“Hindustan Foods Limited Q2 & H1 FY24 Earnings Conference Call”

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MANAGEMENT: **MR. SAMEER KOTHARI – MANAGING DIRECTOR, HINDUSTAN FOODS LIMITED**
MR. GANESH ARGEKAR – EXECUTIVE DIRECTOR, HINDUSTAN FOODS LIMITED
MR. MAYANK SAMDANI – GROUP CFO, HINDUSTAN FOODS LIMITED
MR. VIMAL SOLANKI - HEAD, CORPORATE COMMUNICATIONS, HINDUSTAN FOODS LIMITED

Moderator: Ladies and gentlemen, good day and welcome to Hindustan Foods Limited Q2 and H1 FY24 Earnings Conference Call.

This conference call may contain forward-looking statements about the Company, which are based on the belief, opinions and expectations of the Company as on date of this call. These statements are not the guarantees of future performance and involve risk 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.

Sameer Kothari: Thank you, Yashashri. Good morning and welcome to everyone for our First Half & Quarter 2 FY24 Earnings Conference Call.

I am joined on the call by Mr. Ganesh Argekar - Executive Director; Mr. Mayank Samdani - Group CFO and Mr. Vimal Solanki – Head, Corporate Communication. In addition to that, we have SGA, our Investor Relations Advisor.

I hope everyone has had a chance to go through our updated Earnings Presentation that was uploaded on the Stock Exchange and our Company website.

Coming to the overall performance of the Company:

The slowdown in the FMCG demand and especially the deflation in the commodity prices continue to affect the short-term sales performance of our Company. Additionally, the delay in getting approval for our Baddi acquisition has also hurt our plans for this financial year. However, we have still ended up with a record PAT for the quarter and for the half year. From a business and usual operations perspective, this has been a stable quarter and a predictable one at that and I am going to request my colleague, Ganesh, who will give the operational updates in a few minutes from now.

However, I would like to make a brief statement on our planned fundraise and our recently announced expansion. The Company has initiated the process of issuing warrants to the tune of Rs. 400 crores to some of our existing investors, namely Convergent and Sixth Sense, and also to a few new investors, including Malabar Capital, Bay Capital and Vanaja Sundar Iyer. I would personally like to thank these investors for reposing the faith in the Company and on behalf of the management, would like to assure all the shareholders that we will make optimum use of this capital.

On the back of this fundraise, we have identified a couple of interesting opportunities, one interesting opportunity for us is in the sports shoe manufacturing sector, me and the management have spoken about our growing interest in this sector for the last couple of quarters and accordingly the board has given us the permission to invest up to Rs. 100 crores in this sector. We do believe that this sector will see some unprecedented growth, aided by the tailwinds of the government policies and the global realignment of supply chains away from China. As a first step of this expansion, we have announced the acquisition of an existing factory located in Kundli, Haryana and Ganesh will elaborate on this acquisition.

The other sector that we have been talking about and which we have been bullish is actually that of Beverages and Ice cream. In the Beverage segment, we have already announced setting up of a huge manufacturing facility in Assam and I am pleased to inform that project is progressing well and we are confident that we should be able to start production by Q4 of this financial year. In addition to that, I am now pleased to inform that the Board has authorized an investment of up to Rs. 75 crores in a Greenfield project for ice cream. Both as far as Beverages and Ice creams is concerned, we the management believe that the per capita consumption and the increasing reach of e-commerce will lead to further decentralization of the manufacturing supply chain and require more CAPEX. We have talked about this in a couple of calls and we continue to be bullish about the Indian consumption story and are confident of reaching our stated target by FY25. I am going to now hand it over to Ganesh, who will walk you through the operational details.

Ganesh Argekar: Thank you, Sameer, and good morning, everyone. I will now take you through the "Operational and Business Highlights" for H1 and Q2 Financial Year 24. The factory being set up in Guwahati, Assam for the manufacture of juices is progressing well and is expected to start commercial production by Q4. The Company's CAPEX plan for setting up the Soaps & Bars project was commercialized in Q1 and continues to ramp up satisfactorily. The upgradation CAPEX in the beverage facility in Mysuru for the new MNC customer was completed and commercial production has started in the month of October.

Elaborating about expanding presence in the contract manufacturing of shoe space as referred to by Sameer, the Company has executed a share purchase agreement with KNS Shoetech Private Limited to acquire 100% share capital. KNS Shoetech is engaged in the business of manufacturing the entire portfolio of sports shoes, sneakers and open sports footwear. The Company has a factory located in Kundli, Haryana and is currently manufacturing the entire range of sports shoes, sneakers and open sports footwear. We are looking forward to strengthening our position in the future by additional CAPEX and expansion.

With this, I will now hand over the call to Mayank Samdani – our Group CFO to take you through the financial results for the quarter ended 30th September 23. Thank you.

Mayank Samdani: Good morning, everybody. Now I would like to take you through the "Financial Performance" of Q2 and H1 FY24.

Performance of H1 FY24, revenue remained flat at Rs. 1,297 crores in H1 FY24 from Rs. 1,262 crores in H1 FY23. EBITDA grew by 29% to Rs. 106 crores in H1 FY24 from Rs. 82.7 crores in H1 FY23. PAT increased by 42% to Rs. 48 crores in H1 FY24 from Rs. 33.8 crores in H1 FY23. We are able to achieve 21% ROE, which we expect to sustain. Our consolidated cash flow from operation was stable in spite of increase in inventory levels due to the commencement and ramping up of our new facilities.

We will talk about the performance of Q2 FY24:

Revenues also remain flat in this quarter as in half year at Rs. 677 crores in Q2 FY24 from Rs. 620 crores in Q1 FY24 and Rs. 663 crores in Q2 FY23. EBITDA grew by 8% Q-on-Q and 26% Y-on-Y to Rs. 55.6 crores in Q2 FY24 from Rs. 51.4 crores in Q1 FY24 and from Rs. 44 crores in Q2 FY23. PAT increased by 6% Q-on-Q and 31% Y-on-Y to Rs. 24.7 crores in Q2 FY24 from Rs. 23.4 crores in Q1 FY24 and Rs. 18.9 crores in Q2 FY23. PAT for the quarter surpassed its previous high owing to the commercialization of new facilities and thus for the half year also.

Our Baddi acquisition has been delayed due to statutory approvals and we are trying very hard to push for an early closure. The latest view seems to be closure by end of Q3. As far as the fundraise is concerned, we are awaiting the in-principle approval from the stock exchanges and expect to receive the initial subscription amount before the end of this month.

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

Moderator: Thank you very much. We will now begin the question and answer session. We have our first question from the line of Faisal Hawa from H G Hawa & Company. Please go ahead.

Faisal Hawa: Sameer, what is the acquisition cost as a metric of market cap to sales for this new shoes facility that we have acquired? And what is the contribution of the top 5 customers in revenues of this unit? And the third is, what is the capacity utilization the present owner is having? And what is the reason that the owner would have sold to us?

Sameer Kothari: Faisal, I need to delineate a couple of things. So the board has authorized a total investment of Rs. 100 crores as far as sports shoe is concerned. We have initiated the diversification into sports shoe by taking over a very small Company called KNS Shoetech, the exact acquisition cost, Mayank will elaborate, but that is not the entire outlay of Rs. 100 crores. As far as KNS Shoetech is concerned, the actual contours of the transactions are

Mayank Samdani: Faisal, we have taken over this Company by paying Rs. 3.75 crores, against share, this is a share acquisition. It will become 100% subsidy of the Company and we will also take over the loan, which is on the books to the tune of Rs. 5 crores. So this is the total transaction value of this.

Faisal Hawa: So what is the sales this Company is having at this point of time?

Mayank Samdani: Right now, they are doing the yearly turnover of around Rs. 12 crores this year.

Faisal Hawa: And approximate capacity utilization?

Sameer Kothari: So as far as customers and approximate capacity utilization is concerned, this particular group of companies is catering to Puma, to ASICS, to Reebok, as well as New Balance including some smaller brands, Skechers and in terms of the concentration of these customers, again, I have to delineate that right now we are talking about only KNS Shoetech. We are not talking about the entire group of companies. So as far as KNS Shoetech is concerned, like Mayank said, it is a new Company set up only last year, it is doing a turnover barely of around Rs. 12 crores and it is too small to speak about right now, Faisal. You had asked another question, which is why is the existing owner looking at exiting the business and the short answer is that we have talked about the growing formalization and consolidation of contract manufacturing industry across all product categories. What is happening is that scale is becoming a very important factor as far as contract manufacturing is concerned. Customers want larger players, customers want more organized players. If you read the recent news updates about the sports shoe manufacturing Company, you would have seen that some Taiwanese companies have announced investment plans of close to Rs. 1,400-Rs. 1,500 crores just in the state of Tamil Nadu and they sign an MOU with the government for that. That is the kind of scale that people are expecting, the customers are expecting, especially with this China Plus One phenomena. So from that perspective, we have mentioned this before, not only in this category, but in a bunch of other categories, we continue to be very confident and hopeful that this kind of consolidation will give us more opportunities to acquire businesses and to grow.

Faisal Hawa: And about this preferential allotment, it is quite a large Rs. 400 crore kind of allotment and will we deploy immediately or it is more like what just that you are building up because whenever we do that it depresses our ROE and many times we don't deploy it within the next 1 or 2 years, so what is your take on this?

Sameer Kothari: Faisal, you have been a partner in our Company for a long time, our partner shareholder for a long time, you know that we are as sensitive about ROE as anybody else. That is one of the reasons why this pref allotment has been structured as a warrant. What we have done is that depending on the opportunities that come in, we will be calling for the money. Right now, we are calling in only for 25% of the amount, which is just about Rs. 100 crores. If you look at our CAPEX outlay, our CAPEX outlay between Baddi, between the Sports shoe acquisition as well as the new Ice Cream factory is close to Rs. 225 odd crores. So we will try and make this money sweat as soon as possible Faisal.

Faisal Hawa: Two bits about this is that you rather have raised money 2 years hence 2-1/2 years after this and got a much better valuation because our revenue would have at least doubled till then, so this way we are locked into the price and to the best of my understanding, we don't have too much use for this money?

Sameer Kothari: We do have use for the money Faisal, but as an existing shareholder, I completely empathize with the amount of valuation that you and me both as existing shareholders have to have especially if the new allotment is done at a lower price. I would hate to comment more because

I am assuming my new investors are on the call as well, but I will definitely give your message to them saying that they got a good deal.

Moderator: Thank you. We have our next question from the line of Abneesh Roy from Nuvama Institutional Equities. Please go ahead.

Abneesh Roy: My question is on what you mentioned China Plus One and footwear, etc., so my question here is over a medium long term 3-5 years, would you expect more of your business from non-FMCG given this kind of eco changes happening? I understand footwear demand is much more volatile versus FMCG demand, but the margins also obviously will be superior to FMCG plus given the China Plus One opportunity, if two kind of similar opportunities there, one from FMCG and one from footwear, where would your preference lie?

Sameer Kothari: So Abneesh, we have been quite agnostic as far as product categories is concerned as long as we are very clear that the mandate is to do contract manufacturing, which in our mind basically means that we do not take on any inventory obsolescence risk, we do not take on any risk as far as the market is concerned and we do not take on any risk as far as marketing branding is concerned. That is how we are defining contract manufacturing. So from within that space, we have been frankly agnostic as far as product category is concerned. You are right that the shoe industry, especially with the China Plus One and the internal consumption demand aided by the fact that the government has levied import duties, brought in BIS on shoes etc., we do see that that growth will be superior. If you have seen or if you have heard us, we have been talking about kind of tepid growth as far as the FMCG is concerned for last nearly two or three quarters, you are a very seasoned analyst in this sector, you know that we are hoping that this is temporary, FMCG growth in terms of volumes will come back within the next couple of quarters, definitely before the elections and from that perspective, I would say I am as confident about the non-shoe business as I am about the shoe business and one of the reasons why we did this fundraise was to ensure that we don't end up in a situation where capital scarcity makes us choose between one product category or another. We have been in the lucky situation where in all our journey so far, management bandwidth and the availability of good team has been our problem. It has not been a problem of demand, it has not been a problem of the availability of capital and we are hoping that that will continue going ahead. So the short answer to your question is we will probably try and do both.

Abneesh Roy: My second and last question is in lot of the FMCG categories, down trading is happening and I would understand that in your business also, ideally an FMCG Company would do more of mass and outsourcing rather than top end, so is this mix change impacting you? And second, when I see your 26% say EBITDA growth, will that be reflective of the volume growth also, you have done a lot of M&A inorganic last one year also, so profit growth, is it very similar to the volume growth because for lever for example price growth is 0, so the profit growth for you, is it coming from the volume growth, similar number?

Sameer Kothari: So two questions, one, as far as the down trading is concerned, you are absolutely right. There is definitely some amount of pressure in terms of product categories, etc., however, if you look at it from an outsourcing strategy perspective, I would hesitate to say that the outsourcing strategy for brand owner would be different for a mass market or for a premium product. You do know we manufacture personal care, high end makeup products for our customers and we also manufacture toilet cleaners. I think the contract manufacturing strategy is more based on the supply chain realities of where they want the product, how they want the product, what is the kind of nimbleness that they want in the supply chain rather than the cost of the product. As contract manufacturers, we don't add too much value irrespective of whether it is a premium product or a mass market product, the more value addition is done by the brand owners and as a result, the contract manufacturing strategy is agnostic of whether it is a premium product or a mass market product. The down trading would affect the contract manufacture, in fact, we, as a Company, have been aware of this risk for a while and that is the reason why we are dealing with a bunch of customers, right, so we are dealing with the larger guys, we are dealing with the premium products, but we are dealing with the smaller guys, we are dealing with private labels, we are dealing with the mass market products as well. We do realize that in FMCG there would be bouts where cheaper private label products might do better than the branded guys. There might be bouts where certain discretionary items might do better than non-discretionary items. There might be bouts where seasonality would affect products like ice creams and beverages, and we have tried hard to ensure that our product basket diversifies across all this risk and I think that is playing out as far as we are concerned. While the overall environment for FMCG has been tough, I think we have been doing alright because of the fact that we have got a product basket, which is very diversified. In terms of your other question, which was the increase in the EBITDA that frankly, that is again, actually major part of our turnover is a passthrough cost. So from a turnover perspective, we have urged the analyst not to look at turnover as a way of evaluating our Company. EBITDA, ROE, ROCE, the kind of numbers that we would urge you to look at. The increase in EBITDA is on the back of the commercialization of the couple of new sites. As they ramp up, we expect to make obviously more money and our ROE also improves. In addition to that, you are absolutely right that we have done certain M&A's etc., which has started flowing in to the topline. It is a combination of all of that.

Moderator: Thank you. We will take a next question from the line of Aakash Javeri from Perpetual Capital. Please go ahead.

Aakash Javeri: The first question is out of the Rs. 400 crores that you are raising or you mentioned utilization of about Rs. 225 crores, by when would plans be announced for the pending Rs. 175 crores and which categories are we targeting, could you just throw some light on that?

Sameer Kothari: Aakash, obviously we can't, but let me step back for a second, right. We are hoping not to fund the entire Rs. 225 crores that we have talked about through equity. As you are aware, our business model and more importantly our financial model allows us the luxury of taking on debt without increasing the financial leverage or the risk profile of the Company and we will continue to leverage that aspect of our business. So out of this Rs. 225 crores, a part of the money would be coming in from debt for sure. As far as the balance is concerned, we actually do not have a clear visibility of when we would require it and that is one of the reasons why we have looked at it as a form of a warrant and not as a pref allotment because, like Faisal was saying earlier in the call, we are also very cognizant of the fact that we don't want to raise money and keep it in a fixed deposit, thereby depressing our ROEs and our overall performance of the Company. So the visibility that we currently have and I am going to just ask Mayank very quickly to tell you what the fund flow visibility that we have as far as CAPEX is concerned.

Mayank Samdani: So Aakash, as we have announced which is in the public domain, we have Rs. 150 crores of Baddi acquisition, we have announced that we will invest around Rs. 100 crores in the leather, sports shoe category and we announced that we will invest in new Greenfield project of Rs. 75 crores and also we have announced that for the Guwahati facility around Rs. 25 crores. So this will give us the total investable CAPEX of around Rs. 350 crores, right, so this is the CAPEX outlay out of which we are taking on the debt and we are raising equity for this.

Aakash Javeri: The second question is that what is the potential for sports shoes and sneaker industry in terms of return ratios? Would they be better than our current Company ratios or at similar levels?

Sameer Kothari: So from profitability perspective, we expect that they will be similar, probably slightly higher than what we are used to. However, as far as returns is concerned and I am assuming when you talk about return, you are talking about ROEs and ROCEs, the sports shoe industry as well as for that matter, the leather shoe industry is very manual and there is a lot of manpower involved. So in terms of CAPEX, it is less capital intensive, it is more manpower intensive, so our asset turnover ratios for the shoe business would be much higher than, let us say, an ice cream business for instance and as a result, the ROEs on the sports shoe business should hopefully be much better than our existing business.

Aakash Javeri: And this Rs. 75 Cr for the new Greenfield, Ice Cream plant, is that for the same client or is it for a new client?

Sameer Kothari: Aakash, we haven't disclosed that as yet. Let me come back to you as and when we can.

Aakash Javeri: The next question is that the upgradation of the plant in Mysore for the MNC client over a period of time, how big can this be and is this going to be a dedicated plant like the new expansion? And also is there any more land left in that area?

Sameer Kothari: As you are probably aware and for the benefit of people who have just joined in, let me just quickly go through the history of that site. The history of that site is that we are acquired it, we actually started it as a shared manufacturing site and this is how normal evolution for us would happen. I am happy to say that all the lines there now are dedicated to a particular, to any one customer, right. So our juices line is dedicated to one customer, our carbonated beverage line is dedicated to another customer and we also have a third line, which is a different packing format which is dedicated to another customer. So from now on, from this season on, we expect that to function as a dedicated manufacturing site, which basically should come as a sigh of relief to all shareholders, given the fact that we made losses in that site for a couple of years, we are hoping that we should be able to turn around that site starting from this season. In terms of land availability, yes, there is a huge parcel of land, it was around 13 odd acres of land and we would have used barely around 5 or 6. There is scope for expansion, but in terms of the fact that it is a beverage facility, what is more important is in addition to the land, it also has surface water connection, which gives us a lot of optimism in terms of being able to expand capacity there.

Aakash Javeri: And how many discussions with clients in general, the pipeline of these that you are seeing, if you could just throw some light on that?

Sameer Kothari: It is tough Aakash and I think I have been saying this for the last couple of investor calls that unless volume growth comes back to the FMCG industry, we are going to keep fighting for each and every project, basically CAPEX investment is not happening at the pace at which we would like and that has been one of the pinpoints for, I think now nearly 3 quarters where unless volumes come back, volume growth comes back to the FMCG players, we don't see that changing. We keep talking about green shoes, we keep talking about mixed signals, we keep talking about some players having better performance in rural demand versus urban demand, but the fact of the matter is that as an industry as a whole, volume growth is definitely not where it should be given the demographics of our country.

Moderator: Thank you. We have our next question from the line of Muthukumar from Fidelity Venture. Please go ahead.

Muthukumar: I have one question, could you please quantify CAPEX spend for financial year 23 and work-in-progress CAPEX for financial year 24?

Mayank Samdani: So in the answer of last question Muthukumar we have answered that the work in progress which we have announced is around Rs. 350 crores which will come in this year, right and for the last year, our total gross block including CWIP as on 30th September is around Rs. 915 crores.

Sameer Kothari: So that 915, Muthukumar does not include the new CAPEX that Mayank has talked about, which is the Rs. 325 odd.

Muthukumar: Do you have any plan to make a divestment from your core business as of now?

Sameer Kothari: If it is core, we will definitely not divest Muthu. We don't have any plans of any divestments as of now. You are right in terms of the fact that we obviously are a mix of a bunch of product categories. Currently, we believe that all of these categories are core to us because the common thread across all these categories is the fact that we do a B2B contract manufacturing business. At some point of time, the Company would like to organize itself in terms of product categories, let us say home, personal care, foods, and by that time I am assuming shoes would become a large category as well, but currently if you see the way we are looking at the product categories is more as the fact that it is a B2B contract manufacturing rather than anything else.

Muthukumar: And as of now, most obviously all of your shoe manufacturing or contract manufacturing or do you have any own brand as of now?

Sameer Kothari: That is one thing we are very clear on and I can tell you again in no uncertain terms, we are not having any of our own brands and we do not intend to launch our own brands at all in any of the product categories, including shoes.

Moderator: Thank you. We have a next question from the line of Priyank from Vallum Capital. Please go ahead.

Priyank: Sir, my first question is, if I have to go back to your history in December 2021 quarter, which is Q3 FY22, you were at Rs. 522 crores of revenue and gross margins of 11.8%, now fast forward it to September 23 which is almost now eight quarters ahead we are at a gross margins of 16.4%, it is 500 basis point change and this has roughly doubled our profitability in terms of gross margin, now this has to do with outside the utilization ramp up that you have done, so if you can help me, what has really changed over last 8 quarters, which is 2 years now, which has led to the gross margins growing up significantly and how do you project this going ahead?

Sameer Kothari: Priyank, before I answer that question, let me tell you, I urge most of the people who look at our Company not to look at profitability margins as a percentage of sales because for us the entire sales is made up of RMPM, which is a passthrough cost. To give you a specific example here, and I am going to ask Ganesh to give you actually specific examples, but broadly any kind of change in RMPM prices ends up inflating or deflating our sales without affecting our EBITDA or our PBT, but I will ask Ganesh to give you a specific example on this.

Ganesh Argekar: The process here is Priyank that we buy material all the RMPM from nominated vendors of our customers. The vendor or the customer, they give us a rate at which we need to buy the material from them. So we have SAP at our factory, we raise the purchase order through SAP and at the end of the month we do a weighted average cost. So there is a reconciliation which happens at the end of the month. So any plus minus which is there is being taken care of.

Sameer Kothari: So what we are trying to say is that basically any kind of change in RMPM prices gets passed on in terms of your specific query of what has changed in the last 8 quarters. What has changed is the overall inflation in the pricing which took our sales higher because if you look at the commodity prices, whether it is tea, whether it is petrochemicals, whether it is other agricultural products, the prices rose by as much as 20%-25% and which gave an unnecessary and an unearned increase to our sales as the prices started correcting, our prices started deflating and our turnover also started deflating. So if you look at our turnover growth in let us say this quarter as compared to the previous quarter, the growth is insignificant. That is because whatever volume growth has come has been eaten up by the fact that the selling prices of the products have fallen. The difference, of course, in terms of the margins is explained partly by that, partly it is also explained by the change in the product mix. In the last eight quarters, we ventured into a couple of new businesses, there is an ice cream business which has started recently, we have taken over a healthcare facility from Reckitt Benckiser Scholl which has definitely helped in terms of shoring up those margins and the third one is the color cosmetics factory that we took over under the name of Aero Care and that has also helped. So while I have tried to explain the change in the gross margin ratios, I would urge you not to look at it from that lens.

Priyank: My other questions are related to the projects, if you can help me in understanding, what is the investment amount in the Juices business which is Assam project that you plan to do, who would be our anchor customer over there as well as the investment that we would require to do in beverages in the Mysore plant for the MNC customer?

Sameer Kothari: So as far as the Mysore factory is concerned, we had announced an, let us say a Brownfield CAPEX of around Rs. 8-10 crores that has been done and actually commercial production has started for that customer. As far as the Guwahati project is concerned, we have announced the CAPEX of Rs. 25 crores. However, in this facility, we are actually co-investing with our customer. Our customer is investing a similar amount. So the total project size is close to Rs. 60 odd crore, but the customer is investing part of the money as well and we are expecting to start production there by Q4 of this financial year. We generally like not to discuss who the customer is or what we are producing and we try to skirt that issue, not for any reason of not giving it to our financial investors, but just from a competitive perspective in terms of capacities, in terms of product categories etc.

Priyank: And last question on other two projects, in Ice cream, we have done total Rs. 200 crores of investment, if you can help me how much of the sales did we generate in the past season or was it that we had just onboarded the plant and we missed out the season, so that is part A? And Part B on the Baddi factory, what is the current sales that factory has been doing and once Hindustan Foods takes over this factory, how do we change or ramp up the utilizations by cross selling it to other customers?

Sameer Kothari: So as far as the Ice cream facility is concerned, again I will not be able to give you specific numbers, but we have announced two phases of expansion. In the first phase, we had announced an investment of close to around Rs. 100 crores and we then announced Rs. 125 crores and then in the second phase we expanded the facility and announced further expansion as far as CAPEX is concerned. As far as ramping up of that CAPEX is concerned, unfortunately two things happened, one is last season the weather Gods were not very favorable to us, the summers were truncated, we had unseasonal rains, etc. So overall, even in terms of utilization of the first phase, which was completely commercialized, we were not as good as we would have liked to be. The second phase on the other hand, the commercialization happened towards the end of the season. So if I may say so, we are expecting a full blown commercialization of that site only in this upcoming season, which will start from let us say Q4 of this financial year. Now, your second question was about Baddi, as far as the Baddi site is concerned, again, without getting into specific details, it is a healthcare site which manufacturers, all types of formats including lozenges, creams, lotions, tablets, as well as syrups. We have what we call an anchor tenant model as far as this site is concerned, which means the Company from whom we are buying this site has committed a certain capacity utilization of this site and the balance capacity we are open or we are free to go and market it outside. Given that this site is an MHRA US FDA approved site, we are quite confident that we should be able to get other customers in as far as this site is concerned; however, we will come to know about it only in the next year or so once we get the permissions and once we start actively selling the capacities outside. Given the current environment, we actually have not even started selling the capacities to anyone.

Priyank: And if I may, just squeeze in last question, with the current gross block of Rs. 950 crores and with the deflation in the RM prices which you explained to me via gross margins and we have been guiding that we grow somewhere, we should look towards 3 to 3-1/2 times of asset turnover, right? This means on the current gross block of Rs. 950 crores, we should do a potential sales of around Rs. 3,500 crores and this is excluding all the new projects which is shoe, ice cream, Baddi, which would further add to the assets and the sales later on and when I am calculating this, I also look forward to the previous guidances where we have been saying that Rs. 4,000 crores is the sales target that we were looking for FY25, right, my understanding is broadly correct or wrong?

Sameer Kothari: Priyank, I can say that yes, your understanding that we had given a target of Rs. 4,000 crores by FY25 is right and we have reiterated that guidance. In spite of the current deflation in pricing etc., is concerned we are confident that we should be able to reach that target.

Priyank: And that is on the current assets excluding the other acquisitions that we would be doing?

Sameer Kothari: We haven't gotten into that kind of a detail, but the math is in front of you.

Moderator: Thank you. We have our next question from the line of Akhil Parekh from Centrum Broking. Please go ahead.

Akhil Parekh: Sir, the first question is in regards to the Rs. 4,000 crore sales target for FY25, but does that assume the flattishness in sales in FMCG what you are anticipating or there is some kind of work and bullishness being kind of factored in for our Rs. 4,000 crore of target?

Sameer Kothari: To be fair, we try to ensure that we are not irrationally exuberant as far as our products and our guidance is concerned. If you recollect, we had given this guidance, I think nearly a year ago and we still stand by that. So obviously a year ago, we did not expect that the FMCG industry would become tepid or that the growth would start tapering off. We still feel that we should be confident about reaching this with a little bit of help from our shareholders and God.

Akhil Parekh: So just to reiterate it means like even if the macro situation continues to remain the way they are right now, we are still hopeful of attending that Rs. 4,000 crores of target.

Sameer Kothari: Inshallah yes, Akhil.

Akhil Parekh: My second question is on the footwear side, I think we were already there in this space and we were supplying for Bata if I am not mistaken, so this reason for expansion into this category has it to do with the BIS implementation, which is expected to happen in footwear category by Jan of next year, and are we receiving, I know it is too early to comment probably, but are we seeing opportunities from small scale sneaker player as well because we will have to be BIS compliant by start of next year?

Sameer Kothari: When the earlier gentleman I think was Muthu asked us about divestment, I kind of blew him off, but the fact of the matter is that our leather business was actually suboptimal, it was sub scale and we were not doing much. So maybe Muthu was right that we should have looked at divesting that division, but having said that, we are now extremely bullish about this for all the reasons that you mentioned, in terms of the BIS, in terms of import duties, in terms of the fact that 1.4 billion people will require shoes, etc., but we are also bullish about the fact that China Plus One is forcing some amount of realignment as far as the manufacturing of sneakers, sports shoe is concerned. The initial impetus of this movement went to countries like Vietnam, Bangladesh, etc., however, they have reached, if I may say so, they have reached some kind of glass ceiling in terms of what they can do. There is definitely some amount of business which will flow towards India and we also realize that we have not done anything with the entire shoe division of ours and that is one of the reasons why we have gone ahead and convinced the board that we should probably take a larger bet as far as shoe is concerned. Having said that we have also kind of understood that the larger bet could not have been in leather because of the various demographics where people are wearing more sports shoes, people are beginning to wear more informal wear rather than formal wear and given the fact that because of the recession in Europe and the US, the leather industry actually has not been doing too well. That is why we decided to look at this. So yes, it is a combination of all of these factors and if all of this goes successful, we do expect shoes to become a relatively large category for us by virtue of which Muthu will at least not ask us whether we were looking at divesting or something like that.

Akhil Parekh: My last question is on the MNC carbonated drink contract that we received a couple of quarters back and I think we discussed this sometime back also, but there is lot of action happening in North India specifically, so in terms of ramping up this capacity or doing a Greenfield expansion, if you can throw some more light, how does it work out, like is it to do with the more of a trust factor that we have to start manufacturing a certain amount for this MNC client and then we will start seeing more ramp up or is it to do with the demand factor basically that demand is slightly muted probably, and that is why we are not yet going aggressively in the carbonated drink category?

Sameer Kothari: So unfortunately, Akhil, it has got to do with demand rather than anything else. As far as establishing our credibility is concerned, I think across all our product categories, as far as FMCG is concerned we have been able to establish some amount of credibility, but like I mentioned in response to a couple of other questions and also in my opening remarks, FMCG volume growth has been tepid and as a result, new CAPEX by any of our customers is being pushed ahead or postponed. Whenever a new CAPEX by our customers is postponed, one of the casualties is contract manufacturing new CAPEX. While our existing business continues to do well as far as growth is concerned, it definitely gets hurt when volumes don't do well. As far as this specific question about the beverages is concerned, we actually were expecting a blowout season as far as last summer is concerned, that has not happened and overall, we do believe that per capita consumption of beverages, ice cream, etc., should increase, so we are hopeful.

Akhil Parekh: Sameer, but if you look at it in North, our peers are expanding aggressively in that carbonated drink category for the same principle and the principle is also kind of looking for divesting their assets, so just wanted to understand why we are not participating in that?

Sameer Kothari: The principle in question is looking at divesting their assets in favor of bottlers. Our business is that of contract manufacturing. We are very clear that we will not be looking at the bottling end of the operation. Like I mentioned earlier, we do not see our expertise in terms of distribution, branding, marketing, selling, etc. We are a B2B Company and as a result, any kind of divestment which ensures that it is a B2B connect, we would definitely participate, and we would definitely be looking forward to it. On the other hand, if any of our principles, not only beverages, but if any of our principles are looking at selling brands, looking at establishing master licensees, master franchisees or some kind of B2C business, we would probably have to walk away from that business.

Akhil Parekh: So this is our decision basically, this is not their?

Sameer Kothari: Yes.

Moderator: Thank you. We have our next question from the line of Bhaskar Chaudhry from Entrust. Please go ahead.

Bhaskar Chaudhry: There seems to be some increase in working capital for the first half, should that be the new trend going forward or should we treat it as a flip?

Mayank Samdani: Bhaskar, the increase in the working capital is basically because of the new factory ramping up and those factories are yet to achieve their capacity utilization, so you will see this kind of thing when a new factory comes in, but it will normalize as we achieve the capacity utilization on those factors. In the last quarter, Bar factory and Ice cream new investment is capitalized and yet to achieve their capacity utilization. So this trend is not permanent, but this will come and go as the new factories is ramped up and capitalized.

Sameer Kothari: I should caveat that from the fact that the shoe business is a working capital-intensive business, the shoe business does not function on the same cash conversion cycle as the rest of our FMCG business. As the shoe business ramps up in the next couple of quarters or the next one year or so, our working capital profile will probably change a bit because of that especially or rather if the shoe business does become substantial which we are hoping it will.

Bhaskar Chaudhry: I was just about to ask you that and continuing on the shoe business one, you may have answered this previously, so please excuse me if it is a repetition, but has this expansion been done on the basis of a contract or an understanding with an existing brand, so have you lined up customers already, number one and number two, you have done that in some detail during this call, but could you also share some thought process of behind venturing into this vertical, vis-a-vis exploring more adjacencies in your existing FMCG verticals?

Sameer Kothari: So maybe our press release was a little misleading, so the board has authorized us to invest up to Rs. 100 crores in the shoe manufacturing business. However, the transaction which has actually happened is worth just about Rs. 5 or Rs. 10 crores, right? So when you ask me a question, I am in a little bit of a situation where what we have publicly declared is just about the investment of Rs. 10 crores and it is very difficult for me to extrapolate the entire business model and the business modalities on the basis of that small acquisition. We have tried to say that this acquisition is the first step of our eventual plan of investing Rs. 100 crores and maybe I will be able to give you better clarity in the next quarter or in the next coming couple of quarters where the entire plan is made public and we have executed it.

In terms of the overall shoe industry is concerned, the shoe industry does not work on the similar models that we do, which is the dedicated manufacturing, anchor tenant manufacturing, etc. It actually works in a very interesting model, which is mainly private label or it is mainly business development, design development led model. You would be surprised to know that a lot of these shoe manufacturers actually design shoes, presented to brands who then choose those shoes to be launched under their brand. So this model is slightly different. I would urge you to keep some patience with us and bear with us, till we are able to elaborate this in detail hopefully in the next quarter, some of our other pieces of that game have been executed.

And in terms of adjacencies versus getting into sports shoe manufacturing, you are absolutely right and that is something that we as a management and then later in the board meetings as well we discussed about a lot. The fact of the matter is Bhaskar that one flip answer to that is we look at it as contract manufacturing, so we really don't care whether we are making shoes or we are making toilet cleaners and the refrain that we got from our board was by that definition, you will start looking at electronics as well and we said no, we will not look at electronics and why should electronics be any different than shoes or apparel, etc. So you are right, it is a question which we have not got a very clear answer for, but one of the problems that we have had is that as a Company for the last nearly three quarters, we have been saying that FMCG growth has been tepid, we have been saying that unless volume growth comes back, we will be hard pressed in terms of our growth plans, etc., and that was one of the reasons why we started looking at a couple of things. One is we said we are very bullish about beverages. We were not in the beverage segment till 2019. Now, we are expecting to be investing substantial sum of money in that. We said we are interested in ice cream. Again, we were not in the ice cream segment till as early as 2021 two years ago now, today not only we have one factory which is up and running. We have announced the Greenfield project for another one as well, so adjacencies for us is actually a nebulous term, it keeps changing. You are right and probably some of my board members and my shareholders will probably think that we have diversified too much, but it is a relative word. So I really don't know that where to draw that land.

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

Vimal Solanki: Thank you, Yashashri. Good afternoon. We at HFL are passionately committed towards ESG and have undertaken various sustainability initiatives like integration of solar power plants and rainwater harvesting assistance at our new and existing factories, adoption of brick and boilers to replace traditional coal-fired ones, transition to cleaner fuel to reduce carbon emissions and promotion of cleaner energy alternatives, embracing smart lighting and air conditioning systems, digital payment and signature methods, replacing vapor lamps with LEDs to conserve power consumption and striving to minimum paper usages, thereby reducing energy consumption and paper waste.

We are also collaborating with our principles to adapt eco-friendly and minimal product packaging practices promoting sustainable supply chains, actions towards segregation and disposal of plastic waste in line with regulations and reducing environmental impact. We are prioritizing the employment of local labor in our factories, contributing to the economic development of rural and semi-urban areas where our plants are located. We are enforcing the mandatory preservation of trees and plants in and around our factories, fostering a green environment and enhancing biodiversity. HFL along with the BAIF Institute of Sustainable Livelihoods and Development, has identified Peddiapally, Khethireddypally, and Balanagar villages, all these villages in Telangana to pilot a village development program to enhance education and health. This project focuses on providing basic facilities in government schools like building of toilets, midday meals sheds, kitchens, solar street lights, computers, printers, projectors, uniforms, sports kits, etc.

With this, I take this opportunity to thank everyone for joining on this call. I hope we have been able to address all your queries. For any further information, I request you to kindly get in touch with us or Strategic Growth Advisors who are our Investor Relations advisors. Thank you so much. Wishing you abundant Dhan, Sukh and Samridhhi in the Vikram Samvat 2080. Thank you.

Moderator: Thank you, sir. On behalf of Hindustan Foods Limited, that concludes this conference call. You may now disconnect your lines. Thank you.