Hindustan Foods Limited
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Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Hindustan Foods Limited Q1 FY2022 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sameer Kothari - Managing Director. Thank you and over to you Sir!

Sameer Kothari: Thank you Kathy. Good afternoon to everyone and welcome to our Q1 FY2022 earnings conference call. I hope each of you and your families are vaccinated and if not, I urge you to get vaccinated as soon as possible. I am joined on the call by Mr. Ganesh Argekar who is our Executive Director, Mr. Mayank Samdani who is our Group CFO, Mr. Vimal Solanki who heads our Corporate Communications, and SGA our Investor Relations Advisors. I hope everyone has had a chance to go through our updated investor presentation, which was uploaded on the exchange and our Company website.

The performance of this quarter has been excellent on a year-on-year basis and steady as compared to the quarter-on-quarter basis. In terms of various operational highlights, I frankly have nothing new to report, everything that was supposed to happen is happening a little slower than what we would have liked because of the pandemic and because of COVID. However, factories are ramping up both in Silvassa and Hyderabad, new projects announced earlier are in construction in North India as well as Hyderabad. We are on track with our guidance and Mayank will take you through the numbers shortly. I however want to take a couple of minutes just to lay out the broad roadmap of the company. I know that in the last couple of investor calls, a couple of quarterly calls, we have been very cagey about what is going to happen next about the company after getting the Rs 2000 Crores of Revenues. This caginess was not because we did not have a plan or because we did not have a target, it was more because we were being circumspect because of COVID and because of the pandemic. Unfortunately, it continues to be an unknown variable. We do not know what is going to happen with the third wave, etc., and we did not want to end up saying something and then find out that our targets were completely upended by the pandemic.

So, I am a little bit more confident now and that is the reason we gave out a guidance. We are very convinced that contract manufacturing as a subcategory of the FMCG universe, is very relevant and is becoming more and more relevant. The last year, the pandemic has served as a catalyst, and it has precipitated a lot of changes in the consumer behavior which has led to the brands relooking at their manufacturing strategy. A lot of the new B2C brands have sprung up in the last one year. Online sales for most of the incumbent brands have increased substantially. In some cases, going up to double digit now, so based on that we believe that the next couple of years should be exciting in terms of growth for the contract manufacturing industry. We are very excited about the future and are working hard on a pipeline which will take us to our goal of doubling our turnover from Rs 2000 Crores to Rs 4000 Crores in the next three years. This growth will come via Greenfield as well as Brownfield expansion and also through acquisitions. I cannot give any more specific details, but I can confirm that the entire management at HFL is working hard, and the results should start showing up within the next six months. In addition to FMCG, we are also evaluating adjacent sectors like health and wellness, which has seen a tremendous amount of growth in the last one year of course due to the awareness of the COVID and the pandemic. I would be happy to take questions on this, but in the meantime, I will hand over the call to Mayank, our group CFO who will take you through the financial results for the quarter ended June 30, 2021.

Mayank Samdani: Thank you Sameer and good afternoon, everybody. We are happy to share that our growth momentum in the business has sustained and this is seen our numbers also. Our total revenue for the quarter has doubled as compared to last year Q1 which stood at around 457 Crores. The good thing is that the company operated all its plants during the quarter despite second wave of COVID. Moreover, our recently commissioned facilities at Silvassa and Hyderabad have been ramping up well and started contributing for revenues this quarter.

Our EBITDA for the quarter has seen a growth of 70% year-on-year and stood at Rs 26.84 Crores. The PAT is up by nearly three times to Rs 11 Crores. Our net worth as on June 2021 stood at Rs 236 Crores. I am happy to inform that ATC Beverages have signed an LOI with the large FMCG Company to start manufacturing their beverages on a dedicated basis. Despite delays due to intermittent lockdowns, the project work of soaps and bar plant in Hyderabad and the SME plant in North India is progressing as per schedule. Project work of Hyderabad plant as well as the new plant in North India is expected to be completed by Q4 FY2022 and the commercial production is also expected to be commenced by Q4 FY2022. Our second facility in Silvassa which was setup to manufacture surface cleaning liquid on the back of the toilet cleaning facility has commenced commercial production in May 2021. We expect to ramp up the rated capacity by Q2 FY2022.

Some information about our merger, the shareholder in the Tribunal Convened Meeting held on June 30, 2021, pursuant to the order of the Honorable NCLT Mumbai Bench approved the composite scheme of the arrangement and amalgamation of beverage plant of Mysuru and malt beverage plant in Coimbatore. The final orders from the NCLT Mumbai Bench are awaiting. With the continuous focus on exploring the organic and inorganic opportunities we are confident of pursuing our medium term and the long-term revenue target. Moreover, with the increase of our revenue and the profitability in the coming years we remain focused on strengthening our balance sheet and cash flows, which would facilitate us on further growth. In regard to our guidance of doubling our turnover in the next three to four years, we are confident that we can fund it from our internal accruals and debt and if needed, we can always raise the equity as and when required. With this I would like to open the floor for the questions. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of the Vishal Gutka from Phillip Capital. Please go ahead.

Vishal Gutka: Hi, Sameer, congrats on a good show despite the challenging environment. A couple of questions from my side. Recently you have hired a very senior resource to look after health and wellness segment. If you can just throw more light on what segment we are targeting, OTC segment or the ayurvedic segment, where the raw material could be a challenge. So, if you can just throw more light what are you trying to do in that segment?

Sameer Kothari: Vishal, just recently Mr. Sanjay Sehgal has joined our team and you are absolutely right Sanjay is a very senior resource. He has tremendous experience having worked with Unilever as well as Sandoz. He was the Managing Director for Sandoz for quite a few years. We are basically looking at products which are similar to the FMCG products but have a therapeutic marketing plan or therapeutic claim. To give you an idea, if you look at toothpaste, you have Pepsodent and you have Colgate and you have toothpaste like Sensodyne. Now Sensodyne, why it is a toothpaste, it has a therapeutic claim being that for sensitive teeth. And as a result, it does not come in the same basket as Colgate or Pepsodent. And if you look at other products, in case of drinks you have the carbonated drinks, you have juices and you have 45 water. And the 45 water come with the therapeutic claim and as a result while they require very, very similar facilities because of the fact that they have a therapeutic claim, there is a greater degree of regulation, compliances and GMP hygiene requirement as compared to FMCG. What we are trying to do is we are trying to build our capabilities in that segment. We will be looking at ointment, we will be looking at creams, lotions, we will be looking at all of these products, which are slightly more therapeutic or slightly more value added as compared to FMCG. I am not sure I clearly understood your question about raw material availability in terms of the health and wellness products, so I do not know what the question is.

Vishal Gutka: In case herbs are used sometimes you do not find the regular supplier of herbs is not available in case you are targeting the ayurvedic segment. If you are targeting the OTC segment, then I do not think there should be a challenge for you?

Sameer Kothari: Sure Vishal, if you look at the company and read our business model, we basically a contract manufacturers. We do not do any marketing branding ourselves. So obviously if we decided to get it to ayurvedic product we would be merging with companies who are already doing those kinds of products. We would work very closely with their terms in terms of both the technical handling of the product and the economic viability of the product. So yes, you are absolutely right that in some cases availability of raw materials is a constraint for the products, but then our project and our capacities would take that into consideration right at the beginning.

Vishal Gutka: Does this product generally will have a higher margin for you or it will be similar to because it is therapeutic base and benefit base and at the same time, as you told that it is a compliance based because it is benefit base, does the capex go up for this kind of product or if you can throw more light on the margin and the capex for the OTC part?

Sameer Kothari: Sure Vishal, again it is premature for me to talk about specific numbers. But logically speaking, yes, the capex will be higher as compared to a regular FMCG factory just purely because we are looking at compliances either of MHRA or USFDA, etc. The requirements in our facility like that would be much more stringent than what the Indian FDA requires for manufacturing FMCG products. So logically yes, the capex would be higher, the opex would be higher and frankly we are hoping that our margins will be higher as well. Does that answer your question Vishal?

Vishal Gutka: Yes, thank you so much, Sameer. Second question on the PLI scheme, so any thought there. Are you planning to tie up with some of the brands who might have applied for PLI. So, any thoughts over there or you can do it on your own or it is only specific for brand owners?

Sameer Kothari: Frankly no, it is not specific only for the brand owners; however, the brand owners definitely have a better bargaining power in terms of applying for those schemes and discussing it with the government because they can then offer a host of investment, host of manufacturing, etc. The discussion is on with brands where our investments for those brands will be considered a part of the investments required for the PLI scheme. Having said that and this is something I have mentioned earlier as well, the PLI is basically an enabler for us, I do not think it is going to do anything in terms of our margins or in terms of our bottomline because a large part of the benefit will get passed onto the customers. But as a manufacturing impetus and in terms of a policy resource that the government has announced it will definitely make a difference in terms of Make in India and the emphasis of manufacturing in India.

Vishal Gutka: Great, last question from my side. You intended that you want to double the turnover by 2025 I just wanted to check to what extent the existing capacity will suffice or do you require more capex as capex is lifeline for you every year we will be doing some of the capex. So, what kind of, I just want to know what the asset turnover is as of now and what kind of incremental capex you require because on one hand you are also planning to more acquisitions. So, if you can throw some more color on this topic?

Sameer Kothari: So, I will ask Mayank to answer this, Vishal, if that is okay?

Vishal Gutka: Yes, thanks.

Mayank Samdani: Vishal our current asset turnover is around 6x and with the new project which we have already announced we will be at around 5 to 6 times asset turnover ratio which will get us to around Rs 2500 crores of revenues with all the new plants coming up and ramping up of the old plant. So, we are quite confident that we will get to the doubling of our turnover, but this will require additional capex surely which as I told earlier that we will fund it through the internal accruals and debt.

Vishal Gutka: If I heard it right Mayank, you said that the existing plant that is set up, it should be in a position to do Rs 2500 Crores revenue if they run at full capacity?

Sameer Kothari: Yes, right.

Vishal Gutka: Great, thank you so much Sameer and team and all the best to you.

Moderator: Thank you. The next question is from the line of Faisal Hawa from H.G Hawa & Co. Please go ahead.

Faisal Hawa: Sameer, on the management front what kind of steps are we taking to handle a much more cross-country kind of a situation and have we hired more senior management people and what kind of incentives that we have given to them?

Sameer Kothari: Faisal, you are absolutely right and again I said this that I think the only constraint that we face is good people. In terms of demand, the demand for contract manufacturing is there. In terms of money and our capability, in terms of financial resources that is there, what we require is a good team. This is a constant battle that we face. Recruitment keeps going on, just to give you an idea in the last one quarter we have hired a senior gentleman to head our HR function. This gentleman has joined us from a pharma company. Sanjay of course we mentioned in our quarterly updates, he has joined us to head this health and wellness foray of us. In addition to that, we were waiting for another gentleman to join in as a corporate QA who is again joining us from a pharma company. Yes, continuous team building we have just recently rented new home office premises as well. Investing in capability is right now the biggest pinpoint for us.

Faisal Hawa: How much revenue can we foresee from the health and wellness segment because only if it makes some dent on our already growing revenue, would it make sense to going to an entirely new vertical?

Sameer Kothari: Yes, absolutely Faisal, so I obviously cannot tell you how much revenue we will get, but if you just look at the potential of the health.

Faisal Hawa: I want percentage of total revenue I do not want any actual figures.

Sameer Kothari: If you look at the potential of the health and wellness sector, health and wellness sector is a very, very large sector and it is growing faster than the FMCG. So, in the space of health and wellness products like everything which is connected to the pandemic right, so everything is growing tremendously. In addition to that, most of the pharma companies are also trying to devote a lot of money and marketing muscle to the OTC products. We all have read about PharmEasy and what they are doing so there is going to be some amount of similar changes that we saw in FMCG, happening in the pharma space as well in terms of distribution. So, we think that it is very, very appropriate in terms of the potential of what we can do in the health and wellness sector. For us specifically, you are absolutely right that it has to be meaningful. If you push me to it I am hoping that in the next three to four years at least 30% to 35% of our revenue should start coming from health and wellness.

Faisal Hawa: That is a very big figure, that much potential and you must be having some kind headwind into it?

Sameer Kothari: Yes, like I said I have given you one example of Sensodyne, let me give you another example a brand like Neutrogena. You have Ponds, you have Vaseline, you have a bunch of creams lotions and then you have a separate range or separate product category like Neutrogena which basically claims to be far more therapeutic than anybody else. And we are now trying to get into that space as well so while we continue to manufacture the mainstream FMCG product, we will also start getting into more of these therapeutic products and as the consumer becomes more sophisticated in terms of their consumption, we have all seen what is happening with healthy snacks, we have seen what is happening with nutritional supplements. I think in the last one year all of us have consumed humongous amounts of vitamin C and zinc tablets, this is all leading to a huge growth in the health and wellness sector. Vitamin supplements is a very, very large category in the US. We as a country India, is not very big on it, but in the last couple of years I think every house has consumed vitamin C and zinc at some point of time. Yes, I think the potential is huge.

Faisal Hawa: Have added any kind of MNC customers in the last quarter of any shape or size?

Sameer Kothari: Like Mayank mentioned in case of the Mysuru facility we have signed on a dedicated contract with a customer and having new customers, while we cannot give specific details for the sheer reason of brands sensitivity, is something that we do every month, every week, every quarter absolutely.

Faisal Hawa: Any progress on private label by e-commerce giant?

Sameer Kothari: Sure, that is growing as well. Private label is again, if you look at from a significance of revenues perspective, private label is very small, but from a strategic perspective, private label is definitely growing and again we believe it will grow further. There is a very, very large retail company, we are going to start manufacturing for them from next month. We have already started manufacturing for some e-commerce players, etc. So yes, private labels will continue to be a part of our growth.

Faisal Hawa: Thank you very much Sir. That answers all my questions.

Moderator: Thank you. The next question is from the line of Vijay Chauhan from Right Horizon. Please go ahead.

Vijay Chauhan: Congratulations on the good set of numbers. If you can just provide any guidance on the inorganic opportunity side that if we are actively evaluating. And in case if we are looking, what can be the size that we will be looking at if we want to go for any inorganic opportunities. So that will be the first question?

Sameer Kothari: Sure, Vijay, obviously I cannot give any specific details, but let me just give you our capital allocation policy right. In case of acquisitions or whether it is for Greenfield or Brownfield projects, if we have an opportunity which is a dedicated factory, the size of the acquisition or the size of the investment could be anything between Rs 100 Crores to Rs 500 Crores. If it is a shared facility where we do not have the guarantee of safer pay or we do not have the guarantee of the business, we would like to restrict our acquisition or the capex size to less than Rs 20 Crores. So, we continue to evaluate both these business models. So, if I have to give you a range it would be like a really stupid range right from Rs 20 Crores to let us say Rs 500 Crores. But I think it would be better if you break it down in terms of our business model and understand that in the first business model, we are keen to invest whatever money takes. In the second one, we would like to restrict our risks to less than Rs 20 Crores.

Vijay Chauhan: Thank you for the answer and my second question would be like we have seen in the past couple of years like we were able to meet this FY2022 mark of Rs 2000 Crores so I would very much appreciate was that our company has done. So, like we have come up with the next plan for 2025 in the next three years to double our turnover. But if we talk about like the growing opportunities on the contract manufacturing side in FMCG in India. So how do we see in the five years or 10-year kind of period that, how this industry can shape up and what kind of opportunity we can capitalize on this front. So, any broad idea or view that we are internally pursuing in long run?

Sameer Kothari: Thank you Vijay, you are very kind, and you did not bring up the fact that we missed the 1000 Crores mark in 2019-2020. We had made an announcement that we will hit Rs 1000 Crores in 2019-2020 we did not. We are well on track to meet the Rs 2000 Crores and we are confident that we should be able to get to 4000 Crores. But just to get on the macro aspect of it, so in terms of the market size we believe, and this is just our estimate that the FMCG manufacturing could be anywhere between 20% to 25% of the FMCG market in India, now out of that if you assume that 20% or 30% of it is going to be a contract manufactured, that would be a size of between Rs 50000 Crores to Rs 100000 Crores. In addition to that, we are now looking at health and wellness, which I believe will in the next five to 10 years become as much as 25% to 30% of the FMCG market in the country. And when I say health and wellness and being a little liberal about it, it is including healthy snack, including nutritional supplements, including therapeutic, cosmetic, personal care products, etc. So, I think the market size is very large, I do not think any of us at HFL are worried about the market size. We are just worried about how much share we can get out of that market size and how we can execute.

Vijay Chauhan: Thank you and that provides a quite insight on the long-term side. Thank you and good luck for the future.

Moderator: Thank you. The next question is from the line of Devendra Pandey from DP Financial. Please go ahead.

Devendra Pandey: Thank you for the opportunity. My first question is on the visibility of the revenue target, which we had given of around Rs 4000 Crores. So where are we on that?

Sameer Kothari: Even though we are working hard towards it, it is a target, which we have just announced three days ago. We have started recruiting the team, we have got some projects in the pipeline, we are pitching for a bunch of projects, right now it is a goal, it is a target, but we are definitely working towards it, so if you ask me specifically where are we, we are at run rate of 2500 Crores by the end of this financial year. That is where we are.

Devendra Pandey: Are there any inorganic opportunities that we have come across and are there any opportunities we are currently exploring?

Sameer Kothari: Yes, Devendra that is something again which we do on a regular course of events without giving any specifics, I think Mayank looking at, at least a couple of opportunities every fortnight. Some of them materialize, most of them do not. But yes, absolutely even now we are working on a couple of potential opportunities.

Devendra Pandey: What would be the strategy behind this inorganic acquisition. When I say strategy, what kind of parameters we generally look at in terms of strategy, products, return ratios, etc. And what could be our potential ticket size for the acquisition?

Sameer Kothari: The answer remains the same, the acquisition has to fit into our existing business models. So, we have three business models, and the acquisition has to fit into this business model. So we are looking at factories, which are doing dedicated manufacturing for some principle. In this case, the ticket size could be anything or we are looking at stressed facility which is on a sharing basis for multiple principles in which case we want to restrict the ticket size to less than 20 Crores primarily because we believe that there is a lot of risk in case of a shared facility, and we would not like to devote too much capital to it. In terms of return and what we expect, we look at acquisitions at the same way as we look at any new business which is Greenfield or Brownfield. So, we expect to make the same amount of money out of acquisitions, we do not believe that we will do acquisitions just for the sake of acquisitions.

Devendra Pandey: Got it, how are we planning to fund these acquisitions?

Sameer Kothari: I let Mayank answer this.

Mayank Samdani: We have given the target for next three years. We believe that our internal accruals will be enough to get the equity for the new projects and we will surely take that because as we have mentioned earlier that in the dedicated facility that is also warranted. So we are not averse to take the debt. Yes, we will do it from the debt and equity from the internal accruals mostly.

Devendra Pandey: Got it, so this revenue target of Rs 4000 Crores is only through organic expansion, or this will include even inorganic expansion as well?

Sameer Kothari: Devendra it is from both organic and inorganic expansion.

Devendra Pandey: Got it. Thank you, Sir.

Moderator: Thank you. The next question is from the line of Amit Shah from ACE Securities. Please go ahead.

Amit Shah: Sir good afternoon. Sir I have a couple of questions. Can you throw some light on operational difficulties that you must have faced during second wave and steps taken to overcome the same?

Sameer Kothari: Amit, sure, frankly the second wave the operational difficulties were far lesser than the first wave obviously. In the second wave, the governments as well as the local authorities were far more clued and far more cooperative in terms of letting essential products, factories continue to run, I think the operational difficulties in the second wave were more humanitarian rather than from a government or legal perspective. I think the extent of the COVID infection in the second wave and unfortunately the loss of lives has been far greater in the second wave than in the first wave. Fortunately, the entire team at HFL have been safe, I should just say that unfortunately one of our team members did succumb to COVID. But other than that, while all of us and most of us got infected including Ganesh who is on the call and me. But we all managed to survive, so I think the difficulties were more around human capital rather than about legal, lockdowns, etc. Does that answer your question Amit?

Amit Shah: Yes, Sir, thank you Sir, have you seen any demand disruption or any changes in the customer contracts across your business model?

Sameer Kothari: Amit in case of our customer contract we have long-term contracts. It cannot change on the basis of a quarter-to-quarter. Was there some demand moderation in the previous quarter, absolutely. I am sure you are tracking far more FMCG companies than we are, and you would have seen that demand moderation across all the results of the larger FMCG players as well. Having said that, FMCG is a defensive industry, it does not have that kind of demand moderation that some of the other cyclical industries do and fundamentally, if you believe that the 1.6 billion people of India will continue to consume, I think FMCG is a structural growth story. So, I don't think you will see demand moderation affecting us in the long haul for a month because of the lock downs, maybe for a couple of quarters because of bad monsoons, lack of rural demand, etc. Stuff like that will definitely happen, but that does not affect our contracts because like I said our contracts are seven to ten years.

Amit Shah: Understood Sir and last question have you seen demand scenario improving post unlocking, so how is the demand scenario for the month of June and July?

Sameer Kothari: Again, if you are talking about demand for us, there is definitely an uptick and again it is logical because while in the first couple of months of the previous quarter grocery shops were not allowed to run completely. There was definitely some effect of the lockdowns in the cities, etc., on demand. If you look at it structurally, I think the rural demand is going to be the unknown variable depending on the rains and depending on what policies the government announces and the pace of vaccination we will know what exactly is happening, I am not the expert in terms of forecasting demand for the FMCG market. Structurally I continue to be very bullish on FMCG demand, but short-term movements because of bad monsoons, lack of rural demand because of late allocation to MGNREGA, etc., will happen.

Amit Shah: Thank you.

Moderator: Thank you. The next question is from the line of Amit Agrawal from Burman Capital. Please go ahead.

Amit Agrawal: Thank you Sameer and team. Congratulations for a good quarter. Just first question is to Mayank regarding the EBITDA margin, so I think our EBITDA margins continues to be suppressed so if you can help us how we should visualize margins from yours. And is there any inflation related aspect in the margins and second if there is also cost related to the capex that is getting build in other expenses. So, if you can just help us in terms of margin guidance?

Mayank Samdani: In the last call also and through our various communications, we have given the guidance that our EBITDA margins will be around between 5% to 6% of our turnover because most of our agreements are long-term and based on the capital employed, so our EBITDA margin will come in between 5% to 6% hereon also

Amit Agrawal: Is there any aspect of inflation because of the increase in raw material because we would be working at a percentage or per kg or some unit like that, though revenue has increased your processing fees remains flat, because of that our margins are looking lower?

Mayank Samdani: All of our contracts are pass-through costs contracts where the raw material and packing materials cost is passed to our customers. So, we are able to do it in month-to-month or maybe the next month or next quarter, but all our raw material prices change has been passed to our customers.

Sameer Kothari: But Amit I think what you are saying is right that as the denominator of sales increases due to inflation in raw material prices or decreases due to a price moderation, the percentage of EBITDA will change; however, given our experience of the last couple of quarters, I cannot predict what the inflation rates are going to be going ahead, that effect is quite minimal. There is some amount of timing difference which Mayank talked about where our passthrough could take a couple of months or if the quarter ends in between it could probably spill over to the next quarter, but other than that I think yes mathematically you are absolutely right that there will be an effect on EBITDA margins, but I think that would be very, very insignificant

Amit Agrawal: Also, is there any costs related to the capex that we are undergoing which is reflected in the cost which may rationalize once we start manufacturing?

Sameer Kothari: As far as that capex expenses in the interim period of when we do the project work as per the Ind-AS we are capitalizing it. so, I am not sure, Amit, what was the question?

Amit Agrawal: Yes, that does answer and Sameer next question for you.

Sameer Kothari: Sorry, let me just elaborate on that because I think somebody else has mentioned that the other expenses figure in our quarterly update is that what you are talking about?

Amit Agrawal: Yes.

Mayank Samdani: So, you are asking about why our other expenses decrease right?

Amit Agrawal: Yes.

Mayank Samdani: If we talk about the quarter-to-quarter between the Q4FY21 and Q1FY22, in Q4 there were some onetime expenses which we booked like the provisions and the stamp duty, which was there, which is not this time. And now manufacturing cost has decreased because some of our factories are producing less. So, this is the main reason of our change in the expenses.

Amit Agrawal: Like you mentioned about the tentative revenue contribution from health and wellness, if you can help us, from medium term three to five years, what can be potential contribution from our private label manufacturing?

Sameer Kothari: Private label manufacturing will continue to be an insignificant part of the total turnover. If you are looking at a target of Rs 4000 Crores turnover, even if private label literally grows at 100% from where it is every year, it will still continue to be rounding off error for us. Just because the entire segment of private label, which is extremely small right now, is growing tremendously but the space itself is very small, it is something which you as a consumer when you go to the store, you can see the number of branded players on the shelf and then you go and see the private label. So, if you can go to a shelf which is telling let us say toilet cleaners, so you will see the Harpic and Domex of the world and then you will see one small private label and that will explain to you that private labels as a part of FMCG are less than 1% of sales for FMCG market itself. And we will effectively mirror that for at least the next few years.

Amit Agrawal: Got it, thank you, really helpful.

Moderator: Thank you. The next question is from the line of Akshay Jain from Jain capital. Please go ahead.

Akshay Jain: Good afternoon, I have a few questions, my first question consists of four parts, what is the status of merger of malt beverages, and we think the merger will get completed.

Moderator: The line of the current participant got disconnected we move to the next question that is from the line of Aditi Sawant from ADM Advisors. Please go ahead.

Aditi Sawant: Thank you so much for the opportunity. I have a couple of questions, first is does the company have any plans to manufacture products for Mamaearth or any other new health focused company. Second is like we have recently signed an LOI with a FMCG customer for ATC beverages, so can you please share more details on the same and the last one is what is the company strategy to improve the return ratios going ahead?

Sameer Kothari: Aditi unfortunately all the three of your questions I am unable to give you specific answers, so we cannot disclose brands and their shares or the fact that we have signed contracts, etc, which is the reason why we try to steer away from that. Obviously, we work with a lot of new age B2C companies, the entire private labeling division actually does only that, again not specifically to Mamaearth but that is what we do with all the new age companies. So yes, we do work with a lot of new age companies, a lot of B2C companies as we call them. Now the second part in terms of your ATC beverages question, again it is a large FMCG company, and I am not in a liberty to explain or discuss with you the specifics of the contract. All I can tell you is the dedicated contract; you know that ATC has been a millstone around our neck for the last two years we have been making losses on it. We are hoping that with this contract and a good summer season coming up, it will finally start paying off the patience and the investments that we have made in that factory. And in terms of your third question about how we expect to improve our return ratios, Mayank can answer.

Mayank Samdani: If you look at, we have done some capex in last year where the returns is yet to come. So our return ratios is suppressed by that part. So we expect anyways the return ratio to be better when these assets which we have invested, the utilization will come to what as a rated capacity is and will make money as what is required with what is the factory is made for. So right now, it is little bit suppressed because of that part because of the ramping up of the project which is going on.

Sameer Kothari: One main point there is the fact that we raised money just before COVID, we have not been able to deploy that money completely and which is why Mayank was very confidently saying that we would not require any new infusions for at least some part of our expansion, and we are confident that we should be able to get to Rs 2500 Crores run rate by the end of this financial year. And which is why those ratios will automatically improve because obviously we are not diluting anymore, we are not raising any equity and those ratios will automatically improve once we achieve that kind of run rate in terms of turnover.

Aditi Sawant: Understood, that was helpful. Thank you so much.

Moderator: Thank you. The next question is from the line of Priyanka Singh from Atidhan Securities. Please go ahead.

Priyanka Singh: Good afternoon, team. My first question is we understand and appreciate your goal to reach 4000 Crores of revenue by FY2025 but given both the UP and Hyderabad plants which are expected to be commissioned by end of FY2022. So, what kind of revenue we can expect in the next year like FY2023?

Sameer Kothari: Priyanka like Mayank and I both have separately mentioned by the fourth quarter of this financial year and the early quarter of next financial year we should be at Rs 2500 Crores run rate, which is why our target for this financial year is Rs 2000 Crores. If we do not expand, if we do not invest, if we do not do anything else, we expect that the next financial year we should be at Rs 2500 Crores. That is what the current projects that we have announced, the current expansion that we have announced, should be able to deliver that kind of a turnover, anything else that we do should hopefully add onto that.

Priyanka Singh: Another question is how the company is focused on entire dedicated manufacturing model and will this help the company in coming years in terms of better operating margin?

Sameer Kothari: Yes we are focusing on the dedicated business, it accounts for nearly 80% to 85% of our turnover. We expect that to continue for the next two to three years for sure. Will it affect our operating margin? Now dedicated business by definition has a fixed margin which is in place because of a contract for the next five to 10 years right, so assuming that we ramp up the capacity to what is the rated capacity in six months from the date of commercial production, we will expect to make the same operating profit out of that factory for the next seven to 10 years. So, whether it will change the operating margin profile, I am not sure how you want to look at it. All I can say is a dedicated site once it has ramped up, will continue to make the same amount of money unless something happens, and we screw it up.

Priyanka Singh: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Jain, an Individual Investor. Please go ahead.

Ashish Jain: I have few questions, the first question consists of four parts, so what is the status of merger of malt beverages and by when we think the merger will get completed. Also, if you can let us know what will be the revenue addition from the merger and what kind of revenue contribution, we can expect in our overall 2025 target?

Mayank Samdani: As I mentioned earlier that the AGM for the passing of the merger has already been done and we have filed the petition in NCLT. We expect in maybe three months, we will get through the merger, and I cannot give you the entire figure because it is not being done and all I can say that there will be a significant addition to our EBITDA with this merger.

Ashish Jain: Got it, my second question is can you share the details of assets still held in Vanity Case, so how much revenue do we clock there?

Mayank Samdani: We have already given the target of Rs 2000 Crores this year right, so when we do Rs 2000 Crores in HFL. Out of HFL, in other promoter company will do around Rs 150 Crores to Rs 175 Crores of turnover.

Ashish Jain: Lastly, we have mentioned in the investor presentation that the opex in the Vanity Case will be made in the couple of years, have we begun the merger process for the remaining asset?

Mayank Samdani: We have one merger process, which has not been done and when we have the one merger in process, we cannot start another one, we will see after this merger is done, this merger already taken one-and-a-half years because of the obvious reason of COVID and NCLT Bench not working on the full capacity. So, we have to think that how we do the next thing because obviously this is a time consuming thing.

Ashish Jain: Any expected timeline when will it start?

Sameer Kothari: We have announced that we will definitely get this done in the next couple of years. Unfortunately, since as Mayank mentioned the legal process is not something that is under our control, if this merger comes in by October we will start the process for the rest of it immediately after that.

Ashish Jain: Alright, that is all from my side. Thank you so much.

Moderator: Thank you. The next question is from the line of Harsh Sheth from HDFC Securities. Please go ahead.

Harsh Sheth: Good afternoon team and thanks for the opportunity, just a couple of questions. When we speak about the growth opportunities do we plan to milk our existing clients or are you planning to add more clients, I just wanted a bit more clarity on this client concentration part because I believe top five would be roughly around 70% to 80% of our business, and secondly would it make more sense to focus on fewer categories for better economies of scale and would that result into having a better bargaining power with our clients vis-à-vis getting into multiple categories if you can throw some light there?

Sameer Kothari: I am glad none of my customers are online they were hated to be listening to the words milk them for extra business, but having said that, so here is the deal. We in a way mirror the FMCG market right and the FMCG market, the top five guys or the top four guys however you want to slice it, pretty much constitute 60% or 70% of the market. If you look at product specific categories, if you look at toothpaste for instance, Colgate and Pepsodent are pretty much the largest brands, and they control nearly 50% or 70% of the market. If you look at detergent powder, if you look at soaps, if you look at all of those categories. So as a result, our client profile will continue to reflect that on the FMCG market which is the large guys will constitute a disproportionately large percentage of our business. That is the way the market is. So, if you are dealing with an 800-pound gorilla in the market, obviously he will carry far more heft than a private label which is just setting up or a B2C brand which is just getting up. Having said that, in terms of our strategy, we are very agnostic as far as customers are concerned we are absolutely happy to look at any kind of customers, we set up a separate division in case of private labeling to deal with smaller customers and smaller brands because we believe that going ahead deals become larger and so on and so forth., But for the immediate future, there is no running away from the fact that, that the larger customers and the larger players in the FMCG market will be the ones who will pay for our electricity bills, now your second question was I forget actually?

Harsh Sheth: It was basically why should we not focus on fewer categories?

Sameer Kothari: In terms of our again strategy as far as that is concerned, so we have been customer agnostic, we have been product agnostic, we have been geography agnostic. We could very well decide that we want to work only in one location, or we want to work only in one state, but we have actually gone ahead out of our comfort zone and gone into various locations including more recently in UP. Similarly in terms of product categories, I think India is such an underserved market as far as manufacturing is concerned right now, that we believe that there are opportunities in all categories. If you just look at a category like ice cream, the current viable radius for an ice cream factory is 400 kilometers which means if an ice cream has to be transported beyond 400 kilometers, the cost of transporting that ice cream is more than the cost of product itself. If you look at just the number of ice cream factories which will be required across the length and breadth of the country, that itself is huge. So, if you look at any of these product categories, we believe that there is a huge amount of wide space in terms of manufacturing need and capacity and as a result frankly, we are in a situation where if we are getting an opportunity to do something, we just jump at it we do not ask question.

Harsh Sheth: Got it, that was actually really very helpful, thanks for that. Secondly on our gross margins part, so the margins have come off a bit off late I understand that sharpening raw material prices, but how much of that would be as a result of RM inflation firstly and secondly in these times, I think with raw material inflation specifically this has not been ever before these are unprecedented times where prices are rising so sharply. So how is our communication with our clients, are they planning to postpone their production, how is the entire thing going on?

Sameer Kothari: First question is that one raw material prices do not affect us because most of them are passthrough right, they might affect a quarter performance, but in general they do not affect us. In terms of the gross margins, again I am assuming you are looking at it on a secular year-on-year basis and that is reflecting more than the inflation it is actually reflecting the fact that as our business is becoming more and more dedicated manufacturing, our margins will start going towards the dedicated manufacturing model. If you look at our business portfolio around three years ago, a large part of our business was coming from shared facilities which included the shoe business, the leather business and so on and so forth. Over the last couple of years, the dedicated manufacturing business has constituted nearly 80% to 85% of our business and our margin profiles will veer towards this going ahead as well. We continue to believe that dedicated business will be 80% to 85% for the next few years and our gross margin, EBITDA, net margin, all of them will continue to be veering towards that business model. In terms of the raw material prices, I can only say what the Reserve Bank of India says which is the inflation is a transitionary, do not worry.

Harsh Sheth: Right, that was really helpful. Thanks, and all the best.

Moderator: Thank you. Ladies and gentlemen that was the last question for today. I now hand the conference over to Mr. Vimal Solanki, Head - Emerging Businesses & Corporate Communications for closing comments. Over to you Sir!

Vimal Solanki: Good afternoon. The first quarter of FY2022 has been in line with the company’s target. Though we have witnessed some moderation and change as compared to the previous quarter because of the lockdowns following second waves and change in product mix, we have been able to protect our bottomline due to the inherent nature of our business model. Now, while we manufacture most key FMCG categories there is still unexploited potential in the FMCG contract manufacturing space. We are definitely looking to expand a bit of our portfolio, assessing categories such as health and beauty, perfumes, confectionaries, savories. As on date, we are confident if I may repeat of achieving our immediate goal of Rs.2000 Crore revenue in FY2022 and then doubling of this revenue in the next three years. I take this opportunity to thank everyone for taking out time and joining on the call this afternoon. I hope we have been able to address your queries. For any further information, kindly get in touch with us or SGA that is Strategic Growth Advisors who are our investor relations advisors. We hope to see you with better results, better performance next time, hopefully some breaking news. Until then, take good care and stay safe. Thank you so much.

Moderator: Thank you very much, members of the management. Ladies and gentlemen on behalf Hindustan Foods Limited that concludes this conference call. Thank you for joining us. You may now disconnect your lines.

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