Agro Tech Foods
Q3 FY15 Earnings Conference Call

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Moderator Ladies and gentlemen good day and welcome to the Agro Tech Foods Limited Q3 FY15 Results Conference Call hosted by Anand Rathi Shares & Stock Brokers Limited. 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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Shirish Pardeshi from Anand Rathi. Thank you and over to you sir.

Shirish Pardeshi: Thank you Margaret. On behalf of Anand Rathi I welcome you all for 3Q FY'15 conference call for Agro Tech Foods. We I am happy to tell you that we have Sachin Gopal – President and CEO; joined on the call and he is also accompanied by Mr. Hemant Kumar Ruia who is VP and CFO for Agro Tech Foods. I think without any much delay I will handover to Sachin for opening remarks. Sachin over to you.

Sachin Gopal: Thank you Shirish and good afternoon everybody. Thank you for taking the time out to be with us on today's call. Alright, so we will just walk you through the P&L and then we can take some questions after that and hopefully give you the answers. I will cover this up both in terms of where we are on a year-to-date perspective and also provide some perspective on the quarter.

So on the year-to-date basis as you would have seen the top line of the company is pretty much flattish if you will, as compared to the first nine months of last year and that is largely true over the last quarter as well. This reflects basically the current performance for the period of nine months and for the quarter where our foods business has continued to grow at about 20% odd and the oils business has been impacted by the lower commodity prices which broadly speaking impacts the total oil business by about 5% or so. So if you take the net sales index of the entire oils business whether it is Sundrop, it will be at about a 95 index, and the entire foods business will be about 120. That is the status as far as the year-to-date perspective is concerned.

Breaking that up, breaking the foods up further between ACT II and Peanut Butter. The total ACT II folio has grown, in the first nine months of the year by about 17% so it ACT II index of about 117. Quarter three however was lower than the 117 it actually was about 110. ACT II continues to remain the fastest growing snack, we think if we do not see AC Nielsen data for the entire snacks category, we buy it for popcorn but we do get data from the modern trade, in terms of how is the category performing relative to others snacks and it is clearly the fastest growing snack in modern trend.

Overall, as I said YTD ACT II is close to about a 128 had come to the quarter this specific quarter a little later and at that level it is about 500 from the total snacks category. So we are growing well however we still need to go faster and I will come those indicators a little later. In terms of Peanut Butter it continues to pack at very healthy 67 index that is also the figure for the quarter. So overall we think that Peanut Butter is doing well, it is responding well to reinvestment that we made both in terms of capital as in terms of advertising and promotion and certainly turning out to be a very good bet indeed.

Coming now to the oils business:

On the volume index as you know we have always defined that we wanted to be in a flat range which will defined as 98 to a 107 index on volume on Sundrop edible oil. We have now reached on a year-to-date basis and index of 98 that means quarter three was significantly better and about 107 or something. Perhaps the important is how they are doing on a year-to-date basis. On a year-to-date basis we are now at 98. This reflects really the impact that around September or so we saw a significant drop in edible oil commodity prices. So we took that opportunity to put in reasonable amount of volume under promotion. So again the period October-November-December and obviously therefore with the impact of the higher promotion activity and value proposition the overall share has improved.

There are **(Inaudible-4:29)** that we have always set in place for the Sundrop Edible Oil business. The first is that in volume index it is in 98 to 104 range and the second is in terms of the share of the premium edible market it should not drop below the 40% mark. Which it had some months ago but that also it has recovered back to about 42%. So overall we think that the business is back into the range that we would like to have it. To continue to play the role of being source of resources for the company which will enable us to **(Inaudible-5:02).**

More specifically if I talk about the perspective. We started the process of transformation of our company away from being a subsidize feet on the street model, subsidize with a limit to portfolio feet of the street model to a less subsidize but more driven by scalable feet on the street model. And this process started may be 12 to 18 months ago. So I think we are kind of in the middle of that right now, where is the tail end of the impact of the reduction of the subsidize feet on streets which were at one point in time as I have 1600 which came down to about 1000-1100 and we have now started climbing up with the launch of the extruded snacks. You would see a little more context of that later when I come, and I am going to talk a little bit more about the manufacturing overheads because it is contextually important is as we walk away just a limited model where we have people on cycles or tricycles carrying our products, more towards model where we are able to afford full-fledged auto three wheeler mechanized units and we have a large portfolio.

So the example of that is that I was in Ahmedabad market working in the market on Saturday and we were making sales calls it must have been the 7th or 8th sales call in the morning and it probably would have been on coverage for us. And in that morning I could see there were three different auto units parked outside the store. An ITC unit which had Sunfeast biscuits at the bottom and Bingo Bag snacks on top, the same is Balaji which is a big player in Gujarat and the third was our unit. An auto unit with driver, salesmen and everything else. So I think I would say we are now in a good place in the sense that with the broader portfolio we are now starting to get scale. It will not happen in one day, where you first go the retailer and he says that I will buy A and you say okay next time I will buy B, third time he will buy C, etc. But that building process is under way so we have added already about a 100 odd salesman in the period of November-December. So we are not going to start climbing up back again to the kind of levels that we have heard and about 1600 and you will also start to see not necessarily in this call but may be in two, three calls from now we will try and identify what is their game plan to get to that half a million stores. As you know we used to talk about it a lot, we climbed up, up to a point but then it was not cost efficient for us, and it was an inefficient model so we have retailored the model now and this should hopefully be a sustainable model for us. So we will walk through, piece I was talking to you about that not in this one but in a couple of calls from now. In terms of gross margin on a year-to-date basis gross margin as we define it we added on a year-to-date basis something like about 5 crores of gross margin. This is after absorbing almost 10 crores extra of manufacturing overheads and other manufacturing cost. Now to give you a perspective between November 2013 and today and I am taking November because we capitalize the Peanut Butter Plant in the month of December, we have absorbed capitalization of about 75 crores of manufacturing assets.

This was an important component for us in terms of being able to transform our company and so basically we had manufacturing assets of about 50 crores capitalized by around the end of November 2013 as of date right now on the 31st of December we stand at about 125 crores. So we are still grown gross margin as we redefine by about a 100 basis points from 24.7% to 25.7% but this would have been even higher probably in the region of 150 to 200 basis points because we absorbed almost 10 crores of manufacturing overheads and other manufacturing cost in this nine month period. But which is obviously an investment that we are making because we believe that the Peanut Butter bet will come off and the other bets as well that we are making in terms of a broad expansion of the portfolio, finally they will give us the result as we scale up.

So that is one important point to note as far as the first nine months of the year is concerned. The second is that we have invested more money in A&P as a percentage of sales. We have now moved successfully from a two category support to a three category support. We will always be worried that initially they were just edible oils, then we used oils to finance the influence and popcorn in a manner of speaking. And successfully moved from a single category support to two category support. And it was obviously a concern to us is that how do we will move from two category support to a three category support. But I think we have done that this year, and overall A&P has increased you can see that in the **(Unclear-10.04)** as well that you have with you that A&P has pretty much increased to **(Inaudible)** which is advertising and sales promotion by about 17-17.5 crores. So, on a year-to-date basis therefore we have invested or absorbed about 10 crores more of manufacturing overheads and other manufacturing cost and about 17 crores of higher advertising investments which is largely behind media. So if was to break it up in terms of 17 crores, probably 16 crores or so will be behind advertising and probably a crore or crores and half will be behind sales promotion, which is important because you will need to spend behind what will be your long term value-added product. So it may help to spike up in short term sales but at the end of the day our long term future will be determined by how much we invested behind the brands.

So, that is an important services presentation of the year-to-date performance. About 10 crores more manufacturing cost, about 17 crores more on A&P that is about 27 crores and we have effectively used a lower tax rate of Kashipur because 31st March 2015 will be as we told you earlier the last date after which we will not get exemptions under Sec 80IC, we have used that to minimize the cost and the bottom line to about 7 crores or so. So that is the reason paid off and I think overall we will be absolutely set for a good solid growth and we made I think all the right investments. The other part is obviously is from a P&L standpoint is important is SG&A. Though you do see some increase in employee cost that also will include some increase in employee cost in manufacturing.

From an administrative perspective we have curtailed SG&A to only about a 1% growth over prior year. However, in the future this will grow and that part something we will have to see, rather we have a good portfolio in place we will be targeting a much-much more aggressive distribution expansion and as we target a more expansive distribution expansion we will need more supervisory in place. So we will keep you updated on this as quarter ends. I think, that is pretty much it from a total business perspective. And only the comment I would make is that in terms of gross margins there are two components to it. One is that obviously there is an absorption of about 10 crores more of manufacturing cost, but the other is that where all the challenges that we have had we have successful held the gross margin on oils. So on a year-to-date basis our gross margin on the edible oils business has been successful held and obviously as we get into better index terrains we will see how we can optimize this gross margin going into the future.

So that is pretty much it and we are open now to questions and answers and we provide the answer hopefully.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Shirish Pardeshi from Anand Rathi Shares & Stock Brokers. Please go ahead.

Shirish Pardeshi: I have received some few questions may be I will take time to start. Where do you think after four quarters or may be if you look at oil performance last six quarters and I do understand there is a strategy behind maintaining gross margin on oil portfolio. So what is the merit on which the Sundrop oil portfolio would exist may be five years from now?

Sachin Gopal: Okay what else, should I take all the questions and then answer or you want one by one?

Shirish Pardeshi: No, I was trying to follow up the queue because there was no one in the queue so I said, so second question is in the food portfolio especially on ACT II baked, what is the reality and you are saying the efforts which has been made and what is the outcome is up to your expectation or what is it one can expect?

Sachin Gopal: Okay. So I will answer the first question, on the Sundrop oils portfolio our strategy has always been very clear in the consistent right, we had said we need to hold, grow the gross margin of this category, we have never chased net sales of the category and neither do we intend to chase net sales from the category, we need to optimum the margin. So that we are able to continue to invest behind the foods business and grow that business, at significantly faster rates than any industry. And that is true for both new categories that we are talking about, I mentioned that in snacks ACT II is the fastest growing brand and it is ditto on spreads, Sundrop Peanut Butter is the fastest growing brand in the category. In fact I think there was Euro monitor the other day which we saw which also showed that ATFL clearly is driving the Peanut Butter spreads it called it nut spreads and Peanut spread said growth rate of the category was about 56% so we are clearly in a very-very good spot in terms of both of the new categories where we are investing our resources. Could we be even better of course answer to that is yes. But Sundrop continues to perform the role and frankly performs it very well, we are very low in terms of relative investment on a year-to-date basis if you look at the audits we would have spent on nine months, we have would have spent for Sundrop Hearts and 6.4 crores that is the spent from the audit agency so it is the external monitor. Saffola would have spent 28.8 crores and Fortune Rice Bran 13.8 crores. So we would have approximately 16% share of spent but we are with that 16% share of spent in a very-very good shape we will manage to catch up to get back to the index that we want to be in. So we do not see any long term issue with this, however we will lead to continue to be agile to manage it. And that is part of play in the edible oil, it is the game of agility you need to respond quickly, you need to be agile to changes in export prices and you need to manage the trade. So that is what I guess we will be doing okay so far and hopefully we will continue to do in the future, we do not see any issues there.

On ACT II bakes the extruded snacks this is important because clearly this larger portfolio is going to enable us to have those that distribution reach, that example that I gave of Ahmedabad is a very nice example, it is a very earthy example of what we need to be, because we neither have, we are neither in a place like Ahmedabad have scale that let say company like Balaji would have today after many years and it is a 1,000 crores company built around a limited geography. Nor do we have the financial resources that let say a company like IDC would have, but it is actually very good, I would say we are so far it is playing exactly to plan. Remember we are not spending any advertising money on this category, all are advertising resources continued to be deploy behind ready-to-cook popcorn and that requires a lot of discipline from our side. So I would say it is running well and we have a strategy of ensuring that the customer profitability ensures that our customers which is the retailers, give our product good place as far as the store is concerned and we will recommend to consumer I think this is certainly paying off and that enables us to sell our strategic products which is Peanut Butter, Popcorn, so and so forth.

The only question is going to be is how quickly we can do it, we will obviously likely see it happens tomorrow morning and it takes time to build a corporate distributor, retailers so and so forth. But we have done this earlier in a slightly different manner, so we do not see a challenge and going as per plan Shirish.

Moderator: Thank you. The next question is from the line of Percy Panthaki from India Infoline. Please go ahead.

Percy Panthaki: Just wanted to reconcile some numbers. This quarter you had sales growth which is flat, despite foods growing 20% in value terms and edible oil is growing 7% in volume terms so it means there is a significant negative pricing component in edible oils which is effective pricing now MRP cuts via the promotional route. So can you just give an idea on what is the extent of this effective price cut in the edible oil segment or rather the value growth in the edible oil segment from which I can derive this effective price cut. And also what would have been the volume growth had the promotions not been in effect, that is one. And secondly also there is this popcorn free promotion going on with the edible oils, so how is that accounted for, does that also sort of feed into the sales growth for the foods division and then it is shown as a cost, so just some clarity on the accounting part of that. And lastly on your extruded snacks business. It has been a couple of quarters since launch so can you just give an idea as to what is the annual run rate you have achieved in terms of top line for this business?

Sachin Gopal: Okay. So first is on the effective price cuts, I will share two numbers with you, so it will be easy for you. Remember I mentioned earlier that our volume index on Sundrop is now in the flat range of 98 to 104 so that has reached 98 now. So that is one number and I will give on YTD basis you will always be able to work it out first specifically for the quarter because you have earlier numbers. I had also mentioned that on the edible oils portfolio whether it is Sundrop or Crystal the index of net sales is about 95. So in effect what that means is, on a year-to-date basis that is between a 200 and 300 basis point difference between volume growth of Sundrop and value growth of Sundrop for the first nine months. That is the difference to which pricing currently will be trailing volume which is the impact of promotional activity. As we to tone down promotions and as we increase let say pricing which, now that we are in that range that is illogical net thing to do, then we will hopefully be able to bring these two pieces together. So that will be the first answer to your question. For the specific quarter or more because volume index is very high it is 107 so the gap will be more but it is always as I said YTD which is more important parameter from a total business perspective of where we are, so there were always be moments up and down in a specific quarter. On your second question I wish I had the answer to that, what would have been the volume where there is no promotion, as we really wished. We all wished we had answer to that.

Hemant Kumar Ruia: We will never know the answers right?

Sachin Gopal: We are the answers to the things that we have done, the rest is all hypothesis right, we would always like believe that we would not have done as well as we have done, if we did not have promotions but it is a question I don't have a good answer.

Percy Panthaki: Just to clarify, what I meant was supposing if you are running a 20% extra volume on certain SKUs, if you just remove that volume which is on the promotional front that 20% extra if you remove that from your total volume how much would that translate to in terms of volume growth.

Sachin Gopal: Again it is not, honestly which I can give you a good answer to right, suppose we tailor down promotions from volume, if volume is going to fall 20% probably not, hopefully not otherwise it is a big issue for us. We try and not to depend too much on promotions and that has been historically proven. So honestly we will not be able to give you an answer forward. Even within our own company where you stand depends on where you sit, if you are the brand manager you will probably he or she will say no, with the promotion much larger play. So due respect to everybody, so that will be point number two. On the popcorn free no, when we give popcorn free with edible oil which we have not done for almost 4-5 months those volumes don't get counted in our volumes. That is not the volume that they are shipping out. So if however we give let say we have a pack of popcorn which is 40 grams and we give 10 grams extra we will include that because they are shipping it, we are shipping more volume at a certain price, but any cross promotions across the brands those will not fit in our volume numbers. Can they be large, the answer is yes. However there is no proper data base where to refer and it is also not correct because then tomorrow morning that is in place and you may have other challenges in terms of delivering growth. And it is not really displayed in revenue growth. Even if we are going to sell it to another company it would get treated as sampling and within our own company also we would treat it as a sampling expenditure of the brand which is receiving it.

On extruded snacks current running rate probably in the region of 10 to 12 crores, 10 to 15 crores, let us say north of 10 crores. So between 10 and 15 crores per year I think is where we should be exiting extruded snacks something like that and let's work on some number like that. Probably 10 to 12 crores plus there is RTE Popcorn which comes and sits on top so that will be another between 5. You are looking at, I would say 15 to 20 crores we are trying, we are looking more as a bag snacks business so probably a 15 to 20 crores business running rate is there we hopefully wait to see what happens next year. Which is a nice place to be in because it means that it is a business that is just starting it is something that we are learning new, so hopefully we should be able to get traction faster and remember in this business because we have already built in all the manufacturing overhead, the depreciation some of the early startup cost have kick in which currently will be there, which hopefully on these lines will not be there next year as we refine our manufacturing processes. We should be in a very good shape into improving profitability going along. However, there is a learning curve involved, there is nothing in that let's face it we are relatively babes in the woods when it comes to local competitors like let say companies like DFM Foods, or ITC or PepsiCo they are much-much older right. But hopefully we are agile enough and we learn quickly and we are **(Inaudible-25:48)** business. And that is great because five year ago it would have been difficult to say we can compete in bag snacks, today I think we are competing in bag snacks and we are competing very effectively.

Percy Panthaki: Right sir. And just one more question may be you can take it in the end. You had a 10% growth in your foods in the popcorn business this quarter so if I exclude the vending business and just look at the pure sort of B2C kind of a business what would be the growth rate for this quarter in popcorn?

Sachin Gopal: I will take that up later. Okay?

Moderator: Thank you. The next question is from the line of Prakash Kapadia from I-Alpha Enterprises. Please go ahead.

Prakash Kapadia: Sachin if I look at the 9 month raw material cost are down approximately 270 basis points. What would be the key reason you would attribute is it lower commodity cost, is it stable rupee or is it increase food contribution and given the current down trend in commodity cost is it fair to assume a margin should be better from here on. And any plans on price cuts given the lower commodity cost in the edible oil business that is the first question. Secondly on the other expenditure for the quarter it is up 14.5% you mentioned some of that could be because of higher manufacturing cost now going forward is it fair to assume lower diesel prices and stabilization of manufacturing cost this should fall dramatically and lastly if you could give us some sense of CAPEX and tax rates for the next financial year FY16.

Sachin Gopal: Wait a minute, you said input cost, then manufacturing cost, and then you said CAPEX and?

Prakash Kapadia: Tax rates for the next financial year.

Sachin Gopal: Okay. So the answer on the first one, yes definitely input cost on edible oils are certainly lower than what they are a prior year. We would have bought edible oil at a lower price and that is the reason why we have actually, we have been able to give the benefit to the consumer in terms of promotional activity. So Sunflower oil prices in the beginning of there would have been above 64,000 per ton and in December it would have been as low as 60,000 a ton. It is a little higher than that, it stands up back now. So there is a movement but if you take the movement it is about a 5%, 5 to 7% probably difference between openings now necessarily in terms of averages and that is also the impact that you are seeing on the edible oil top line. And we have always said this, that in the edible oil business we end up if the price table is lower you do end up having a lower net sales. It depends, if you are managing a commodity you will probably hold the volume and you will drop the net sales per ton, if you are managing a brand you will not exactly hold the pricing but you will kind of hold the pricing but you will lose some volume. So that has been the case for the last 6 to 7 years and that is certainly true for this year as well.

So, yes some amount of improvement in margin could have come from that also but remember if you look at in percentage terms. I also said right now that in absolute terms we were able to hold our gross margin on edible oils. So that means if top line has gone down by 5% and would held margin there will be some percentage point improvement in margin which is coming due to improvement cost. Okay, on terms of manufacturing cost the answer is yes, we break up manufacturing cost into three components really – **(Inaudible-29:48)** spreads which include employee cost depreciation, repairs and maintenance, and then other cost which are really inventory variances or we do not have the scale right now so we will need to pay minimum volume to our job workers a third party partners. And that is also whatever we pay as per our contract to our job workers. So the answer is yes, both manufacturing I think manufacturing overhead which is the employee cost depreciation, repairs maintenance that is kind of stabilize us. That does not have variations, still you are unable to run line efficiently, let say you want to produce 400 kg of product and you have wastages of 25 kilo on that because in early days you are getting familiar with it. Those will come down overtime may be they are not even 6%, may be they are 10% or 20% or 50% in the early days. But the depreciation charge will remain the same. So, this has two components one is this component of poor manufacturing overheads those don't really change whether businesses are run efficiently or not. The other part does change, and between the 10 crores figure probably you can say these are divided half and half, half and half is pure fixed cost can half is cost which will accumulate depending on the efficiency of your system and how much volume you are transiting, how quickly is your learning curve, how many new products are you launching into business, all of those impact these cost. So one point we will probably stable this rise with inflation not even that but the other part is subject to a lot of fluctuations. But certainly as you get scale and volume the other part should come down. In terms of CAPEX let see, we today as I mentioned our manufacturing assets that we capitalize so far about **120 to 135** crores. **(Inaudible-31:41)** incremental, pre-Jhagadia and post-Jhagadia Peanut Butter plant of that 75 crores is about half is Peanut Butter and the balance is spread between extruded snacks, some investment on popcorn and some others on new product that we have not yet launched but which we will launch.

Going forward, the answer is and I have always said we earn, we generate about 50 crores of cash every year, we spend about half of that on CAPEX, so we continue to do that but the rate of capitalization will not be the same. So right now if I was to say what capital work in progress is for us it is probably in the region of about 30 crores or so. So that is work in progress from the capital front in the domestic business which will include a whole host of items. Now all of them will not have the same incremental rate on manufacturing overheads and other cost because let say if it is a storage system there is just depreciation and when little other cost. So it depends, I would say probably the largest chunk of impact of CAPEX on our P&L we have probably already seen, will there be some impact in the future the answer is yes, will it be at the same rate, the answer is definitely not. And in terms of tax rate, the answer is what I have said earlier also that we, our year-to-date is running between 15 and 20% I think tax rate something like that, you will have the exact numbers in the end. We should be able to have tax rates in a similar region until the end of the year, but next year it will go up to 31% because next year it will only the benefits that we will get is of the R&D expenses. So you go back to our tax rate of two years ago, it was about.

Prakash Kapadia: It was in 30-31%.

Sachin Gopal: Yes. And that is where it is going to go for next year. So obviously we have to now see how to migrate and manage this transition from this year to next year, because it is not negative you have known all along that this had to be done, so we had to take that big leap this year in terms of managing, absorbing the manufacturing, getting the A&P spending up to a more better level then it was the prior year. Now we will have to see how we migrate into next year, so that we have the right composition structure in the P&L.

Prakash Kapadia: And on the lower diesel price issued that help to stabilizing other expenditure or trending it downwards going forward because there has been a significant fall in diesel prices and freight was almost 4% kind of a cost for us, so any upside from there in terms of other expenditure going forward?

Sachin Gopal: I am sorry, I should have answered the question because you would have asked so I will take it now. The answer is yes, the lower impact of crude oil actually impacts both primary freight, and it also impacts packing material because all packing material which is our PET pouches, HDPE jars all of them as per our costing are correlated to crude oil prices. So we have already started to see some of the benefits of that coming through in January, some I would say some probably even come in packaging material little bit came in December as well. Because this thing has been happening now for three to four months, so already on primary freight we have kind of we are close due to large number of transporters and then very soon we will do a reverse auction and manage the whole set up so the answer is yes. It is difficult to quantify exactly how much, but there is already some benefits right and it varies from product categories in terms of on a pouch versus a jar versus primary fit but it is there. And may be when this quarter ends I will be in a better position to tell you roughly speaking this was kind of the amount that we have must have benefited from this.

Moderator: Thank you. The next question is from the line of Kunal Bhatia from Dalal and Broacha. Please go ahead.

Kunal Bhatia: Sir just had two questions, #A was, where do we stand in terms of distribution say if you could give for oils and ACT II separately and you mentioned ACT II is one of the fastest growing snacks so just wanted to know in terms of market share where do we stand?

Sachin Gopal: On ACT II Kunal I will not be able to give you share number because we do not actually subscribe to an audit but only thing I can do is what is the let say but if I look our modern trade customer what is our fair within the four snacks category. So I think within the modern trade probably in many customers we would be the second or third largest snack brand. So which means we would probably be in the 8 to 10% in some cases I think north of 10% also.

So we would be fairly significant to put it like that. So let me give you a perspective other than, I think I was at Hypercity Mulund the other day and we had one bay which was full of ACT II ready-to-cook popcorn, but in another bay we could see significant amount of bag snacks and we already starting. So I do not think the days inconsumable wherein a large number of modern trade customers and we did a quite few modern trade customers, others as well and where we would probably have a bay which is full of ready-to-cook popcorn and a bay which is full of our bags snack. So it is not inconceivable that ACT II can become the larger snack brand in the modern trade, it is not inconceivable. The only question is how much time it will take and how quickly we can **(Unclear-37.53)** to do it. But the portfolio is certainly seems to be fully capable of that. So that is one question, the other question that you asked in terms of distribution. The distribution of any Agro Tech Oil is in the region of about 60,000 crores currently. And in the region of about between 125,000 and 150,000 stores I think that was the last audit that we saw. So you can assume that we have said that we have a coverage which is in the region of about 200,000 stores. And I think that is reasonable and that is kind of supported by the audit data, but obviously that is not good enough for us right. We need to now start going back and meandering working towards that half a million stores which we need to take a step back forward for very good reasons but now the time has come for us now to reinvest and built it back there.

Moderator: Thank you. The next question is from the line of Priyank Singhal from Bajaj Allianz. Please go ahead.

Priyank Singhal: Couple of questions from my side. One, would be the current run rate for the Peanut Butter and in the context of whatever we may have envisaged for the brand how is it clocking so that is first. Second is you mentioned that right now ready-to-eat popcorn and ACT II bakes we are not supporting them those two products through brand promotional, etc. So just wanted to understand what is the strategy as far as supporting these products are concerned and in case we continue to face competition on the edible oil from Adani's and others, are we in a situation that actually we are not in a position to support all the brands that we have in our portfolio effectively because we have fight competition with those guys on edible oil, etc. Thirdly, you also mentioned that there are other snack related products that we are sort of experimenting with them and then they eventually launch in the next few years that is the way interpreted one of the statements which made in answer to one of the questions. And if that is the case then again what would be the underlying strategy in terms of being able to support them with the A&P in case we are facing difficulties to promote our existing products themselves.

Sachin Gopal: Alright thanks Priyank. So first question I think on Peanut Butter it is launching on a very good rate as I said the index is about 160-170 range, so I would say we have always said that

Peanut Butter should this year be in the range of about 15 and 20 crores somewhere half way there, so we see no reason why it should not be there. So we have only got now two months and few days left to go there so we are kind of pretty much on track on where we had forecasted to be. That is a good picture when we started the ACT II journey it was then I think 12 crores or something like that, 12 or 14 crores something like that. So I would say it is in the right place and we manage to spend about 5 odd crores this year and I think that is the kind of number that I give you earlier. As we do all the right things, we suddenly feel no reason why it should not become a 100 crores business sooner than later. In terms of bakes and RTE Popcorn, there is a reason for not supporting. The reason is that we will spend our money or shareholder money on products where we have long term competitive advantage. Now when we went into an extruded snacks we knew very well that we do not have long term competitive advantage. We need to play in categories which give us scale, that is fair, that is okay. We need to play in categories where our brand can logically extent, but if you say let's spend 5 crore or 10 crores in extruded snacks the answer is okay, we will do that but after 5 years you will spend 50 crores and what do you have to show for it. You may have to turnover but really have a brand which is capable of a strong pricing power, with a strong gross margin, the answer is no. So you could have a brand and then you build it up and then you say now I need to take the 10% price increase and guess what the bottom falls out of everything and you have a 25% or 30% reduction in volume. So that certainly not the game that we have ever played or I think the game we will ever play. However, we needs these products it is not that we don't needs these products and this is a good example of how we are using our balance sheet to finance the P&L. We are producing cash every year, we have invested some sums of money in terms of the extruded snacks manufacturing. And we are using that to be able to create money initially for our distributor certainly and later on some money for us as well. Remember, the Total ACT II brand we need a blended gross margin of about 30% odd that is the number we have always said. So, if we want to have a 500 crores brand and we need a 30% gross margin we need 150 crores then there will be margins which will have to come from all parts of it, it will not be only from popcorn. ready-to-eat popcorn is a slightly different kettle of fish. I do not think I would say that we will never support ready-to-eat popcorn, we have even given it some amount of support in the past for that matter even we gave bakes a little support just to push it. Like when you want to teach a child how to cycle you have to give the child a little push and support in the beginning, but ready-to-eat popcorn is a very different business. It has been one of the fastest growing categories in the US from all the data at least that I have seen and it is in area where we have competitive advantage. We have great sourcing advantage, we have great scale now much more than anybody else would have had to come close to having in this particular category and therefore we are in a strong position. If the category is such that it demonstrates it can make north 30% gross margin then certainly we would at some point in time we would be able to be in a position where we can invest A&P funds in it. However, probably nothing significant in the near term. Our experience is you need to take categories to at least 15-20 crores individually. My ready-to-eat popcorn should be about 20 crores in that ballpark then we can say yes we can now start experimenting. When ACT II was 12 crores we spent a total of 2 crores I think in the first year, something like that we spend 25 lakhs in one geography and 15 in another like that. So I would say probably the answer there I would differentiate within bag snacks, express snacks, if we find something with competitive advantage we can consider but otherwise no and ready-to-eat popcorn not in the near future, but cannot rule out in the future. On the edible oils business I think the answer is actually we are doing quite well. With the moderate share of spent we are holding are own, we are holding our share, and holding our gross margins. So, I would say this question was asked earlier also, how you will see it in the future. We see a healthy edible oil business. We needed because it is something that we need to keep the company alive and growing, but we will make choices. Life Priyank is about making choices, you will never going to have money for everything. So in our case we don't have money for everything so it's your choice but in the overseas we are really creating a very-very strong brand. The day the Peanut Butter is 100 crores business and let say some other food products under the Sundrop brand are also significant the brand will be transformed it will be Rs. (+500) crores brand with a large food contribution, solid margins and a very-very low rate profile so I think I would say this is the affection of the tough choices we make. Lastly you said A&P spend on other new products, we will work it through. We are now in a position where we are managing three categories, we were always like to have more money than what we have today, that is life, and that is okay. It is okay to have that aspiration, but I think it is coming along very well **(Unclear-46.11)** from people who are much bigger than us in both categories and we continue to do that probably. So I would say, we will figure out a way when the fourth category comes and we need to invest behind it we will figure it out but it is a little way away so for now we will just manage with this. This current strategy should work but that question will come up probably in a 1-1.5 years' time.

Moderator: Thank you. The next question is from the line of Aman Batra from Goldman Sachs. Please go ahead.

Aman Batra: You have always highlighted CAPEX as a function of the cash surplus that you have investable over the course of the year, but that may change with amount of A&P you may spend over in supporting the various brands that you are launching so it is kind of variable. So, from the business need perspective what kind of CAPEX do you foresee for the next couple of years as of now as per the current plans if you can highlight that?

Sachin Gopal: Okay. Again two prospects – there is one is I think we should still be in a good position whatever to produce the kind of cash flow that we have been generating. So I would say that part I think we feel confident about because remember as we get more scale of the capacities that we have already built up that is also able to contribute disproportionality to cash. The second part is relating to CAPEX going forward – we don't really see too much of a change, we have said and we have said this publicly several times that there is no advantage for us in terms of borrowing money and therefore incurring interest cost so on and so forth to be, it is better for us to pace ourselves and pace ourselves right. Food businesses change but they don't change at the same rate as personal care. So if you underspend you miss the boat, if you overspend you will dig yourself in to a whole. So the trick in the food category is how to just manage that just at the optimal level. Honestly, there is no easy answer. Hopefully I think we are doing a reasonable job of it. So I would say pretty much what we are doing today we spend about 25-odd crores every year out of our cash that we generate on CAPEX. We buy some land, we build some plants, we buy some equipment, and we take reasonable bets. Probably land acquisition will slow down because we have already acquired land in Guwahati, we have got four factories running in India plus the fifth which will start in Guwahati, we have already got and building in Dhaka so nothing more needs to be done there other than some bits of equipment. We have not bought land in Sri Lanka and I do not think in the near future we will be allowed to buy land. So at least two bits of land acquisition left now for a seven plan model to be a robust snack player – one in West Bengal and one somewhere in between Andhra Pradesh, Tamil Nadu, and Karnataka. So, **(Inaudible-49.40)** after these two have done and even in terms of capital consolidation there will be the land and then there will be the building in each of these locations, and then there will be some amount of machinery but we will play that by a year. So, I think we are fairly comfortable that with the 50% of the 50 crores which hopefully will grow well, we should be able to manage quite easily without any debt or anything else.

As far as A&P and the balance sheet is concerned in a sense there really **(Unclear-50.12)** because if you want to build a profitable business and a discipline business you have to manage you A&P very-very tightly, and that its own way produce a cash flow. I would keep that out of the equation but I have also said publically somewhere is that the right level of A&P for our business is in the region of about 7 to 8% but we also need the right level of gross margin to be able to hold that so those things work in parallel.

Moderator: Thank you. The next question is from the line of Shomit Sohan from ICICI Bank. Please go ahead.

Shomit Sohan: I have two questions – first question is as we have seen recently that the customs duty on crude oil has been increased from 2.5% to 7.5% and on refined oil it has been increased from 10% to 15%. And in the news articles which were circulated in the newspapers the industry was expecting somewhat around 10% of customs duty on crude oil and 25% on refined oil. So what are your expectations do you view that this is going to increase any further in the near future in the coming budget, this is the question.

Sachin Gopal: Okay, so I wish I had a good answer to that. I do not think I will be able to give you a view on that quite honestly because the lower crude oil has obviously opened up an opportunity for governments not only in India but across the world. Where the opportunity to change the taxation strategy is evident it is **(Inaudible-52:08)** we are not talking about the Russia and other countries who are actually the producers like Nigeria. For all other countries yes, it is meant that there is going to be #) A more money in the consumers pocket and #B) there is going to be more opportunities for tax as far as finance ministers are concerned that is equally true with inflation coming down to manageable levels and oil is a big contributor to that again governments can feel more comfortable that yes we are not so worried about inflation with post taxes. So I think you are going to, if crude oil has come down the way it is, would it have been equally easy for anybody in any government across the world to add duties, I think the answer is no it will not be possible. So it depends, if crude oil falls to $20 a barrel how does that impact things, none of really know. It is severe, it has consequences across the world, so I would say for our businesses for our business I will not worry about it. If the government imposes more duty we have no option our cost is going to go up and we have to increase price, the consumer will have to pay more. Is that perhaps possible volume impact, possibly that always has been the case right. Of course volume impacts are mitigated when the entire market has to take a pricing right, so it is not only you everybody is taking it. Will there be zero volume impact, definitely not there will be some. Will we manage it, the answer is no. Why we will we manage it the proof of the putting is in the eating so why we will manage it. So, I think we kind of focus on what we can influence the rest we will see how it goes. Okay, I am sorry I apologies I do not have a better answer for that.

Moderator: Thank you. The next question is from the line of Lakshmi Narayan from Catamaran Capital. Please go ahead.

Lakshmi Narayan: I have three questions, first question is related to the A&P if I just look at the first nine months it has been around 41 crores. Now if you can just help me understand what is the split between A and P and which brands you are actually focusing right now, I guess you answered this in the previous two questions back but I just missed that point if you can just help me with that that is the first question. Second question is in terms of the ACT II popcorn kind of run rate which you are actually seeing? The third question is in terms of the volume growth of edible oil if I just look at absolute liters of oil that is being sold in Sundrop, if I just look at FY13, FY14 and if I assume that 100 liters of oil were sold in FY13 what was it in FY14 and what you think would be FY15 so I think these are the three questions?

Sachin Gopal: Okay. Thanks Lakshmi. So let me kind of first give you the answers on the A&P. So, on a year-to-date basis for the first nine months in FY14 we spent about 11 crores on advertising. In FY15 that has gone up to 26 crores, so there has been a 15 crores increase in advertising. On sales promotion we would have spent 9.5 crores year-to-date in December and we have spent this year about 11 crores. So you can see about 15 to 16 crores coming about is the increase in advertising and about a crores and crores in terms of sales promotion. So which is exactly the way it should be that will also answer your question on split between A&P on the year-to-date of about 37 crores, your 41 will also include some other expenses which as per Indian GAAP we have included in that, so take this 37 crores as the breakup between media and sales promotion after 37 crores 26 crores on advertising and 11 crores of sales promotion of the incremental amount between last year and the current year mostly behind advertising which is the way it should be.

Lakshmi Narayan: Sales promotion includes freebies you give gets clubbed into others right?

Sachin Gopal: No. If that is free oil given with a pack of oil it will go in cost of goods.

Lakshmi Narayan: Whereas if you give a free popcorn along with oil?

Sachin Gopal: No, that will also get included in cost of goods sold. We do not put free product that we add in our company shipments in to promotion, however we do sampling at a point of sale there is goods which are coming close to expiry and we want to use them for sampling that will come under this part Then some sales force they have a play in merchandising, display space that we are hiring in the trade in modern trade of all those will come under sales promotion.

Lakshmi Narayan: On which brands you actually focusing those A&P?

Sachin Gopal: I am sorry, you did ask that question I am sorry so I will take that question now. The three brands are Sundrop Heart, ACT II popcorn and Sundrop Peanut Butter. This year only thing is probably may be about between 5% and 10% of the media spend that we have don't would have been between little bit on bakes and little bit on ready-to-eat popcorn.

Lakshmi Narayan: There a split between institutional popcorn and branded foods and edible oil.

Sachin Gopal: On a year-to-date basis and then I will come to the quarter, on a year-to-date basis I think institutional business is still running at a similar rate about, it is going to close the year probably about 22% of the total business. It has however been a contributor to the growth this year.

Lakshmi Narayan: As a total the entire sales put together 22% is institutional?

Sachin Gopal: Of total ACT II business yes. And in terms of the running rate I would say running about annualized about a 150 crores there about something like that, give or take a bit.

Lakshmi Narayan: Yes, Just including RTE bag and institutional business.

Sachin Gopal: It includes RTE bag and institutional business and the consumer business, that is about as close as I will be able to give it to you. Then the last part is on the volume growth of edible oil. If I remember correctly my memory says about we ended last year at about a 91 index versus the prior year, you probably have it in the quarterly calls somewhere. So if you look at quarter four calls you will have the details there but it was in the 91-92 index so if FY13 was a 100 then FY14 was 91 or 92 and right now FY15 on a year-to-date basis is already at 98 so it is running very close to same 91.

Lakshmi Narayan: Okay, that means in other words with respect to FY13 to FY15 we would be closing at or if we catch up it will be almost less than what was there in FY13 index to 100 at FY14.

Sachin Gopal: Yes, that index versus the prior year so if you take it versus that months prior year then it will be lower but that will apply to almost any year if you go back because we have typically run at industries of about between 98 and 104 so it will be kind of one or two points here and there.

Moderator: Thank you. The next question is from the line of Srikanth PVS from ICICI Securities. Please go ahead.

Srikanth PVS: Sir just wanted to know the contribution of packaged goods for this quarter and YTD.

Sachin Gopal: So I will interpret your question mean when you say a package goods you mean our food business and all edible oil business.

Srikanth PVS: Yes.

Sachin Gopal: So the contribution of the foods business is about 22%, for the on a year-to-date basis. And for the quarter also it should be reasonably similar to be in a similar range. On a year-to-date basis I think it has gone up from above 18% in the first nine months of last year to about 22% in the current year so it has moved up by about 400 basis points. That is reasonably similar to what it was for the first two quarters as well, so in another words this year we would have moved up to 20% and be between 20 and 25%. So that puts us in good shape to cross our 25% milestone next year. So that next year we can get between 27 and 30% of the business, to be coming from the foods. Is that the correct interpretation of what you have been asking or what?

Moderator: Sure sir. Ladies and gentlemen due to time constraints that was our last question. I would now like to hand the floor over Mr. Shirish Pardeshi for closing comments.

Shirish Pardeshi: Hi Sachin there are two burning questions people have sent me so first is that you have said that you have four manufacturing locations can you elaborate at each location what is your manufacturing? The second question is that is there any update on the product which you are doing a test launch or any prototype we have undertaken, and third is you mentioned that you are going to do something which is ready-to-eat segment, is that product schedule to get commercial launch next year?

Sachin Gopal: I will tell you the first, first location is Kashipur which was there even in 2006-07 I think probably before that, which currently produces instant popcorn, microwave popcorn, and ready-to-eat popcorn. The second location is Kuttoor which I think we opened in the year 2008 which produces instant popcorn, microwave popcorn, ready-to-eat popcorn and extruded snacks, the third location is Jhagadia which opened last year which manufactures Peanut Butter currently and extruded snacks, but is also capable of manufacturing ready-to-eat popcorn, it has not started there but is capable. Because freight is something that we need to optimize across the country and the fourth location is Unnao which currently makes extruded snacks so we are shipping extruded snacks from Unnao but has capability to create another two categories. So there is one more category in snacks which we expect to start rolling in so we finish consumer underway so let see, but there is no point alerting competition so in the next four weeks or so we should be entering in the market so you should start seeing it in the market let say in about 8 weeks depending on how we roll it out and Unnao plant also has a **(Inaudible-1.6.6)** facility to make ready-to-eat meals that **(Unclear)** has been commissioned it is something that we bought from Thailand and in commission now but we are waiting for a few hygiene and sanitation and that there is fully convenience meals but it has also opened up the window to one or two other items which we had not envisage three years ago, which could also be very meaningful rolled in our snacks ambition. So certainly in next call I will be able to give you a view in the market by then. I will be able to give you an update on the snacks business and the accompaniments that we are thinking of making at the Unnao plant that is the download on the fourth plant. As far as Jhagadia itself is concerned let say in our phase two of the **(Inaudible-1:05:45)** where we are currently making extruded snacks and ready-to-eat popcorn probably we are using only about half of that second phase right now, the balance lines are under commissioning so those again, if they are ready for commercial launch and redeem in the market by the time of our next call I will certainly let you know about it. Then update on current launches, so I covered that off, I think you can expect that as I said we are going to stop rolling out now we will stop post commercial, post-consumer research, we have signed off on the next launch in the snack category so that you will see in the market soon before our next call I am sure and in terms of ready-to-eat food that capability is there however if we find some other business opportunity like accompaniment to snack more interesting than that we will reprioritizes that and put meals at the back burner. There is nothing **(Inaudible-1:06:39)** business we need to have the capability but it is not that if they are not in it tomorrow morning it is going to be a huge opportunity that we missed. So it is okay and these priorities will keep changing, we learn better, and we become better at things.

Shirish Pardeshi: Alright. So, I think we have come to an end. And on behalf of Anand Rathi I thank all the participants for making the call interesting and of course Sachin and Hemant your presence and your insights are much more helpful to the investors and us. So with that I will close the call. May be you can give a closing remark and then we will finish.

Sachin Gopal: Thanks very much Shirish for organizing it as well and thank you all for joining it. Appreciated, you have lots of things to do so we appreciate that fact that you jointed in for the call. Take care and have a great day. Bye

Hemant Kumar Ruia: Thank you.

Moderator: Thank you. On behalf of Anand Rathi Shares & Stock Brokers Limited that concludes this conference. Thank you for joining us. And you may now disconnect your lines. Thank you.