortly.

Before that, 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 afternoon, everyone. I will now walk you through the operational and business highlights for Q4 and FY '25. From an operational standpoint, FY '25 was marked with strong execution and resilience as we delivered our highest ever volumes across beverages, ice creams and footwear segments. This is despite ongoing deflationary pressures and subdued consumption trends in certain categories. Our supply chain and manufacturing teams have shown exceptional commitment in ensuring output and efficiency under challenging conditions.

The Footwear division had particularly an encouraging quarter, delivering its highest ever turnover in Q4, along with positive operational profit. For the full year, the business recorded revenues of INR 390 crores, and our South India facility continues to ramp up successfully. The Phase 2 expansion is also underway.

We are cautiously optimistic that this division has turned a corner and are confident of a full recovery in FY '26 with continued customer support. Similarly, the beverage segment has emerged as a growth engine. Our Mysuru facility recorded its highest ever output for Q4 FY '25, and we successfully completed key expansion projects at the site.

We see significant headroom in this category and are actively exploring opportunities to expand further. We also have commenced commercial production at our new ice cream factory in Nashik this May and have also identified in North India, a new greenfield plant, which is expected to begin operations by Q1 FY '27.

In Baddi, we achieved record monthly production and finalized additional investments to onboard a new customer with production slated to begin by Q3 FY '26. All regulatory approvals for the Baddi facility have now been secured and positioning it for further continued growth.

Our OTC Pharma division has shown promising early traction. We are actively working to scale this vertical. Meanwhile, Home and Personal Care continues to perform steadily, demonstrating the defensive strength of our portfolio. With this, I now hand over the call to Mayank Samdani, our Group CFO, to take you through the financial results for the quarter and full year ended 31st March 2025. Thank you.

Mayank Samdani:

Thank you, Ganesh, and good afternoon, everybody. I would now run you through the financial performance for Q4 and FY '25. This quarter was a record-breaking one across all key metrics,

revenues, EBITDA and profit before tax. Total income increased by 27% to INR936 crores in Q4 FY '25 from INR734 crores in Q4 FY '24. PAT increased by 34% to INR31 crores in Q4 FY '25 from INR23 crores in Q4 FY '24. These results were driven by seasonal highs in our Ice Cream and Beverages businesses as well as the long anticipated breakeven of our Footwear segment.

The Footwear business finally achieved operational profitability in this quarter. And with this, all our businesses are performing as per expectations. As far as the annual numbers are concerned, total income increased by 30% to INR3,579 crores in FY '25 from INR2,762 crores in FY '24. PAT increased by 18% to INR110 crores in FY '25 from INR93 crores in FY '24. Despite higher tax provisions compared to the previous year, we posted highest ever annual profits.

This was added by the ramping up of our Baddi factory and the new investment in beverage and ice cream plants. Our PAT for FY '25 includes the losses suffered by the shoe business in tune of around INR11 crores, which were a result of integration issues that we faced with the acquisition and the accounting impact of ESOP scheme.

The year also saw an increase in the working capital requirement of the company, especially in the shoe business. But despite this increase, the company was able to generate cash flow from operation of INR113 crores. Cash and cash equivalents, including the fixed deposit with original maturity of more than 12 months stood at INR153 crores and our net debt-to-equity ratio stood at 0.79. The strong operating cash flows, along with the proceeds from the warrant issue, positions us to leverage upcoming growth opportunities.

Net worth for FY '25 stood at INR891 crores. Our gross block for the year, including the wholly owned subsidiary, LLP and the CWIP stood at around INR1,412 crores. We continue to work towards our goal of doubling our gross block to INR1,800 crores by the end of this financial year.

As mentioned by Sameer, a lot of question has been addressed to us about the nature of our business and the future path. Just to recap, our business is that of the contract manufacturing. And while we do not report any segment revenues, since we are agnostic as far as the product categories are concerned, we have elaborated on our 2 commercial model, dedicated manufacturing and shared manufacturing.

The main fact of the dedicated manufacturing is stability of our bottom line, which does not get affected by a slowdown inflation or deflation. On the other hand, shared manufacturing allow us to utilize operating leverage and deliver the better ROE. However, as has been -- it has been our experience in the past, shared manufacturing model also exposes us to the flip side of the

operating leverages, leading to the possibility of less than optimal results in this model. From the business mix standpoint, dedicated manufacturing continues to anchor our performance.

In terms of capital deployment, nearly 80% of our capitalized gross block is attributable to dedicated manufacturing, while shared manufacturing accounts for the balance. In the medium term, we expect these percentage as far as the share of the business is concerned to be similar.

A large part of the shared manufacturing business is the shoe business. And as Ganesh mentioned, we are optimistic that the turnaround of the shoe business is structural and will lead to the better margins and returns in the shared manufacturing business. As we expand our shoe business profitably, we are optimistic about the overall increase of the margin profile and the return ratios of the company.

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

Moderator:

Thank you very much. We have the first question from the line of Faisal Hawa from H.G Hawa. Please go ahead.

Faisal Hawa:

Best numbers so far. Congratulations. Sameer, what is the traction we are now getting in the Dr Scholl's facility? Is there some chance that we could also subcontract this facility for other players and for exports also? That's first question. Second, do you see any kind of possibility for exports contracting also? And how do you see also third-party contracting coming along? Like -- sorry, I meant private label contracting.

Third is how do you see the shoes business now panning out? Is there any chance that we could reach like INR1,000 crores revenue by March '26 itself? And fourth is that how do you see the ice creams play now with HUL's stake going to private players or to a private equity fund? Do you see some kind of more aggression because we did see some full page ads for Kwality Wall's in newspapers and maybe that business could get better going forward?

Sameer Kothari:

Faisal, thank you so much. So I'll address all your questions. Let me start with the Dr Scholl's facility first. The Dr Scholl's facility for the benefit of the other listeners who are not aware is a facility in Sriperumbudur down south. We, as Faisal, you'll remember, we had converted a part of that facility into a shoe manufacturing facility, and we have started ramping up the production there for a multinational brand already. So from that perspective, in terms of the operating leverage from that facility, we are already working on it.

In terms of Dr Scholl's specifically, let's just say that we are watching with a lot of interest what is going to happen as far as Mr. Trump and the tariffs on China are concerned. If they go in the

way they were supposed to go, we are quite confident that some of that business will get diverted to India. However, it's early days.

As you would have seen, there's been too much of flip-flop on that tariff already. So let us reserve our comments and maybe in the next investor call, if we have some more clarity about the tariffs, I'll be able to come back to you on what's happening on that front.

Actually, it's a similar situation for exports and private label. We are, again, cautiously optimistic that based on the tariffs, et cetera, we are seeing some amount of increased interest in sourcing from India for the entire China Plus One thing working out, both in case of Footwear, in case of Foot Care and also surprisingly in case of Personal Care and OTC Pharma. However, early days, don't know how the entire tariff situation will pan out. So I would like to reserve that comment as well.

In terms of the shoe business overall, let me be upfront that getting to INR1,000 crores in FY '26 is impossible. While we all are working extremely hard, the shoe business is an extremely manually intensive business, ramping up to double of where we are right now, would involve doubling up of the manpower, which would involve hiring and training nearly 5,000 additional people. As you can imagine, not an easy thing to do. We are definitely in the mode of expansion, but the pace of expansion may be a little slower than what you are saying.

Now lastly, about the ice cream business, just a couple of things. I don't think -- at least I don't have that information, it's not publicly available. The current decision by HUL is just to list it separately. I don't think there's any change of ownership. All the existing shareholders of Unilever of HUL, including Unilever Global, will maintain the same shareholding pattern. So from that perspective, I don't think there is any private equity players coming in, et cetera, maybe you know something that I don't.

But in terms of focus, definitely, when a division gets more focused and becomes more transparent in terms of being able to and being -- and having to give more details in terms of financial information, I certainly believe that there will be more focus on it.

Incidentally, that was one of the driving force why Sameer bhai, our SGA adviser, recommended that we start giving information about shared manufacturing and dedicated manufacturing so that we start focusing on the numbers as well. So transparency definitely helps. And I think in the Ice Cream business, now that it becomes a stand-alone company. It will definitely have much more focus than earlier when it was a very small part of a very large giant.

Faisal Hawa:

Yes. And can you give some color on what is our investment in Kabadiwala going to fetch us and the kind of terms of engagement that we have with them?

Sameer Kothari:

So the proposal right now, Faisal, is to invest up to INR5 crores in Kabadiwala, which gives us a substantial minority stake. As you are aware, EPR regulations have been notified and all FMCG players have to comply with this EPR regulations, which basically involves recycling of plastic post-consumer usage.

Given that we work with most of the FMCG players, we believe that there should be a strategic advantage of us tying up with the Kabadiwala in terms of this. We'll see how this works out in the next few months, and we'll come back to you with some more details on it.

Moderator:

We take the next question from the line of Akhil Parekh from B&K Securities.

Akhil Parekh:

Many congratulations to the team for a good set of numbers. Sameer, my first question, again, I spoke to, if you can throw some light in terms of how the journey has been for the last 12 months, some of the challenges that we faced after acquiring the 5 plants? And where we stand right now? I think we have mentioned operationally, we are profitable. So I believe it's EBIT positive.

And in terms of capacity addition and what kind of scale we are looking for in terms of next 2 years? Because in the last press release, we had highlighted we should be 15% to 20% of the business should be coming from sports shoes. So are we in line with that guidance? And should we be kind of clocking INR1,000 crores of sales, not in '26, but by '27? That's my first question.

Sameer Kothari:

Akhil, so like I said, shoe business is definitely a focus area. In terms of the ramp-up, INR1,000 crores is our target as well. Whether it will happen -- I mean, it will definitely not happen in this financial year, whether it will happen by the next financial year or the year after, I think it's too early for me to be able to comment on that because like I said, a lot of operational issues. The challenges that we faced involved multiple things, and I'm going to ask Ganesh to talk about some of the challenges that we face.

And then I'm going to request Mayank to talk about -- when you asked about operational breakeven in terms of accounting terms, what it means, maybe Ganesh can -- maybe Mayank can explain that. But Ganesh, in the meantime?

Ganesh Argekar:

Yes, sure. Akhil, it's been exactly 15 months since we took over the KNS facilities up north, right? There are 5 units which we took over and each unit was handling a different set of activities. That itself is a big challenge. I mean one unit was handling sticking, one unit was handling sole manufacturing, one unit was handling cutting and one unit down up north in Poanta was handling the assembly part, I mean, the final packing.

All put together 5,000 employees on our role in one shot, a complete change of -- integration of new system, new ERP, which took a lot of time. I mean, I would say it took us at least 9 months

to 1 year to get it done -- get it rolling. A lot of new vendors, new customers, new norms, a complete learning for us.

we had a bit of an experience in leather shoes, but this was too big for us. I mean the leather shoes was only in Pondicherry and the Chennai region. But there is 5 units of up north. And again, we started manufacturing in 2 units down south, one in Pondicherry and again, one in the IGK facility, which is there in Chennai. In IGK, we started the first line in October, which has now been stabilized. And the plans are now to invest in a second line, which will give us the same volumes in the coming 4 to 6 months, right?

So almost doubling of capacity in South and again, addition of one more facility in the Pondicherry region. This is what we are doing so far. There have been many challenges, but it's been almost 15 months that we have been able to take up the challenge and move ahead. I mean this is -- the result is showing, which is right now what we have done so far. I hope that answers your question, Akhil.

Akhil Parekh: Yes. And just on the capacity front, when you said doubling of capacity in South, so what kind of volume or units we are looking at? I believe in North, we should be somewhere around 9 million pieces per year, if that understanding is correct and where we stand in South, if you can quantify that number that will be great.

Sameer Kothari: So Akhil, in terms of the South facilities, we are hoping that the South facilities by the end of this quarter or latest by the next quarter will account for nearly 30% of the production, which is happening in the North. And when we are talking of South, we are basically right now talking only about Tamil Nadu. We had announced earlier -- hello?

Akhil Parekh: Yes.

Sameer Kothari: Sorry, we had announced earlier that we'll be doing an expansion in Karnataka as well. We don't see that commercializing at least for the next 9 months. So right now, the discussion is when we say South, we are talking about Tamil Nadu and Tamil Nadu should end up accounting for nearly 30% of the North production that's where we are. In terms of ramping up, in case of South, we ended up with just about 40-odd percent of the capacity being effective as of the end of March.

Akhil Parekh: Sure. And the margin profile, would you be able to -- will you be comfortable guiding for it...

Sameer Kothari: Too early to say about the margin profile, but I'm going to request Mayank to give you an idea of what we are trying to say when we are saying that we are operationally breakeven in the quarter.

- Mayank Samdani:** Akhil, there is some background noise in there actually. So Akhil, as you recollect that in last meeting -- investor meeting, we also said that the shoe business is EBITDA positive anyway from the starting, right? This time, if you see -- if you remove the ESOP provisioning, which has been onetime expense, we are PBT positive this quarter. So that is where -- what we meant when we said that this is operationally breaking even now.
- Akhil Parekh:** Got it. And just 2 more questions. One is on the OTC Pharma, if you can throw more light in terms of the client profile, which we have added now. And I believe we have added one more quarter back, client profile and product profile segment at that time?
- Sameer Kothari:** So Akhil, I obviously can't name the clients, etcetera. The product profiles are same, Healthcare and OTC Pharma. We are hoping that on the back of these 2 clients, our Baddi facility will have full capacity utilization.
- Akhil Parekh:** Okay. So by '27, we should expect the peak revenue basically for OTC?
- Sameer Kothari:** Yes. In this financial year, that's it.
- Akhil Parekh:** Sure. And last, from a financial metric perspective, we have seen a meaningful addition in terms of employees, right? And our employee expenses, if I look at it, has jumped from, say, INR83 crores to almost INR225 crores in '25 and so as the other expenses have gone up. Would it be fair to assume now next 2 years, we'll start seeing smoothening of these 2 line items, employee expenses and other expenses? And hence, our PBT and PAT growth will grow disproportionately more as compared to, say, sales and EBITDA growth? That's the last question.
- Sameer Kothari:** Akhil, what you and Faisal mentioned in the first question, you expect us to ramp up our shoe business to about INR1,000 crores, you will also have to expect a doubling of the employee cost. Like I had mentioned before, shoe business is extremely labor-intensive. And the major cause of that increase in the labor cost in this financial year has been the integration of the shoe business. As we expand that further, the employee cost will increase. But hopefully, the margins will also improve.
- So the effect on the bottom line should be disproportionate? You're absolutely right. But that does not mean that the employee cost will be stagnated at this number. It will also increase. Secondly, we've got 2 new factories coming online, hopefully. One already, which has come online in May of this year and another one towards the end of the year. So that will keep on increasing. I mean I would be hesitant to say that our employee cost will be stagnant at any point of time.

- Akhil Parekh:** Okay. Fair enough. So I know you guys don't give guidance on the margin front. But if everything turns out as per our expectation in the Sports Shoe business, we can inch up towards 9% of EBITDA margin. I hope my understanding is correct.
- Mayank Samdani:** Yes, your understanding is quite correct -- quite fair, Akhil, that we can generate a 9% EBITDA margin in this.
- Moderator:** Next question is from the line of Gautam Trivedi from Nepean Capital LLP.
- Gautam Trivedi:** Thanks for giving us a good overview and really congratulations on the great set of numbers. Question I have is more macro in nature. And you said at the outset that there's a slowdown in the consumer space. What are you seeing from your OEMs, i.e., your customers? And are they asking you to slow down? Because you do have, for the most part, a take-or-pay arrangement.
- But given the circumstances -- I mean, this is not limited to your products, but also across FMCG, across urban consumption, QSR companies, the Pizza Huts and Kentucky Fried Chicken, all these guys are hurting. And there's a real issue. So what -- can you explain, first of all, are you seeing any light at the end of the tunnel based on the feedback you're getting from your customers? And second, and more importantly, are you -- your take-or-pay arrangement, is that flexible?
- Sameer Kothari:** So Gautam, a couple of things. I mean, the macroeconomic question obviously is above our take rate. And one of the things SGA insist is that we do our investor calls after all our customers have finished theirs. So already, the CEOs of all of our customers have mentioned that they are still seeing a lot of consumption headwinds. And I think -- I'm going to just have to repeat what they are saying. We obviously don't have any more insights than what they do.
- In terms of our take-or-pay, the letter and the spirit of that take-or-pay is quite sacrosanct. And one of the reasons why we've been able to service our customers for such a long time is that because we both the customers as well as us understand the ground realities and have worked around it. And while this sounds very grandiose, what it basically means is that, yes, in difficult times, we end up supporting each other.
- Gautam Trivedi:** Okay. So then that's really what you're saying, I appreciate that. And any other macro color that you can -- I mean, is it too early to expect a turnaround or what do you say?
- Sameer Kothari:** Well, I mean, Gautam, I guess what you are asking is, has April and May been any different than the previous quarter? And my answer is that, unfortunately, no. In case of some of the seasonal products, obviously, it helps. But then again, there have been rains, which have come in at wrong times at some of the places.

So overall, I would say that it's -- still we are not out of the woods. I mean my team here hates that phrase out of the woods, but I'm going to continue using it saying that I don't think we are still out of the woods. Maybe in case of shoes, we are, but in case of the rest of the stuff, I think we are still not finding the light at the end of the tunnel.

Moderator: The next question is from the line of Abhishek Mathur from Systematix.

Abhishek Mathur: Just a couple of questions. So firstly, in the sports shoe manufacturing, which is a relatively newer segment for us versus our long-standing segments, what has been the feedback that you have been getting from clients on the quality and finishing of the shoes that are manufactured? Specifically, have you come across any issues in terms of any adverse feedback on the product quality or the finishing? That's my first question.

Sameer Kothari: Abhishek, well, you're absolutely right that in case of shoes, there would be a large learning curve. And one of the ways that we've addressed that learning curve is -- you'll recollect that we actually ended up acquiring one of the oldest and the largest shoe manufacturer in the country. And thanks to that and thanks to the fact that we were able to integrate all of those people. We frankly have been able to take off from where they left. In terms of customer quality, et cetera, we frankly have been able to live up to their expectations.

What we haven't been able to live up to their expectations is the production numbers and the amount of on-time deliveries. And Ganesh talked about it right at the beginning of the various issues that we've faced. But in terms of quality and the workmanship, I don't think our customers have any cost to complain.

Abhishek Mathur: Right. Very clear, Sameer. Secondly, just...

Sameer Kothari: Sorry, just let me belabour that point. You're absolutely right in identifying that as a major aspect of our business. In fact, one of the reasons why the South factories have taken so much time to ramp up is because we need to train the people completely and especially if you're dealing with multinationals or you're dealing with some of the more premium brands, for us to be able to achieve the kind of quality that they require, requires a lot more time than it normally should.

What it means is that you end up as a P&L taking the hit of the salaries of all the people during this training period or during this ramp-up period. And you're absolutely right that quality is absolutely critical as far as that business is concerned. Having said that, I think quality is important in all the businesses that we do. You obviously -- even -- whether it is any of the other FMCG products. But in this case, the learning curve is definitely more steep.

- Abhishek Mathur:** Very clear, Sameer. Secondly, I just wanted to check, we have committed to a significant expansion in ice creams. Since this is a seasonal product, what happens to the capacity during the off-season? Is it fungible for other products? Or will we see some amount of operating leverage during the off-season for ice creams?
- Sameer Kothari:** So Abhishek, the plant and machinery is obviously not fungible. We can't make anything else in those ice cream factories. The business is seasonal. You're absolutely right. But the way our commercials are decided, we have dedicated factories. Our entire ice cream business is part of our dedicated factory section. And as a result, our commercials are taking into effect the seasonality and the seasonality does not affect us. So our bottom lines remain the same irrespective of the seasonal variation.
- There will be some timing difference, obviously, because of quarter-to-quarter, which is what Mayank referred to in his opening remarks that in case of this quarter, obviously, our sales, et cetera, have been higher because of beverages and ice creams ramping up. However, from an annual perspective, our bottom lines are taken care of as far as the seasonal variation is concerned.
- Abhishek Mathur:** Understood Sameer. Just to sort of clarify here, you said that ice creams is broadly dedicated, but we have got multiple clients, more of hybrid model in some of our newer projects in ice creams that we're entering into. So part of those would be underwritten and part will not be. Does that kind of change our outlook on the seasonal impact part of it?
- Sameer Kothari:** Actually, again, Abhishek, in case of the newer unit also, we have -- while we've talked about dedicated and shared, we have a hybrid model, which is called anchor tenant, in which customers guarantee a certain part of the capacity. As far as we are concerned, both our factories, 100% of our capacities have been guaranteed.
- Abhishek Mathur:** Right. So we are saying that in the new projects of...
- Moderator:** Sorry to interrupt, Mr. Abhishek, I would request you that you return to the question queue for the follow-up questions...
- Sameer Kothari:** Anushka, if you don't mind, let him just finish that one point. I think is that okay, Anushka? Yes, go ahead, Abhishek.
- Abhishek Mathur:** I just wanted to sort of clarify that you're saying that 100% of the new Nashik and North India projects are sort of guaranteed. Is that the right understanding to take?
- Sameer Kothari:** That's exactly why I requested Anushka to allow me to elaborate on that. Yes, all the 3 ice cream factories, the one in Lucknow, the one in Nashik and the one coming up in North India have

guaranteed volume offtake agreements. Whether it's one customer or multiple customer is immaterial.

Moderator: The next question is from the line of Ashish Kumar from Ampersand Capital Investment Advisors.

Ashish Kumar: My first question is on the Ice Creams and Beverages business. If you can share like what proportion of our revenues was in FY '25 and what would be in FY '26? And you have touched upon it like this has been a quite milder summer. So do we -- Q4 has been obviously good for us, which you have commented, but do we see any risk to our Q1 volumes?

My second question is on margins. If you see like the employee cost has significantly inched up to around 6.7% of our sales in Q4. Obviously, if you can quantify the one-off in this due to the ESOPs and the preferential allotment? And like the full year number is around 6.2%. So how should we look at it going forward? Like should it be around 6% to 6.2% or should the normalized inch up slightly because of our shoe business? That are my 2 questions.

Sameer Kothari: Ashish, we generally avoid giving out numbers in terms of product categories. But I'll just address your question at a slightly higher level. I said the summer has been erratic. Actually, it wasn't mild. It was just erratic. The sales have been recently hit because of the untimely rains and the season is not over yet. So I don't know how it's going to pan out. Having said that, I want to go back to what we were discussing with Abhishek that in terms of all our capacities, irrespective of the 3 factories of ice cream are guaranteed.

So from that perspective, while the top line numbers might change, the bottom line numbers will not get affected irrespective of the seasonal vagaries, right? The second was, in terms of just a broad indication, we have indicated that -- since the ice creams are dedicated factories and they're going to become a significant number, we had indicated that by next financial year, which is FY '27, nearly 1/3 of our gross block, which is close to about INR650 crores, INR700 crores would have been invested in the ice cream business.

So I think that's the only extent that we are giving out numbers in terms of product categories. And you'll be able to extrapolate from the slide that Mayank has put in, in terms of dedicated manufacturing and shared manufacturing. The parameters that we evaluate the ice cream business are the same, as we evaluate any of the other dedicated manufacturing businesses.

Second, in terms of the labor cost, I just need to reiterate, the increase in the labor cost is not predominantly due to the ESOPs. It's predominantly because we integrated the shoe business and got in nearly 5,000-odd people coming into our system. So yes, there is an effect of the

ESOPs, but that's not the one who -- which is going to the provision for the ESOP, but that's not the one which has actually made that delta.

Going ahead, will that number be at the same percentage? I'm going to go back to what Akhil was -- what I was telling Akhil in his question, which is the shoe business will expand. In case of shoe business, the amount of money that we have to spend on labor as a percentage of sales will remain the same. However, the share of shoe business going ahead, that I'm unable to give you a complete breakup of how that's going to pan out.

So when you look at it on a consol basis, whether it will be 6%, 6.1% or whether it will jump up to 7%, at this stage, I'm unable to give you an answer, Ashish. Yes, we are hoping that whatever the increases will get compensated by the margins that we make on the product.

Moderator: The next question is from the line of Vishal Gutka from ASK Investment Managers.

Vishal Gutka: Sameer, 2 questions. First question is on the shoe business. You told that this quarter, it made EBITDA positive. I just wanted to check previous quarter, we were -- EBITDA breakeven was not in the previous quarter. Maybe in the first quarter, we have made some EBITDA margin. And second question is on -- you have issued ESOP in the shoe business, right? So it is not a listed company. So there are plans of fundraising exercise or listing of the shoe business?

Sameer Kothari: Okay. Vishal, the first question I'm going to ask Mayank to answer. The second one, I will go. Mayank, ahead.

Mayank Samdani: So Vishal, in another question answer, I told that the shoe business was EBITDA positive already in last quarter and before that also. This quarter, if we remove the ESOP provisioning, it is PBT positive also. That is what the operational profitability, which we are referring to. So shoe business was not EBITDA negative in earlier also. This time, if we remove the ESOP provisioning, it is PBT positive also, right? Second question, Sameer will answer to you.

Vishal Gutka: So you look at PBT, right, for you in operational sense, there is PBT number, not the EBITDA number. That is what you're trying to analyze because generally, the depreciation expense is a reinvestment kind of thing for you.

Sameer Kothari: No, Vishal. In fact, Brinkle, who's our SGA associate, and we had a major argument on it, whether we should report adjusted for EBITDA for ESOPs or include ESOPs. We believe that ESOP is an expense. So we frankly have treated it as an expense. So while the PBT number should have been positive, we called it as an operational profit because according to us, ESOP is still an expense. Yes. So to answer your question, should it be called operational? Should it be called adjusted EBITDA? Should it be called adjusted PBT

Vishal Gutka: ESOP cost will be part of, right? It will come before EBITDA. So I'm just not able to get why will the PBT be positive? Why we are trying to emphasize on PBT and not on EBITDA because...

Sameer Kothari: So Vishal, this goes back to a question which we had, I think, in the last investor call, where I think people were trying to understand how much money are we actually losing on the shoe business. This time, we've tried to come up and give those numbers out. I think Mayank, in his remarks, had said that we've lost about INR11-odd crores in total, right? And we said that, that INR11 crores includes the ESOP expenses.

So if you look at it from that perspective, that's what we are trying to communicate that the INR11 crores includes the ESOP. It's not adjusted for ESOPs, et cetera. And while EBITDA positive, we've been right from day 1, you'll recollect that we acquired this company. It was making money. While we've been positive from an EBITDA from day 1, because of the various integration issues, et cetera, the depreciation and the interest was where we were not happy about.

And that in this quarter started breaking even. So yes, you're right that strictly in terms of an accounting terminology saying breaking even at PBT level is not breaking even, and it's definitely not operational profit. But for us, we didn't want to do jugglery in terms of adjusted EBITDA and all of those numbers. So for us, the day it becomes PBT positive is the day it becomes positive for us.

Vishal Gutka: Got it. And can you quantify the amount of ESOP? The amount, if possible to quantify the number? What was the quantum of ESOP value in the value terms you're giving in this quarter?

Mayank Samdani: It is around INR5 crores, Vishal.

Vishal Gutka: Sameer, on the second question?

Sameer Kothari: Yes. On the second question, we don't have a clear view on it as yet. So let me just tell you what the facts are. The facts are that we've done a preferential allotment in the step-down subsidiary of KNS Shoetech, which is our shoe business. At some point of time, we will see how we can create a liquidity event for those shareholders.

Moderator: The next question is from the line of Priyank Chheda from Vallum Capital.

Priyank Chheda: Thanks for the clarity in the presentation around the shared manufacturing. I just want to understand, so outside shoe, in the FMCG business, wherever we have shared manufacturing, how has been the ROEs across the cycle? I recollect Mayank speaking about in his opening commentary that we get exposed to the vagaries of the market up cycle, down cycle. So how has

been the ROE outside shoe business because we have to best to judge within the shared manufacturing ex of shoes? How has been the ROE? That's the first question.

Sameer Kothari:

So our ROE expectation for the shared manufacturing, as we've mentioned in a couple of times, ROE expectations are much, much higher as compared to the dedicated manufacturing. How they have been in terms of historical is a large part of the shared manufacturing business that we have disclosed now is the shoe business. And the second part of it is the beverage business. And within the beverage business, one particular factory, which is down South is where we are doing shared manufacturing.

That business, unfortunately, was also affected -- and as I have called it out in a couple of investor calls, was also affected by the fact that we made losses during COVID and post-COVID and then again, because of the seasonal variations there. So I'm unable to give you a historical number, but our expectation is that the ROE numbers should be at least double of our dedicated manufacturing. That's the target that we would work at.

Priyank Chheda:

Perfect. And just to clarify in the shoe business, we would have done the total investment of around INR100 crores, and we have reported a revenue of somewhere around INR390 crores, INR400 crores. So it's a 4x turnover that we have done. I understand that we are expanding our capacities in South.

But in North, the asset turnover looks to be a suppressed one? Or is it that North is far more efficient versus South? Because this whole business, I understand would be asset turnover much higher at around 5, 6x. So at 4x asset turnover, could you help me break down? Is there some efficiencies which were yet to unlock during the year?

Sameer Kothari:

So the shoe business, Priyank, needs to be split into 2. One is the labor-intensive part of the stitching and the assembly of the uppers. And the second part is the more capital-intensive part of manufacturing the soles. The North unit is a combination of 2. We are manufacturing our soles there as well as we are manufacturing open footwear, which is injection molded and compression molded shoes. So from that perspective, equating the asset turns for North and South may not be right.

In case of South, we are basically doing what is in the industry parlance called as cut to box. So we basically do the cutting, the stitching and the assembly. There, the capex is much lower. So from an asset turn perspective, South will always be better. North will not be as high because, like I said, we are manufacturing soles and we're also manufacturing open footwear there.

Priyank Chheda:

So would it be -- would it go back to the total investment of whatever we have and the structure that we have within North and South, which is different? The current asset turnover is the optimal

one or in terms of efficiency that we need to take it out or the asset turnover should be higher?
How do we read this?

Sameer Kothari: So obviously, it's not efficient, no? If it was efficient, we would not have made the INR11 crores loss that we did. Last quarter is more indicative of how it should be. And last quarter was a record turnover as far as shoes is concerned. We are hoping that within the same capacity, we still have headroom to ramp this up. And that's the only way to look at it. I mean we openly have not been very efficient in the shoe business. That's exactly the reason why we made losses.

Priyank Chheda: Perfect. No problem. Just one bookkeeping question. For this year, investment plans would be majorly around ice cream facilities, which is greenfield. Anything other than to call out among the investment plans for FY '26?

Mayank Samdani: So this year, the ice cream plant of Nashik will be capitalized to around INR150 crores, INR200 crores of capitalization there. This year, we will start investing in the North ice cream project, which will -- we are saying that it will be commercialized in Q1 FY '26. So that is around INR200 crores more. And we are also saying that we will invest in some part of shoes in Karnataka, which is around INR50 crores, and we will also invest in our Home and Personal Care business around INR100 crores. This is the capex plan now, Priyank.

Moderator: The next question is from the line of Amruta from Wealth Managers India Private Limited.

Amruta: Congratulations on the financial performance. So most of my questions have been answered. So I have one question regarding the private label business. So for FY '25, what would be the revenue share of private label? And I would like to know the management's perspective on this business, considering the fact that the ice cream brand, private label, NIC, which was now turned into DMU for the company. So what is the management's perspective going forward on this private label business?

Sameer Kothari: Amruta, maybe there's a little bit of a misunderstanding in terms of the definition of private label. For us, private label basically means businesses where we do product development, packaging development are more involved in the development of the product than just in terms of manufacturing it. In case of the customers that you named, they are not private labels. We're doing contract manufacturing for them.

And especially in case of the customer that you've named, we've actually set up a dedicated manufacturing facility for them. So from that perspective, I'm not sure that customer should be classified as a private label. That's very clear. In terms of our view on private label, the reason why in that slide, we've not mentioned private label as a separate division is because private

label ends up getting manufactured in a shared manufacturing site. So purely from a financial perspective, the numbers will reflect in the shared manufacturing pie of our business.

Our view continues to be bullish as far as private label is concerned. Our view currently is more bullish about exports of private label than the domestic. And the reason it's a little bearish on domestic, goes back to Gautam's question, which is that consumption because of the consumption slowdown, we are seeing that across not only legacy brands but also D2C brands as well as private labels in India. On the other hand, in case of exports, because of the tariffs, etcetera, we are hoping that we will see some uptick.

Moderator: The next question is from the line of Parikshit Gujrati from Niveshaay.

Parikshit Gujrati: I just have 2 questions. The first one is what is the annual capacity of the Nashik ice cream plant? And the second question is what is the average asset turn of the beverage segment of the business?

Sameer Kothari: Parikshit, we don't end up giving capacity numbers for dedicated factories because then it ends up divulging information about a particular customer. Like I mentioned, and I'll just quickly recap that this is a dedicated factory. So capacity utilization will not affect us as HFL. What it will end up becoming, if we start disclosing those numbers, is that it will become a proxy for how our customer is doing. That's the reason we don't give out those numbers as far as dedicated factories are concerned.

Your second question was in terms of beverages and the asset turns in case of beverages. In case of beverages, we follow a couple of business models. In some cases, the customer gives us the raw material and packing materials, and we just build them on conversion costs. And as a result, our turnover is extremely low. On the other hand, in some of our customers, we buy the raw material, packing material and then we end up manufacturing the entire product and selling it, in which case our turnovers are high.

Let me just go back and tell you that in case of dedicated manufacturing, we urge investors not to look at our turnover numbers, but to look at ROE numbers. So from that perspective, I would urge you not to look at turnovers as far as dedicated factories are concerned.

Parikshit Gujrati: Sir, I have one more question? So what is the full potential of the footwear segment in terms of revenue?

Sameer Kothari: So when you say potential, you're talking of how much can we manufacture or how much is the market?

Parikshit Gujrati: No, no. Sir, how much you can manufacture?

Sameer Kothari: Yes. Let's say, we are investing in capacities. We are debottlenecking a lot of our existing capacities. We are hiring people. We are training people. So it's a moving number. That's something which our Board and a lot of our more aggressive investors are pushing us on that number anyway. So I'm hesitant to tell you how much we can manufacture. But as I mentioned earlier in the call, and we've done this a couple of times, our target is to be able to scale this up to INR1,000 crores within a short time.

Moderator: The next question is from the line of Aradhana from B&K Securities.

Aradhana: This is Aradhana. A couple of questions. One could be a very basic question, but wanted to understand on the dedicated manufacturing piece, have you come across any arrangement where the contract would have concluded or say, it would have gotten terminated. So what sort of arrangement have we gotten into with those sort of clients? Have we been able to renegotiate with those dedicated contracts? And in case of termination, what is the sort of arrangement we take? I understand that in case of termination also, given that it's take-or-pay, we'll get our bid. But any thoughts on that?

Sameer Kothari: Aradhana, we've been in this business now for nearly 2 decades and more. I'm reasonably proud to say that we've not lost a customer. So there have been instances where our dedicated manufacturing contracts have been tested because of macroeconomic headwinds, because of changes in consumer behavior, because of brand failures, et cetera. And in spite of that, like I mentioned to somebody else earlier, both the partners, our customers as well as us have honored the contracts in letter and spirit.

So from that perspective, I obviously can't give out specific details of individual negotiations with customers, but we've not had an opportunity where we have been worried about any of our customers in terms of the dedicated manufacturing.

Aradhana: And any contracts which would have gotten concluded and we've been able to regain that? Like Mortein, we had acquired in FY '18, and it was for 7 years. So where are we on that?

Sameer Kothari: Again, without getting into the specifics, most of our dedicated contract manufacturing, and when I say most, I would mean a majority, but just because I'm on a public call, I can't say 100%, would get renewed.

Aradhana: Okay. Second, where are we on the...

Moderator: Sorry to interrupt Ms. Aradhana, I would request you to return to the question queue for follow-up questions, as there are several participants waiting for their turn. The next question is from the line of Mayur Parkeria from Wealth Managers India Private Limited.

Mayur Parkeria:

So congratulations, Sameer and the team for a very good set of numbers. So while there have been a lot of questions around how the employee cost will pan out and how things will pan out, especially the shoe business. But let's say, at an integrated level, we have been reporting quite a consistent EBITDA margins over the last 4 quarters, plus/minus 8%, 8.2% kind of range. While there are multiple businesses in terms of now taking shape in terms of beverages, the shoe, the ice cream, the other things, all of them.

But each of them at the respective levels, based on the commentary which you are mentioning, there is an incremental improvement in each of them rather than -- while the issues have been there, challenges have been there, at the respective unit level, the commentary suggests that they are going to improve overall. So in that light, is it fair to assume that in FY '26, if at all, the margins are going to only improve at a consolidated level, integrated level as we go ahead?

Sameer Kothari:

Mayur, that's the reason why Mayank has given out a slide, which basically gives out the EBITDA numbers in terms of the 2 divisions, shared manufacturing and dedicated manufacturing. In case of dedicated manufacturing, I would urge you to look at the EBITDA number in terms of an absolute number and not as a margin of sales. In case of shared manufacturing, yes, you would look at it as a percentage of sales, and we are hoping and confident that we will be able to improve EBITDA to sales in case of shared manufacturing.

In case of the dedicated manufacturing, because of the nature of the contracts and because of the nature of our take-or-pay agreements, the EBITDA number is an absolute number, which is guaranteed. So from that perspective, any changes in the top line actually don't and won't affect us. Does that answer your question, Mayur.

Mayur Parkeria:

Yes, qualitatively so -- while you mentioned this. So on the dedicated side, we are not seeing any risk, as you said, right? So again, coming back to the broad understanding, it's like more or less we should look at a positive uptick rather than any -- and subject to any negative surprise, right?

Sameer Kothari:

I mean, Yes, Mayur. I mean we all are working towards hoping to deliver better numbers in the coming years, yes.

Mayur Parkeria:

No, the reason I'm asking, Sameer, I understand the stock market reactions are not in your hands and as management, but it's been a very long while, while we have seen things improving from the company side and consistent delivery, which has started to happen. So just trying to understand is how do we look forward in another year.

And again, congratulations. Over the last 2, 3 years, there have been a lot of changes and you all have been able to improve the margin steadily, improve the growth profile steadily. So I just wanted to ensure that there are no derailers as we go ahead and we continue on that journey.

Sameer Kothari: Thank you, Mayur.

Moderator: The next question is from the line of Soumya S from Insightful Investments.

Soumya S: Sorry, this is a repeat question of something that has been asked previously, but could you please repeat what you spoke about, capex going forward in FY '26?

Mayank Samdani: So Soumya, we told that in this FY '26, the Nashik plant will get capitalized, right? That is an investment of around between INR150 crores to INR180 crores. We also said that we will start work on the North ice cream unit, which will get capitalized in Q1 FY '26. The most of that will come in CWIP.

We believe that come in CWIP. So we believe that is one which we are investing. We also said that we are investing in shoe business in Karnataka. We will start working on that shortly. And also, we told that in HPC business, we are investing INR100 crores more, which will get capitalized this year.

Moderator: The next question is from the line of Kashyap Javeri from Emkay Investment Managers. It seems like the participant's line has got disconnected. Ladies and gentlemen, due to interest of time, this was the last question for the day. And I would now like to hand the conference over to Mr. Vimal Solanki for closing comments.

Vimal Solanki: Thank you, Anushka. So as we wrap up, let me leave you with this. Hindustan Foods Limited is not just chasing numbers. We are building a future-ready, resilient business with responsibility to the core. Sustainability isn't just a check box on our to-do list. It's central to how we view the future of manufacturing. With India's regulatory landscape, especially around EPR evolving rapidly, we are not waiting to react. We are stepping up to lead.

Our proposed acquisition in the Kabadiwala isn't just strategic, it's symbiotic. The deep expertise in waste management and traceability, turbocharges our EPR compliance while helping uplift the informal waste ecosystem. It's a win for us, for the planet and yes, even for your portfolio. We are optimistic, we are focused and fully committed to doing well by doing good.

Thanks for your continued trust. For more details, feel free to reach out or give our Investor Relations team at SGA or friendly nudge. And before we sign off, so mango season will be ending soon, but it's still going strong in a cup or a cone next to you, don't miss out, grab a mango



ice cream on your favorite Q-com app. It's the smartest seasonal investment you will make today.
Thank you.

Moderator:

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

