Hindustan Foods Limited
Q2 FY2022 Earnings Conference Call

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Moderator: Ladies and gentlemen, good day and welcome to the Hindustan Foods Limited Q2 FY22 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 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. Thank you and over to you Sir!

Sameer Kothari: Good afternoon and welcome to everyone to our Q2 FY22 earnings conference call. I hope all of you are doing well. I am joined on the call by Mr. Ganesh Argekar, who is the Executive Director, Mr. Mayank Samdani who is the Group CFO and Mr. Vimal Solanki who is the Head of Corporate Communications. In addition to them, we have Bankim, who is our company secretary and team of SGA, who are our investor relations advisors. I hope everybody has had a chance to go through our updated investor presentation which has been uploaded on the exchange and also on our company website.

Coming to the specifics of the quarter, we had a stable quarter with revenues and profits along the expected lines. I think I would like to take this opportunity to highlight the fact that our business is buoyant and predictable most of the times – primarily, because we deal in FMCG products whose demand is relatively stable and has a fundamental bias towards growth due to the increase in the population and the increased consumption due to growing GDP. The second reason, our business is boring and predictable is that, our dedicated manufacturing model shields us from the short-term vagaries of demand as well inflationary pressures. We are able to pass on the inflated cost of various commodities, however there might be a lag in some cases, but principally all costs do get passed on.

In order to add some excitement to our business, we strive to grow at a rate which is greater than the structural growth in the FMCG industry. This when our base was lower meant doubling the turnover every year, and now with slightly larger turnover, we still aspire to grow at 25-30% per annum.

In order to do this, we continue to invest in factories - both Greenfield as well as acquisitions. However, the gestation period for our investment is around a year. Thus, the current quarter's growth is a result of the ramping up of Hyderabad and Silvassa facilities, work for which had started nearly 9-10 months ago. Based on this, we are confident about our target of achieving Rs 2,000 Crores of turnover this year, which would be approximately 40% more than last year.

We are also confident of our revenue target of Rs 4000 Crores by FY25. In order to achieve that, we have taken some steps, which include setting up of the ice cream facility in UP that we expect to start commercial production by Q4FY22 and the expansion of the soap bar project in Hyderabad which we expect to start commercial production by Q4FY22.

In addition to that, we are also setting up and investing in Health and Wellness division and also, diversifying our product range further into color cosmetics and knitted sports shoes.

We have now lined up capex plans which will take our gross block to nearly Rs 600 Crores within the next year or so.

I will be taking specific questions about our plans and strategy, but in the meantime, I am happy to state with a little confidence that ache din aane wale hain!

I will now hand over the call to Mr. Mayank Samdani, our Group CFO who will take you through the financial results for the quarter and the half year ended September 30, 2021.

Mayank Samdani: Good afternoon everybody. I will take you through the financial performance for the quarter and half–yearly FY2021-22. We are pleased to share that the growth momentum in the business has sustained. Our total revenue for the quarter has increased by 46% on year-to-year basis to Rs.467 Crores and for the half year by around 77% year-on-year to Rs.925 Crores. EBITDA for the quarter has seen a growth of 25% year-on-year and it stood at Rs 28.3 Crores and for the half year it is Rs 55.1 Crores, an increase of nearly 50% over the last year.

Our PAT has increased about 38% year-on-year to Rs.11.5 Crores and for the half year increased to Rs.22.6 Crores, an increase of nearly 80% over the last year. Our net worth as of September 2021 stands around Rs 250 Crores and our debt-to-equity is comfortable at the ratio of 1:1.

Our ROCE has improved and is now at 18.95% as compared to 17.72% as of March 2021. As you are aware that, a lot of our investment is still work in progress. We believe there is scope for further improvement of ROCE once our capital in progress will start giving returns between Q4 FY22 and Q1 FY23.

Our cash flow for the six months ending September 2021 was adversely affected by the increase of inventory levels. While the inventory turnover ratio is consistent vis-a-vis the last period, the increase is mainly due to the growth of turnover and partly due to the tactile stocking as advised by our principals. We are hoping to rationalize the working capital in the next six months.

Overall financial performance of the company for the quarter and first half of FY22 has been satisfactory and in line with our internal targets. With regard to our pending merger application, we are pleased to inform that NCLT Mumbai bench in its hearing held on 20th October 2021, has heard the matter and reserved its order. The final order from the Honorable NCLT Mumbai Bench is awaited and we think that we will get the final order within a month.

In terms of the new capex, the board has authorized the management to invest up to Rs.130 Crores, of which Rs.100 Crores for the newly added Health and Wellness division and Rs.30 Crores for the Color Cosmetics business. We are confident of funding this capex through internal accruals and debt.

We reiterate our near-term and long-term targets for the revenues and profitability as we continue to focus on accelerating growth through both organic and inorganic opportunities. With this, we also remain focused on strengthening our balance sheet and cash flows through effective capital management, which would facilitate us for further growth. With this I would like to open the floor for the questions.

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 Faizal Hawa from HG Hawa & Company. Please go ahead.

Faizal Hawa: Congratulations on a good set of numbers once again. Four questions. What is the contribution of our top three customers to our total revenue? Second is, we mentioned in the previous concall that there is person who has now appointed for private labels, so what is the specific progress that she has made in the previous two quarters. Third is, the FMCG majors are now facing a lot of cost pressure due to raw material rising many fold. So, has there been any instances this quarter where we have lost margins or we have to bear something for 1.5-2 months and does it cause some dent into our profitability? Fourth is, any specific decision we have made in the health and wellness segment to really expand revenues?

Sameer Kothari: You asked four questions. I will try and answer all of them. The top three customers currently would constitute nearly 80% of our turnover. And the second question was about private label division. We have started the private label division and as you rightly pointed, Nalini Kalra is heading the private label division. We have reached out to a bunch of customers, I cannot specify the name of the customers, but we have started working with a couple of retail players as well as a few B2C brands. However, in terms of the total size and significance of that business, it is still extremely small and pretty much rounding of error as far as Hindustan Foods' revenues are concerned. However, as I pointed out in my previous call as well, private label is a very important part of our future growth strategy and we are putting money where our mouth is, in terms of developing these customers. I think the success of Nykaa and some of the other brands including Landmark, Purplle, etc., both in the stock market and off the stock market, have proved that private labels and B2C brands are going to be here to stay. That also kind of explains our expansion and diversification into color cosmetics and personal care products. We see a lot of actions happening in that space especially with the B2C brand. Just today morning, I think there is talk about Faces Cosmetics being taken over by Purplle. So we see a lot of action in that space.

Third, your question was about the cost pressure, and I think that was something I addressed in my opening remarks that, yes there is inflationary pressure for all of our customers. However, the construct of our contract is such that, all of these inflationary pressures are passed on to our customers. There could be a time lag between the passing on the increase and the actual effect comes in our books, but principally, we are not exposed to any of the inflationary pressure. So that way, there is no risk to our numbers as far as the inflation is concerned.

I think the other question that you asked within the inflationary subject is whether the customers are coming back to us and asking us to reduce our margins. Again, if you look at the concept of our business, our margins especially in case of the dedicated manufacturing are guaranteed for the next 7-10 years. So we don't end up renegotiating margins due to the short-term event.

Your fourth question is about health and wellness. Again you are right that, Sanjay is being appointed as the Head of Health and Wellness. We are very confident and bullish about this. We have identified some opportunities, which we have discussed with the board and the board has given us go-ahead to invest nearly Rs 100 Crores in these opportunities. I unfortunately not at a liberty to discuss this in the granular details right now. But I am quite confident that, the next time we meet in a couple of months, I should be able to announce what exactly are we doing with this new investment.

Faizal Hawa: Due to this cost pressure that FMCG majors are feeling, do you think there are now more conversations to outsource or even more manufacturing to outsources like us?

Sameer Kothari: That is something that we have been talking about for a nearly couple of years now. Yes you are right that, the current bout of inflation is probably a catalyst as far as that part is concerned. All of these things including GST, de-centralisation of manufacturing, growing private labels in the B2C brand, all of that is leading our customers to rethink about their manufacturing strategy. It is leading them to rethink about the benefit of owning a manufacturing facility versus outsourcing it. And also in some cases, let's say divesting it.

Faizal Hawa: Thank you so much for answering my questions so well.

Sameer Kothari: Thank you Faizal.

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

Aakash Javeri: Good afternoon and congratulations on very good and stable set of numbers. So my first question, we had a facility in Silvassa which went live in May 2021, so in the first quarter. And this is because, you mentioned in the opening remarks that, our business is slightly predictable. So I was expecting a little more contribution from the Silvassa plant because in Q1FY22, it would have been like 1.5 months of contribution. But in Q2FY22, it would also ramp up and also there would be a full quarter effect. So what exactly am I missing out there, Is it like some throughput lower in some other plants or what exactly am I missing?

Sameer Kothari: Two things, the product that we are manufacturing in Silvassa are hygiene products and post COVID, the sale of hygiene products for our principles has not been as robust as it was pre-COVID. We are seeing this slowdown in the demand for sanitizers, floor cleaners, etc. as people get more used to living with COVID. That's one of the reasons, why our off-take has not been as high as we would have like. Second, in terms of the potential of Silvassa facility, both of those facilities are much smaller in terms of investments as compared to the larger investments in Hyderabad, Coimbatore or for that matter I think the ice cream project. So, even at peak capacity, we basically expect them to do around Rs 100-125 Crores of turnover on an annual basis.

Aakash Javeri: Understood. Thank you so much. Second question, our effective tax rate is pretty high so could you comment, why is our effective tax rate is so high and what would be expected tax rate going forward?

Mayank Samdani: So, we are the maximum tax rate possible because of the deferred tax because we have invested so much money in that. And also, we have not opted for the new tax rate which was announced by government a year back where the effective tax rate will be around 25% plus surcharge, because we have a significant amount of unadjusted MAT credit. And we expect, from the merger of ATC, we will have significant amount of carry forward losses. If we choose the new tax rate which is announced, we have to lose all those things. Currently we are at the maximum tax rate. Once we utilize our MAT and we utilize our carry forward losses, we can always go back to the new effective tax rate of 25%, which allows any time any company can opt for that. But once you opt it, you cannot go back to the previous tax rate.

Sameer Kothari: Just to elaborate that further, so you are right that the tax rate is practically in the nosebleed category as far as we are concerned. And it is obviously very painful for us as well. What we have done is, we have also set up a subsidiary which is called HFL consumer products, that subsidiary was set up primarily to leverage the tax exemption or the concessional tax rate announced by the government for new companies setting up new factories. So, our new projects and all Greenfield projects would probably be housed in this subsidiary. The second thing, we would be a 15% tax rate as these companies and as these products start taking off. The second thing that is happening is that, in terms of like Mayank said, the merger and our continued investments, I do not see the effective tax rate for HFL changing at least for the next couple of years.

Aakash Javeri: Understood. Thank you so much for that. My third question, what is our plan for the shoe manufacturing plant for Tamil Nadu, what will be the kind of investment outlay, asset turnover, expected timeline for this year?

Sameer Kothari: The shoe manufacturing plant, just to give you some background, this was the business that we acquired in 2015-16, which was predominately a leather business. And we have been manufacturing only the leather shoes in these factories. Just about a year ago, the government announced certain import duties on knitted shoe wear, which are basically the sports shoes. And as a result, there is an increased demand for setting up sports shoes facilities in the country. What we have done is, we are just setting up a new factory to cater to this demand because basically we are making knitted shoes and sports shoes. This is the first facility that we are setting up in Tindivanam, we have actually started the construction of that facility and we are hoping that in Q4 of this year, we will be able to start production. To be fair and to be honest actually, we are taking baby steps as far as our category is concerned because it is a completely different category as compared to leather shoes. What we are going to do currently is we are going to do some kind of assembly of knitted shoe wear and then depending on the demand and depending on our experience with the customers, we will then invest a further sum of money into getting into the actual knitting of the shoes. What I can say is that, it looks like a very interesting business diversification for us. If the government continues with its Atmanirbhar plan, I think making sports shoes in India could become a really large business. This factory is being set up to manufacture sports shoes for Bata.

Aakash Javeri: This is the last question how much are we trying to invest in this facility?

Sameer Kothari: Right now, the investment will be just around Rs 5 Crores. We are renting the plant and building. So we are not investing in the building and the land. Like I said, once we get an experience for this, then we will get into the knitted part of it which will require an investment of close to Rs 50 Crores.

Aakash Javeri: Got it. Thank you answering that. My next question is how much more capex for UP and Hyderabad is remaining out of the Rs 275 crores you have earmarked?

Sameer Kothari: For the new expansion of bar project?

Aakash Javeri: The UP plant and Hyderabad new facility? How much capex is remaining?

Sameer Kothari: When you say remaining what you mean, from a cash flow perspective or capitalization perspective?

Aakash Javeri: Out of the Rs 275 crores, that we want to invest overall, what part of the already invested and how much more capex is still there?

Sameer Kothari: Sure. The breakup is that, we have an investment of close to Rs 100 Crores in Lucknow, we have an investment close to Rs 100 Crores in the Health and Wellness division, we have an investment of close to Rs 100 Crores in the Hyderabad bar project and we have an investment close to Rs 30 Crores in the color cosmetics that we talked about. So this is our total of Rs 330 Crores of investment that is going to be done between this year and the next.

Aakash Javeri: So, the Rs 100 Crores in UP from a cash flow perspective, how much more capex is still remaining?

Sameer Kothari: We are hoping to start production from the next quarter, so we are nearly 70% done in terms of the project?

Aakash Javeri: Just couple of more questions. Are you exploring export market very excessively or are we yet mainly focused on the domestic market because we see it as a very big market sales?

Sameer Kothari: For the FMCG division, I would say that, we continue to be focused at the domestic market. For the shoes business, obviously export is a very large part of our business. I am happy to share with you that Hindustan Foods now is a recognized export house on the back of exports that we have been doing for the last couple of years in the leather business.

Aakash Javeri: Just another question, I wanted you to touch upon the ATC again. How long do we expect to bleed with the profit till set off for the rest of the year?

Sameer Kothari: ATC, we have again for the third year in running full for the season. We have also announced a small capex that we are doing for Tata Global beverages in that facility so we have a signed a contract because a long term contract, a dedicated part of the factory. So ATC will now become an anchor tenant model as compared to the shared model. All I can say is, we all are extremely hopeful that in Q4 FY22, our ATC should turn around. The way the business of beverages is that, in the first six months the amount of got money that you make should tide you over for the full year but for the last two years, we have lost those seasons, the summer seasons for both of the years. To answer your question, yes we are hopeful that between Feb and June of next year, we are confident that we should be able to recoup all the losses that we have made.

Aakash Javeri: Thank you. The last question from my side. What is the kind of problems that we are facing with freight, cost of raw material. Are there any major problem that our company is facing currently?

Ganesh Argekar: The major problem that we are facing are basically transportation, cost increase, make or buy decision, complexity of the business because we manufacture everything from baby food product to mosquito coil. So, these are the problems that we face every now and then. These are the regular problems which are able to kind of take care of.

Aakash Javeri: Got it in opening remarks, you mentioned that we have planned to fund the color cosmetics and healthcare capex with internal accruals and debt. So as we already have 1x debt to equity, how much debt we are looking to raise, how do we plan to fund it, if you could give a breakup?

Mayank Samdani: Debt to equity is currently at very comfortable level of 1:1, where Rs 250 Crores of debt and 250 Crores of internal accruals. We are hoping to take around Rs 150 Crores debt more. And because for the year, our profit will be there. So by year end, at the end of cycle we hope that, we will be at the same levels again. In the interim, the debt equity can go up and down but when our new factory start contributing, we hope our debt equity will come back to the same level.

Aakash Javeri: Understood. Thank you so much Mr. Kothari and team for answering all my questions. Thank you and all the best.

Sameer Kothari: Thank you Aakash.

Moderator: Thank you. The next question is from the line of Sahil Jain from Pro Active Securities. Please go ahead.

Sahil Jain: I have two questions. Are there any inorganic opportunities that we are currently exploring? What has been our strategic focus for these opportunities in terms of industry segments, products etc.?

Sameer Kothari: If you follow the company, you would have noticed that we are quite open to acquisitions. We have done a few of them in the last few years. We continue to look at acquisitions very strongly. I am unable to give you any further details on this but all I can say is, yes acquisitions definitely form a part of our growth strategy. I was just apologizing that I cannot give you any more details, I am hoping by next quarter, we should be able to give you some more details about our plans.

Sahil Jain: Thank you for that sir. As we are finally seeing the merger happening between Avlon Cosmetics, ATC Beverages, what kind of revenue addition are we expecting from this merger?

Mayank Samdani: Major part of this merger is that it is market business, which is at the conversion cost level, it is not the sale level because only we build the conversion part. So the turnover is less but the profitability is same as our other businesses.

Sameer Kothari: Just to elaborate on that, we are merging two facilities, one of it is ATC beverages. ATC beverages' accounts have always been published along with our quarterly accounts. So you will have an idea, what is the turnover and what is the bottom line of that facility. In case of the Coimbatore facility, it is actually making and packing malted beverages. But we do not buy the packing material and the raw material, these are supplied by the customer. And as a result, the revenue is only that of the conversion cost. However, it is a dedicated factory which packs around 50000 tons of product. That should give you some idea or the size of that facility.

Sahil Jain: Thank you sir that helps. That's all from my side.

Moderator: Thank you. The next question is from the line of Ashutosh Agarwal from NB India. Please go ahead.

Ashutosh Agarwal: Thank you so much for the opportunity and I want to thank Hindustan Foods Company team and Mr. Sameer Kothariji and all the management for huge value creation. So, I invested in 2017 January it has been amazing 4-5 years and definitely, I am very much impressed with the way the company has been executing the business. So, thank you so much for all your efforts and making a very good value creation for the shareholders.

Sameer Kothari: Thank you, you just made our day.

Ashutosh Agarwal: It's the first time I am attending the con-call because I am primarily long-term investor only. So definitely, you people have made our portfolio shine. So thank you so much for that.

I want to know two or three things for the long-term perspective. First of all, we are targeting Rs 4000 Crores sales by 2025, but the reason which I generally saw in the presentation that, the contract manufacturing sector is having a huge scope of maybe doing 50000 Crores turnover. So previously in the last five years, we have grown exponentially but from 2022 we are planning to grow at 30% CAGR. So are there any additional plans to ramp up more growth from 2022 to 2025.

Sameer Kothari: I think I addressed that in my opening remarks that when the company was smaller, it was easier for us to kind of double the turnover etc., but the Rs 4000 Crores target that we have set ourselves, is on a base of Rs 2000 Crores and it envisages 25% growth per annum on a compounded basis from here on. So I do not see us been able to double turnover every year like we used to earlier, because predominantly our business is that of manufacturing. When you look at the execution involved in terms of setting up a manufacturing facility, hiring the people, hiring the worker, getting the machines ramped up, etc., there is a lot of work involved unlike platform business, where once the platform is setup, it is very easy ramp up turnover, and Zomato, Nykaa of the world can post 40-50% growth even at that base figure. In case of manufacturing companies, it is very very difficult to be able to do that because currently we have a team of more than 2500 people. Imagine being able to double the Rs 4000 Crores, we believe that we will be able to grow further. We are trying to take it in bits and pieces as far as the future is concerned so that we do not end up falling flat on our faces when it comes to commitments made to our shareholders. We have some amount of visibility which is what I laid out in my opening statement about how we will go from Rs 2000 Crores to Rs 4000 Crores. In a couple of years, I am hoping that you will be a shareholder even then, and I will come back to you for, how we will go from say Rs 4000 crores to Rs 7000 crores or wherever life takes up.

Ashutosh Agarwal: Yes definitely, I have full trust on the management and the business model especially, because you are the largest contract manufacturer. And I feel there is a lot of scope when I compare the things with China. This is quite a valid point that, it is very easy to grow for a small company but when we have already grown recently, it is hard to double the turnover.

The next thing I want to discuss is about the potential shoe manufacturing business which we are planning out. So are we planning out for like IPL teams or what are the potential customers can be. Are we targeting the niche segment because that is a very high revenue generating segment and there is a lot of demand everywhere in the country for shoes and for the sports item.

Sameer Kothari: You are right Ashutosh, but you have to realize that we are contract manufacturer. So what we do is, we basically end up manufacturing for marketer. Marketer in turn tie up with IPL teams, sports people, whatever kind of marketing trending they want to do. This particular facility, that we are investing in is being set up for Bata. As you are aware, Bata is very very strong presence in India both in terms of retail as well as the heritage of the brand. We are going to start manufacturing for them. I believe demand should not be a problem at all for the product category and for the size of the facility that we are setting up.

Ashutosh Agarwal: Okay, I want to continue discussion through the brand Unorthodox which we launched. So how we are going to shape our that brand in future?

Sameer Kothari: Ashutosh, Unorthodox is unfortunately being chopped up at one of the mistakes that I had made. We have, since the launch of Unorthodox, since failed attempt at investing in some B2C companies, realized very quickly that our strength does not lie in branding or marketing. We have decided to focus only on the back-end of FMCG business which is manufacturing. So as a result, Unorthodox has actually been pulled off the market and now we do only contract manufacturing of shoes.

Ashutosh Agarwal: Okay, no problem, thanks for clarification on this. One more thing

Sameer Kothari: I hope you will continue to be our shareholder even after we have decided to shelve Unorthodox.

Ashutosh Agarwal: Definitely sir, I do not invest in products to be very honest. I invest in people and everybody do so. As I mentioned in my first line that, I have full faith in Mr. Sameer Kothariji and his whole team. So ultimately, as an investor, we trust on the management and we have full faith on every decision which the management is taking.

What I generally feel for Hindustan Foods is that, I will remain a shareholder of Hindustan Foods when it will have a turnover of Rs 50000 Crores, whether it is 10 years, 20 years, that is up to the destiny. But this is my personal conviction for the company and I believe that we can do this because contract manufacturing is having a lot of scope.

Sameer Kothari: Ashutosh I hope you are not following me on Twitter because I feel like Elon Musk.

Ashutosh Agarwal: Definitely, I will search the Twitter account and I will follow. Sir, one more thing which I generally have in back of my mind. When I see Hindustan Food after 10 years from here, I think that our company will be a very renowned company. Today also it is very renowned, but the way we are manufacturing toilet cleaning solution like Harpic or we are manufacturing the shampoo which we are doing for HUL. So after 5-10 years, people will be able to recognize Hindustan Foods as a corporate company. So are we planning to launch our own products in the future may be 5-10 years down the line and direct entering into the B2C segment, because that will help us to improve the margins and building a brand. So are we having plans something like that.

Sameer Kothari: No Ashutosh, we actually have no plans to launch our brands. Like I mentioned earlier, I think we are very clear at-least we will not again make the mistake of getting into branding, marketing like we did and we will not get into investing in B2C brand like we tried to do earlier as well. We are happy doing the back-end contract manufacturing and like you rightly said, the potential is very large. We have a very huge runway ahead of us. I do not think we need to diversify into something which we do not understand and something that we are not capable of.

Ashutosh Agarwal: Okay sir, perfectly fine. Definitely as a shareholder, we are having big expectations, but it is very nice for the management take the ground reality and inputs. So, thank you so much for all your efforts.

Sameer Kothari: Thank you Ashutosh.

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

Ronak Jain: Good afternoon sir. Two questions from my end. What is the contribution of different product segments that contribute to revenues at present. How much is from personal care, how much is from food and beverages, any ballpark number you can share? Secondly can you share some details on the new capex of Rs 100 Crores in health and wellness segment, what kind of products will be manufactured in this segment? And this capex is just for single pharma client or it is going to be multiple clients.

Sameer Kothari: Ronak, first I will address the health and wellness question because unfortunately that is a short answer. I am not at a liberty to discuss the specific of where this Rs 100 Crores is going to get invested. All I can tell you that, we have presented to the board, very tangible proposals, which they have asked us to go ahead and explore and close if we can. As soon as they are closed, we will come back to you and shareholding body to inform them of what we have done. But right now, all I can say is, the opportunities that we are looking at are within the space of health and wellness.

I think, I should take a minute just to explain the difference between pharma and health & wellness. We are looking at the product categories which are adjacent to the current products that we manufacture. So we are not looking at, getting into manufacturing of, let's say injectables or tablets or any kind of medicine. But we are definitely looking at getting into products which are FMCG but with a therapeutic value. And that's the area that we are targeting with the health and wellness division that we have set up.

In terms of our breakup between personal & home care and food and beverages, we frankly are quite agnostic as far as those product categories are concerned because the business model that we have, is equally applicable to all the three product categories. Just from an academic interest perspective, the food & beverages would constitute close to 40% of our business. The home care would contribute close to 40% and the personal care would contribute 20%. With our current diversification that we are trying to do in the color cosmetics, we are hoping that the share of our personal care products will increase further.

Ronak Jain: Okay, one last question from my end. You have been giving guidance of Rs 4000 Crores revenues by FY25, can you share what kind of ROE and ROCE are being targeted. Also, what is the overall strategy in terms of improving operating margins, profitability and return ratios in the coming year.

Sameer Kothari: Sure, so I think Mayank and I both kind of covered this question in opening remarks. I laid down the path from Rs 2000 Crores to Rs 4000 Crores in terms of what investments will be contributing to that growth. And Mayank mentioned about the ROCE numbers, where we are and how we expect to be where we are or improve them further as the capital work in progress starts contributing to revenues. I am unable to give to you any specific numbers but what I will ask Mayank to repeat very quickly, what he had mentioned at the time of the opening remarks.

Mayank Samdani: Ronak, we are currently at around 19% of ROCE and we expect to improve it because of our huge amount of capital which is in work in progress. So we expect it to grow, and we expect the ratios will improve as we grow from here to FY2025.

Ronak Jain: Got it. That's all from my side.

Sameer Kothari: Thank you Ronak.

Moderator: Thank you. The next question is from the line of Akhil Parekh from Elara Capital. Please go ahead.

Akhil Parekh: Thanks for the opportunity. My first question is, we are targeting Rs 4000 crores of top line in the next three years and currently 80% of the sales comes from top three clients. So how do we see this mix changing in next three years? Will it still be largely from top 3 clients?

Sameer Kothari: Akhil, two or three things will change. One is, the health and wellness division contributing to the revenues, which is the growth from the Rs 2000 to Rs 4000 Crores. And the set of customers will be slightly different from our current FMCG pool. In terms of our current FMCG client portfolio, unfortunately or fortunately, it is going to represent the overall FMCG market. And the overall FMCG market in India is, you have certain companies which are extremely large and as a result, they have a huge share of market as far as the FMCG market is concerned. And consequently, we have a large share of business from them. I do not see that changing rapidly.

In the long-term, I see the change, thanks to the private labels and B2C brands that are coming up. And as a result, we have set up our private labeling division nearly 1.5 years ago to start nurturing that business. You would see that the private labeling and the B2C brands are beginning to get a lot more mind space now even as compared to six months ago. And I think that will continue in the next few years but for them to be a sizeable player in the FMCG overall basket, is at least a few years away.

Akhil Parekh: That is largely because their volumes are relatively small at this point, is that correct?

Sameer Kothari: Absolutely. In spite of the all the noise and the market capitalization across this new age companies, the fact of the matter is they are currently very small. We are all hopeful, both as shareholders as well as business partners, that they will continue to grow at 40-50% for the next 10 years or maybe till FY41 as we are hoping that we will constitute a substantial chunk of business from them.

Akhil Parekh: Sure. Second question is you alluded that contract research and development would be next phase of growth cycle. Is it too early to comment or is it something we have started looking at, maybe post FY24 or FY25?

Sameer Kothari: We started doing very very small. All I can say, we have started working on it, we have set up a small lab, we have recruited some people. Some of the B2C brands and the private labels that we are doing, are our own formulation. But like I said, it is way too early to talk about it.

Akhil Parekh: Got it. Sameer, Is there a seasonality in our business? Whether we should look at quarterly numbers, should we be looking at Q-o-Q numbers rather than Y-o-Y numbers? or Y-o-Y are more appropriate numbers?

Sameer Kothari: This is one of the reasons I mentioned, and these were all questions which we were expecting. And therefore, in my opening remarks I mentioned that, setting up a factory requires a gestation of nearly a year or so. So when we announce a factory, in presentation or in our interaction with you and with the investor community, it takes nearly a year for that to start contributing to the revenues. Now what happens is, once production has stabilized in one of our facilities, then quarter-on-quarter, we do not expect the nominal growth from that facility. Once the facility has ramped up, it is a very boring and predictable business, where it continues to deliver the same turnover and the same number year after year especially in case of long-term contracts or nearly five to seven years. However the excitement comes from new factories being set up and that takes nearly a year or so to reach its peak level. So there is some amount of ramping up time but once it reaches its peak level, then it is very stable.

So if you have to look at our numbers, I would say, for a same store comparison, in our case it would be same factory comparison, the same factory comparison numbers would be the same Q-o-Q. The difference would be the year-on-year which would be the expansion in the number of factories or which could be either Greenfield, Brownfield, or acquisition or ramping up which would be for a short period or maybe like a month.

Akhil Parekh: This is very helpful. Last question is on capex front, you mentioned that Rs 330 Crores is the capex guidance for the next two years. So including this Rs 300 Crores of capex, we should be able to reach Rs 4000 Crores of sales right?

Sameer Kothari: Yes and may be a little bit more.

Moderator: Thank you. Ladies and gentlemen, due to time constraint, we take that as the last question. I now hand the conference over to Mr. Vimal Solanki, Head, Emerging Businesses and Corporate Communications for closing comments.

Vimal Solanki: So, the overall operational and financial performance in the first half of FY22 has been in-line with the company's targets. We have been able to grow our revenues and profitability reasonably well during this period and in step to meet our medium-term and long-term goals. Our immediate goal is to reach Rs 2000 Crores revenue in FY22 and then doubling it in the next three years.

Demand for FMCG continues to be strong and expected to remain robust going ahead and we continue to believe there is enormous unexploited potential in the FMCG contract manufacturing space. Our focus remains on accelerating growth through our sturdy capex plans and exploring organic and inorganic opportunities and we are confident of capturing a large pie in this space in the forthcoming years.

I take this opportunity to thank everyone for taking out time and joining this call today. And dear Ashutosh, it is because of the faith and convection of the shareholders and well wishers like you, that keeps our optimism, our morale high and push us to do more. I hope we have been able to address all your queries.

For any further information, feel free to connection with us or Strategic Growth Advisors, our Investor Relations advisors. Please continue keeping the distances, wearing your masks, and washing your hands. Thank you again and good day. Stay safe. Stay healthy.

Moderator: Thank you. On behalf of Hindustan Foods Limited, that concludes the 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*