HINDUSTAN FOODS LIMITED

A Vanity Case Group Company
A Government Recognised Two Star Export House
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Date: February 14, 2024

To, The General Manager Department of Corporate Services BSE Limited Floor 25, P. J. Towers, Dalal Street, Mumbai- 400 001 Tel: (022) 2272 1233 / 34 Company Scrip Code: 519126	To, The Manager, National Stock Exchange of India Limited, Listing Department, Exchange Plaza, C-1, Block G, Bandra Kurla Complex, Bandra (East), Mumbai 400 070 Company Symbol: HNDFDS

Dear Sir/Madam,

Sub: Transcript of Analyst/Investors conference call held on February 9, 2024

Ref: Pursuant to Regulation 30(2) of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

With reference to our letter dated January 31, 2024 intimating you about the conference call with Analyst/Investors which was held on February 9, 2024, please find attached the transcript of the aforesaid conference call.

The above information will also be available on the website of the Company i.e. www.hindustanfoodslimited.com.

We request you to kindly take the above information on record.

Thanking you,

Yours faithfully,

For **HINDUSTAN FOODS LIMITED**

Bankim Dilip Purohit

Bankim Purohit
Company Secretary
ACS 21865

Encl: as above

VANITYCASE
INTEGRITY INITIATIVE INNOVATION

“Hindustan Foods Limited

Q3 and 9M FY’24 Earnings Conference Call”

February 09, 2024

MANAGEMENT: MR. SAMEER KOTHARI – MANAGING DIRECTOR – HINDUSTAN FOODS LIMITED

MR. GANESH ARGEKAR – EXECUTIVE DIRECTOR – HINDUSTAN FOODS LIMITED

MR. MAYANK SAMDANI – CHIEF FINANCIAL OFFICER – HINDUSTAN FOODS LIMITED

MR. VIMAL SOLANKI – HEAD, CORPORATE COMMUNICATION AND EMERGING BUSINESS – HINDUSTAN FOODS LIMITED

MR. BANKIM PUROHIT – COMPANY SECRETARY – HINDUSTAN FOODS LIMITED

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 9th February 2024 will prevail.

Moderator: Ladies and gentlemen, good day, and welcome to Hindustan Foods Limited Q3 and 9 Months FY '24 Earnings Conference Call. This conference call may contain certain forward-looking statements about the company, which are based on belief opinions and expectations of the company as on the date of this call. These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict.

As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sameer Kothari, Managing Director, Hindustan Foods Limited. Thank you, and over to you, sir.

Sameer Kothari: Thank you, Yusuf. Good afternoon, and welcome, everyone, for our 9 monthly and third quarter earnings conference call. I'm joined on the call by Ganesh Argekar, our Executive Director; Mr. Mayank Samdani, Group CFO; Mr. Bankim Purohit, our Company Secretary; and SGA, our Investor Relations advisors. I hope everyone has had a chance to go through our stated earnings presentation, which was uploaded on the stock exchange and our company website.

Coming to the specifics, we believe that our business model with a diversified product and customer base has helped us weather the headwinds in the overall consumer market in the last year or so. The investments done by the company over the years have given us a strong foundation.

In this regard, I would like to highlight that in the last 5 years, our gross block has grown fivefold to more than INR1,000 crores. This has been done on the back of both greenfield expansion as well as M&A. This strong foundation is now enabling us to plan for new investments that will set tone for the future growth over the next few years.

In addition to the continued investment in the FMCG business, like our new ice cream plant in Haryana, the new beverage plant in Assam and a few others that we are working on, we've also been working on opening up adjacent sectors where we think we can grow. One of these sectors is OTC pharma and health care products in which the company has identified certain M&A opportunities.

I'm happy to report that in this quarter that went by, we finally closed the Baddi transaction, which have been held up for statutory permissions for more than 3 quarters. I expect this factory to be completely integrated within the next 3 to 6 months, and we are optimistic about being able to offer a new range of OTC pharma and health care products to our customers.

The other sector that we've been bullish about has been the sports shoe category, where we are seeing some tailwinds due to the government policies and global trade movements. To leverage this, we again have decided to go the route of inorganic growth and have identified some M&A opportunities, which should help us scale this business sooner.

We do strongly believe that these new sectors, along with the huge potential of our mainstay FMCG market, we should be able to deliver super normal growth for the normal -- for the immediate possible future. And in order to fund this growth, the company has successfully concluded the preferential issue of warrants to the tune of INR400 crores in the December of last year, which should give us enough capital to take HFL to the next level.

I will now hand over the call to my colleague, Ganesh Argekar, who will brief you about the operational highlights of the past quarter.

Ganesh Argekar: Thank you, Sameer. Good afternoon, everyone. I will now walk you through the operational business highlights for 9 months and Q3 FY '24. The December quarter is a seasonal low for 2 of our product categories, ice creams and beverages. In spite of the continued pressure on volumes, all our factories performed well and delivered the highest ever quarterly turnover for the company. We are prepared for the onset of summer and are confident that we should be able to exceed this record in the coming months.

The company through its wholly owned subsidiary, KNS Shoetech Pvt. Ltd, has completed acquisition of sports shoe manufacturing unit located in Kundli, Haryana and has also completed the acquisition of Baddi manufacturing OTC -- Baddi Unit Manufacturing OTC pharma products. We are in the process of integrating the operations and welcome the nearly 1,000 people who will be part of the HFL family as a result of this transaction.

Additionally, we are working on the ERP integration and the vendor onboarding for nearly 5,000 new raw materials and packaging materials due to this new operations. The Board also authorized the management to negotiate and enter into a BTA for the acquisition of another sports shoe manufacturing facility with an expected investment of around INR100 crores.

The factory being set up in Guwahati, Assam for the manufacturer of juices is progressing well and is expected to start commercial production for Q4 FY '24. This is well in time for the season. And depending on the weather gods, we are looking forward to a good ramp-up in this factory and the one in Mysuru which is manufacturing beverages.

The green field ice cream facility in Haryana has been set up with an expected CapEx of INR100 crores and is progressing well. The company has signed a contract with the Central Warehousing Corporation, Kundli for the land and building. The company also expects to start partial production at the site by Q3 FY '25, and a complete ramp up by Q4 FY '25.

With this, I now hand over the call to Mayank Samdani, our Group CFO, to take you through the financial results for the quarter ended 31st December '23. Thank you.

Mayank Samdani: Thank you, Ganesh. Good afternoon, everybody. I'm pleased to highlight that we have achieved a full year PAT number of last year in the first 9 months of this financial year. With this, we are confident of closing the numbers at a record PAT, specifically.

Revenue increased by 4% to INR 2,027 crores in 9 months FY '24 from INR 1,941 crores in 9 months FY '23. EBITDA grew by 29% to INR164 crores in 9 months FY '24 from INR127 crores in 9 months FY '23. PAT increased by 38% to INR70 crores in 9 months FY '24 from INR50 crores from 9 months FY '23.

Performance of Q3 FY '24, coming to the quarter performance in spite of the seasonal effect that Ganesh referred to, we have posted the following numbers. Revenue increased by 8% Q-on-Q and 7% Y-o-Y to INR730 crores in Q3 FY '24 from INR677 crores in Q2 FY '24 and INR679 crores in Q3 FY '23. EBITDA grew by 4% Q-on-Q and 29% Y-o-Y to INR58 crores from INR55 crores in Q2 FY '24 and INR45 crores in Q3 FY '23. PAT for the quarter increased 29% Y-o-Y from INR17 crores in Q3 FY '23 to INR22 crores in Q3 FY '24.

The numbers of this quarter were impacted by the integration of the new units, both Baddi and KNS Shoetech. We believe that the financial number may be affected by this indication for one more quarter and both the new acquisitions should start normalizing in Q1 FY '25. Accordingly, we do believe that we are well on track to meet our guidance of achieving INR4,000 crores plus top line by FY '25.

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

Moderator: First question is from the line of Nitish from ChrysCapital.

Nitish: So my question is on the comment made in the presentation and also in the opening remark. So, can you quantify the impact coming from the integration of these new Baddi and KNS Shoetech facility in this quarter and what kind of impact we are assuming in the next quarter?

Mayank Samdani: You mean the impact on the bottom line, right?

Nitish: Yes. On EBITDA margins, sir.

Sameer Kothari: So we obviously can't -- it won't affect the margins, but in terms of the quantification, we can give you a thumb rule of what is happening, you're talking about an investment of close to INR125 crores in the Baddi facility. And we had 15 days of period, which was accrued in the previous quarter where revenues didn’t happen. In terms of just capital servicing which is depreciation and interest, we believe that the hit was close to around INR3 crores in addition to the fact that we also have to pay salaries for all the people for those 15 days.

This will continue in this quarter as well to a certain extent because we are working on the transfer of these licenses. As you will remember, this is a regulated site. It has a U.S. FDA, MHRA and a Russian FDA approval. It will take us some time. Our current estimate is between 3 to 6 months before we have been able to normalize the operations completely in this factory.7

Now as a margin, obviously, because we mentioned it before as well, Nitish, that our revenue figures, it may not be the best way to look at us in terms of margins. So that's why I just was giving you the absolute numbers in terms of the hit on Baddi.

As far as KNS Shoetech is concerned, our calculation is that the hit in the previous quarter was just about INR 1 crores or so. Given that since then in this quarter, we have announced the acquisition of one more facility, which is the manufacturing assets of a company called KNS

Trading. And the Board has authorized us to acquire one more facility, which is the third facility for this sports shoe manufacturing. We do believe that these integrations will continue to affect us again for at least one more quarter.

Nitish: Got it. And how much headcount are increasing through this -- through these 2 acquisitions?

Sameer Kothari: So right now, we have nearly 1,000 people who've joined us already. I don't have the details to give you about the BPA that we are currently discussing. As soon as I have some quantifiable details about it, I'll come back to you.

Nitish: And how many of these would be from Baddi?

Sameer Kothari: How many of the workforce is from Baddi?

Nitish: Yes.

Sameer Kothari: Approximately 400.

Moderator: Next question is from the line of Priyank Chheda from Vallum Capital.

Priyank Chheda: Sir, my question is on the gross margins. We are seen a steady rise in the gross margin for now last 2 years, and that has been the phenomena every quarter. How should we see this progressing ahead? I'm sure that raw material -- vinyl raw material prices would have helped. Are your customers in the discussion to reduce the prices? Would we see a further expansion into the gross margin given we get into a better utilization phase? So how should we look -- view the gross margins for the next 2 years, keeping in mind there is the seasonality impact on the beverages also.

Sameer Kothari: Priyank, I'm going to split this answer into 2. One is the normal answer that I would have given before the shoe acquisition and one is the answer that I'll give you now with the shoe acquisition coming into picture.

So, before the shoe business came into picture, nearly 80% to 85% of our business is in a model where raw material and packing material costs are passed through completely. And as a result, we have time and again emphasized that you should probably not be looking at margins as a basis of the revenue just because of the deflation in case of the raw material, packing material prices, our margins are looking better.

Frankly, the team, including me have done nothing to improve that margin. It has just happened by the fact that there's been deflation in commodities. The flip side is also true. If you look at our performance 1.5 years ago, when inflation was at its peak, our margins were deteriorating. And again, our team was not to be blamed for it. That's just the way the model works.

Now after the shoe acquisition, and I'm talking about maybe a quarter from now, we will have a slightly larger take in terms the gross margins for a couple of reasons. One, that there is a lot of shared manufacturing as far as the shoe business is concerned. And the shoe business functions in a completely different way. The shoe business will become sizable in the next, let's say, 6 months. And post that, I will come back to you with some kind of definite guidance in terms of gross margins.

Priyank Chheda: So is it fair to say that, of course, the larger benefit will come after the shoe manufacturing business becomes larger, but then the shared manufacturing would have a slightly lower margin versus a pass-through model of the shoe model?

Sameer Kothari: So even in case of the shared manufacturing, Priyank, where it is -- again, there, most of the raw material, packing material costs are a pass-through, right? Only in cases of private label business do we observe the -- or do we see the risk of the changes in prices of raw material and packing materials. Otherwise, predominantly our model before the shoe business was that entire RMPM cost is a pass-through.

Priyank Chheda: So, the KNS Shoetech acquisition that we have done and the investment of INR100 crores that we have decided to put into shoe manufacturing, how much of that would be towards the shared manufacturing?

Sameer Kothari: The entire Shoe business actually is going to be shared manufacturing, Priyank. That's the model that the shoe industry follows. We believe that there will be some changes in the working of the shoe industry in the next couple of years. You would have seen some press reports of certain taiwanese manufacturer of Nike, et cetera, beginning to set up shop in India.

These guys are exclusive manufacturers for Nike. And we believe that, that precedent will change the business models for a lot of the Indian existing contract manufacturers as well. But at the current stage, 100% of the business is that of shared manufacturing.

Priyank Chheda: Okay. And then if you can help me further since you're discussing on the topic of shared manufacturing, how does it work really, is it that the OEM partner is also part of the same manufacturing facility and hence, on the day 1 IRR is kind of capped on the upper side?

Sameer Kothari: No, actually, Priyank, it's exactly the opposite. In case of shared manufacturing, since we do not have any kind of a take-or-pay contract with any of our principles, we have the flexibility of walking in or working out of the facility at any given point of time.

As a result, there is no cap on the IRR. The cap is defined completely by operating leverage if we can get into a situation where our assets are sweated better. If we have a bigger order book, we will get better IRR. On the other hand, you could have a possibility where we might end up making losses if all the customers suddenly decide to walk away.

Just for the benefit of people who did not follow our company earlier, we went through a similar phase with our beverage unit, which we acquired in Mysuru, where it was a shared manufacturing facility and because of COVID, most of our clients who were able to walk away from their commitments to the facility because it was shared manufacturing and we suffered losses for a couple of years, right? So as far as ROI, IRR of this facility is concerned, it can be negative or it can be quite high as well, much higher than the dedicated manufacturing.

Priyank Chheda: Got it. Got it. Sorry, if I can squeeze in one last question. In the same model, what gives us the confidence is we have not been -- we have not invested so high amount earlier in our whole of the manufacturing block of INR1000 crores. What gives us that confidence to take a model, which is slightly more volatile versus our non-shoe manufacturing model, which is with a pass through? So, if you can help me on that.

Sameer Kothari: Sure, Priyank. So, a couple of things, right? The first is I'll talk to you about the shoe business in a second, but let me just also explain, and I think it's a good opportunity for me to try and explain the strategy of the company to the wider audience as well, that we are trying to change the risk profile of the company. What we are trying to do is we are trying to broaden our customer base.

You know that we've tied up with a new age brand as far as our dedicated factory for ice cream is concerned, which is contrary to what we've been doing so far where we've been working with large multinational companies as far as dedicated manufacturing is concerned.

And also in terms this investment that we are doing in shoes, what we are trying to do is we are also trying to see if we can change our risk return tradeoff as far as our model is concerned. What gives us the confidence is exactly what I referred to in my opening remarks. Given that we have INR1000 crores asset block now, which -- out of that nearly 80% to 85% of that gross block is on a take-or-pay basis, which means we have confirmed revenues, and we have visibility in terms of the cash flow from most of these assets.

We have some amount of confidence that our risk appetite can be increased. And then of course, we raised the money in terms of the equity, which was supposed to be anyway growth capital. Both combined is giving us -- from an overall perspective, as a company, some more confident that we can increase our risk profile.

Now coming to the shoe business, specifically, as far as the shoe business is concerned, the company and I specifically have been talking about it for the last few quarters, we have had experience with shoes since 2016 when we acquired the shoe business of [Erstwhile Pond Export Limited], which was part of Hindustan Unilever.

Unfortunately, for us the market for shoes, the leather shoes stagnated. And Europe and the US also went through their own cycles with COVID and post-COVID, inflation in those countries. So, as a result, while we took forward the shoe business in 2016-17, we actually have not been able to grow that business. This opportunity came in where for one, we saw the shift in terms of the market from leather shoes to sports shoes and sneakers.

We also saw the shift in terms of the global situation where a large part of the business, which was being made in China, moved to Vietnam, Bangladesh, etcetera, and is now beginning to come to India. Again, there, you would have read articles on the investments being made by Sante, Shoetown, Phoenix, Kothari JV in Chennai, et cetera.

I think all put together, these guys have announced an investment of close to INR3,000-odd crores in the Summit, which was held in Tamil Nadu recently. So, which means substantial money is being invested in this sector. Coming to us specifically -- so we like the sector, obviously, because of the growth potential coming to us. We do believe that our learnings of contract manufacturing -- or having done contract manufacturing across product categories can be brought into the shoe business as well.

In addition to that, for the domestic market, we are also able to offer a distributor manufacturing strategy for some of our customers to illustrate for Bata, we have set up a facility in the West in Mumbai, we set up another facility. In the south in Tindivanam, Chennai. And we are able to produce products for them which are sold locally. All of this put together gives us the confidence. And then, of course, there's Ganesh, right? I mean a lot of our confidence rests on Ganesh's ability to manage the supply chain.

And the shoe supply chain is as complicated as it gets. So, all of this put together gives us the confidence that we should be able to succeed. Let's see what happens in a year from now.

Moderator: Next question is from the line of Pritesh Chheda from Lucky Investments.

Pritesh Chheda: Sir, all these investments, which you talked about, the ice cream plant, INR100 crores; the Baddi, INR128 crores; the shoe business in excess of INR130 crores. So, these three areas, what kind of incremental revenue are you looking at and in what time period? And if I missed anything because I think the KNS acquisition was at INR31 crores, Haryana. And are you investing another INR100 crores in it or that INR100 crores is a separate acquisition which you talked about? So, if you could just clear that also?

Mayank Samdani: So, you are correct that we are investing INR100 crores in ice cream plant in North. We are investing another -- in shoe business total, we have already invested INR35 crores. And we will be investing another INR100 crores in this line. We have also invested in the new juice line in Guwahati, right? And we have -- that is around INR25 crores. And we are investing -- we have invested in Baddi, INR128 crores, as you correctly said. So Baddi and half of the -- or INR35 crores of the shoe business is already done, which we talked about that it will take us another quarter or so to integrate it into our system.

That other beverage facility will start commercial production by third week of this month, say, by -- but you can see by this month, we will start commercial production of the juices facility in east. And ice cream facility will -- as Sameer has in his opening remarks told us, it will be into Q3, Q4 of this year -- of FY '25, we will start manufacturing in there.

Pritesh Chheda: Sir, I know the time line, I want to know these whole investments now of INR125 crores plus INR128 crores, INR250 crores plus INR130 crores, so close to INR375 crores, INR400 crores. In ice cream plant, beverage plant, OTC pharma and the shoe INR130 crores. This INR400 crores investment translate into what kind of revenues?

Sameer Kothari: Pritesh, obviously, what we can give you is a very, very top line number, which is what we have mentioned in our opening remarks as well. I think Mayank mentioned that in his opening remarks that we are quite confident that we should be able to get to a INR4,000 crores turnover by FY '25. And that's a number if you ask us, we've been talking about for, I think, more than a year and some, maybe, I think, as much as 2 years.

And I think we are well on track to do that. As and when we are able to give you some more details in terms of the top lines, et cetera, we'll update you. But Pritesh, let me just again give the same caveat. I would urge you not to look at top line as the only metric for evaluating our company. And I'll give you a specific example about the project that you've just spoken about.

The project which we are setting up in Assam Guwahati, which is for Dabur, is actually going to be on a job work basis. It basically means that Dabur will supply the raw material, packing materials, and these will be paid only the conversion costs. So, if you look at it from an asset turn perspective, we will be generating very, very low asset turns in that factory because we will be billing only the conversion cost.

So, I would urge you not to look at it as a revenue. We do give revenue targets because, unfortunately, that's the only way to convey to you the growth potential. But for sophisticated financial analysts like you, I would urge you to look at our gross block numbers, look at our RoE numbers and value added that way.

Pritesh Chheda: So, sir, let's put it in this way, this INR400 crores investment that we're talking about. And what RoI change -- your original ROIC that I see in the business has been about anywhere from 18% to 20% for all the INR1,000 crores that you invested in the HPC so far. So, in what ROIC these investments are? And when will you hit the peak ROIC in this INR400 crores investment?

Sameer Kothari: Okay. I'm going to restrict the discussion to the RoEs, which is, I think -- that's 20%, 21% return on equity. I think in our previous call, Mayank has mentioned that we should be able to sustain that on a regular basis for most of our businesses. The shoe business here is going to be the trump or the joker depending on what you say because if we are able to successfully integrate the business and ramp it up, the ROE expectation for the shoe business is much higher.

And the reason it is much higher is because it's a predominantly labor-intensive business. And as a result, the total amount of investment in the shoe business is much lower as compared to, let's say, a facility like ice cream. And having said that, it comes with the disadvantage of having a very high operating leverage as well because it's a shared manufacturing facility, and we do not have any take-or-pay customers.

So, from that perspective, it could end up being the trump card, which sweetens our ROE in the next few years, or it could actually be the joker, which actually ends up making losses and pulls down our RoE as a company.

Pritesh Chheda: When do these investments become operational full swing? Is it '25 or is it '26? Because some plant of yours was quarter 3 FY '25, your ice cream is quarter 3 FY'25, that's why? So, is it FY '26 where we see the better utilization of these investments?

Sameer Kothari: Other than the ice cream factory, I think all of that should ramp up within this financial year itself. The ice cream facility, like I have mentioned, I think I mentioned in my opening remarks that we will have a partial ramp up within this financial year. But given the seasonality of the business, it will probably ramp up to its old capacity only in the Q4, which is the summer, I think may Mayank referred to that.

Pritesh Chheda: And my last question is on the existing HPC business, which is a INR2,500 crores, INR2,600 crores that we see around that INR1,000 crores gross block. So now here, this business should largely grow at the FMCG rates, or do we have more opportunities within the overall the HPC space where you can look at more sourcing deals and grow faster than the FMCG market?

Sameer Kothari: So, Pritesh, let me just step back for a second and tell you. So, it's not only HPC, right? I mean this includes foods for us -- and we redefine FMCG or -- so frankly, we don't -- we are product agnostic, right? As a company, we really don't care what we are manufacturing. What we look at is the commercial construct of our agreements with the customer, which is either it's a dedicated factory or a shared manufacturing that will be or we're doing private label for some retailer or a D2C brand.

Within that, it could be a home care, it could be personal care, it could be color cosmetics, it could be foods, it would be beverages and more recently, it could be OTC pharma or shoes. Now that is just getting things correct. In terms of our growth potential, I think the HPC/FMCG sector, the way we define FMCG, which includes home, personal care and food. I think the potential is still quite large.

If you look at it and we -- there's no specific printed data set, but if you look at the overall FMCG market and look at the COGS of that market, you'll find out that the total market for contract manufacturing could be anything between INR50,000 crores to INR100,000 crores. Within that space, we are barely INR2,000 crores, INR3,000 crores.

And we are probably amongst the largest and the most diversified contract manufacturer in the country. So, as a runway for even our mainstay FMCG business is concerned, I can rattle off at least 3 or 4 names of large FMCG companies in the country who are currently not our clients.

And as a result, we have 0 wallet share from them. And most of those companies have turnover or at least COGS budget of more than INR5,000 crores, INR10,000 crores. So, from that perspective, I think the potential even in the FMCG sector is quite high. It's been a little tough or it's been a little slow in the FMCG business because there's been no volume growth. And as a result, a lot of the projects that we've discussed or have been in the pipeline continue to be in the pipeline because our principles -- our customers are not seeing the need for extra capacity coming in.

Now the flip side of that, of course, is that in a situation where they are not seeing volume growth, they'll be looking more at contract manufacturing and outsourcing because obviously, they'll also look at trying to better their margins. So, from that perspective, we do believe that FMCG still holds a very large potential for us. We're not in any way giving up on it. Our ice cream business that we signed off is just another way of increasing our depth in that, and we'll continue to do that.

Pritesh Chheda: Okay. Your existing block on your balance sheet, is this fully utilized, so you need to sign more assets and more deals in this FMCG/HPC whatever the way you define for growth? Or there is some scope within the block to growth?

Moderator: Sir, we have lost the connection for the management. Please stay connected while we will connect them to the call. Ladies and gentlemen, thank you for patiently holding. We have the line for the management reconnected.

Mayank Samdani: Sorry, for disconnection, sorry. So, Pritesh, you were talking that some of the gross block, which is in...

Pritesh Chheda: So I was asking that it's there on the balance sheet. Do you have -- is it fully utilized and hence the growth is then incrementally dependent on new deals that you signed? Or you have spare capacity within the existing block based on your arrangements to grow?

Mayank Samdani: Just one caveat in this is that in that around INR1,100 crores gross block, which we are talking about, around INR130 crores is for Baddi, which is just signed up and it will require some time for them to ramp it up and some CWIP of INR50 crores in various plants. So INR200 crores of this INR1,100 crores is still to be ramped up or to be commercialized.

Other than that, more or less, the entire -- all the plants are running okay. There is some seasonality in some of the plants like ice cream and beverages where in this quarter, which it is -- seasonality would drop down our turnover in this quarter, rest of it is utilized.

Sameer Kothari: Pritesh, I might take this opportunity to emphasize again that in case of dedicated manufacturing where we have a take-or-pay contract, we do not have any operating leverage. So even when revenues go up or the capacity utilization becomes better in those factories, it actually will not make any difference to our bottom line. I hope I've been able to clarify that, yes.

Pritesh Chheda: Perfect. Lastly, on your Shoe Ponds Export, which was -- used to be once upon a time your business, where the RoCEs were in excess of 30% actually. So those are the RoCEs one can look at in the ROEs that you mentioned. Those are the ROEs that one should look at in a shoe investment?

Sameer Kothari: If everything goes to back, Pritesh, yes.

Pritesh Chheda: And those were like a double-digit margin business at that point in time.

Sameer Kothari: Okay. So, Pritesh, hesitant to talk about a direct comparison between the leather and sports shoe business for a couple of reasons. The sports shoe business is slightly more technical and requires more capital investment, especially in terms of soles etcetera.

And having said that, yes, we are definitely expecting it to have better ROE profile than our existing business. But please bear in mind that since these are not dedicated facilities, we still have that operating leverage working either for us or against us.

Moderator: The next question is from the line of Akhil Parekh from B&K Securities. Please proceed.

Akhil Parekh: So, my first question is on the fundraising, where we raised INR400 crores, and we mentioned that of that INR100 crores will be in the sports shoe business. Could you tell the detail bifurcation of how we have expected to utilize this INR400 crores because we'll have our internal accruals as well for the next two years? If we have some visibility around that complete utilization of two offices.

Mayank Samdani: So, in some of the earlier calls, we have given the target that we will -- when our gross block was around INR800 crores, INR900 crores, we have given the target that we will level up in next two years…

Moderator: Sorry to interrupt, sir. Your voice is cracking again.

Mayank Samdani: We will invest around INR800 crores, INR900 crores in gross block in next 2 years. Some of it has already been in public domain, the ice cream factory or the shoe business or Baddi and all those things. And the fundraise, which we have done, coupled with the debt which we take and also the internal accruals will fund this growth for next 2 years. That is the reason we have opt for the warrant structure rather than taking the money in one shot so that we can time the investment better.

Akhil Parekh: That clarity, I got it. Like from INR900 crores, we are aspiring to have INR1,800 crores of gross block, so with that -- so it's INR900 crores incremental growth in gross block, right? So of this, you are saying INR130 crores will be in the sports shoe, roughly INR130 crores in Baddi another INR100 crores in ice cream. So that total sums up at around INR350 crores, INR360 crores, right? So remaining INR600 crores is still -- is it fair to assume right now we do not have visibility and -- or we have some plans?

Mayank Samdani: We have -- Akhil, that you have been following the company, you know that every -- at certain point, we have many things in the pipeline, right? So, you are right that these are the signed contracts, but there are many things which is in pipeline. That is why we told that this INR900 crores will be in two years' time. So, it requires three, four months of negotiation and then to sign up the contract, it requires another three, four months and then investing for another six months. So that is why we are saying that we will utilize the entire fund in two years' time by FY'26.

Akhil Parekh: Okay. Okay. So that's clear. So, by FY'26, you will have INR1,800 crores of gross block approximately?

Sameer Kothari: Akhil, that's the plan and to answer your question specifically, we obviously are not in a position to discuss anything specific. We continue to work hard, and we hope that we'll be able to convert some of the things that we have in our pipeline into real businesses, which we can then come back and inform you about.

Akhil Parekh: Sure. Fair enough. The second question is on the ROoE part, right? I mean we have been fairly consistent in terms of RoE at 18% to 22% because of dedicated manufacturing business that we have. So, one is -- I mean if I look at an inflection point in terms of RoCE, RoE improvements going forward, right, one is shoe business. If all goes well, you are saying we can see an improvement in ROE. And second, because of this Baddi unit, should we expect ROE improvement as well? Or will the ROE be in the same range of 18% to 20% for the Baddi unit?

Sameer Kothari: So the RoE should improve for sure, the Baddi unit, given that it's the regulated site, given that we are getting into a new sector, which is OTC pharma, we expect that it should deliver better RoE purely from the perspective that the risk profile of a pharma OTC factory is, frankly, completely different than, let's say, manufacturing a toilet cleaner or floor cleaner.

So, from that perspective, we tend to benchmark our RoEs against the kind of risk that we take. And in case of OTC pharma, we obviously expect to get better RoE. And similarly, I've mentioned in my previous call as well, where we are also trying to diversify our client base. We're going after some of the newer age, brands, etcetera, which we also believe should help in terms of the RoE improvement.

So, 20%, 21% is the sustainable RoE that we currently have. Depending on how the shoe business turns out and how the integration of the Baddi factory turns out, we definitely hope to improve that.

Akhil Parekh: Sure, sure. And the Baddi unit is a shared facility, right?

Sameer Kothari: It is actually what we call it anchor tenant model where a large capacity of our factory is already booked, where we -- as you are aware, we acquired this facility from Reckitt Benckiser, and Reckitt Benckiser has given us a take-or-pay for a large part of our capacity. The balance capacity, we are allowed to operate to competing products and competing brands.

Akhil Parekh: Okay. Okay, sure. And lastly, on the 2 businesses, right, one we acquired Scholl India a couple of years back, and we have not heard lately anything from you in terms of how that business is doing and how the utilization rates are there at that facility? And second on the co-packing for the MNC carbonated drinks company?

Sameer Kothari: Sure. So as far as the Scholl facility is concerned, let me just step back and refresh the transaction details for the benefit of the larger audience. We acquired a facility in Chennai, which was earlier owned by RB Scholl. RB Scholl, which is Reckitt Benckiser Scholl sold the brands, Dr. Scholl to pay fund based out of Boston.

And as a result, this facility became redundant. We acquired that facility where we continue to supply to the PE fund now, the owner of Scholl Wellness Company. Having said that, the model that we followed in that facility was that it was supposed to be an anchor tenant model where we could manufacture for other products as well as other brands.

I'm happy to inform you that we've signed on one more customer, U.K.-based customer, for manufacturing similar product set. Maybe the reason you didn't hear about it, Akhil, is because if you look at the overall business, it's a very, very small part of the business. Having said that, we also are making some investments there to diversify into new product ranges and maybe in the coming quarter, we'll be able to update you on what exactly is happening there.

Akhil Parekh: Okay. And on the co-packaging business for the MNC carbonated drinks company?

Sameer Kothari: So that -- we're hoping that the summer gods will be fine, like Ganesh was saying, we are ready. We have ramped up the capacity, etcetera. And we will find out in the next month or so, how the beverage market is going to be doing, and that's how we'll come to know. As far as the contract is concerned, we are definitely in place. We are now manufacturing for paper boat, we're manufacturing for Coke. We are manufacturing for Tata Consumer in that facility.

Akhil Parekh: So, in case of Coke, we will be supplying to their bottler, right? Is that understanding, correct?

Sameer Kothari: Our contract is with Hindustan Coca-Cola Beverages.

Akhil Parekh: Sure. Okay. All right. That's all from my side and best of luck for coming quarters.

Sameer Kothari: Thank you so much. Yusuf, before we move on to the next question, I finally solved the mystery of the breaking of sound. So, my colleague, Mr. Vimal Solanki has just joined in the room and it was his bones that were cracking. Yusuf, go ahead.

Moderator: Next question is from the line of Priyank Chheda from Vallum Capital. Please proceed.

Priyank Chheda: So just wanted a clarification on the usage of INR400 crores, out of which INR125 crores would be used for Baddi, INR125-odd crores -- INR130 crores what we are dedicated towards shoe as of now as the utilization. And some part was towards even the WIP of ice-cream facility, right? These are the 3 broad utilizations that we have reached as of now. Balance, which we will be calling out as and when we have. I hope I'm -- correct me if I'm on this.

Mayank Samdani: Priyank, first of all, that this is the warrant structure, we have received only 25% of it is INR100 crores. The Baddi transaction, we have closed before this. So as of now, we are utilizing the money to fund the shoe takeover. And some part of it will go in the ice cream capex startup. And as and when the new projects come in, and we will call the money as required.

Priyank Chheda: Got it. Perfect. And a question on Baddi, if I missed out, by when do we expect to go to an optimal level of utilization? So given an anchor tenant model, so the part of the utilization will be booked by the Reckitt, but balance is what I'm looking towards. What is the timeframe that we should think of?

Sameer Kothari: So, there are a couple of moving parts there, Priyank. First of all, it's a regulated site. So even for the anchor tenant for us to be able to normalize production, we believe that it will take anything between 3 to 6 months. And given that it's a pharmaceutical product, the gestation period for getting a new customer is just about a year or so.

Our contract with our anchor tenant gives us the flexibility of years to develop new customers. So, for ramping up the capacity completely, I would say, it would take about a year or so to be able to reach where the anchor tenant has guaranteed the capacity. I think it should take between 3 to 6 months.

Priyank Chheda: Perfect. And just on a broader strategic question on to how HFL is moving towards it -- so we have seen larger investments like Baddi, and we have also seen a smaller investments like

Mysuru, we had just invested INR8 crores, INR10 crores despite it being a big land parcel over there.

So now what I'm trying to ask is the team, which is of consolidating contract manufacturing to a larger players, should we look towards a very large investment? What kind of this investment would it be only into shoe? Are we open towards FMCG and foods is what I'm looking forward for?

Sameer Kothari: Sure. So Priyank, a couple of things are happening, right? One is there is some amount of greenfield projects, which are coming up because of the decentralization of manufacturing and the redrawing of the manufacturing footprint by our customers. When it comes to those kind of decisions, the factories that we have been set up, our last factories, they have long-term view on it. And because they fit the geographical requirements of our customers, they tend to be much, much more specific.

The second opportunity, which is also coming in is that of consolidation. Because of social compliances, because of a bunch of issues arising primarily after COVID and then also getting exaggerated recently because of the slowdown in the FMCG volumes in the market. We are also getting some interesting opportunities for consolidation.

As far as those consolidation is concerned, those are existing contract manufacturers who are either not able to scale up or are not able to sustain the new requirements of our customers. Those transactions frankly could be smaller. Those transactions, generally, we try to look at stressed assets or a distressed value.

And from that perspective, we will continue to engage and look at smaller transactions as well. So, I don't have a clear answer for you. We'll basically do both. We will definitely be doing large projects where we will write check sizes of INR100-plus crores. But we also will look at smaller transactions where the check sizes could be as low as INR15 crores, INR20 crores.

Priyank Chheda: And -- I got that. And on the shoe as a category, we have some experience, we are investing more. Should we look at first, we will try to spread that and the investment that we are doing it today or we would look towards adding more such assets and then take some bigger gross block into play?

Sameer Kothari: Sure. Priyank, obviously, we would -- we will -- yes, okay. So first of all, we buy -- we have bought an existing running company and the negotiations that we are doing is also for a running operation. And as a result, we will not be starting off from 0. We have certain client relationships. We have certain businesses which are coming into fold because of the acquisition.

Having said that, the acquisition, of course, is going to take some time in terms of the integration, in terms of us being able to get it to a level of efficiency where we are happy with it. And that's the journey that will take maybe a quarter or so that we've talked about.

As far as the business per se is concerned, we'll hit the ground running. That's the advantage of looking at M&A as opposed to a greenfield project that we don't have a gestation period that would normally be associated with the greenfileld project. In case of an M&A, we are getting the relationships, we're getting the business and pretty much from the day you -- the closing date or the record date, the revenue starts to gain in. So that's one part of your question.

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

Vimal Solanki: Thank you, Yusuf. So, we at Hindustan Foods are committed towards ESG and have undertaken various sustainability initiatives like integration of solar power plants and rain water harvesting systems at our new plants, adoption of briquette boilers to replace traditional coal-fired ones, transition to cleaner fuel to reduce carbon emissions and promotion of cleaner energy alternatives, embracing smart lighting and airconditioning systems, digital payments and signature methods.

Replacing vapor lamps with LEDs in operations to conserve power consumption and trying to minimize people use, thereby reducing energy consumption and paper waste, collaborating with our principles to adopt eco-friendly and minimal product packaging practices, promoting sustainable supply chain action towards segregation and disposal of plastic waste in line with regulations and reducing environmental impact.

Also prioritizing the employment of local labor in our factories contributing to the economic development of rural and semi-urban areas where our facilities are located. And finally, enforcing the mandatory preservation of trees and plants in and around of factories, fostering a greener environment and enhancing biodiversity.

With this, I take this opportunity to thank everyone for joining this call. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or SGA, our Investor Relations advisors. Since you are approaching 14th of February, what do I say, lots of love. Thank you.

Moderator: Thank you very much. On behalf of Hindustan Foods Limited, that concludes this conference. Thank you all for joining us, and you may now disconnect your lines.