Hindustan Foods Limited

Q2 FY21

Earnings Conference Call

November 18, 2020

Management: **Mr. Sameer Kothari, MD, Hindustan Foods Limited**
Mr. Mayank Samdani, Group CFO, Hindustan Foods Liimited
Mr. Vimal Solanki, Head Emerging Businesses & Corporate Communications, Hindustan Foods Limited
Mr. Ganesh Argekar, Executive Director, Hindustan Foods Limited

Moderator: Ladies and gentlemen, good day and welcome to the Hindustan Foods Limited Q2 FY21 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectation of the company as on date of this call. These statements are not the guarantees of future performance and involved 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 the operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Sameer Kothari - MD. Thank you and over to you, sir.

Sameer Kothari: Thank you, Janice. Good afternoon and welcome everyone to our first and Q2 FY21 earnings conference call. I say first, because the company has been listed for the last nearly 20 years and yet this is our first conference call. I hope you and everyone around you is safe and in good health. On that note, I have to make a small personal confession that I am currently on hands-free of a cell phone because I am in a personal emergency and in hospital. Having said that I am joined on the call by Mr. Ganesh Argekar who is our Executive Director and he is in-charge of supply chain. I am also joined by Mayank Samdani from the management team who is our Group CFO and Mr. Vimal Solanki, who is the Head Emerging Business and Communications. This call is being facilitated by SGA who is our Investor Relations Advisors and Mr Samir Shah who is our friend, philosopher and guide.

My name is Sameer Kothari, I am the Managing Director of the company. I hope everyone has had the chance to go through our updated Investor Presentation which was uploaded on the stock exchanges last week; however, since this is our first Earnings Call, I am going to start by giving you a brief overview about the company and then I will hand it over to Mayank who will discuss specifics about our performance of Q2 FY21.

As far as the history of the company is concerned, Hindustan Foods was actually started in the late 80s as a joint venture between the Dempo Group of Goa and Glaxo. It was manufacturing Farex and other infant food formula in Goa, but unfortunately due to certain circumstances, the potential of the factory as well as the company were not fully utilized. So in 2012 and 2013, the current Chairman of our company and the head of the Dempo Group, Mr. Shrinivas Dempo decided to tie up with the Vanity Case Group of companies which was primarily engaged in the business of contract manufacturing of FMCG products over the last two decades, which I was heading. As a result of this tie up, in last 8 years, we have managed to make Hindustan Foods one of the largest and the most diversified contract manufacturer in the country with a roster of clients which includes all the domestic and MNC FMCG players of the country.

Today, we have factories located in various parts of the country, manufacturing products as diverse as pest control products, infant food formula, home care products, personal care products and leather shoes. We have managed to grow our sales continuously for the last few years at a rate which is quite disproportionate to the growth of the FMCG industry and we posted around Rs 700 crores of turnover last year and we have set ourselves a target of Rs 2,000 crores by FY22. The growth thus far has been achieved on the back of a tremendous effort by the team obviously. We have also been fortunate to be at the right place at the right time. There is a tremendous amount of change which is happening in the FMCG industry and as a result of that change, we in the contract manufacturing industry have benefited from some of the tailwinds. These include the introduction of GST law which came as a major event for the contract manufacturing argument in the FMCG manufacturing supply chain. It has led to increase of decentralization of manufacturing and as a result it has led to an increase in the demand for contract manufacturer.

The second thing that has happened is, because of the digital and e-commerce supply chains, there is a huge demand for a complete overhauling of the supply chain of FMCG companies and that has further led to the need for decentralized manufacturing, to enable manufacturing of a diverse set of products at one location, so as to be able to fulfill the nimble demands of e-commerce.

And the third development which has really helped us is that there is a huge consolidation of the traditional contract manufacturers. These new demands of contract manufacturing industry is something that the traditional manufacturer are either not capable or not willing to deal with and as a result, we have seen some tremendous opportunities in terms of being able to consolidate this industry which was very fragmented to begin with. I will now hand over the call to Mayank who is our Group CFO who will take you through the financial results for the quarter and the half year ended September 2020. Mayank, over to you.

Mayank Samdani: Good afternoon everyone. I will take you through the quarterly and the half yearly performance of FY21. First, we will talk about the quarterly performance. We are happy to share that we have achieved the highest quarterly turnover and the PAT in the history of the company. Our total revenue for the quarter grew by 85% year-on-year to Rs. 319 crores. A strong year-to-year revenue growth has further reinforced our strategy for the decentralized manufacturing and proven benefits of contract manufacturing. Our EBITDA for the quarter had seen a growth of 72% year-on-year which stood at Rs 22 crores as against Rs 12.8 crores in Q2 FY20. Our PAT had registered a growth of 70% year-on-year which stood at Rs 8.4 crores as against Rs 4.9 crores in Q2 FY20.

Now talking about the half yearly performance of FY21, our revenue has registered 64% year-on-year growth in half year FY21 and stood at Rs 521 crores as against Rs 317 crores last year. Our EBITDA of H1 FY21 has seen a growth of 54% year-on-year which stood at Rs 37.1 crores as against Rs 24.1 crores in H1 FY20. Our PAT has also registered a growth of around 37% year-on-year which stood at Rs 12.6 crores as against Rs 9.2 crores in H1 FY20. Our operating cash flows without tax for H1 FY21 has seen a growth of 24% which stood at Rs. 13.4 crores as against Rs 10.8 crores in H1 FY20.

On the working capital front, we are managing very thin working capital cycles. As on 30th September, our working capital stood at around 3 days of the turnover where the debtor days stood at only 12 days of turnover. On the CAPEX front, the company has invested nearly around Rs 300 crores in last 2 years. In addition, we are expecting to invest additional Rs 150 crores in next one year for manufacturing of the personal and home care products and the same has been approved by the board. If we talk about specific developments in this half year, the company has entered into a long-term manufacturing of the national brand of the disinfectant toilet cleaner in the newly built Silvassa facility. Despite the Covid restrictions, we have been able to set up and get running this facility in Silvassa in a record time. Commercial production has started in September 2020 and the plant has a capacity of 1,000 Kl per month.

Company has started building another dedicated plant to manufacture national brand of surface cleaner in Silvassa. We expect that the commercial production of this factory will start from February end 2021 or March 2021. Our merger of the beverage plant in Mysuru and the malt beverage making plant in Coimbatore is also in progress and we have filed the application in NCLT.

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

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Faisal Hawa from H G Hawa and Company. Please go ahead.

Faisal Hawa: Most of our contracts which have been signed with the MNCs are at a fixed ROE basis and the prices are fixed. Is there a chance that going forward, we would be in a better negotiating position and would be able to negotiate better ROEs or we could have contracting with this ROE system being eliminated, probably we may have to take a bit of more risk, but our returns could increase and our EBITDA margins in turn could also increase?

Sameer Kothari: I will take this question. Faisal. You seem to be well aware of the working of the company. For the benefit of everyone else, let me just spend 30 seconds on trying to explain your question because I am sure your question may not be as clear to everyone else. So HFL basically has 3 business models. It has a business model where we set up dedicated factories for our principals. These dedicated factories are long term contracts which have a take-or-pay kind of a contract with our principals. The 2nd business model that we do is shared facilities. In this case, we manufacture competing products for competing principals within the same factory, however, the principals do not give us any guarantee in terms of volumes or of the tenure of the contract. And the 3rd business model that we do is private labeling where we help retailers and other digital e-commerce clients launch new products. We help them with R&D, packaging development and we launch the product, while the brand is completely owned by the retailer or by the e-commerce player. Now, coming to Faisal's question about the ROE, in these 3 business models, the first business model is where we take on the least amount of risk since it is a guaranteed contract and obviously that is the one where Faisal was talking about the fact that whether we will be able to increase our ROEs going ahead. In case of all of these contracts, the ROEs are fixed for the next 5 to 12 years. So as a result since these are long-term contracts for any project that we set up, we have complete visibility of what the earnings from that project will be for the next 5 to 12 years and neither of the contracting parties have the privilege to renegotiate the terms during the tenure of the contract. However, in case of the shared facilities and in case of the private labeling facilities, yes there is a huge amount of operating leverage that we can achieve and the ROE in both those businesses can be substantially higher, not to say the ROE will be of course linked with the risks. So in the first business model since we take the least amount of risk, we get ROEs which is proportionate to that. In case of shared facilities, we take on a little bit higher risk, the ROEs are higher to reflect that and of course in case of the private labeling we take on the max risk and the ROEs reflect that. So going ahead as the business mix changes, that will change our ROE results, but within a particular sub-section of the business, however, I don't see ROEs changing drastically in the future.

Faisal Hawa: So just as a follow up question, how much of our business or our revenues is on this fixed ROE model and how much is the rest?

Sameer Kothari: Mayank, correct me if I am wrong, but currently, around 80-85% would be fixed and the balance would be shared manufacturing and private labeling.

Mayank Samdani: This is the ballpark number, around 80% will be the fixed.

Moderator: Thank you. The next question is from the line of Sarvesh Gupta from Maximal Capital. Please go ahead.

Sarvesh Gupta: In the fixed ROE business, what is the pre-tax ROE that we are contracting in general?

Mayank Samdani: Sorry, Sarvesh, this is competitive and confidential information which we cannot share because we are bound by the confidentiality agreement with our customers.

Sarvesh Gupta: No, but for the overall business model, is it into, are we talking about high teens or what?

Mayank Samdani: If you need a ballpark number, our ROE ranges between 16% and 22%, pre-tax.

Sarvesh Gupta: So then I was not able to triangulate that number with the 30% ROCE which you have mentioned on one of the slides, slide #5, because you said 85% of your business is in this model?

Sameer Kothari: Mayank, shall I take that?

Mayank Samdani: Yes.

Sameer Kothari: Sarvesh, what you are seeing right now is a company which is in the middle of the major transition and a CAPEX investment, so the 80-85% that we talked about is the number going ahead. If you would have looked at our numbers last year, probably the number would have been completely different. There would be a larger share of shared facility's business coming in and also you have to look at the fact that in terms of our various projects, they are in various stages of implementation, some of them have got implemented and started production, some are in the process of ramping up and they will achieve their scale in the next 5 to 6 months and rest are just being built. So I would say, what Mayank has shared with you a steady state figure. However, you will see aberrations for the next 2 or 3 years, especially since we are growing as well as investing at a completely disproportionate rate.

Sarvesh Gupta: And this vision of Rs 2,000 odd crore revenue figure, do we already have the visibility in terms of talks in the pipeline or is it an aspirational number? So I want to know how certain we are about the sort of the guidance for coming year, 2022?

Sameer Kothari : I think this question will be referred to me because I am the one who is being talking about this number in various forums. So Sarvesh, yes, we have a decent visibility of the path ahead, of course it is a little bit of a stretched target especially because of COVID and because of the happenings of the last few months, but as of now we are very confident that we should be able to get that.

Sarvesh Gupta: Finally, one question which I had was given that in your business, in general for FMCG sort of manufacturing, it is not very capital intensive. If one were to put up the new capacity, it is not going to cost you a bomb, so what is working for you in terms of getting these new sort of contracts which is helping you scale up fast because I guess a lot of people can or will be able to manufacture this because the capital requirements are not that taxing?

Sameer Kothari: Sarvesh, so couple of things and I might take a couple of minutes extra on this. So Sarvesh, one when you say it won't cost a bomb, it is a relative word. We have invested close to Rs 300 crores in the last 2 years, we have already announced plans to invest another Rs 150 crores in the next 12 months and we have plans to invest further. Now, whether this is large enough to be a deterrent for other people or not, is not for me to decide. Obviously there are a lot more players who are well funded and have the wherewithal to invest a lot more money than this and then there are a lot many players who do not have the wherewithal to be able to fund this or even think about executing projects like this. However, one thing which is very clear, our competitive advantage is not based only on the large or small amount of capital which needs to be invested in the factory. Our competitive advantage is basically the execution. You don't go to a Foxconn because Foxconn has got more money than Apple to invest in an Apple factory. You go to a Foxconn because it has better execution skills in being able to manufacture phones while Apple can then concentrate its skills on marketing. So I would urge you to look at the contract manufacturing industry not as just a pure investment in infrastructure, you have to look at it as an investment in execution skills. Happy to discuss this at length and frankly if there are no more questions at the end of this, we can just circle back to this if you want or I can take it offline later.

Mayank Samdani: Also Sarvesh it is all about the relationship with the customers which has been built over the years, and the strength we have built because we are dealing with their product, hence it is their brand which is at risk. If the contract manufacturer is unable to deliver, the brands get impacted.

Sameer Kothari: As you can see the entire management team is very passionate about this question Sarvesh, happy to take it back if we have time at the end of the session or if you can write to us, I can send you a two-pager around this entire thesis of why all of us are putting our money where our mouth is as far as contract manufacturing is concerned.

Moderator: Thank you. The next question is from the line of Pankaj Bobade from Axis Securities. Please go ahead.

Pankaj Bobade: Sir, what is the current capacity utilization and going forward, as you mentioned that you are going to invest, what would be the peak potential revenue from the expanded capacity, so would we be able to meet the Rs 2,000 crores goal with the current capacity or we need to invest in more? And second thing, what is the tentative timeline for that Rs 2,000 crores goal which we have aimed for?

Sameer Kothari: Pankaj, I will take this question for the specifics on the numbers, Mayank can pitch in, but in terms of our current capacities which have already been installed and are running, we are at the run rate of around Rs 1,200 crores to Rs 1,500 crores which you would have seen from our previous quarter's figures. In case of the Rs 2,000 crores, the timeline that we have put to ourselves is FY22 and the additional investment of Rs. 150 crores that the board has already approved will help us get to that figure.

Pankaj Bobade: You mean the additional Rs 150 crores, right?

Sameer Kothari: Right.

Moderator: Thank you. The next question is from the line of Vinit Rai from JM Financial. Please go ahead.

Vinit Rai: This is Vinit here. I had 2 or 3 questions and you decide how many you can take, so first of all, what is the sector wise split of your business currently or when is it gets to Rs 2,000 crores? How do you see the split within the sector?

Sameer Kothari: Vinit, we are actually quite product agnostic as long as it is FMCG, so within the food, personal care, home care as well as household pesticide, insecticide, we are quite agnostic about what we do, which is why in my opening remarks, I said we manufacture something like Mortein which is a pest control product and we also manufacture Farex which is an infant food formula. The business model and our structuring of the entire transaction remains similar across the product category, so from that perspective, frankly we are quite agnostic about product categories and we don't look at it that way at all.

Vinit Rai: I appreciate that, but of course you guys are the experts, but these are typically repeat businesses, right? Once you take a Mortein or whatever, since this is a consumer sector, once you lock a machine with and of course I don't know your process so deep enough, but once you kind of block certain machine hours, my guess is that those machine hours would be utilized for the same category of plant or product, etc., or is it very fungible, is what I want to understand from you?

Sameer Kothari : So two things. One is, let me first tell you that when we look at a dedicated facility, if we have tied up for a product, then that is a long-term contract which is good for the next 5 to 10 years, so as a result that facility is not fungible at all. So if we set up a facility which is manufacturing, let us say home care products and it is a long-term contracts, for the next 10 years, it is going to be manufacturing home care products. From a consumer perspective and your own academic interest perspective, let me tell you that machines from most of the products are surprisingly fungible, so for example, even in case of a home care product, which manufactures let us say liquid detergent, you could technically end up making hand washes and let us say personal care products like Shampoo etc. The one example that I like to give is that the same machine which manufactures infant food can also manufacture a snack food like Kurkure. So it is a little incongruous to think about it that way, but fortunately in FMCG, we are not dealing with complex processes. So the capacities are fungible to a certain extent, but within the construct of our contracts, we are not fungible at all for at least 5 to 10 years.

Vinit Rai: If there is a way for me to understand this since you said at the opening, 80% of your business is anyways dedicated line, so what would be the sectoral breakup there?

Sameer Kothari: Mayank, do you have that number? I don't have that number.

Vinit Rai: Or even broadly, which is the leading one, is it personal care, which are the top two leading ones within your categories?

Sameer Kothari: Top-two would be Home and Personal Care and Food. We assume Home and Personal Care as one, and Food & Beverages as one.

Mayank Samdani: Food & Beverages and Home & Personal Care each will be around 40%.

Vinit Rai: Typically what is the wallet share that you target within a certain SKU from your customer?

Sameer Kothari: We would like to target 100% [grins].

Vinit Rai: No, that is not possible, like in packaging we see generally you know nobody can cross Rs 45 crores or Rs 50 crores , so that is why I was wondering how it did for you guys?

Sameer Kothari: Frankly, the target or the wallet share depends on the product itself. There are certain products which do not have a scale which requires multiple factories in which case, the company might be okay to have a single manufacturer for it and they might have a small, what is in our terminology called BCP - business continuity plant, just to ensure that in case there is some problem at the main plant, the BCP plant can continue to service the market. However, there are certain product categories which are very large and have a widespread and saturated market in India - in which case you would require multiple factories. In that case, the wallet share could again vary from as little as 10% to 15% to as high as 50% to 60% depending on the number of factories there are. To give you some examples, if you take a product like detergent powder, it is such a saturated market and the quantity required in the whole country is so high that, if we were to get 20-25% of the detergent market in the country in terms of wallet share, you would have to set up gargantuan factories across the country.

Vinit Rai: No, so may be a better way to look at it, and of course these are a very long discussions, but very quickly suppose certain, may be because transportation also could be something because from one plant to some, so wherever you are kind of supplying say a detergent for like of a better example, say Ariel, say how it is 200 kilometers away from you or whatever, at least that plan to plan market share, wallet share would be in excess of 50% or would be like 20% that is also helpful?

Sameer Kothari: If it is a transport optimized plant, then the wallet share will be 100% for such region or catchment for which such plant is built. Nobody would like to lose money on the transportation.

Vinit Rai: So what you are saying is that there is not much competition within that catchment for you, is what I am hearing?

Sameer Kothari: No, absolutely no. You can't afford to do that because then you become subscale while Sarvesh was talking about the fact that it doesn't require a lot of capital to set up a factory, it does require a lot of execution, so we don't want to set up two Rs 300 crores facility within the distance of 200 kilometers of each other and have them supplying to the same market.

Vinit Rai: You wouldn't, but your competition could, that was my real question?

Sameer Kothari: No, I am talking from our principal's perspective, because if our principal has two factories of that size, he has got to cater to that much market, he would much rather move that other factory, 500 or 1000 kilometers away from this one and cater to another catchment, area.

Vinit Rai: Just a last one. Can you give me an example where you really added some value to your clients, one is, you just do what the client tells you to do, but can you give me the example anywhere where you really done something together with the client and come up with something with really the client appreciated?

Sameer Kothari: We hope the clients appreciate everything we do.

Vinit Rai: No, I mean something innovative, something where you could actually, may be reduce the costs or something like that?

Sameer Kothari: Our entire private label division actually works on exactly that premise. So you have private label in e-commerce portals, the large portals in the country who would approach us and say that this is the largest selling product on our website and we need something similar for us and so far we have been able to meet that requirement. I am happy to say that some of our products in the private label division are now one of the largest sellers on their e-commerce portals. That is as far as the private label division is concerned. As far as shared facilities is concerned, we have been able to deal successfully with very seasonal products which require production only for 3 to 4 months in a year and we have been able to service demand for the last 10 to 15 years without having any problem both in an economic and operational manner, by ensuring that our factories are manufacturing some other counter cyclical products as well. And I am sure all of our customers appreciate the fact that when they need the product and we need not maintain a facility for 8 months as empty just to get the product in 4 months. I think that is the big service that we deliver. In case of dedicated facilities as well, we have actually taken over facilities from our principals and have managed to run them more efficiently.

Moderator: Thank you. The next question is from the line of Pratik Poddar from ABC and Associate. Please go ahead.

Pratik Poddar: Sir, just wanted to ask you two questions. One is, just the journey beyond Rs 2,000 crores, because I think you are fairly there in terms of the Rs 2,000 crores if you annualize, plus add the two businesses which you are anyway going to launch, we want to ask you beyond Rs 2,000 crores, how should we think about growth? Is it more from clients insourcing to outsourcing or incremental production being outsourced to you? How should we think about this?

Sameer Kothari: Pratik, first of all, thank you very much for saying that the Rs 2,000 crores is in the bank, I hope my Board of Directors are also listening to it and they also give the same vote of confidence. You are right that we have a clear visibility as far as the Rs 2,000 crores is concerned. As far as the growth beyond Rs 2,000 crores is concerned, frankly I am far more bullish about the growth beyond Rs 2000 crores, and that is for both the reasons that you mentioned, one is because of the strategic and the structural changes happening in the economy and in the supply chain of FMCG. We believe that there will be a larger share of production being shipped out which means insourcing to outsourcing and that is going to help tremendously in terms of new opportunities for us. COVID has frankly precipitated that process. COVID has exposed how the supply chain in the country is fragile, how certain lockdowns affected the availability of the product for the customers, etc., and it has led to impetus in terms of the decentralization of manufacturing. The second part of your question is about the organic growth in FMCG and the fact of the matter is, I think all of us know about the consumption story, it has been repeated too many times. If the FMCG consumption in the country with the population of 1.6 billion people keep increasing at 5% to 6%, we do not have the headroom in our capacity to be able to deal with that and when I say our, I don't mean Hindustan Foods, I mean the entire industry. So the demand for new capacities will continue to be there as long as we continue to grow like this and any one of us who has been abroad and who has seen the kind of FMCG products, the variety which is available outside versus what is available in India, I think we still have a long way to go in terms of growth in the consumption, both in terms of per capita **consumption** as well as choices for the individual.

Praik Poddar: I just wanted to check globally also this model of outsourcing is extremely prevalent, I am not aware, but is it that these FMCG majors have now started or they additionally because over there these issues of supply chain, GST , etc., won't be there that much, so globally also these guys used to outsource only traditionally?

Sameer Kothari: So in fact, globally GST was already there. So in fact for us, GST is not a problem, GST is a welcome step. For a contract manufacturing industry, frankly the GST has come like a blessing..

Pratik Poddar: Yes, that is what I am saying. So the question of globally is, this kind of business model prevalent in the sense you would have these large players like a Foxconn-equivalent in global parlance would be there for FMCG also?

Sameer Kothari: Foxconn equivalent? No! Because the product categories (FMCG) do not allow for a product to be made in China and ship all over the world. However, local contract manufacturers are definitely there or if you ask me a question of what you want to be when we grow up, there are a bunch of companies in the US and Europe who are not only doing contract manufacturing, but also doing contract research. So a lot of domain experts are there who will work only in color cosmetics or only in the detergent segment and not only will they do contract manufacturing, but they also develop new products which the brand owners then adapt from that proprietary technology. So yes, this model has been around for a while. It is just that in India, it is just beginning to take off or at least for us we think that it is beginning to take off.

Pratik Poddar: Generally just from a pipeline perspective, I am assuming because you have to set up factories, the discussions would start 12 to 15 months ahead of time, so today you would be into discussions for FY22 and beyond for setting up factories, right with your clients and customers and I think that is the reason why you are bullish, I am just trying to get some color to that?

Sameer Kothari: Yes absolutely, I can't answer that in any clear terms, because obviously that is what we do for a living - so we continue talking to people, we continue pitching work to people, we continue negotiating projects with people and as soon as they get signed, we take it to our board and as soon as it is authorized we inform everyone.

Pratik Poddar: These projects mostly when you are in discussion, just from a split perspective, is it insource to outsource or incremental growth been outsourced to you in the sense that they are growing at 5%, but they did not say a practice on their own, but they are shifting that incremental 5% to you?

Sameer Kothari: Currently, depending on a product category it could be both, so let us say home and hygiene category for instance, it is growing at a disproportionate rate in the last 6 months and lot of discussions revolve around being able to cater to that growth. In case of certain other products, there is some amount of realignment from the manufacturing footprint because of GST. In case of certain other product categories, it is basically insourcing to outsourcing because the tax exemption in the various laws and being phased out

Moderator: Thank you. The next question is from the line of Sandeep Sharma from Ambit Capital. Please go ahead.

Sandeep Sharma: My question is very straight forward and simple. If we track the company, last 3-4 years has been dramatic for the company from a growth perspective, while the controlling stake acquisition in the listed company happened sometime back, but the real growth has happened in the last 3-4 years, I wanted to just understand from your perspective what changed say in FY18 when you basically started the growth phase and the momentum has continued both from organic as well as inorganic growth perspective?

Sameer Kothari: Sandeep, actually, I don't think that is the case. What actually happened is since we tied up in 2012-13 and I will have to look at the exact timelines, but it took us nearly a year to get all the things in place. We actually signed up contracts in the inorganic acquisitions right away. I think within the first year of the tie-up, we agreed to acquire one facility in Jammu from Reckitt Benckiser. We later agreed to acquire the business of Unilever in Puducherry the first year itself. In the next couple of years, we managed to set up new factories in Coimbatore as well as in other locations. What you have to appreciate is what I was talking to the previous person as well, that these discussion do take around 10 to 12 months in terms of actually coming on board and even after they come on board in terms of ramping up, depending on the complexity of the factory, it takes 3 to 6 months of time. So to answer your question in short, we have been working since 2012 and 2013, it is not that we started working only in the last 3 or 4 years. The team has been at it for the last nearly 2 decades. What you are seeing now is frankly a result of all those efforts.

Sandeep Sharma: Just one more question. Along with this expansion phase thats happening both inorganic and organic, that has continued in the recent time, how do you see the growth coming up in the coming years - whether it will be more of organic or inorganic? And the 2nd question linked to it is that, you already raised some amount from two funds, but how do you plan to fund the growth going ahead?

Sameer Kothari: So from the organic-inorganic part, I really don’t know how you are slicing it. For us, organic also means setting up Greenfield projects, right? That is why when I talk about inorganic, I only talk about acquisitions. However some people look at setting up of Greenfield projects as inorganic and then say you have same factory, what is the same factory growth? In our business, organic growth within the same factory is quite irrelevant. Most of our growth will come from setting up new factories, expansion of new factories which is brownfield projects, Greenfield projects and may be acquisitions. Going ahead in terms of acquisitions versus what we call the other avenues of growth, we believe that the other avenues of growth and acquisitions, would be equally contributing to the growth ahead. There is still a lot of potential in terms of consolidation in this industry and we do believe that there is also lot of potential for our principals to look at probably divesting some of their facilities and giving it out to a contract manufacturer.

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

Aakash Javeri: Just one question that ever since Home and Personal Care products are part of our portfolio, does the company have any plans to backward integrate into Oleo chemicals or something like that?

Sameer Kothari: Aakash, not currently, it is definitely a very interesting avenue for us, but currently we believe that we have enough potential to grow in the business that we are currently doing and you are absolutely right, that it is a huge opportunity which we have and we will probably get to it, but now is not the time. When I say now, I mean not so for the next couple of years at least.

Aakash Javeri: Just another questions, you spoke about private label business couple of minute back, so just wanted to know as a percentage of the revenue, how big it is currently and where would you see this growing in the next say 3 to 5 years?

Sameer Kothari: It is completely insignificant in terms of revenue size right now. However, from a strategic perspective we are very keen and bullish on it, because of all the right reasons and the growing e-commerce, the growing modernization of retail trade, the growing power of the Amazon, Jios and the Flipkarts of the world. So we believe that it would become very large. Going ahead, just to give you two examples, Mr. Sanjeev Mehta [Hindustan Unilever] in his speech during the results, he mentioned that nearly 7% of HUL's sales now come from online portals and I think that is a huge number and it is a trend which I think everybody should sit up and watch. The second statement that I want to throw out to you is from D-Mart CEO who said that they would like to do a lot more private label, but they are not able to get enough credible and longstanding contract manufacturer. I think, these two put together should give you an idea of the potential for private labeling in India.

Moderator: Thank you. The next question is from the line of Tushar Sarda from Athena Investment. Please go ahead.

Tushar Sarda: My question relates to just having a little better understanding of your business. You mentioned that you are agnostic to the kind of FMCG product, so what are your real strength in terms of contract manufacturing that you bring to the table for the principle who gives you the business? Second is, what kind of technology or know-how they give you because they would like product uniformity, right? If they are setting a branded product, they would want uniformity, so what kind of inputs... for example, do they procure raw materials for you or you procure yourself and what kind of supervision does the principle have?

Sameer Kothari: Tushar, some of the stuff I may not be able to discuss because of competitive reasons, so let me give you an example of a completely different industry. So if you look at electronics, if you look at Apple and Foxconn, so you basically have a similar kind of a situation, you have the technology and the IP being developed by the marketing company or the brand owner who would then pass on that to the contract manufacturer and from a contract manufacturers perspective, maintaining the quality, price, timely deliveries, integrity, and the relationship of honesty I would say is very important. So let me elaborate, when Apple gives a technology to Foxconn that this is the phone that they want to assemble, it implicitly trusts Foxconn that it is not going to take this knowledge and go to a Samsung and say I can make a similar phone for you. It also trusts Foxconn that it is not going to use this technology and make a phone owned by a brand owned by Foxconn and start selling it in the market. Three, it also trusts Foxconn to ensure that when it makes an Apple phone, the phone actually does not get leaked into the market which means that all the phones that Foxconn makes goes back to Apple and then Apple sells them, not that Foxconn ships 100,000 phones separately to the black market and starts marking money on it. Fourth, in terms of the contract manufacturing relationship what is very important is that if you buy an Apple and if your Apple phone doesn't work, you are not going to look behind it and say that was it made by Foxconn or was it made by somebody else. You are going to be unhappy with Apple, so Apple is extremely bothered about the fact that Foxconn should not dilute quality, should not miss on the timeliness of the delivery, should not do anything which can harm the brand value of Apple and as a result, it maintains humongous amount of supervision, humongous amount of control over everything, but the fact of the matter is that the execution in the end is with Foxconn. That is my point throughout even in my previous discussion with someone earlier that just because someone has a billion dollar, you can't go to Apple and say that okay, I am going to be the next Foxconn, because it is not just about setting up a factory, it has got to do about relationship, trust, ability, execution and I think that is what we bring to the table as well when they are talking to the principals. Hope that answers your question.

Tushar Sarda: Yes, it does, thank you, it was a very elaborate and very nice explanation, just one additional follow up to this. You know Foxconn has actually helped Apple develop lot of technology so to say if you read the articles, for example, they wanted to put glass on the phone, so Foxconn played a very big role, I think it might be early days for you, but do you think you would have those kind of opportunity to help the principle in development of a product, may be say development of packaging is not the actual product and those kind of things?

Sameer Kothari: At a very basic level that is what we do with private label, however, you are absolutely right that these are very early days in terms of being able to add value to our customers and that goes back to what I had explained earlier that at some point of time, we would like to emulate the guys in Europe and US who do contract research as well as contract manufacturing and you are absolutely right that is something which we want to do as we grow, but it is still early days.

Moderator: Thank you. Ladies and gentlemen, due to time constraint we take the last question from the line of Vinod Malviya from Union Mutual Fund. Please go ahead.

Vinod Malviya: Mr. Sameer Kothari, I have couple of questions. First, recently the government has announced the PLI scheme for food processing industry, so just wanted to get your sense. How do you look at this and if you can provide some kind of details about this like any detail in sort of what kind of CAPEX would be required for any player who want to take this incentive and any sort of revenue target initially to get this incentive? And the second part related to this is that

Hindustan Foods, you have been talking about looking at export opportunities, so does this PLI schemes expedite that export opportunities, and how are you exploring this opportunity?

Sameer Kothari: Vinod, the PLI scheme has been announced. What has been done is basically an allocation of a certain amount of money has been made to the food processing industry, however, the details of the package has not been announced. In fact, the government is in the stage of consultation with the industry and we are part of those discussions, where they are asking which particular areas, product categories, where they should be announcing this type of a scheme and how the scheme should be announced in terms of the delta sales that is expected, in terms of the value addition etc. There is talk about the difference between food processing and agricultural processing, which means should we do it at the level of farm produce or should we do it at the level of the factories where it is produced into processed foods. There are a bunch of things which still needs to be done. I would say it is a little premature to get into the talk about the PLI schemes for the food processing unlike that for the electronics industry where it is a little more clear. In case of food processing, it is a very encouraging sign that the government has done it, but we will still need to see what the final details are before I can actually comment on how it is going to change for us, but we are very excited and we are obviously with the government to see how best we can leverage this.

Vinod Malviya: Second question was on your CAPEX thing, so you have said that you would be investing Rs 150 crores in the Hyderabad facility, but apart from that you are also setting up another facility at Silvassa, so can you provide some details about what kind of capital would be required for this Silvassa facility?

Mayank Samdani: Vinod, in our earlier press release we have said that the entire two factory of Silvassa will be costing us around Rs 30 crores, so one is being built and the other one is in process. Both put together, it is around Rs 30 crores.

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

Vimal Solanki: Thanks, Janice. Ladies and gentlemen, I take this opportunity to thank everyone for joining on this call. As an organization, our objective is to collaborate with our customers and drive new products and packaging to develop innovative and useful products, at the same time also helping our customers to reach the markets faster. This pandemic has reinforced our strategy of decentralized manufacturing and proven the benefits of contract manufacturing. We remain committed to our goal of achieving revenue of Rs. 2,000 crores by 2022. I hope we have been able to address all 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. Thank you all and wishing everyone an extra bright New Year. Stay healthy, stay safe. Thank you so much.

Moderator: Thank you. On behalf of Hindustan Foods Limited, that concludes this conference. Thank you all for joining, 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.*