Hindustan Foods Limited

Q3 & 9M FY22 Earnings Conference Call

**February 14, 2022**

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**Moderator:** Ladies and gentlemen, good day and welcome to the Hindustan Foods Limited Q3 and 9M FY22 earnings conference call. This conference call may contain forward looking statements about the company which are based on the beliefs, opinion, and expectations of the company as on 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 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. Good evening and welcome everyone to our quarterly earnings conference call. I hope all of you are doing well. I am joined on the call by our Executive Director – Mr. Ganesh Argekar, our CFO – Mr. Mayank Samdani, our Company Secretary – Mr. Bankim Purohit and Vimal Solanki who is the head of our Corporate Communications. In addition to that, I'm also joined by SGA who is our investor relations advisor.

I hope everyone has had a chance to go through our updated investor presentation. We did spend a lot of time on that presentation this time, basically to explain the rationale of our mergers and acquisitions.

I am quite pleased with the performance of the company in this quarter. We have achieved the highest ever profit and the highest ever turnover in the history of the company. However, due to some accounting quirk which Mayank will explain, the PAT of the company is not exactly comparable to the last year's figure and as a result the growth in the PAT looks deceivingly low. As I mention in the investor presentation, for me personally this quarter has been very interesting from the perspective of mergers and acquisitions.

As you are aware and at least some of the people who have been looking at our company would be aware that we have been quite active in the M&A space and have tried to be optimal in terms of our capital allocation to acquisitions. In the last quarter, we had announced our intention to get into the space of OTC health care and color cosmetics and accordingly, the board have authorized us to invest in both of these sectors. The reason of getting into these two sectors in particular was discussed in the last call as well. Based on this, we have actually announced two acquisitions, one that of Reckitt Benckiser Scholl and the other of Aero Care personal products. The first company is Reckitt Benckiser Scholl, that is engaged in the manufacturing and export of foot care products under the brand of Scholl, and it is a MHRI approved which means MHRI UK approved sites located in Chennai. For those who are familiar with our business models, this is going to be an anchor tenant factory, with nearly 50% of our capacity because being year marked for the existing business of Scholl. As management, we would try to leverage the excess capacity to attract businesses from other brands and also increase the wallet share of the existing customer.

The second factory that we have acquired is that of color cosmetics, Aero Care personal products is engaged in the business of manufacturing, color cosmetics for a leading brand. This is a dedicated factory, and we have a take-or-pay contract for the next 7 years. We are confident that we should be able to run this factory as efficiently as we do in case of our other dedicated factories, especially since we have a base in Silvassa, and we have factories that make Harpic and Lyzol. So, we believe that having existing management in that location will make this integration far more easier. Including the other projects that Mayank and Ganesh will update you about, I am confident that we should be able to achieve our target of 2000 crores for this year. Also, we are working very hard towards our turnover of 4,000 crore that we have planned for FY25.

I will now hand over the call to Mayank our – Group CFO who will take you through the financial numbers and then Ganesh will brief you about some of the new projects.

**Mayank Samdani:** Good afternoon, everyone and welcome to our Q3 and 9M FY22 earning call. I hope each and every one of you is safe and healthy. Overall operations for Q3 & 9M FY22 has been in line with the company's internal target. Our total revenue of the quarter increased by 36.2% on YOY basis to Rs. 523 crores in Q3 FY22 as compared to Rs 384 crores in Q3 FY21. EBITDA for the quarter has seen the growth of 34.5% year-on-year and stood at Rs. 30.14 crores as against Rs. 22.41 crores in Q3 FY21.

For 9M FY22, our revenues increased by 60% to Rs 1,448 crores as against Rs 905 crores in 9M FY21. EBITDA for the 9M FY22 stood at Rs 85.3 crores which is higher by about 43% on year-to-year basis. Profit before tax grew by 48% year-on-year to Rs 19.5 crores, which is the highest ever reported by the Company.

While the PBT was higher by 48%, our PAT growth of 1.2% year-on-year for the quarter, was just not strictly comparable to the last year as the PAT includes excess provision of tax to the tune of Rs 3.86 crores in FY20 which was reversed in Q3 FY21 after filing the tax returns. 9M FY22 PAT stood at Rs 35.3 crores which is increased by 40% and truly reflects the growth compared to the last year.

The honorable NCLT Mumbai Branch in its hearing held on 21st, December 2021 in the matter of the composite scheme of arrangement and amalgamation of the Beverage plant at Mysore and Malt Beverage plant at Coimbatore has passed a necessary order. The appointed date is 1st April, 2020. The composite scheme is expected to be effective from Q4 FY22. We reiterate our near term and long-term targets for revenue and profitability as we continue to focus on the accelerating growth through exploring organic and inorganic opportunities.

With this, I hand over the call to Mr. Ganesh Argekar who will talk about the operational performance of the quarter.

**Ganesh Argekar:** Good evening to all participants. In terms of operational performance, the recently commissioned Silvassa facilities have been ramped up well and is contributing to the revenues meaningfully. The Uttar Pradesh ice cream project is progressing well, and installation of machines has commenced. The company remains confident to start commercial production in Q4 FY22. However, the Hyderabad project has been delayed and it is now expected to be completed by Q2 FY23. Work on setting up the new shoe factory in a Tamil Nadu is progressing well. The factory will be making sports shoes, knitted shoes for various customers and we expect to start production in Q1 FY23.

HFL has acquired 100% stake in Reckitt Benckiser Scholl India which marked HFL's entry into the fast-growing OTC healthcare and wellness segment as a contract manufacturer. The acquired facility is registered as an export-oriented unit and approved by the medicines and the healthcare product regulated agency MHRA, UK. It is currently exporting to more than 20 countries.

HFL is expected to leverage the potential by expanding site utilization and capacities and thus increase the share of business for its product worldwide from this site. The company expects to do around a turnover of Rs 100 crores from this facility in FY23.

I am also happy to announce that company has invested in Aero Care personal product LLP. Aero Care is currently manufacturing various color cosmetics like lipsticks, eye makeup, face powder, lip gloss, and also oral care and aftershaves. The company expects to do revenues of around Rs 100 crores from this facility in FY23.

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

**Moderator:** The first question is from the line of Faisal Hawa from HG Hawa & Company. Please go ahead.

**Faisal Hawa:** My question is more towards the excess land that we have in our various facilities. Is there any thinking to really go very quickly on monetizing them through any warehousing or kind of selling it off? Secondly, you said that you will double your sales by FY25. Are we on record saying that it will not expand equity fund raise till then?

**Sameer Kothari:** I think two questions. Let me try and address both. As you rightly identified, we do have a lot of excess land/land bank across all our factories. The current plan for unlocking that land bank continues to be expansion in our existing business, which is growing the contract manufacturing of FMCG. As you know the FMCG, the consumption story in India continues to be bullish. And as a result, we will get inquiries for ground field projects, expansion in the site, etc. And that's what we are doing. If you look at our Hyderabad experience, we bought the factory, we bought the land in 2012 nearly a 10 years ago. Since than we have expanded the factory three times over. As a result, the current plan for monetizing the excess land is to continue doing what we are doing, which is contract manufacturing. At some point of time and it's too much in the future for me to even talk about it. We will look at other ways of monetizing that excess land, whether it's in the space of warehousing or in terms of anything else.

In terms of our equity fund raise, I just want to reiterate that it's too early to kind of give you specific details. I think we tried to address this question last time and last time we didn't have clarity about these two acquisitions. All I can tell you is for all the acquisitions and the expansions that we have currently announced, we are well funded. We don't need to raise money for this. There is a bunch of things which is always in the pipeline and it's too early for me to give you any kind of details about what will happen. All I can assure you is that if we get to a situation where new projects, new acquisitions come online, we will definitely optimize the capital structure in terms of debt and equity before we hit the equity market.

**Faisal Hawa:** So will we be able to double the quantity sales or the volume sales in each of these factories with the existing extra land that we have?

**Sameer Kothari:** I am not sure when you are saying double the turnover of each of these factories. We basically put our target of doubling the turnover of the company, which is going from Rs 2000 crores now to around Rs 4,000 crores by FY25. For that, the way things are looking and based on, we tried to highlight what is the expected turnover from these acquisitions in the next financial year. I think we have clear visibility of doing a turnover of around Rs 3000 crores next year. And beyond that, I think it's really too early for me to tell you how we are going to make our journey from Rs 3000 crores to Rs 4,000 crores.

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

**Priyanka Singh:** Firstly, as the Hyderabad project is getting delayed because of ongoing softness in demand, out of Rs 150 crores CAPEX for this project, how much CAPEX is still remaining as it has been getting delayed and is there any cost overrun because of the delay in commissioning?

**Sameer Kothari:** It just for me to spend a minute and I can't give you specific details but let me just explain to you the way we work on projects. All our projects are earmarked budgeted with our principles. Right from day one, the entire timeline, as well as the budget is approved by our principals. Any cost overruns, which happened during the course of these timelines, are passed on to our principles. Unless these cost overruns are due to our inefficiency. If they are due to inflationary conditions, if they are due to changes in macro environment, etc. they generally get passed onto the customer. In terms of the delay, the delay in case of this project is not due to any fault of ours. I think it's overall, just in terms of the demand supply situation of our principles that we have been asked to go slow. So, as a result, I can confidently tell you that the company will not be suffering any costs overrun or for that matter, any penalties for the delay in this project.

**Priyanka Singh:** How has been the ramping up of new Silvassa facilities or like what other utilization levels at these facilities?

**Sameer Kothari:** Both facilities, like Ganesh was mentioning in his opening remarks, both the Harpic and the Lyzol facility have ramped up from an operational perspective to their maximum capacity. However, based on the demand, we still have some leeway in terms of Headspace, but again, if you are familiar with our business model, since they are dedicated factories, once we have achieved our ramp up, the actual month to month or day to day capacity utilization actually does not affect us.

**Priyanka Singh:** Lastly, for your health and wellness segment, as you have approval of Rs 100 crores investments from board. Are you looking for investing the remaining Rs 25 crores in this segment as the acquisition cost for Scholl India was about Rs 75 crores?

**Sameer Kothari:** Yes, you are absolutely right. I think we do have some headspace there and yes; we continue to evaluate both organic as well as inorganic expansion even in that space. It's too early for me to give you any details, but hopefully in the next couple of quarters, we should be able to come back to you and tell you what we did with that, etc. Leeway that we have in terms of the investment amount.

**Moderator:** The next question is from the line of Aakash Jhaveri from Perpetual Investment Advisors. Please go ahead.

**Aakash Jhaveri:** My first question was regarding the Aero Care deal; it seems like a very good deal. Valuation wise with cheap valuation of 30 crores and getting a plan which could near about 100 crores turnover in the first year of operations? So, this plant was set up just a year ago, I just wanted to understand. how we managed to get such a good deal from this plant, if you could just throw some light on that.

**Sameer Kothari:** Aakash good or bad is a relative term. Broadly I can explain the difference between the two acquisitions that have happened. Given that at both of them, we expect to do a similar turnover and ensure it raises some doubts in terms of why one is costing so much higher than the other? The second one, the one that you're referring to which is Aero Care. Frankly, the land and building is leased. And as a result, we have not acquired the land and building. What we have acquired is basically the plant and machinery, we have acquired the lease hold rights for the next 7 years. And of course, we have acquired the working capital. In case of the Chennai facility, we have acquired the 8 acres of land in addition to a building which is a class A because it confirms with all the drug requirement of MHRA approval from UK, etc. And of course, the working capital situation for both of these companies was completely different because one of them, which is the Scholl which caters to an export business. As a result, the working capital investment there is much higher as compared to the one in Aero Care. So, I know it's very in your face and very natural for anyone to compare two acquisitions, same quarter, same amount of turnover, why different evaluations. But if you drill down into the specifics, the difference in the valuation comes because of the land and buildings and because of the nature of business.

**Aakash Jhaveri:** Got it. So the IRR for both the deals would be similar or what will be IRR for both of deals?

**Sameer Kothari:** The IIR should be similar, and I would like to be carefully optimistic that the pharma business should hopefully attract better money than the personal care business.

**Aakash Jhaveri:** Got it and the plant capacity is 3,500 metric ton. What would be the current capacity utilization of the plant?

**Sameer Kothari:** The Silvassa facilities again is a dedicated facility and it's fully ramped up and as a result, we have given some clear indication of the kind of turnover we expect from it next year. In terms of capacity utilization that I have said before, In case of dedicated factories, it actually does not make too much difference.

**Aakash Jhaveri:** The land bank, is it completely used or is there any scope for its expansion in the land bank for the Aero Care deal.

**Sameer Kothari:** In case of Aero Care, I am just reiterating, the land and the building are leased. Physically, there is some amount of space available there, which we are hoping that we'll be able to do something with it.

**Aakash Jhaveri:** The margins in this plan would be similar to the rest of the business, or would it be more or less?

**Sameer Kothari:** You're talking about margins with a denominator of sales.

**Aakash Jhaveri:** Yes

**Mayank Samdani:** Because this is also a dedicated factory Aero Care the margins will be in line with our current dedicated unit.

**Aakash Jhaveri:** And the return on capital.

**Mayank Samdani:** It will be the same because in the case of dedicated factories, the logic remains same whether it is any factory or any product.

**Aakash Jhaveri:** Coming to the Scholl's deal, Now that you know that Scholl is united back with Dr. Scholl, so does it open any new doors like US for this plant or the 100 crores guidance that you give for year, would that be only for 50% of the plant and for the other 50% as you said that the leverage is at extra capacity. So, is that 100% only for 50% or is 100% the overall what you are expecting from new customers for that plant.

**Sameer Kothari:** Aakash, I have to compliment you. I'm very impressed. You are absolutely right. That the Scholl business has been taken over both for the America and the rest of the world by one company. Frankly, we are hopeful about some synergies which will come in because of this consolidation of brands, which has happened. Currently we do not have any visibility in terms of that. As a result, the guidance that we have given is only for the business that we have visibility on.

**Aakash Jhaveri:** Got it. So, for Q4, the current quarter, which is going on, so would Aero and Scholl both be consolidated in our overall business number?

**Sameer Kothari:** For Q4, frankly, I let Mayank discuss it because there's a legal formality that he has to do. So, go ahead.

**Mayank Samdani:** So, there are certain formalities of name change, land name changes which is going on. As we have also mentioned that the closing date will be a later date, which we also don't know right now. So, we are not very sure that what will come in Q4 and what will not come in Q4, but we are very sure that both of the deals will be closed before the Q4 of this year.

**Aakash Jhaveri:** The next question was what will be the debt as on 31st December?

**Mayank Samdani:** 31st of December we have debt of Rs 240 crores.

**Aakash Jhaveri:** Regarding to the previous question, the ROCE to expect from the Scholl deal would again be similar to our current business or would that be a little more since its pharma?

**Sameer Kothari:** Two points to it, the current ROC will be slightly higher because it's a pharma business. Secondly, based on the consolidation, etc. if we are actually able to see some benefits flowing to us, in terms becoming a global supplier to Scholl/Dr. Scholl, then we think that the ROCE could get very interesting.

**Aakash Jhaveri:** The next question was, the Ice Cream plant which you are going to commercialize in this quarter, how does the demand look for that plant and would it start probably in the first initial weeks of March or just before the quarter gets over? I am asking this to know how much of the revenue would flow in the Q4 numbers and how does the demand look?

**Sameer Kothari:** Akash, frankly in the Q4 of this financial year, I would be very surprised if the ice cream factory actually contributes in a significant way to the turnover because what we will start off with, is a trial production and it will take nearly a month or so to ramp up. The demand is looking very good. It's the main season of ice creams as you can imagine. In addition to that, it is also in terms of the location. We are in Lucknow, which is a very interesting market as far as ice-creams is concerned. The demand is looking good. I would say, give it the middle of Q1 FY23 for it to really start delivering its stated numbers.

**Aakash Jhaveri:** Next question was, the loss from our associates is now almost, you can say, its breakeven. I can imagine how happy you would be for that. So, can we assume that ATC would now become profitable from here on, since Q4 and Q1 would be peak season? And also, what kind of ROCE would this business do on an annualized basis?

**Sameer Kothari:** At ATC we are very-very optimistic that it should start making some money from this quarter which is Q4 FY22. As we have announced before, we have also done some amount of expansion in ATC, where we've signed up another beverage company to expand the capacity there. Given my two years of missed target as far as ATC is concerned, I really don't want to go out on a limb and say anything. In terms of tangible numbers and ROCE that we can get from ATC. I can just reiterate certain reasons why ATC was a very attractive acquisition for us. It has a carry forward loss which is quite significant and should help us save some taxes as now the merger is done. It has a capacity of doing close to nearly 200 KL per day as far as beverages is concerned, both carbonated and non-carbonated. It has around 16 acres of land, which we are now expanding with one more factory in terms of expanding the capacity. If all of these come through, I am hoping that the ROCE will be quite interesting in the next year or so.

**Moderator:** The next question is from the line of Akhil from Centrum. Please go ahead.

**Akhil:** My first question is on the operating leverage of the business. If you look at it, we have scaled up significantly over the last 3 years. Our sales have gone almost 4-fold from Rs 500 crore to Rs 2000 crore. Do we see any scope in terms of margin improvement going forward or should we still expect that the margins to hover around at 6% to 7% once we reach Rs 4000 crores?

**Sameer Kothari:** Basically, this goes back to a very basic fundamental level question which is about our business models. If you look at the dedicated manufacturing model that we offer to our customers. In this case, frankly, operating leverage does not come to us. So, we don't benefit from operating leverage because it's the take-or-pay contract which assumes that we will reach optimal capacity utilization within the first three to six months. And as a result, the operating leverage actually does not make any difference. However, you are right that there will be some amount of financial leverage, especially in case of the EBITDA levels where you're talking about the depreciation and the interest. And as we grow larger and as we have more internal approvals, we'll definitely see some margin improvements as far as the financial leverage is concerned. More in terms of Mayank can elaborate, but we've been able to get better rates on our loans, etc., as well, just because of the sheer size and the scale of the company has increased. When you look at our anchor tenant model and the shared facilities, there's a huge amount of operating leverage there. And like the previous gentleman was asking, we actually have a lot of operating leverage in case of those facilities. This includes our facility for ATC, which was what Akash was asking about. We have a huge amount of operating leverage there. The current acquisition in Chennai, which is a Scholl factory, has a huge amount of free capacity headroom which we should be able to leverage in case we are able to consolidate the business of Dr. Scholl and Scholl. So, these will, going ahead hopefully better our margin profile. But like I said, this is as bad as it can get. It can only get better from here. We don't expect that the margin profile will deteriorate because that's contracted. Any kind of improvements because of other things that I spoke about can only go upwards from here.

**Akhil:** The mix will largely remain same in terms of contribution from dedicated manufacturing over the next two to three years, which is kind of 85% should largely be in that level?

**Mayank Samdani:** Yes, you are correct that this year and next year, at least up to next year the mix will remain same.

**Akhil:** My second question was on the Aero Care deal, the plant is just one year old. So, what made the seller sell the plant basically given that it was just one year old.

**Sameer Kothari:** I obviously don't want to comment on a specific decision by a promoter, but let me just talk about the overall trends. And we've discussed this earlier as well, that there is some amount of consolidation that is happening in our industry which is the contract manufacturing of FMCG industry. The consolidation is happening for various reasons which includes just the fact that scale is becoming much larger. A lot of smaller players are not able to end up scaling as much as the customers want. The cost of compliance and overall compliance has increased substantially, and I just don't mean statutory compliances in terms of GST, taxation, etc., but also social compliances, in terms of workers, environment, health, safety, etc. These are some of the reasons why we are finding very good opportunities to be able to consolidate this business and we are able to acquire some assets. And that's one of the reasons why I said that M&A has been a very integral part for the growth of HFL. We are hopeful that this will continue. The third reason for M&A of course, is divestment, which is what our other acquisition Reckitt Benckiser Scholl is, where some of our principles in order to meet their balance sheets asset-light, they look at divesting their assets in favor of someone like us who is keen and interested in having a very heavy asset book. So, as a result, without getting into the specifics of Aero Care or Scholl, these are two or three reasons why we believe that there will continue to be a consolidation and a huge amount or a large number of acquisition opportunities for the next couple of years.

**Akhil:** Just one book-keeping question, you mentioned that next year we should clock around Rs 3000 crores as our topline. So, is it the visibility we have or is it something that we are guiding for Rs 3000 crores?

**Sameer Kothari:** So, on a serious note, what we've done is if you see our last quarter performance, we are at around Rs 520 crores which if I extrapolate it just at the same level, 500 x 4 is around 2000 crores. We have announced the acquisition of these two factories which is going to contribute around Rs 100 crores per annum. So, that should take us to Rs 2200 crores. We have an ice cream factory which should start producing at its optimal level by May, latest June. And in addition to that, we have Hyderabad project which has been delayed, but we are hoping that we'll be able to start that at some time during the course of next year. So, that should give you a broad idea of our journey from Rs 2000 crores to Rs 3000 crores.

**Moderator:** The next question is from the line of Akshay Jain from Jain Capital. Please go ahead.

**Akshay Jain:** I have a couple of questions, Firstly, have you witnessed any change in customer contracts in last 2-3 quarters considering the sluggishness in FMCG demand from rural areas and also some protests from FMCG distributors in some areas.?

**Sameer Kothari:** Yes, there has definitely been some amount of pessimism as far as capacity expansion is concerned, which is a direct result of the fact that the rural economy and the economy in general is not at a level which we all would like. Having said that, in case of FMCG being a defensive and being a consumption driven story, we continue to see CAPEX happening in spite of the overall pessimism. To give you a simple one-line answer, CAPEX continues, we are expanding. However, the pace of the CAPEX and the pace of the discussions with our customers has definitely slowed down in the last couple of quarters for sure.

**Akshay Jain:** Secondly, have the increase in input cost been passed on completely to the customers during the quarter or we have witnessed any impact on our margins because of the cost price?

**Mayank Samdani:** As per our contracts, we are passing all the increase in the input cost to the customers, but there will be some time lag, if we say quarter to quarter, because it takes time to get the approval and get it into the system. But as per the contract, we are passing on all the input cost increase to our customers.

**Moderator:** The next question is from the line of Shirish Vaju from Money Life Advisory. Please go ahead.

**Shirish Vaju:** My question is regarding the arrangement that we have in our dedicated unit models. By looking at the credit rating report, I understood that the debt service for setting up or acquiring these plants is guaranteed by the client. My question is, how does this arrangement work? Is it that for some reason the company is not able to pay its debt service, then the client will kind of come in and kind of foot the bill?

**Mayank Samdani:** Debt is guaranteed not directly but indirectly where the contract is, that in case of termination the customer will pay the debt on the books. It is us who will pay to the bank. It is an indirect arrangement

**Sameer Kothari:** I think Mayank became a little too technical on the whole thing. I think the question that you asked is what happens in terms of the pass-through mechanism. The pass-through mechanism is very clear. Like Mayank was saying, it’s the same principle, like for other expenses. In case there are interest rate variations, in case there are changes in the interest rates, etc., our capital servicing cost changes, there could be a time lag in that change between us and the customer, but principally it changes the minute there's a change.

**Shirish Vaju**: So, my follow-on question is like, when we are kind of trying to acquire a newer unit or we are trying to build a newer unit in this dedicated unit model, is there any kind of typical debt-to-equity ratio that we target for these kind of acquisitions or development?

**Mayank Samdani**: So, our current debt-to-equity ratio is below 1. Our contracted debt-to-equity ratio in our customer is much higher, but based on the corporate cash flows and all, we try to optimize our debt-to-equity ratio. But we are very comfortable right now and we see that even if we take some debt, we will be in comfortable position next year, even after all these acquisitions.

**Sameer Kothari**: In terms of the capital allocation policy, Shirish if it is the dedicated factory, we are very happy to take on debt which could be in the debt-equity ratio of 2:1 or even higher. In case of shared facilities, we are far more conservative and depending on the quality of the business, we might actually take on zero debt for shared facilities. So, in terms of the capital allocation policies the taking the debt depends on the nature of business, it depends on the nature of our contract with them and it also depends on the counterparty risk of our customer.

**Moderator**: Thank you. The next question is from Keshav from RakSan Investors. Please go ahead.

**Keshav**: Sir my first question is very broad based. So we had in our portfolio detergent, mosquito repellent some excluded goods, beverages, foraying into ice creams, cosmetics, you mentioned nutraceutical as well in your AGM, so could you help us understand where our competencies lie. Is it manufacturing? Is it management? What is in our DNA that speaks out that what we do and what we can do more importantly? So basically why I ask this, now is that we had experience in manufacturing for so many years and so many things. We gained the expertise to be better equipped in the future, to probably go for white label or private label opportunities and later on maybe CRO work, So I mean for that we need a deep know how of not just the manufacturing bid, but also the product development. So it would be often if you could shine some light on this. There could be a lot of opportunity coming into the B2C space in the near and medium-term please?

**Sameer Kothari**: So, you are absolutely right on a couple of points and this might take a couple of minutes for me to elaborate on. One, you have rightly identified that private labeling, white labeling is going to be increasing. If you have been following the company, we actually setup a division to cater specifically to the private labeling and white labeling needs of retail players, ecommerce players etc.. Having said that, the private labeling, white labeling currently is at a level where the so-called domain knowledge or R&D expertise that is required is at a very basic levels which we currently have, which then brings us to the point that what do we actually have, what do we bring to the table when we manufacture something as diverse as pest control to infant food formula and to ice creams. So, from food to things that can kill you. We basically what we bring to the table is our ability to execute. I think in this current new age phenomena, I think a lot of discussion happens around ideation or lot of discussion happens about marketing, branding, but people tend to forget that there is a lot of execution that is required to be able to do something successfully and our expertise is like we have said it in our annual reports as well, we are the brawn behind the brand. So, we are the guys who actually go and execute projects. We have expertise in terms of project managements, we believe we have expertise in terms of manufacturing, going and dealing with let us say 5,000 workers across the country, going to be able to deal with the ground level situation in 11 states across close to 20 factories spread across these 11 states, that is what we bring to the table. Now if for a minute I will get on to soap box and try to tell you what is going to happen five years from now, five years from now is exactly what you are saying that we will need to develop domain expertise for each category and the way we are looking at our category is very similar to what a lot of the FMCG companies look at which is we are saying we are into home care, we are into personal care and we are into foods. So, what we are going to do is at some point of time we will need to develop and maybe even split the company into these three divisions which is home care, personal care and foods then tie up strategically with people who bring in the domain knowledge and the expertise to be able to do far more value-added R&D, what we like to call contract research at that time. However, that is at least five year away from our evolution.

**Keshav**: Sure, so second point to that, as we now are foraying into nutraceuticals and cosmetics part, so is this a starting point to get comfortable with these kinds of products and because that will only enable you with what you want to do five years coming now?

**Sameer Kothari**: I am not sure I understand the question.

**Keshav**: It is a new category for example say cosmetics. So is this a starting point to get comfortable with this category in general so that five years from now we are better equipped to go for private label or CRO work, If that kind of work starts happening in India?

**Sameer Kothari**: Absolutely, I mean for any of our acquisitions if you look at, when we acquired the shoe business we actually were not doing leather and we now think that we do understand leather and shoe production a little bit. When we acquired ATC beverages, we were not doing any beverage filling and we believe that we have now finally understood how the beverage industry works. Similar for color cosmetics and for OTC healthcare, we do look at acquisitions as a way of going up the learning curve quickly in terms of getting into that sector, understanding that sector and then hopefully based on that learning, and the organizational strength we will then be able to expand further within that sector. So, yes absolutely to give you a short answer you are absolutely right.

**Keshav**: Sir Also, these after our foray into healthcare and cosmetics, has an addressable market also expanded beyond the figures we have mentioned in the past?

**Sameer Kothari**: The addressable market that we had mentioned earlier basically took into consideration the entire definition of FMCG. I would say the addressable market has extended or increased or expanded because of our recent expansion into healthcare and OTC products. So, color cosmetics I would say for one, it is a very small part of FMCG and I would think that it would already be counted as the part of the FMCG universe. However, OTC healthcare that is a large business and our acquisition of Scholl and any other things where we look at within that space, we will hopefully increase our TAMmarket as far as our manufacturing business is concerned.

**Keshav**: Sir another question is, I have been reading that there is potentially going to be quite some demand supply difference in the plant protein category and it will be multiyear trend to the very large market to tap and I understand that you need extrusion lines to make these product. So considering that we have had experience in extruded good, is this a space we are monitoring or whether these competencies of having handled extruded goods are significant enough from a barrier point of view for anybody to step into. I mean if we did have an edge, if we decide to go for it or its too naïve on my part to assume so?

**Sameer Kothari**: Keshav you are bang on and we all are as optimistic, as anyone else, on the growth for plant based meat products are concerned. You are absolutely again right that the extrusion facilities that we have will be able to service this demand. However, in spite of all the optimism and hype around the sector, right now the sector is extremely small. The factories that we have are capable of doing around 6,000 tons of extrusions and I would hesitate to put a number of total demand in the country right now. And I am not sure, it is my personal opinion that whether for meat and plant based meat will see the same amount of traction in India as compared to the rest of the world. If you look at the food habits and if you look at the Indian demographic condition, we are far lower in terms of protein consumption right now. So, I think we still have a lot of space just from a population, expansion perspective for growth in poultry, growth in meat, growth in eggs etc. before people start looking at substitutes for that, but anyways that is a different discussion, and I probably should not get on to it. I am sure everybody in the room is already keeping me under the table.

**Keshav**: Sorry if I can ask one quick question. Regarding the OTC business, does it qualify as pharmaceutical or is it a nutraceutical?

**Sameer Kothari**: It actually is a pharmaceutical. These are bandages, these are footcare product if you are familiar with the Scholl brand, these are medical bandages which are required for corn cap or required for various foot care products including orthopedic insoles, cream, lotions, jells - basically for foot care and foot comfort.

**Keshav**: So, we have to go through the approval?

**Sameer Kothari**: Absolutely. Which is why it is approved by MHRA and we are currently export and this factory is currently exporting to nearly 30 countries in Europe as well as Australia and New Zealand.

**Moderator**: Thank you. The next question is from the line of Neha Parekh from Raga Securities. Please go ahead.

**Neha Parekh**: Sir I have a couple of questions .Firstly I want to understand what are the risk do you see that the company may face in terms of not achieving this 4,000 crores revenue target in next three years, as there are four to five projects which are running simultaneously. So can there be any change in this revenue target, if the company faces any delay in the commissioning of the plant?

**Sameer Kothari**: Neha, I was hoping you will ask for an upside risk rather than a downside risk. So, since you have asked, I will talk about both the upside risk as well as the downside risk. So, from a downside risk, I have actually responded to some questions earlier. I have kind of laid out our journey from 2,000 to 3,000 crores which should practically happen in the next financial year itself and going from 3,000 crore to 4,000 crores in the next two years which is FY24 and FY25 based on our current time table. The downside risk is basically that of execution and I think that got to do more with like I said earlier, our skill set in managing projects, our skill set in going to various locations, setting up factories, running factories etc. I do not see any strategic or macro risk from a company perspective. Now, there is of course this overarching macro environment risk, which is that will FMCG sales suddenly drop, will the economy not grow in the next couple of years and all of that which I do not see the time or the reason to get into. So, from a downside risk, I think we are reasonably confident that we should be able to get to 4,000 crores by the time that we have mentioned. In terms of the upside risk, we are hoping that we will get them sooner than later.

**Neha Parekh:** So, my second question is, If you can please share the product range that the company will be manufacturing at the acquired unit of Reckitt Benckiser Scholl at Chennai and will all these products would be exported or would the products be for the domestic market also?

**Sameer Kothari:** So, in terms of the product range, I just mentioned, they are all foot care and foot comfort products. If you have ever used corn caps, these are basically used when you get corn on your feet or on your toes etc., you use corn caps. Similarly which will probably be more familiar to you, we make product for women who basically wear high heels and have to deal with discomfort and shoe bites because of their stilettos. Then we make products for runners which include gel bandages etc. This is the entire range of Scholl and Dr. Scholl. Frankly, the brands have been around for a very long time. They have a long heritage. What has happened is that these brands have now been acquired by an American company called Scholl's Wellness as opposed to them being a smaller part of larger pharma companies like Reckitt Benckiser. And as a result we hope that you will start seeing a lot more of these brands then earlier. Currently this factory is a 100% EOU, which means we do export pretty much more than 90% of what we manufacture at this factory. We are hoping that the new company which has acquired both of these brands has a very robust plan for India as well. And when they start rolling out that plan we are hoping that we will be a major player and business partner for that plan.

**Moderator:** Thank you. The next question is from the line of Aakash Jhaveri from Perpetual Investment Advisors. Please go ahead.

**Aakash Jhaveri**: Just couple of more questions, one was what is update on the shared personal care facility or ATC beverages? The next one is how does the current deal pipeline look like? How are we working on any further dedicated plant and my last question for the day would be that earlier what I asked you about the 100 crores guidance which you gave for FY23. Is that 100 crores just for the 50% of this whole business or would it be even for the other 50% where we are still looking new talent in the anchor talent model so that would be all for the day?

**Sameer Kothari**: ATC personal care facility, the civil infrastructure is ready. We however are in the middle of a discussion where instead of personal care, we might be converting that facility into a beverage facility. I do not have any details to give to you now maybe in the next quarterly meeting, I should be able to tell you a little bit more in detail about what the current discussions are. Like I have kept mentioning about ATC, we are hoping that this beverage season after maybe two years or for washed out season is a good season for all the beverage players. And as a result, we believe that there might be a major capacity expansion which might come in ATC in which case we might not go in for the shared facility of personal care that we were earlier looking at. The idea of the shared facility if you just go back to our earlier calls was to build the head for the beverage business especially since the beverage business was not doing well. Since that has changed, I think we will probably go with the flow and continue to expand in beverages that is one part. The second part was about the deal pipeline, I unfortunately Aakash cannot give you any details about the discussions that we are having other than the ones that we have announced. All I can say is the team as well as I are constantly looking out for new customers, new projects. And in spite of the current, let us say slow down or the current hesitation in terms of CAPEX we continue to see in FMCG a robust demand and a lot of our players are looking for the long haul where we are looking at demand 6 months down the road rather than reacting to demand every quarter-to-quarter. So, our deal pipeline though slowed down as compared to 6 months ago, is not dry that is all I can tell you.

**Aakash Jhaveri**: The last question was about the Scholl Rs 100 crores, if you could just tell me whether it is 50% or the whole?

**Sameer Kothari**: Aakash I did try to answer that question, so what I said was that the current guidance that we have given for that facility is based on the visibility of the business that we currently have. The visibility in terms of the expansion because of other customers coming in or because of the increased wallet share of the existing customer, we do not have that visibility and as a result, we have not build that into the guidance.

**Aakash Jhaveri**: If at all that happens it is just a bonus for the facility?

**Sameer Kothari**: In so many words, yes Aakash.

**Moderator**: Thank you. As this was the last question for today. I now hand the conference over to Mr. Vimal Solanki – Head, Emerging Businesses & Corporate Communications for closing comments.

**Vimal Solanki**: Thank you. Ladies and gentlemen I take this opportunity to thank everyone for joining on this call. We are pleased with the HFL's operational and financial performance of 9M FY22. It has been in line with the Company's targets and we are on track to meet our medium-term and long-term goals. We continue to believe that there is enormous underlying opportunity in the FMCG contract manufacturing space and we remain focused on accelerating growth through our strong CAPEX plans and capturing the larger pie of this opportunity.

With new acquisitions that we discussed earlier and the organic growth from our existing factories, we are confident of achieving the target of Rs. 4,000 crores of turnover by FY2025.

Thank you again for taking out time today. I hope we have been able to address all your queries for any further information kindly get in touch with us or SGA, our Investor Relation Advisors. We are wishing everyone a warm and tender Valentine Day evening. Stay healthy, stay safe. Thank you so much.

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

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