"DFM Foods Limited
Q4 FY2019 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the DFM Foods Limited Q4 FY2019 Earnings conference call. 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 telephone. I now hand the conference over to Ms. Neha Patil from Perfect Relations. Thank you and over to you!

Neha Patil: Thank you. Good morning everyone and welcome to DFM Foods earnings conference call. Today for the call we have the senior management represented by Mr. Rohan Jain, Deputy Managing Director, Mr. Rajiv Bhambri, Group CFO and Mr. Davinder Dogra, Company CFO.

Before we start, I would like to mention that in today's conference call some of the statements might be forward-looking in nature. At this point in time, I would request Mr. Rohan Jain to make his opening remarks. Thank you and over to you Sir!

Rohan Jain: Thank you Neha. Good morning and thank you for joining us on the DFM Foods Q4 and year ended FY2019 earnings call. We trust that you have received and reviewed our results. We shall begin with the financial highlights followed by the significant developments made in the business over the last year and finally talked about our plans for FY2020.

Last year has been a good one for the organization with the company backing up a high growth of 28% in FY2018 with another year of continued growth. During FY2019, the company recorded an annual sales turnover of Rs.483.6 Crores against Rs.425.3 Crores in the previous year, a growth of 14%. Gross margins for the business improved significantly by 142 basis points and stood at 41.3%. This has been an outcome of grammage rationalization, efficient purchases and other cost-saving measures implemented by the company. With the higher sales and improved gross margins coupled with operating leverage EBITDA for the business increased by 27.7% and stood at Rs.64.92 Crores.

EBITDA margins also expanded from 11.95% in the previous year to 13.4%, PAT for the period was up 40.5% and was Rs.32.76 Crores. Apart from the financials during the last year, the company took significant steps on various fronts towards the development of the business. Some of these are worth highlighting.

One of the most noteworthy has been the consistency attained in the sales of Rings, the problem of volatility associated with varied responses to consumer promotion and problems of change over from one promotion to another have now been addressed. This has been an outcome of several changes been brought about in our marketing and consumer promotion strategy. During the last year, the company in an attempt to bring about innovation also launched a new brand mascot for Rings called Ring Bling. This animated cartoon character now takes center stage on our packs and in our communication. This move not only helps us differentiate ourselves from competing products but also builds a closer connection with our core consumers, the young children.

Coming to Curls, the product that was launched at the beginning of FY2018 and had seen unprecedented success in its first year, continued to grow strongly in FY2019 with the introduction of two new flavors and continued advertising support. We have been able to successfully build upon its consumer franchise. Enthused by its success and in keeping with our strong focus on new product development, the company launched two new products during FY2019 Fritts and Pasta Crunch. Fritts that was rolled out in Q3 had seen sustained consumer offtakes every month in Q4, which is extremely encouraging for its future prospects. Pasta crunch a pellet snack on the other hand, which has only recently been launched in the month of March offers great value for money in addition to great taste. We are hopeful for it to contribute to growth in the coming year.

On the distribution front, the company continued to expand its reach to the smaller market choosing the hub-and-spoke model while also bringing about improvement in its market servicing of major cities. Lastly during last year, the company also modernized and upgraded its oldest extrusion line at its Ghaziabad facility. This resulted in an incremental capacity of approximately 3500 metric tons per annum translating into an incremental revenue potential of Rs.65 Crores.

Now coming to our plans for FY2020:

The company intends to carry forward the growth momentum seen in the last couple of years by focusing on all three of its growth levers, our commitment to innovative and aggressive marketing, the expansion of distribution and the introduction of new products. On the marketing front, the company shall continue to invest behind all its brands in the form of continued advertising, innovative consumer promotions and aggressive trade marketing. Specifically, we shall look to build upon the brand mascot for Rings while also our new product launches. On the distribution front, the company shall continue to expand its reach to newer markets with a special emphasis on the north zone where our brands enjoyed enormous goodwill. We shall also look to bring about necessary changes and improvement in our go-to-market model in major cities to fully realize the potential of both existing as well as new products. This shall include improving the quality of our sales personnel through training and recruitment. With the now wider product portfolio, we shall also commence sales to alternate channels apart from general trade including both modern trade and institutions.

As per new products, the company shall continue to develop additional innovative snacks for launch in FY2020. In addition, we shall also look at entering some of the larger established product categories. Lastly with a view on future growth the company has decided to expand its production capacity by setting up a new extrusion line, this shall add roughly 5000 metric tons per annum of incremental production capacity translating into an incremental revenue of nearly Rs.100 Crores depending on the product mix. We are hopeful of commissioning this line by the end of Q2 FY2020 at our Greater Noida Facility because of the above plan, we are confident of growing both our top and bottom line in FY2020. Thank you very much.

Moderator: Thank you. Ladies and gentlemen, we will now begin the question and answer session. The first question is from the line of Abneesh Roy from Edelweiss Securities. Please go ahead.

Abneesh Roy: Thanks, my first question is on Rings, you said it was quite volatile over the last two years, could you elaborate what exactly you mean from that varied response to customer promotion and problems of change over in terms of the promotion from one to the next? Also, I think the entire industry in Rings has been facing this issue so what is the sustainable strategy, which can be done here so that you can have a say mid-teens kind of growth?

Rohan Jain: Okay, so I would not like to comment from the industry point in terms of Rings. Everybody is different, and everybody sees different results. As far as speaking for ourselves earlier at some point in time, we used to have a mixed bag of promotions so prior to 2015-2016, every pack used to contain a gift and they used to be mixed basket that basket of toys had become standard around the year. A lot of people had copied this approach and we felt that we wanted to bring about some innovation and differentiate ourselves so what we had resorted to putting into place specialized consumer promotions where the promotions were thematic so you would give special toys only centered around Holi or you would give toys centered around Diwali, for example you would give only magic toys for two months, for a couple of months you would give only launching toys and all of these toys started to get advertised on television, earlier we used to do more thematic advertising. So, what we saw was that while we got significant gains in FY2016, our turnover slipped and part of it was because of some of the problems that initially while there was traction to this, but somewhere we found that a lot of noncore Crax consumers perhaps were buying Crax because of the gift. Problems of volatility are associated because when one promotion is being advertised and changed every two months, some promotions do exceedingly well, while others do not do that well and this would create volatility. The other thing is that when we are operating these promotions sometimes the interest in the promotion actually wins the way before we have changed over to the next promotion. What that does is that stocks move offtakes slowdown in the shelves between one promotion and another, which creates problems of transition, where the people do not want to the old stocks anymore and they want the newer promotion to come in. But it cannot come in before the old stocks get exhausted. So, these were kind of the issues that we were faced with. We have made several changes and we can always discuss them offline, which have helped in overcoming these issues and now we have consistently seen stable strong sales offering and we are quite confident of it to grow forward in the coming years.

Abneesh Roy: A few follow-ups here, one is of course how many seasons of toys you will have? Earlier it was a bit constant, if you could define that and second, I think broadly Rs.50 paisa cost which I think most of the Rings players have for Rs.5 pack, how much sustainable is it to do different designs and also advertised? As I wanted to understand on the pricing aspect is there too much of room available to keep differentiating and advertising for that?

Rohan Jain: The possibility of putting differentiated gifts is there, we have been resorting now in the last year, not just to specialized theme-based promotions, but we have also come back with mixed gifts kind of toys. We changed our toys roughly every two months, which gives continuously new toys to the consumers. Young children are looking for novelty and variety and we have tried to do that. Having said that on the price front without commenting on exactly our cost of toys, but essentially, I think there is room for innovation and continuously looking for new stuff to come in.

Abneesh Roy: The second thing was on competition in the big space, now at Rs.5 pack we are also seeing the big players come in and do well like Britannia. So, for a customer, he will be the same who was earlier buying your product now will also have Too Yumm and Britannia in the overall superset. so, what is your plan on taking this and do you see this becoming a bigger part of the market? Do you see in FY2020 also big growth coming for this kind of segment?

Rohan Jain: Taste is first and foremost, sales at the cost of taste does not really work. Our focus has always been to give delicious snacks to the young children who are more focused on the taste, most of our products are non-fried and contains lesser oil and therefore they also offer a health benefit as compared to some of the other fried products. Too Yumm has taken specifically health positioning and if that helps to grow that market we can only benefit because we are also baked and not fried. I do not see that as the comparative threat in any significant way, I think it will only grow the market. The market is a big lot of the snacks of two-year in some of the higher price points, we are mostly in the five and I think it can only help grow the overall market.

Abneesh Roy: As of now you have not seen of an issue your numbers are good.

Rohan Jain: No, we have not seen any issue at all, of course as I said the market possibly has room for new players to come in and no two products are the same if you look at. You might say that they are baked and therefore all interchangeable while there is some degree or substitutability, but when you look at our basket, we have Curls, we have Fritts, we have Rings as the principal three products and all of them are different from each other and also from what Too Yum is selling and from what Britannia is selling at this point in time.

Abneesh Roy: What is your take on sweets, snacks people have been trying on more at Rs.5 price point? Is there a viable market here taking into consideration the high temperature and Rs.5 are you able to really offer enough quantity, what would be your take on this?

Rohan Jain: I have not looked at in detail and it would be unfair for me to make a comment on that.

Abneesh Roy: That is all from my side. Thank you.

Moderator: Thank you. The next question is from the line of Varshit Shah from Emkay Global. Please go ahead

Varshit Shah: Congratulations on a great quarter! I wanted to understand if you could explain something on distribution side. You mentioned that you are looking for expansion to a larger city and improved the first quality of the sales plus quality of the sales personnel, could you elaborate on that? what is the plans for FY2020 on the distribution side?

Rohan Jain: Basically, the plans as I said earlier, is that we have been working quite actively on trying to expand reach to and penetrate deeper going into lower pop strata towns particularly in the North because this is where our brands enjoy a lot of goodwill and we have a lot of distribution strength. We have been trying to penetrate the smaller cities using the hub-and-spoke model and we will continue that effort in FY2020. We should also look to do this as summary other zones, but with more focus on North and somewhat on the east zone. Apart from this in terms of the major cities while we do not see a lot of distribution expansion within these major cities in terms of reach because we cover a fair number of outlets. What we will look to do is obviously optimize and make necessary changes to our distribution model to bring about the improvements that are needed now, given our wider product portfolio. So earlier we were only a Rings player and today our saliency of Rings has come down significantly with Curls coming in, Fritts coming in and we would only launch other products going forward. Pasta Crunch has been launched so we need to be able to sell all our products and therefore range spelling into the retail outlets has become extremely important. This requires that we make some changes in our distribution model in terms of how we are servicing the market also we should improve the quality of our salespeople. So that they can range sell and to sell all our products into the retail outlet.

Varshit Shah: You mentioned the new capacity is going to come up 5000 metric tons somewhere in Noida, right?

Rohan Jain: This is intended, we had earlier envisioned a new facility would be required for setting up any additional capacity, but we have able to carve out space within our Greater Noida factory where we will be putting up this new line.

Varshit Shah: So, there will be no land acquisition required for this?

Rohan Jain: Not for this expansion that we are doing right now.

Varshit Shah: What would be the approximate capex for this?

Rohan Jain: Maybe in the region of Rs.20 to Rs.25 Crores.

Varshit Shah: How much would be an increase in terms of rural capacity percentage wise?

Rohan Jain: Well, I think we have an installed capacity just extrusion capacity apart from Namkeens is about 35000 metric tons approximately so will be adding another 5500 metric tons.

Varshit Shah: Understand, that is it from my side. I will come back for follow up.

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

Kanwalpreet Singh: Thank you for taking my questions. It is heartening to see your gross margin improving this year, just wanted to understand your raw material is primarily maize, and the maize crop has been particularly weak in the southern market. Any pressure on prices in the northern market and do you see this as a problem going forward?

Rohan Jain: Yes, that is true that cornmeal prices have actually risen very sharply, the Kharif crop which is primarily in Maharashtra, Madhya Pradesh, Karnataka, Telangana, this cycle of crop has been actually quite adversely affected particularly in Maharashtra where crops seems to be 40% short, this has resulted in a sharp increase in the prices of maize and therefore cornmeal which is one of the principal ingredients that we buy. This does put pressure on our margins. At the same time the oil prices which had risen very sharply pursuant to changes in the government duty structure last year so in Q1 FY2019, the oil prices are very high. The refined oil prices have subsequently suffered so that has given some relief. Now we will be looking at the whole picture in totality and if in the case then needs to be some grammage rationalization that is something we are looking into that. It will also be a function of what happens to cornmeal prices with the Bihar crop because that is the largest crop in the country and that comes around about now. So we will wait to see what happens and then take a final call whether we need to bring about any grammage changes and depending on how things move, but our efforts have been to maintain gross margins as we have done in the last several years within a certain range around that 40 kind of number, some years could be little bit higher but we would like to maintain within a certain range.

Kanwalpreet Singh: Right Sir, can you give me a sense of what percentage of your sales comes from the Rings product?

Rohan Jain: A little under 50% or thereabouts, but it changes from a quarter-to-quarter a little bit and it is also changing as we are launching additional products.

Kanwalpreet Singh: Okay, but around like maybe three years back it would be a much bigger chunk?

Rohan Jain: Yes, Sure three years back we did not have Curls, we did not have Fritts, which has only recently been launched and as well therefore that number was nearly 85% to 90% because the only other product have really had where Namkeens and Natkhat, which together about 10% so with the coming of Curls that prominence of Rings has come down and with the launch of Fritts that may come down further. In some ways, it is a good thing because it makes us less dependent on one product and makes the business less dependent on the gift strategy, which was driving the overall ups and downs in the business.

Kanwalpreet Singh: Right Sir, what percentage of your portfolio would not be dependent on maize?

Rohan Jain: Apart from Namkeens and Natkhat which is about 10% odd, the balance products all of them have corn as their largest ingredient.

Kanwalpreet Singh: Okay, that would be all from my end. I will join in the queue if there are any questions.

Moderator: Thank you. The next question is from the line of Pritesh Chheda from Lucky Investment Managers. Please go ahead.

Pritesh Chheda: Sir, just picking up from the question of the previous participants, so in the three-year period from 2017 to 2019 when we had these changes in the toy strategy. What would have Rings grown at in these three year from 2017-2019 and the new products from where to where it would have reached?

Rohan Jain: We do not mind discussing growth of specific products offline, but essentially a large part of the growth has come from the newer product launches. What we should do is perhaps look at the portfolio because they are all at Rs.5, they all extruded snacks and while they are all different because Rings we have tomato flavor, which is the largest seller, we have a toy inside. Curls is a softer bite with a value for money kind of offering large pack, high bag fill and Fritts is of course, differentiated because it also has potato as an ingredient and offers a different flavor. So, while they are differences at the same time somewhere you are competing for the share of wallet and in totality, the portfolio has grown significantly.

Pritesh Chheda: Sir, my second question is on your comments on the distribution you mentioned somewhere that the focus would be on North and a little bit on East. We had this aspiration on West and national distribution also some years back, I could not see any new capacity that you created outside North. So, it is safe to assume that over the next two to three years you would focus on these regions and I just wanted to know what would be North as a percentage of your revenue and what would have been the North growth rate in the last three years?

Rohan Jain: Again, North has been about 75% of the total revenue. We can discuss specific rates of growth of specific zones offline. The focus in the immediate context is mostly on North and somewhere in the East where we have seen good fraction on Curls. West and South are slightly lower key markets for us. West basically consists of Gujarat, Maharashtra, Madhya Pradesh and Chhattisgarh. Madhya Pradesh is still a focus area for us. Traditionally, it has been part of the North and it is only recently we have made it part of the West from an operational point of view. South is still very small and at this point quite far from where our facilities are, but we feel that North and East behave similarly, and we would like to focus on these two, but of course, over a large period, we would like to develop all our zones.

Pritesh Chheda: You do not have a facility in East right? Whatever is there is in the North?

Rohan Jain: That is right. We have two facilities in the North now.

Pritesh Chheda: When you supply from North to East how lower would be the margins because of the additional freight cost?

Rohan Jain: There is potential in terms of this freight cost, let us say higher by may be about 6% to 7% of sales they would be higher.

Pritesh Chheda: I understood Sir. Thank you so much and all the best.

Moderator: Thank you. The next question is from the line of Siddhant Dhava from Credent Capital. Please go ahead.

Siddhant Dhava: Good morning Sir, Prataap Snacks is planning to increase the focus in North India and since they have a similar product line how do you see that it will impact your market share?

Rohan Jain: Well, this is not something new that they have been doing. They have been around in the North for some time. We feel we must go about doing what we are doing and so long as we do the right things at our level, we will continue to grow.

Siddhant Dhava: Sir, do you plan to have an online service in the future?

Siddhant Dhava: Like selling on Amazon or something?

Rohan Jain: Sure, that is something we can look into and we should at some point certainly do that.

Siddhant Dhava: Thank you.

Moderator: Thank you. The next question is from the line of Kiran Naik from Mody Fincap. Please go ahead.

Kiran Naik: Good morning Sir. I have one question. What will be the revenue growth for March 2020?

Rohan Jain: Good question. I think that is what everybody wants to know right, and we would like to put a number on it ourselves, but we actually do not give guidance, but we would certainly strive to grow as we have grown in the last couple of years. We will certainly strive to grow at that kind of rate. That is all.

Kiran Naik: What will be the EBITDA for March 2020?

Rohan Jain: Again, since we do not give the guidance, but we would like to obviously maintain the kind of EBITDA margin that with have seen and hopefully improve it going forward. With scale if we are able to grow operating leverage will come through, we have seen that EBITDA and PAT has grown at rates higher than the top line, so with scale those benefits come and we hope that will happen in the future as well.

Kiran Naik: What is the timeline for passing on the raw material prices to the customer, increase in raw material prices?

Rohan Jain: Well, as I said it is not a huge lag, if once we decide that we want to adjust damage or something. It can be done within a month, that change can be done implemented. It is a question of our being able to take that call finally after reviewing where raw material prices and our overall gross margins.

Kiran Naik: It takes how much three months to pass onto the customers?

Rohan Jain: No. We can change over in one month's time.

Kiran Naik: Thank you, Sir. I will get back if any more questions. Thank you.

Moderator: Thank you. The next question is from the line of Sangeeta Tripathi from Edelweiss. Please go ahead.

Sangeeta Tripathi: Thanks for taking my question. I would just like to understand from you in the press release you have talked about the seasonality, which was more pronounced during this year Q4? While you have seen some pickup in March. I just would like to understand how is the demand environment pacing right now as we speak? In the month of April and May how things are going on from the demand perspective?

Rohan Jain: One thing that perhaps you know already is that Q1 is a lean quarter for our industry because Q1 is where the summer is at its peak. Schools are typically closed for a large part of the quarter and therefore there is less activity of children going out and money gets diverted from snacks to soft drinks and ice creams and things like that. We have seen it year-on-year, but hopefully, we should be growing as compared to the corresponding quarter.

Sangeeta Tripathi: Right so that growth is still in the mid-teens or double digits, lower double digit?

Rohan Jain: Sorry, I am unable to answer that Sangeeta.

Sangeeta Tripathi: I just wanted to understand that the trend is intact right?

Rohan Jain: We hope to grow in Q1 as well as compared to the corresponding quarter.

Sangeeta Tripathi: Fair. On the second front, I would like to understand our total distribution footprint in terms of the number of retail outlets that we saw?

Rohan Jain: We cover nearly 3,00,000 retail outlets directly through our distribution model. As per AC Nielsen, we are present nationally in approximately 12 lakhs plus retail outlets.

Sangeeta Tripathi: Of this large part will be North right?

Rohan Jain: Sure. The larger part would be north.

Sangeeta Tripathi: Lastly, on the product mix you talked about that 50% of the revenue comes from your flagship Rings. So, this new product, which you have launched Curls and Fritts. That would contribute to what percentage of revenue broadly?

Rohan Jain: See, Fritts has only just been launched so it may be unfair to put a number to it because it has only been rolled out in Q3 and then in Q4, but I said Natkhat and Namkeens together are about 10%, Rings 50% or plus for the entire year and then the balance coming from Fritts and Curls.

Sangeeta Tripathi: Okay. Fair enough Sir. Thank you.

Moderator: Thank you. The next question is from the line of Ashish Kacholiafrom Lucky Investments. Please go ahead.

Ashish Kacholia: My question pertains to the expenditure that you must do on these new brands Curls and Fritts. So, is that a substantial number out of your advertising budget?

Rohan Jain: No, in the recent times, we have spent more money on Rings because Rings are advertising every two months. We are changing our toys and s that is on-air literally, every other month it is on-air. Fritts has obviously only recently been launched in Q3 and Q4 and we have done an advertising burst in each of those quarters, but we do not think to stay now with the kid's media with the cartoon channels we do not expect our media cost as a percentage of topline to go up with these new launches. Rings are more media intensive. So, staying with the kids' channels now, with do not see adding to marketing expenditure as a percentage of sales in any significant way.

Ashish Kacholia: Curls and Fritts are also addressed towards the kid segment only?

Rohan Jain: Actually, at this point in time, yes. While the pack design because Rings, of course, is clearly children in terms of the offering that it is because it is low grammage. It has a gift inside. It is positioned like that. The main protagonist in our film are young children may be concentrated between 4 to 10 years of age. As far as Curls and Fritts go, none of these packs contains a toy and that has been a deliberate move because weh felt that there is room for us to be able to move up the age ladder. Trying to do that with rings could have potentially let do dilute our positioning within our core and therefore we have launched other products in a conscious effort we not put a gift inside any. With these products, we have been able to move up the age ladder beyond let us say the 10 and 12 may be to the 13 to 14 and the early teens. The pack is age neutral. The advertising has largely been age neutral for Fritts and Curls, but initially, we have limited our self to the kid's media in terms of the advertising release. We will obviously evaluate and if there is a case for considering other media then that is something we can up in due course.

Ashish Kacholia: My next question is basically what is the distribution expansion that you are looking at from these 1.2 million outlets? Do you have some target that you want to share over the next two to three years?

Rohan Jain: We do not have a specific target. What we are doing is just to give you a sense in terms of the outlet. This number is an AC Nielsen number, and this obviously includes any kind of coverage meaning it includes our direct coverage as well as obviously outlet that may have been catered through the wholesale channel, etc. The 300000-outlet number I gave is the number that we are reaching in all the towns where we are tracking through our direct distribution model as in other than wholesale. The direct retail coverage that we have is 300000 retail outlets in the major cities where we track this. There is obviously significant coverage that happens in less than one lakh pop strata towns in the North. There we do not actually go out and track this coverage, but of course AC Nielsen's number would include that along with all the outlets that are penetrated indirectly through the wholesale channel, so it is difficult to put a number on what that 1.2 million will go to, but what we will look to do is continuously expanding our reach to the smaller towns 20,000 and 30,000 population towns where there is still a lot of potentials. We have been able to add a significant number of such towns. We have roughly about over 240 sub stockiest points now nationally. So, these are all small towns/villages whichever way you look at it and we shall continue to look to expand on this number.

Ashish Kacholia: My last question is, are you planning to launch more brands given the size that you are not supporting your exciting new brands Curls and Fritts with too much advertising, are you planning to launch more brands?

Rohan Jain: In terms of the advertising expenditure as a percentage of sales may not be very high, we will continue to support them on the kids' media now because largely the consumption is still the younger kids. But of course, we have been able to move up the age ladder, so that is something we will continue to do. In terms of other brands, see we would like to launch other products. Now whether they will form part of one of our existing brands or will it be a new brand that is dependent on what product it will be, but of the Crax mother brand will stay, which will be the common link between all these products and the decibel around the Crax brand that will obviously be enhanced with every product that we launch.

Ashish Kacholia: Are you worried or is it in your calculation that you might be spreading yourselves across three brands given the size we are just an Rs.500-Crore company?

Rohan Jain: I do not think so. I think today 75% of our sales are still in the North and I think each of these brands and Fritts is early days still. But Curls and Rings are both large brands and even in relations to some of the larger brands they are sizeable and given that we are on kids media the affordability of kids media, is not very expensive, so we can easily spend a good amount of money on kids channels, get the GRP, etc. We need without rocking the boat and yet making sure that we get the threshold GRPs and create the top of mind awareness across these brands, so we are not too worried about that and also in this category a lot of it is impulse buying and visibility in shop is also very important especially given that it is an impulse category and the cost of trial being very low at Rs.5 or Rs.10 so that is very important. I think what important is that we gear up our distribution to be able to pace all these products in the retail outlet and make them visible.

Ashish Kacholia: And how satisfied are you with the ability to place our product Fritts in the retail outlets; how good has the reception from your wholesale and stockiest?

Rohan Jain: We started the launch in Q3, placement for us is usually a lot of problems at least in the retail channels where we go out and place because we have a very strong service orientation. We have been servicing week on week, so typically we have no problem in placement. We can place on a large percentage of the outlets within the first of a couple of weeks when we go out. So, placement was quite satisfactory. It was in similar lines as Curls. In terms of repeat offtakes, retail sales are again good. Wholesale channels of course picks up subsequently because initially the retail is what picks up, which is where the consumer pulls start to come with advertising and then eventually the wholesale channel picks up the product. We expect now the wholesales to pick up in Q2, but we are reasonably satisfied with the kind of presence that we have in the retail channel now as far as Fritts is concerned.

Ashish Kacholia: Thanks. All the very best.

Moderator: Thank you. The next question is from the line of Aditya Joshi from Karma Capital. Please go ahead.

Aditya Joshi: Good morning everyone. My question is related to the market share in the North region, so how has been the market share movement in the last five years or last three years? Have you gained, or lost market share in the operation geographies that you have?

Rohan Jain: We do not buy AC Nielsen data or do not subscribe to it on a regular basis and so, therefore, we buy the reports as and when we feel we need them. The last data point I have for maybe calendar 2018 we had a market share more than 20% in the North zone within the extruded snack food space, which does not include obviously the Kurkure kind of extruded product.

Aditya Joshi: Sir, what about the Namkeens category, have we gained market share there?

Rohan Jain: No, Namkeens has been less of a focus area for us. We have been focusing more on Western snacks. Namkeens is something, which we have been doing for some time, but our major focus is not so much on Namkeens. It is far more on the other snacking categories. That is small percentage of our overall revenue now.

Aditya Joshi: What would be the growth rate for extruded snacks category or in the Namkeen category FY2019 and how have we grown as compared to the industry growth?

Rohan Jain: I do not have the numbers for FY2019 unfortunately and as per the last data point I have was I think CY2018 and I think the extruded snacks would growth in the region of about 15% or so, but that obviously includes all new product launches, etc. I think maybe not CY2018, I think it was more like FY2018.

Aditya Joshi: Okay, financial year. My next question is in your opening remarks you mentioned for FY2020 you will be targeting the larger established product category? Now, this would be in the snacks category itself or within the extruded snacks category?

Rohan Jain: Within the snacking space, we would evaluate if there are other some of the well-established categories, which are worth in thing given that we have a distribution and given that we have a brand. That is something we will evaluate.

Aditya Joshi: Any plans of launching or getting into premium snacking category and increasing the ticket size per user in the next two to three years or we will continue Rs.5 and Rs.10 packs?

Rohan Jain: We would like to up that price point. We also need to have the right products to do so, but I think it will happen over a period. We do not see it happening in the next year or something. It will be as you said it will take a little bit of time before we do that. We would obviously first like to capitalize on what we have created and staying with the Rs.5 and Rs.10 perhaps a little bit higher price points because that is where our disruption strength currently lies in terms of the outlets that we reach, etc. As we look to build our sales to the alternative channels in terms of institutions, modern trade and maybe try and cater to the A class outlets, we will obviously need to add a few products to our portfolio, which will be more premium so that is something we will look to do over the course of the next three or four years.

Aditya Joshi: My last question is with respect to distribution efforts that we will be putting in FY2020. You said that you will be targeting the small villages where the population size will be 20000 to 30000. Do we have any differential retail margin profile or differential retail margin profile of all these small stores as there are already local players in all those small villages, which offer retail margin higher to 40% so how will you be able to penetrate in these villages and increase our distribution?

Rohan Jain: Well we have been penetrating over the last couple of years. Nearly 30% plus of our business in the North zone comes from less than 1 lakh pop strata cities, so margins do not seem to be such a cause of worry. Obviously, we cannot offer a retail margin of 40% or we will make a loss, but essentially, we are a branded player. We have nowadays TVs are there in a lot of the smaller towns as well and in smaller homes and we are an advertised brand. We have a quality consistency, which a lot of the local players do not. We are an aspirational product and we do not see as much of a challenge to be able to penetrate because again the cost to the consumer is still Rs.5, so that remains pretty much par with everything else that is being sold.

Aditya Joshi: Sir, the question I asked is because your product or the consumer stickiness at just Rs.5 price point it is subject to availability at the retail store that is the only reason I asked this question?

Rohan Jain: You are right. That is relevant. Branding is important. Consumer pull is also there. It is also that people go to the stores. There are two kinds of sales. One is of course where you go to an outlet and say you look at what is available and then you pick what you want and there are a significant sales that come that way and there is the other sales where people say go to the outlet and say I want Crax or I want Curls, so having differentiated products, having consistent quality, and branding all those things help, but of course visibility in the shop is important undoubtedly. You are correct about that and we are working on that even in the smaller towns.

Aditya Joshi: Got it, Sir. That’s it from my side. Thanks a lot, and all the best Sir.

Moderator: Thank you. The next question is from the line of Arpit Agarwal from Systematix PMS. Please go ahead.

Arpit Agarwal: Thanks for the opportunity and congrats on good numbers. Sir, I had one question on pasta crunch, so I think we have started the sales in the Northern markets so how large would be the opportunity size there over the next maybe two years or so and how is the traction so far over there?

Rohan Jain: I am not quite sure how large the opportunity is. This is a pellet snack and the pellet snacking market is also a very big market. It is still extruded, which is then fried and seasoned and it offers a different texture obviously to the extruded snacks, which are like Curls and Rings. The texture of the product is different. The opportunity is there because there are not a whole lot of branded players doing great distribution on this category. A lot of smaller players are there trying to sell through wholesale at cheap prices and it will bring about some differentiation and quality consistency. There is an opportunity and pasta crunch are obviously one pellet shape. They offer a sizeable opportunity. It is very early days to comment about the feedback, but of course it has only been a month and a half and it has only been in initial placement and all that, but, retailer feedback is good. Whatever little consumer feedback we have is also good, so let see how that progresses.

Arpit Agarwal: Secondly, in terms of working capital so just wanted to understand whether there is any different strategy in terms of working capital for Fritts, Curls and pasta crunch as compared to Rings or it is on the similar lines?

Rohan Jain: No, it is all the same. The question you may be eluding to is whether is a credit being offered in some of the products?

Arpit Agarwal: Because they are new products so is more credit being offered or is there any different strategy?

Rohan Jain: There is no credit being offered in any of our products. There are no real receivables.

Arpit Agarwal: Would it be possible to just have some idea of what kind of Fritts, quarterly numbers or monthly numbers you would be doing there?

Rohan Jain: I think we can discuss it offline.

Arpit Agarwal: Sure. That's it. Thanks.

Moderator: Thank you. The next question is from the line of Arpit Shah from Stallion Asset. Please go ahead.

Arpit Shah: Thanks for the opportunity. I just wanted to understand what has been the free cash flow generation for this year and how sustainable it is going forward?

Rohan Jain: We can look at the exact number and help you out that if you wanted to discuss that offline, to give you exact number it may be best that you perhaps get in touch with Perfect Relations than they again put you in touch with us and we can get back to you on that.

Arpit Shah: Perfect. Not a problem. Thank you.

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

Ankit Gupta: Thanks for the opportunity. I am based out of Ahmedabad and in this market, we are seeing that the visibility of our products has increased point a bit over the past year or two, so now how has been the response in the western market and any timelines that we plan to set up a new plant in market other than the Northern India?

Rohan Jain: The timing of setting up a plant outside of the North we will obviously be a function of the sales and as the sales expand obviously they will come point in time where we will say that it is now worthwhile for us to set up capacity. The freight cost to the western part of the country or actually not that much higher than the North as compared to for example the East, East is significantly more costly, so, therefore, the freight benefit is not that huge where it comes to the West zone and we must see a sizable business in that region, so currently we feel we need to grow further before we can actually take that step.

Ankit Gupta: Okay and if you can just talk about the growth in the markets other than North and are the growth rates higher in the new markets or North India still leads the market?

Rohan Jain: We can discuss specific growth rates offline, but essentially north has gone well in line with the overall number, west and South have been somewhat slower, and East has been somewhat better.

Ankit Gupta: Is it also lot of the business players are based in the Western part of India might also be present because it is giving us much more competitive compared to the northern markets and these players have been entrenched players and have been in the market for decades, so is it that the competitive intensity in the new market is much more compared to the Northern Indian market?

Rohan Jain: Competitive intensity is there across markets it is just that our brand goodwill and our distribution strength in the North is far higher because they have been present for so many years than other zones. Other zones given that they are newer markets we have to build a business in other zones, so that takes time. The competitive intensity is there across markets, in fact, you will find that it is in the north market, the number of players that are there is probably higher in most of the other zones.

Ankit Gupta: Okay. Thank you so much.

Moderator: Thank you. The next question is from the line of Kaustubh Pawaskar from Sharekhan Limited. Please go ahead.

Kaustubh Pawaskar: My question is on the capacity of your both plants in the North, what is the capacity utilization currently and what are the capacities of both the plants?

Rohan Jain: There are multiple plants within the factory. Just to answer a question in a slightly different way, the total installed capacity in terms of extrusion is about 35000, 36000 metric tons per annum. In terms of revenue given the product mix, we can do about Rs.600 odd Crores given the current installed base which means Rs.150 Crores a quarter and we are now looking to set up additional capacity which will add roughly about Rs.100 Crores depending on the product again roughly Rs.100 Crores in terms of revenue potential per annum.

Kaustubh Pawaskar: Right, so this capacity would be as you said likely in East or it will be based in North as well?

Rohan Jain: This is in North as I said before.

Kaustubh Pawaskar: Okay and would not it be fair enough to have manufacturing tie-up with some third-party manufacturers who already have setup and manufacture your products through these tie-ups?

Rohan Jain: Contract manufacturing is an option that we are happy to consider, we must ensure that the quality of equipment that is available, is in line with the quality of equipment that we use and there is often not the case, most of our extruders are European and we have quality standard which offers or not met with available spare capacities with people and that becomes a challenge even the kind of packing machines etc, but we are open to the idea if you were to look at having a like-minded, partner then we can consider that. We are open to the idea.

Kaustubh Pawaskar: So, 50% of your portfolio you are providing toys in this portfolio that is only in Rings you are providing the toys?

Rohan Jain: That is right.

Kaustubh Pawaskar: I have seen that most other competitors are also providing toys with their packs and also the small players which we do not know are also providing it, so how good the strategy is to survive in terms of getting the traction? There are multiple competitors who are having the same strategy, but the only difference is the quality of the toys but now that has also changed. A lot of these players are providing quality just to capture the market, so is there going to be any change in the strategy to approach the kids or this is going to be the strategy you know that is going to be there for a long?

Rohan Jain: I do not see the gift going away any time soon, the gift is an important or an integral part of our offering. It is not that we are doing promotions off or on, it is an integral part of the offering. So, Crax for people is tasty Rings with a gift inside. So that is the standard offering, so that will stay, I would argue that the quality of gifts being provided by a large majority of the people who are providing them it is not up to the mark and gifts is only one part of the overall strategy, we are obviously able to differentiate gifts, we are able to give newer gifts and others only copy and gift is the one part. We have obviously advertising spends with which a lot of the smaller guys do not, we also have quality product like you said which often the consistency is not there in the other guys and of course we have now introduced to brand mascot, so gift is the one aspect of the marketing strategy, but it is more an integral part of the offering and we are in a position given our scale to be able to develop new toys to be able to bring about innovation there, to be able to continuously offer novel toys and variety to the children, so we feel we have an edge both in distribution, in terms of the overall branding through advertising, in terms of the quality and variety of gifts that we can offer, in terms of the brand mascot and therefore the consumer connect that we are able to establish with the consumers and obviously the quality of the product.

Kaustubh Pawaskar: Got your point and the last one what are your capex plan for the next two years, is there going to be any significant capex or there will be just maintenance capex?

Rohan Jain: As already mentioned, we have decided to set up a new extrusion line which will come up in hopefully by the end of Q2 FY2019 this will cost anywhere between Rs.20 Crores to Rs.25 Crores on a capex side and apart from this we shall continue to incur capex as the business warrants.

Kaustubh Pawaskar: Okay, thank you.

Moderator: Thank you. The next question is from the line of Rahul Jain from Reliance Wealth. Please go ahead.

Rahul Jain: You mentioned about the distribution network couple of questions back as you mentioned that what we trying in the northern side is try for penetrating the towns which have populations of around 30000, 40000 is that correct?

Rohan Jain: Right**.**

Rahul Jain: I just wanted to understand two things. One, what kind of still the potential remains in terms of further expansion of distribution in North in terms of like just trying to understand what further amount of revenues can be generated over a period of two, three years. By this further penetration to smaller towns and does that also mean that with regards to distribution on the North zone, we have done with the next level of cities apart from the cities which are over and above the population of 50000?

Rohan Jain: Yes, the majority have distribution, active distributors appointed in all the cities which are above 50000 population in the North. Now is about optimizing the distribution as far as those cities are concerned. We may add outlets, we may add beats, we may increase our direct reach within that market, we will look to also optimize our beats making sure that we also sell all products into the outlets, so there we have the active reach, so that is right. In terms of the potential there, it is still large potential if you look at a state like UP, there are 20 Crores population of which 5 Crores is urban and 15 Crores is rural. So, there is still potential in reaching smaller towns, it is a process and there is a lot of potentials still to grow that but of course, same town growth will also happen with new products with overall category growth. So, we will continue to grow.

Rahul Jain: So, this penetration to further towns, can you be hopeful that you will be done within next about 12 months?

Rohan Jain: No, I do not think so, I do not even think levers has done with their expansion yet, so I think it is an ongoing thing.

Rahul Jain: I am talking only about the North zone.

Rohan Jain: Even within the North zone, there will continuously be expansion. You can keep going down to the next level, there is a lot of scopes there, the models may keep changing in terms of how you reach there, but there are still scope in terms of expansion, I do not think that 12 months is going to get you to a point where you say my expansion is over.

Rahul Jain: Sure, just to reconnect this, so you are expanding capacity and you mentioned the sales potential of your additional capacity would be about Rs.100 Crores?

Rohan Jain: Certainly yes, depending on the products.

Rahul Jain: Yes, trying to connect that with the north penetration, going ahead post 12-15 months would the strategy be better to penetrate the northern further in smaller cities or would it make sense to have a higher so-called distribution reach somewhere in West or East?

Rohan Jain: It is important, we should do both, you are right, we should do both. North, of course, we are not constrained by any issues or challenges or viability or anything of that nature, we can keep just expanding. In other zones, we do not want to spread our self too wide, too thin. We are going to keep building certain markets, consolidating them, building again obviously new products will be an important part of our overall growth and getting same market growth, same distributor growth, same outlet growth in all other markets. So we will continue to try and do both, we also have to ensure that we follow the path of this resistance and also maximize the potential, so that mix has to be found and the balance has to be found, but essentially ideally we should do both and just to clarify that the capacities that we are coming in – shall enable of course enable us to manufacture existing products, for example, Curls, Rings, Fritts, so any growth in that can be met by that capacity expansion, but it should also allow us to develop and introduce additional new products.

Rahul Jain: Thank you so much.

Moderator: Thank you. The next question is from the line of Bhaskar Chakraborty from Smartkarma. Please go ahead.

Bhaskar Chakraborty: Thank you. Sir, would it be fair to say that your Curls' revenues would have grown by about 40% Y-o-Y in FY2019?

Rohan Jain: They have grown well. We can discuss offline in terms of the detailed number.

Bhaskar Chakraborty: Okay. Thank you.

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

Kanwalpreet Singh: Thank you, Sir, for taking my follow-on question. In your opening remarks, you had mentioned that there was some grammage rationalization done this year, so can you give us a sense as to when that was done and what was the percentage of change in grammage?

Rohan Jain: In the beginning of FY2019 with the oil prices have risen very sharply from about Rs.55 to Rs.60 a kg in the previous year to about Rs.75 kg, which is a very significant increase and that is pursuant to government duty changes, now there was no choice, but to rationalize grammage most players did that. We did not do that in Rings, but which remains 15 grams. We did it in Curls where we got the grammage down from 24 to 23, for example in Natkhat, it was brought down from 25 to 24 and so on. It was roughly a gram in some of the products.

Kanwalpreet Singh: Could you give us a sense as to what percentage of sales is the cost of maize, cornmeal and oil?

Rohan Jain: Cornmeal about 10%, oil also maybe a little bit more than that.

Kanwalpreet Singh: Okay and when you say that the oil price has now rationalized to what levels have dropped now, has it come back to previous levels?

Rohan Jain: It is around 63-65, of course, there is continuous movement up and down, but it is come down from the 75 levels to maybe like 65 kinds of level.

Kanwalpreet Singh: Okay, what kind of revenues do you clock from the major metros, because I believe Delhi must be your biggest revenue generator, so what kind of revenues do we get from Delhi, Mumbai or some major cities in which you are present?

Rohan Jain: Let us just say in the North, we have about 50% of our business coming from 5 lakh plus cities and of course in zones like West and South, this number is higher because we are not that deeply penetrated smaller markets.

Kanwalpreet Singh: Right, what percentage of your sales from East presently?

Rohan Jain: About 75% is north, so the balance 25% is across the three other geographies, South is smaller.

Kanwalpreet Singh: But is west and east equally divided or would east be bigger?

Rohan Jain: No, West and East are similar.

Kanwalpreet Singh: That will be all from my side. Thank you so much.

Moderator: Thank you. Ladies and gentlemen, we will take the last question from the line of Mitul Mehta from Lucky Investment Managers. Please go ahead.

Mitul Mehta: Hi Rohan, congratulations on a good operational number and good balance sheet. Rohan, my question to you is pertaining to your direct and indirect distribution. When you say your direct and pan India reach would be about 1.2 million outlets , the Curls reach within this distribution is more or less there or there has been some space left? Also, obviously Fritts was launched in Q3, so the scale of it is happening slowly, so Fritts in this current distribution would have kind of reached the current outlet, if you could just elaborate on this?

Rohan Jain: In the major markets, North zone particularly where we are going out to the retail outlet through a direct servicing model, we are able to build and get a similar reach or get close to the reach of Rings with Curls and new products pretty quickly and then of course the product consumer probe will determine whether how many of its outlets actually continued to purchase from us, how many of them actually fall away and then how many of them have to be rebuilt and penetrated again. So, Curls I would think that we are almost in line with Rings as far as the major cities go, Fritts, of course, is still early days and in the other smaller markets, so all these are less than one lakh cities, one lakh pop strata cities there, of course, we are not wondering coverage, but if you take them the outlets there which are part of that 1.2 million, so there, of course, it takes times because we are not necessarily going out and visiting those markets so actively, we do not have a dedicated distribution exclusive ready stock kind of servicing model. So there you are literally billing to the stockers in the town and getting them to sell and if I look at saliency of Curls, let us say vis-à-vis rings in terms of the sales, now that saliency would be much higher in the major cities where we or in all the one lakh plus cities then it is in the less than one lakh pop strata cities which is where then therefore we have to work on trying to get the saliency up in those markets as well same for Fritts, we would have reached higher saliency in the major cities, but there is room for improvement and particularly in the smaller cities.

Mitul Mehta: Curls has been a very successful product for the company, do you see similar exuberance as far as Fritts goes at least in the initial launch and kind of impact that you have got from the market and also when you say that every year with we launching two new products, so is there specific timeline as to when you would be launching those products during the course of the year or it can be during any time of the year depending upon the season and stuff?

Rohan Jain: Yes, it can be actually any time, it is dependent upon the season, upon capacity being available, dependent on what is happening to my other products and whether I am in a position of readiness to actually launch, but of course we shall continue to work a new products so that all the time we should have something ready for lunch, so as and when we get the opportunity, as and when we feel it's time we should be able to launch, the product development is a key focus in an ongoing thing. You are right, in FY2018 we launched two new products, one was a big success in the form of Curls and the other one obviously we well knew that is going to be a niche product in the form of cheese balls. In FY2019 we have launched Fritts which seems good response and I will come to that and then of course Pasta Crunch, so we should continue in FY2020. Now coming to our response for Fritts, the response for Fritts, the exuberance like you mentioned in the retail channels which is where we bought in service has been pretty good. We have got good feedback in particular to the sour cream and Onion flavor, we have two flavors cream, onion and masala, the cream and onion flavor has been particularly well appreciated, the product has been seen as the differentiated product, cream and onion as a flavor which is not available on most formats apart from potato chips and the masala flavor has not really done that well and obviously therefore we will look to develop additional flavors to support these cream and onion flavor. The wholesale channels are obviously yet to pick up because the wholesale obviously picks up pursuant to building up of product in the retail and now we are in Q1 which is where the wholesale becomes a source which buys a whole lot in this period, so we hope that that will happen in Q2 with the seasonal upswing.

Mitul Mehta: And as far as the grammage reclassification goes in Curls particularly you think there is still further room for us to kind of play at the grammage level and what grams it kind of max out?

Rohan Jain: No, I think there is room, our idea is not to get the margin expansion by cutting grammage. Curls is about 65 chips to mouth in a bag of Curls, 65 Curls and that is a lot because of the low bulk density nature of the product and there is room there if you were forced to cut grammage because of price increases which were unabsorbable and permanent then there is room there.

Mitul Mehta: In the Eastern market what distribution margins do you offer to your distributor?

Rohan Jain: We have 10% distributor margin as against 7% in the North and then there are some subsidies over and above to ensure ROI's.

Mitul Mehta: My last question would be on your new capex of Rs.20-25 Crores, so this largely Rs.20-25 Crores is on the equipment?

Rohan Jain: Yes, equipment and whatever utility enhancements that need to be done to commission the line. There are no civil works and of course, there is no land requirement because right now we have been able to carve out space to put it in Greater Noida facility itself.

Mitul Mehta: Right and it is a large complex to kind of accommodate further capacity expansion?

Rohan Jain: Whatever area is required has been carved out in the Greater Noida facility, I do not see any further room for expansion within any of our factories and I think the further expansion will have to happen outside of these factories.

Mitul Mehta: Okay. Great. Thank you very much and congratulations.

Rohan Jain: Thank you very much.

Moderator: Thank you. Ladies and gentlemen that was the last question. On behalf of DFM Foods that concludes this conference. Thank you for joining us. You may now disconnect your lines.