



## HINDUSTAN FOODS LIMITED

A Vanity Case Group Company

A Government Recognised Two Star Export House

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Date: August 21, 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
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Dear Sir/Madam,

**Sub: Transcript of Analyst/Investors conference call held on August 14, 2024**

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

With reference to our letter dated August 8, 2024 intimating you about the conference call with Analyst/Investors which was held on August 14, 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](http://www.hindustanfoodslimited.com).

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

Thanking you,

Yours faithfully,

For **HINDUSTAN FOODS LIMITED**

**Bankim Purohit**  
**Company Secretary and Legal Head**  
**ACS 21865**

**Encl:** as above





“Hindustan Foods Limited Q1 FY-25 Earnings  
Conference Call”

**August 14, 2024**

**MANAGEMENT: MR. SAMEER KOTHARI – MANAGING DIRECTOR,  
HINDUSTAN FOODS LIMITED  
MR. GANESH ARGEKAR – EXECUTIVE DIRECTOR,  
HINDUSTAN FOODS LIMITED  
MR. MAYANK SAMDANI – GROUP CHIEF FINANCIAL  
OFFICER, HINDUSTAN FOODS LIMITED  
MR. VIMAL SOLANKI - HEAD EMERGING BUSINESS &  
CORPORATE COMMUNICATIONS, HINDUSTAN FOODS  
LIMITED**

*Disclaimer: E&OE-: This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the website of the Company on 14<sup>th</sup> August 2024 will prevail.*



**Moderator:**

Ladies and gentlemen, good day, and welcome to Hindustan Foods Limited Q1 FY '25 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call. These statements are not the 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 of Hindustan Foods Limited. Thank you, and over to you, sir.

**Sameer Kothari:**

Thank you. Good afternoon, and welcome to our Q1 FY '25 earnings conference call. I'm joined on the call by Ganesh Argekar, Executive Director; Mr. Mayank Samdani, Group CFO; Vimal Solanki, Head, Corporate Communications; and SGA, our Investor Relations Adviser. I hope everyone has had a chance to go through our updated earnings presentation, uploaded on the exchange, as well as our company website.

It has been an interesting quarter for us here at HFL where we did end up posting the highest ever turnover and profitability numbers, but still felt that "Thoda Hai, Thode Ki Jaruraat Hai". Thanks to the heat wave and the extended summer, some of our product categories, including ice creams and beverages, performed exceedingly well. Though in some other categories, we continue to see tepid volume growth and also inflationary pressures.

Having said that, and in spite of me promising my team not to use the word green shoots, I have to say that we are witnessing some volume growth recovery. It's a little early to judge whether this is a revival of the consumption demand, or a temporary dip caused by the elections and a base effect of the previous year. Suffice to say that we are cautiously optimistic about the future.

While the FMCG sector slowly regains its momentum, we continue to be extremely bullish about our foray into footwear. And are working hard on integrating the business and building a foundation to grow. In summary, the macroeconomic environment, particularly the inflation scenario, continues to present a complex puzzle and we are working hard to make our business resilient to any shift in the outside environment. We are striving to build a model where these shifts might affect our top line, but our bottom line should not be undermined because of these fluctuations.

We are doing this by bringing new customers, diversifying into new product categories while continuing to invest in the FMCG business to be prepared for the return of the consumption demand as and when it happens.

With this, I will now hand over the call to Ganesh Argekar, our Executive Director, to brief you on the operational highlights.

**Ganesh Argekar:**

Thank you, Sameer. Good afternoon, everyone. I will now walk you through the operational business highlights for Q1 FY '25. As I mentioned in the last quarter interaction, the integration of Baddi and the shoe business is mammoth exercise involving regulatory approvals, integration of systems, processes and more importantly, integrating large teams spanning across multiple locations. While this quarter continues to be affected by these challenges, I'm pleased to inform you that the integration of health care and wellness plant in Baddi is progressing and has clocked the highest production in July '24, last month.

We have received most of the regulatory approvals and have resumed exports to UAE, Australia, Africa and in addition to the domestic business. The only approval that is pending from the Russian FDA that is expected to take another year, thereby delaying exports to Russia. Additionally, the integration of the North shoe factory is progressing, and we expect it to be completed by the next quarter. In the meantime, we have started operations in the new sports shoe line that are in the south and are confident of ramping them to the full capacity by Q3.

As a sign of our commitment towards the shoe business, the Board has authorized an investment up to INR50 crores in the wholly owned subsidiary, KNS Shoe Tech by way of subscribing to the rights issue. As mentioned by Sameer, we continue to invest in our existing business and all the previously announced brownfield expansions at various sites, including Hyderabad, Silvassa, Lucknow are progressing quite well. As far as new sites are concerned, the new ice cream factory that was being set up in Kundli, Haryana has been transferred to Nashik due to certain operational issues, and this has led to some delay in the project. Production is expected to commence by March '25, that is the next season.

With this, I will now hand over the call to Mayank Samdani, our Group CFO, to take you through the financial results for the quarter ended 30th June '24. Thank you.

**Mayank Samdani:**

Thank you, Ganesh. Good afternoon, everyone. I would now run you through the financial performance for the quarter ended June 24. We achieved the highest quarterly turnover on a consolidated basis at INR 670.9 crores, having grown at 40.4%. This was on the back of the seasonal uptake of ice creams and beverages.

And in addition of the few businesses at Baddi and the new shoe business, it did however, fall and it is short of our expectations as we saw some fall on the commodity prices in the quarter. And the fact that Baddi and the shoe factories are still in the process of being integrated and have not ramped up to the level that we would like.

These sectors will lead us to being able to post our highest ever PBT number of INR 36.2 crores. The continuing integration of Baddi factory and the shoe units which have led to the higher growth in our EBITDA numbers, a growth of 47%, then the PBT numbers, which is -- which was up only 23% in comparison since we were not able to completely absorb the additional depreciation and finance costs of these businesses.

Our PAT for the quarter was also at a historical high of INR27.2 crores, having grown at 16.5% despite being affected by the higher tax incidents in this quarter. The effective tax rate is

increased to around 25% as compared to 20% in last quarter -- last year. We believe that the effective tax rate will be around 25% hereon. With this, I would like to open the floor for the question.

**Moderator:** Our first question is from the line of Faisal Hawa from H. G. Hawa.

**Faisal Hawa:** Sameer, what is the kind of progress we are making on the private label just to be supplied to, say, model retail or even for e-commerce companies? I believe you are that person who was handling it stand-alone. Is it now even 5% of our revenue totally?

And second, within this footwear space, how are the BIS norms going to affect us? And will it lead to a lot of work coming in for contract manufacturers of footwear? And is there existing industry be able to handle the kind of good interest that may come of orders? And are the shoe companies still taking some kind of shortages in replenishing their showrooms?

**Sameer Kothari:** First, as far as private label is concerned, we continue to work with most of the online as well as off-line retailers. As I mentioned earlier that business is a very strategically important business for us. But from a volume perspective or for that matter from a value perspective, it continues to be very, very small. And that's probably representative of the market in general. When we're dealing with the larger brands or we are being with the larger FMCG companies, obviously, in terms of scale, our business on private label continues to be very, very small.

However, the number of customers in private label has increased tremendously over the last few quarters, including a bunch of B2C brands and online as well as offline retailers. Another interesting aspect of the private label business in the last quarter has been that we have successfully started work with some of the online retailers for our shoe business as well.

And in some of the online as well offline retailers, you will now see shoes which are manufactured by us, both women's footwear as well as men's footwear. Again, when you compare that to the larger brands of, let's say, a BATA or a Puma or any of these guys, it's extremely small, but we've definitely started work from -- with those guys as well.

Speaking of the shoe business. You're absolutely right, BIS is a major tailwind as far as the shoe business is concerned. I think we've been extremely lucky to be able to get into the shoe business at a time when manufacturing capacity is extremely short. Most of the brands who are in the country are regrowing their manufacturing footprint, are regrowing their supply chain, moving away from import, trying to increase the production in-house. And of course, one of the bigger beneficiaries are contract manufacturers like us.

If I have to make a statement as far as the manufacturing industry or the manufacturing ecosystem is concerned. The short answer is, no, we do not have capacity enough to absorb the entire demand, which is getting generated because of BIS and because of the import duty.

And as a result, brands will continue to import. August is the date from when BIS has been implemented. People have stocked up on their imports in view of this because we do not have the capacity as a country to actually fulfil the demand that the

shoes sector has in the country. So from that perspective, I think we are in a great position where in spite of all the integration issues that we are facing in the shoe business, we continue to perform reasonably well.

**Faisal Hawa:**

And one more thing is that what is the kind of -- can you give some value to the total imports that the these large shoe brands like Nike, Puma, Adidas would be making at this point of time into India? That's one.

And second question addressed to Mayank. Is the entire shoe contracting -- all of our facility are working to, say, 90% to 95% capacity utilization? Would it be a right statement to make that our total EBITDA margin of Hindustan Foods would increase by around 1%?

**Sameer Kothari:**

Okay. The first question. Faisal, I actually don't have any published data to talk about. It's more anecdotal. And from an anecdotal data, I can tell you that at least as far as the high-end shoes are concerned, you mentioned Nike as one of the brands, majority, I would say nearly 80%, 75%, 80% of the shoes are actually imported. On the other hand, in the mass market, slightly lower levels. There's more of indigenization happening.

At the top end level, the ecosystem for making these high-end shoes is just about developing in the country. And I think we still have at least a few more years before we become capable enough to be able to handle the entire range of shoes from perspective of high-end shoes to the mass market. But in terms of numbers, I really don't have any kind of published data of how much is imported and how much is domestic. Now as far as the financial question is concerned, I don't know if Mayank has got it, or he wants you to repeat that question.

**Mayank Samdani:**

Faisal, so that turnover of the shoe business vis-a-vis our entire business will remain -- will be around 5% to 7% of the entire business. So EBITDA, while I -- surely, the EBITDA will increase with the better margins of shoe business. But 1%, I'm not sure about it.

**Moderator:**

Our next question is from the line of Akhil Parekh from B&K Securities.

**Akhil Parekh:**

Many congratulations for delivering a good set of numbers. My first question is on the OTC Pharma business. It's a big acquisition which we have done, but we have been a bit reluctant to highlight the kind of potential sales this manufacturing unit can do. If you can throw a bit more colour or give more details around this business. And prior to acquisition, how big was Russia as a percentage of this segment?

**Sameer Kothari:**

Sure. Thank you, Akhil. As far as the OTC pharma business is concerned, it's not that we've been reluctant to share the data. We've been quite forthright and transparent in terms of what we are doing there. The difference is that it was a factory which was owned by the brand owner. And as a result, any kind of value numbers from a perspective of what they were doing as far as turnover is concerned versus what we will be doing as a contract manufacturer would not be a right comparison. We'll be comparing apples to oranges because that turnover would include the margins, et cetera.

From a volume perspective, I think we mentioned this earlier that we have an anchor tenant agreement with our customer there, where nearly 60%, 65% of the capacity has been underwritten by our main customer. And like Ganesh was mentioning in his opening remarks, we have more or less been able to integrate all the other requirements in terms of regulatory and have achieved, I think, at least a decent number as far as domestic production as well as export to all of the other countries that Ganesh mentioned, Russian FDA is one particular product, which is getting exported to Russia. Unfortunately, because of the various political as well as other issues in Russia, that's taking a little bit of a time.

It's one particular product out of probably around 20-odd products that we make in terms of value because it's export and because it's a high-value item. It's reasonably significant in terms of the turnover. But from a profitability perspective, given the anchor tenant arrangement that we have, we don't see that affecting us too much.

Again, just to repeat. In terms of the volumes, again, like Ganesh mentioned in his opening remarks, July of this year, which was the previous month, we hit our highest turnover in Baddi. I'm reluctant to talk about the value terms of what the turnover of that factory was. But in terms of volumes, that's the highest that, that factory has produced since December of probably 2023. So in the last nearly 2 years, that's the highest quantity that we have produced.

So I think, yes, I mean, we are reasonably confident about the integration. The Russian FDA continues to be a damp now, but I don't see that affecting our bottom line even if it does affect our top line to a certain extent.

**Akhil Parekh:** Sure. I understand. And will this contribute to the top line in 1Q '25 in the OTC Pharma business?

**Sameer Kothari:** I'm sorry, Akhil. I didn't get that.

**Akhil Parekh:** I'm saying the OTC pharma line, will it contribute to some extent during the first quarter of FY '25 or it will start contributing from July?

**Sameer Kothari:** No, no. We've started production from -- we actually have been trying to run that factory since January of this year. It continues to perform. It's not that the factory is shut. It's just that it has taken us a lot of time in terms of approvals and ramping up the production because, obviously, being OTC pharma products we can't produce unless we have the licenses in place. And again, like Ganesh mentioned, most of the licenses are now in place, and that's why April, May and June, it did contribute to the top line. And in case of July, it was higher than what it did in the previous month.

**Akhil Parekh:** This is clear. Second. On the sports business, I mean, in the North, the facilities which we have acquired in North, have they contributed in the sales in the first quarter? Or it will start contributing in the second quarter?

**Sameer Kothari:** So again, Akhil, both the factories, right, Baddi as well as the sport facilities have been quite a growing concern. So while we've been facing integration issues, whether it is related to systems, processes or people, in case of the North shoe factory or in case

of regulatory issues in case Baddi, it's not that the production was zero. It's not where we would like it to be.

We expect, and this is why I -- in my opening remarks, I said Thoda Hai But Thode Ki Jaarurat Hai. We would definitely prefer and like it to be a little bit higher than what it is. And we are saying that I think especially as Baddi is concerned, I think this quarter should be at a decent level. And with the shoe, we are hoping that from Q3, we should be where we want to be as far as the shoe business is concerned.

**Akhil Parekh:** Okay. Okay. So, is there a slight delay basically by a quarter for shoe business?

**Sameer Kothari:** It depends on how you define ramp-up. I mean, if you talk about the -- this quarter's performance of the shoe business, we have already exceeded the turnover from at a run rate basis from what we acquired it at. But like I said Thoda Hai, Thode Ki Jaarurat Hai, we are confident that we should be able to ramp it up further.

**Akhil Parekh:** Okay. Great. And just two more questions before I get back in the queue. Last five quarters, if I look at it, I know EBITDA margin is not the right metric to look at, but has sustainably been about 8% kind of thing. So is it largely because of the price deflation, what we see? Or is there some change in the product mix or some change in the business model there? The revenue shared model is contributing more to the top line.

**Sameer Kothari:** So while I'll ask Mayank to get into the details of the question, let me just repeat my caveat. Margin is not the best way to look at our businesses. The reason why in our commentary or rather in Mayank's commentary as well as now in the investor call opening remarks, we talked about EBITDA margin that because of the seasonality, we wanted to ensure that people like you who are following the company understands the effect of seasonality as far as this quarter is concerned. While also appreciating that Baddi and the shoe tech business continue to drive down our PBT and PAT numbers. But I'll let Mayank explain that to you in detail.

**Mayank Samdani:** Akhil, so you are correct in both the sense that the EBITDA margin from last five quarters is over 8% because -- mainly because of the differentiation which is there. So, the deflation is still there. We are not seeing that it is sustainable yet. So, the margins are better because of deflation. And also the shoe business and the new businesses which we are in are better in terms of margins. That is why we are seeing some blip in the EBITDA margin.

**Akhil Parekh:** Sure, sir. That's great. And lastly, in the press release, you have not mentioned that we continue to guide for that INR4,000 crores for top line for '25. Do we still maintain that or there might be some deviation to that?

**Sameer Kothari:** So, in the press release as well in the opening remarks, what we've said is that, frankly, we are not understanding what's happening on the inflation front. I'm sure people like you who look at macroeconomic numbers more than we do will understand it better.

In some categories, we continue to see deflation. And in some categories, we are beginning to see inflation coming back. Like we mentioned time and again,



our top line is a complete pass-through especially as far as raw materials and packing materials is concerned. So, from that perspective, if most of our prices go up, volume, even if the same volume will end up showing a higher turnover, it may not affect our bottom line.

So, the reason why we've stayed away from mentioning about INR4,000 crores is -- the actual answer is, we don't know. In this past quarter, it's been -- the volumes have ramped up to the level that we want. The volumes actually have ramped up to a level which should generate at normal levels generate a turnover greater than INR4,000 crores. This is why we've been forthright in saying that our bottom-line numbers should not get affected by this inflation/deflation. However, as far as the top line number is concerned, I really don't know how the macroeconomic conditions are going to work out in terms of petrochemical prices or agricultural commodity.

**Moderator:** Our next question is from the line of Nirav from Bira Life Insurance.

**Nirav:** So, I just wanted to understand a little more details on the operational issues that you have faced -- that you've done middle shift of ice cream plant from Haryana to Nasik. And will that have any impact on the growth, on the revenue target that you'll have for this year? And any change in the capex for the plant as of now?

**Sameer Kothari:** Yes, sure. So Nirav, the factory, which was supposed to come up in Kundli, I think we have mentioned it in a couple of quarters ago that we have signed an agreement with the Central Warehousing Corporation for that factory. Because of certain statutory reasons when it came to giving the permissions for setting up the factory, the authorities currently realized that while the CWC Act permits them to do processing, it actually does not permit them to do manufacturing activities within their premises.

This nuance between processing and manufacturing is what caused us to relook at their entire arrangement given that we would have been investing more than INR100 crores in that site. We really did not want to get into a situation where the viability of that on the actual existence of that site is dependent on the definition between processing and manufacturing. So in consultation with the customer, we took the decision to relocate that factory from Kundli to Nashik. And I think, yes, it will affect our -- the project as it's probably going to get delayed by a couple of months. We did do -- we started groundbreaking in Nashik last month. And construction for our facility has started.

We are reasonably confident that we should be able to start production by March, which is what the season is. But if you look at purely the financial year, yes, it has gotten delayed by, I would say, at least 2 months.

**Nirav:** Okay. Does it change the annual target? I mean -- because we were expecting revenue to start coming from the fourth quarter from this plan.

**Sameer Kothari:** Not to a large extent. Again, I just want to repeat what I discussed with Akhil in the previous interaction. That revenue target to us -- or for us would be a lot more dependent on the

inflation/deflation of various commodities. As far as the ice cream business is concerned, given that we were earlier expecting it to start production in January, and it would have taken a couple of months to ramp up anyways, I frankly am not sure that it would make such a large bend or it will make such a circular difference for this financial year given that now that ramp-up period will happen between March and April, definitely it will make a difference of 1 month, 1.5 or 2 months, but that's during the ramp-up phase. So no, if you had to look at the turnover, I think the bigger fear or biggest downside risk is more about inflation/deflation rather than about the delay of the ice cream project.

Purely, again, Nirav, I'm repeating because it's unfortunate that we have to clarify this in every call. But the top line number to us is literally a pass-through. And we are reiterating in our press release as well as in our opening remarks, we do not expect that the bottom-line numbers should get affected by any kind of inflation or deflation that happens as far as the top line is concerned.

**Moderator:** Our next question is from the line of Nitish from ChrysCapital.

**Nitish Rege:** Congratulations to the HFL team on a stellar revenue growth during the quarter. So my first question is on the footwear business. So could you share how the business is ramping up? And how much has it contributed to the revenues in this quarter? And how much do you think it will contribute in FY '25?

**Sameer Kothari:** Nitish, we generally avoid trying to give specific numbers of any of our factories. As far as the footwear is concerned, I do understand that it's a new category and frankly, even for us, we are debating about whether we should look at it as a separate segment, separate division and start declaring numbers about this separately. But right now, I'm unable to do that. Let me come back to you in a couple of quarters once we are clear on what direction it is taking. And then maybe we'll start disclosing numbers for the footwear separately from our existing business. As far as how the business is ramping up, I'm going to just ask Ganesh to give you an inside view of what's happening.

**Ganesh Argekar:** So, the shoe business. We have been trying to integrate this totally. It's like we -- all our factories are connected with a common ERP program. We had a strong IT team in place. We also take help of external consultants for developing programs, customizing of software as well as reports.

The integration is taking a little bit of time because of people, because of systems. Just imagine the number of items that we're building. I think there are more than 50,000 RMP masters, more than 3,000 vendors who are supplying to the factory. A set of operations are different in different factories, one factory is manufacturing. I mean, I would say the set of operations would mean stitching, cutting, assembling, sole fitting, stock stop fitting. So, the integration part is taking a bit more time than I expected. However, we are confident that in the next coming quarters, we would be able to use that fully, and we should be online for the target.

**Nitish Rege:** So, we expect steady state from Q2 onwards?

**Ganesh Argekar:** Q3 would be the right time that I would confidently say that we should be able to ramp up production and take everything on all systems. People have everything in place.

**Sameer Kothari:** Nitish, I'm sorry to interrupt. But steady state is probably not the right adjective because while it will be steady state for the northern factories, the southern factories are new and will be ramping up between Q3 and Q4. So we actually expect for a turnover to grow from Q2 to Q3 to Q4. I would say, at the end of Q4 is when our existing capacities will reach a steady-state performance. Having said that, given that we are extremely bullish about this segment, I'm hoping that by Q4, we would have allocated some more capital to expand capacity in this segment.

**Nitish Rege:** Okay. And as you mentioned that the footwear business is in the ramp-up phase. If it was completely all the integrations were done, how much of a margin improvement would -- should we expect?

**Sameer Kothari:** Okay. Difficult to say. I'm going to very nicely pass the question to Mayank and let him deflect this.

**Mayank Samdani:** How much of a margin, Nitish? So in one of the earlier questions, I had mentioned that for this year, the overall percentage of sales, which footwear will do vis-a-vis the entire operation will not be very significant for this year, but the margin profile is better. So as of today, I'm a little reluctant to give you the margin betterment number. Probably once in Q3, we can give you these numbers when we are ramped up to certain capacities.

**Nitish Rege:** Okay. Just on the revenue growth in the quarter. I just wanted to understand how much of this revenue growth is coming from seasonal products? And how much of this demand that we see to be recurring over the next few quarters?

**Sameer Kothari:** So again, I can't discuss on percentages because of obvious reasons. But a large part of it has got to do with seasonal, a large part of it has got to do with the integration and the ramp up of the shoe business which was not there in the previous quarter as well as Baddi which is now beginning to ramp up as well, which is why we try to go at length in both the commentary as well as our opening remarks to say that it's a combination of a bunch of things as far as top line is concerned. It's a combination of extended summer, it's a combination of extreme, high temperatures that both are seasonal products. Icecream as well as beverages have actually had a record year.

As far as beverages is concerned, I think since we acquired the factory, which was way back in 2019, '20, I think, this is the highest production that we've ever done. As far as -- Icecream is concerned, again in the last 3 years that we set up the facility, this is the highest production that we've ever done in ice cream.

The shoe business, of course, is completely new. It was integrated on 1st of April. So the entire turnover, which is coming from shoe business is not comparable to the previous quarters or to the previous year because it did not exist.

As far as Baddi is concerned. While in the previous quarter, we did continue to have Baddi in the previous year, but it was not part of the comparable figures. So as a result, a large part of the growth has come on account of these 4 things. A large part of our EBITDA as well as PBT PAT numbers have been affected by these factors. And again, I think we tried to explain that, or at least Mayank try to explain that, about how our EBITDA numbers have changed as compared to PBT, PAT, et cetera. Happy to elaborate on that because I think that's a critical takeaway for us from this quarter as far as our financial numbers are concerned.

**Nitish Rege:** Yes, that leads to my next question because our EBITDA growth is 44%, PBT growth is around 23%. So firstly, is that level of depreciation and finance costs at around INR20 crores? Is it a steady state now?

**Ganesh Argekar:** Both the finance cost and the depreciation is INR20 crores, INR20 crores for this quarter. And still we do the round of investment. This will be mostly steady-state now.

**Nitish Rege:** Okay. Okay. And by when do we expect financial leverage playing out and showing -- reflecting in better PBT growth more closer to this EBITDA growth?

**Sameer Kothari:** So Nitish, if you look at our business model, right, as far as dedicated factories, et cetera, is concerned. From that perspective, we do not take on any kind of leverage as far as those are concerned. As far as financial leverage is concerned, there are 2 things playing out as far as the numbers is concerned. One is we've raised some money in the month of December. We've not completely deployed that money. And as a result, our ROEs will continue to get affected or remain depressed. Still, the affect -- until we deploy that entire sum of money.

As far as the shoe business is concerned, which is a shared manufacturing facility, that's where both operating as well as financial leverage will come into play. As a shoe business and by the ramp-up, we are hoping that both the PBT and the PAT numbers will start improving in sync with the EBITDA numbers.

Frankly, that's the reason why we've gone at length to explain that while EBITDA has increased by, what is it, 40-odd percent, our PBT has not increased in a similar proportion because Baddi and the shoe business continue to underperform as compared to our expectations. We expect that in the next couple of quarters, that should change.

And as far as the PAT is concerned, PAT will lag as compared to the previous year because of the change in the taxation rate. And I think it will take one full year for that to be washed out because the whole of last year, we were at a much lower tax rate as compared to this year. Going ahead, however, our effective tax rate is expected to be 25%. So from a steady-state perspective, that's where it should be.

**Nitish Rege:** Okay. Okay. And just a final question. On the last call, you had mentioned that there are 2 assets which vanity case has, which we are thinking of planning to incorporate into Hindustan Food. So, is there any update on this quarter?

**Mayank Samdani:** So there was one operating asset, which is a Nasik one. Another one was the holding company, which we have reversed margin. So the operating asset is only one which is a Nasik unit. So we will file the application to SEBI and Stock Exchanges in the month of September. And we expect that NCLT process will take another year to complete. So, we are hoping by September '25, the entire process will be completed.

**Nitish Rege:** Okay. Okay. This is the plan which caters to B2C brands is made for here?

**Sameer Kothari:** No, no, no. This is a plant where we are manufacturing certain dry mix powders for a large customer. This is also the plant where we are relocating now the ice cream project.

**Moderator:** Our next question is from the line of Mayur from Wealth Managers India Private Limited.

**Mayur:** Congratulations on the recent set of numbers. Actually, I understand that you would not be very comfortable giving all the percentage growth for categories. But just to understand how has been -- how has the core FMCG segment performed? There is a lot of understanding that the rural is coming back at the OEM level and things are improving. But so at your end, how have you seen the core FMCG category growth? Is it closer to now double digit? Or is it still very low in terms of growth? Or is it flat? How has it performed?

**Sameer Kothari:** Mayur, in my opening, I did mention that I will not talk about green shoots. And the fact of the matter is, the answer is we don't know. Yes, you are right that there's been some amount of euphoria coming back. There's some amount of good numbers coming back as far as rural demand, etc is concerned.

We really don't know, and it's too early to say whether this is a structural return of the consumption or this is just something which has been caused because of the money, of the elections as well as because of just the base effect of the previous year I think you'll have to give us a couple of quarters more to understand what is happening.

And frankly, the commentary from our customers will probably be a better indicator of what is happening on the rural demand because appreciate that we are the secondary network effect of that, right? I mean, when you have rural demand coming in, they will be the first beneficiary deals are selling more.

Once they start running out of capacity, that's when they would come to us to set up new facilities, and there will definitely be a lag. So the day you start seeing the CEOs of our customers raving about the rural demand, the next quarter, we will start raving about it as well.

**Mayur:** So outlook is one thing. I mean, I just wanted to know how has it done in the quarter gone by. Has the growth picked up? I understand you will not be ready to commit whether it's a structural change or not but how does it happen in the quarter?

**Sameer Kothari:** So in case of some categories, it has definitely picked up. In case of some categories, which have not, I really am unable, and given that we work with so many categories, right, it's very difficult for me to make a generalized statement. I mean, we deal with products. So for example,

beverages and ice cream have done tremendously well. Is it because rural demand came back or is it because it was just too hot?

Inherently, within the beverages segment, some of our customers did well. Some of them actually did not do well. Now is it because those customers -- sorry.

**Mayur:** I mean outside the seasonal product. Sorry. I understand those are FMCG, but I meant outside the seasonal, which we know that it has done very well, right, in the quarter gone by. But I'm saying of the -- outside the seasonal product the FMCG, core FMCG products?

**Sameer Kothari:** Mayur, it's difficult to comment, right? We really do not have that kind of data of being able to make a comparison. And I really do not want to go out on a limb and say that yes, it is seasonal here or the seasonal are coming or that they are not coming. Either way, I don't think we have enough information right now.

**Mayur:** Okay. So last question from my side is in your commentary as well as opening remark, in the press release, everywhere you have been talking about this inflation and deflation impact and you've been trying to explain. Is it too much on the top of the mind? And which are the categories which you feel?

Why is it so much of a point to be understood that is the impact in the coming quarters? So you said we need to worry about the impact of inflation/deflation on your sales number because I don't remember this as such a significant element as a point of -- on the top of the mind and which categories, if you would like to call out?

**Sameer Kothari:** Mayur, if you look at the way we operate, right, and if you look at our business model, you'll understand why we keep emphasizing about this. Frankly, the question that you're asking is exactly the reason why we are spending so much mind space on this. What people need to understand from our business perspective is that the top line number for us is completely governed by the inflation/deflation while our bottom-line number remains constant irrespective of the price movement on our top line.

The reason we keep saying this is because people keep asking us about whether INR4,000 crores will happen, INR5,000 crores will happen. What's the margin as far as PBT to sales is concerned. If you look at interactions we mentioned, that is the deflationary environment, which was the case 2 quarters ago.

Our margins improved without us doing anything. While as an analyst, you might appreciate and say that the management has done tremendous work to improve the margin, the fact of the matter is the margins improved just because our top line reduced. So that's the reason we keep emphasizing this so many times because unfortunately I don't think people appreciate that our business model is slightly different.

We are a manufacturer. And within the contract manufacturing business, nearly 80% to 85% of our business comes from what we call dedicated manufacturing. I'm happy to take this call -- this discussion off- line because we've elaborated on our

business model in our investor presentation as well as other interactions. But I'm happy to get on a call with you and explain to you again.

**Moderator:** Thank you. Our next question is from the line of Nihar Mehta from Bay Capital. Please go ahead.

**Nihar Mehta:** Congratulations on continued growth. I just had one clarification on the increase in employee expense and other expense. So is it only because of the integrations of shoes and OTC business? Or is there something -- some other element to it?

**Management:** The employee benefit expense is increased majorly because of the shoe business. As we have mentioned last -- I think in the last interaction of investor call, we have told that we are taking around 4,500 people with the business. This is why the employee cost is a major cost base, which -- this will continue to be there in next quarters also.

**Moderator:** Thank you. Our next question is from the line Devansh from Safe Enterprises. Please go ahead.

**Devansh:** Yes. Sir, just a quick question. One is on our shoe manufacturing liquidity highlight, there's a lot of demand around there and there has been some challenges in integration. Can you just elaborate a bit more on that? And another thing is, when do you expect it to fully ramp up? What are our internal targets right now?

And second question is, sir, with respect to Baddi. There are 3 parts. One is the anchor tenant model. One is for dedicated manufacturing for your record. And within that, there is some challenges with Russia. And another thing is that new customer acquisition, which we have to do over there to fully ramp up. So what is the progress there right now? How are the new customer acquisitions progressing? So if you can just elaborate on these two questions?

**Sameer Kothari:** Sure. As far as shoe business is concerned, I think Ganesh spoke about it. We expect from Q3 for at least the North factory to ramp up to their stated capacity. The South factories will continue to ramp up further between Q3 and Q4. Assuming that we're not doing any more capacity additions, Q4 would be the steady state number as far as the existing capex that has been invested in the shoe business is concerned.

From a target perspective, I think I answered that earlier for someone. It's a listed -- I mean, we, ourselves, as a management are a little confused about the -- whether we should start disclosing the shoe business numbers separately or not. Bear with us for another quarter or so. Let us try and understand how the business is shaping up and how different it is from our existing business and whether it deserves a special mention in terms of a separate category.

For the time being, all I can say is that we are hoping that by Q4, we should be able to be fully ramped up for our existing investments as far as the shoe business is concerned. As far as Baddi is concerned. You're absolutely right, one of our customers in our anchor tenant in that facility.

As far as the ramp-up for that anchor tenant is concerned. Other than Russia, all the other markets, including the domestic market, have ramped up to the capacity that has been committed

by that customer. From that perspective, again, we are reasonably confident about meeting our bottom-line guidance as far as that anchor tenant customer is concerned.

For getting new customers, that's an ongoing process where the gestation period because it's an OTC pharma site, is slightly longer than, let's say, our regular FMCG site or any of the other home care sites. Purely from a regulatory perspective, I mean, even if we have to launch, and we are currently working with a couple of customers on new product launches, just the stability and the combination trials and the regulatory requirements can take as much as 8 months to a year.

So I don't see us being able to sign on any new customers in this financial year, and that's what we are building even in our numbers, that we do not expect any new customers to come in, in this financial year. If they do, we will definitely come back to you and that frankly would be a bonus if it happens.

**Moderator:** Our next question is from the line of Kashyap Zaveri from Emkay. Please go ahead.

**Kashyap Zaveri:** This is Kashyap Zaveri from Emkay Investment Managers. Congratulations, Sameer and team, for excellent numbers for the quarter. Just a few clarifications I need. One, on this ice cream factory, when you shift from, let's say, Haryana to Nashik, your customers also need product around that area. So in that case, ideally, you would have planned something for demand, which is in and around as Nashik area. So how does that work for him now?

**Sameer Kothari:** A brilliant question. You're absolutely right, ice cream being such a sensitive product as far as transportation cost is concerned. You're absolutely right in terms of that. Without getting into too many details, which I can't, obviously, for competent reasons. Let me tell you that, obviously, this decision was done in consultation with the customer. The customer has to sign off because it's a dedicated factory. So unless the customer is okay with the site, we obviously cannot choose any of the sites.

Maybe, and nobody can predict the future, but maybe we might look at a couple of factories coming up from a geographical location perspective, but that's something we don't know.

**Kashyap Zaveri:** Sure. Second. Just a clarification. You mentioned that there has been some deflation in some of the commodity prices. So in that 44% value growth in the -- sorry, 40% value growth in the top line, volume growth should have been slightly higher, right? I mean, I don't need a number. Obviously, it's difficult because there are too many businesses to handle, but overall?

**Sameer Kothari:** You're absolutely right. I mean, I was explaining earlier. So the shoe business for one was not there in the previous quarter as well as in the previous year. So that's a completely new addition to the top line. The Baddi factory, while it was there in the previous quarter was not there in the previous year. So that's a complete addition when you look at Y-on-Y numbers. And obviously, both of those businesses add to the top line in terms of value as well as...

**Kashyap Zaveri:** Sameer, sorry to interject here. My question is slightly different. I'm saying this 40% value growth also includes all this. But what I'm asking is that our



volume growth should be higher than 40% for the quarter, including all the businesses that we have added in last 4 quarters versus that 40% value growth I'm asking?

**Sameer Kothari:**

So it's not comparable, right? I mean, they're manufacturing, let's say, 100 pairs of shoes in this quarter, which were not there in the previous quarter. So there's a volume growth of those 100 pairs for sure. Similarly, let's say, they manufacture 100 tablets in Baddi. Again, if I look on Y-on-Y numbers, we did not manufacture 100 tablets in Baddi last year because we did not have a Baddi factory. So that's the volume growth as well.

From our existing factories, again, when it comes to seasonality, the ice creams have had a record volume as compared to the previous quarter as well as the previous year. Same thing with beverages, they have had record volume as compared to previous quarter as well as previous years. So yes, it's a combination of volume as well as value. I'm really not sure on what information I can give you, which can help you better analyse that number.

**Kashyap Zaveri:**

Maybe I can take this separately because I think I'm not able to put forth my question in a clear way. But let me take this up separately. The third question is on the warrant issuance. We received about INR170 crores, INR60 crores, INR70 crores last year, and some of those investors have sold some shares in the open market also. Now what happens to those warrants? Are they still on in terms of full conversion?

**Sameer Kothari:**

Sure. I mean, that's the idea, right? I mean, we have -- the reason we -- I mean, the secondary transaction has got nothing to do with the primary transaction. The primary transactions was done in the form of warrants because we were not sure of being able to deploy the entire sum of money right away, and we didn't want our ROEs to be depressed in the meantime.

Even today, in spite of having deferred that money, we have INR70 crores -- INR70 crores or INR75 crores laying in FDs which has actually depressed our ROE numbers for this quarter. So the warrant issue has been done in the nature of warrants because we believe our requirement for capex will be spread out between the next 12 to 18 months. And that's the timing that we did as far as raising the money, et cetera. Secondly, frankly, it's not under the purview of our company anyway. So we -- I mean, I'm just unable comment on that.

**Kashyap Zaveri:**

Sure. And the last one is, if I look at different in your stand-alone numbers and consolidated, there are 2-odd subsidiaries which are a fairly large here will become eventually also much larger in the scheme of all things. But the margins there, if I look at the difference between stand-alone and consolidated seem to be very volatile. And in fact, this quarter, despite that the top line difference has almost doubled, our EBITDA difference is just about -- versus INR21 crores, it's about INR27 crores. So if Mayank can help us understand this.

**Sameer Kothari:**

Yes. While Mayank is doing his mental math as far as that is concerned, let me just quickly tell you from an operational perspective. The structure is going to get a little complicated. We have some ice cream business subsidiary, which has a completely different margin profile vis-a-vis EBITDA as well as PBT, PAT surely because the asset turns in the ice cream business are going to be much lower and as a result, that number will not be comparable.

We also have our shoe business, which has come into the subsidiary and that's going to completely change the margin profile again because that one is a shared manufacturing business, has extremely high asset turns because it's a very labour-intensive business, like Mayank was saying. We have 4,000-odd people who have come on board. And that's going to change the margin profile as well.

It would be -- I don't think it would be right to look at it from that perspective even within the subsidiaries because I've seen in the seasonal business, if you look it from quarter-to-quarter, the margin profile will change. We have tried to explain that at a control level, saying that EBITDA has risen more than the PBT numbers because Baddi as well as the shoe business has not performed as well as they should have. We've also tried to inform that PAT has grown lower than PBT because the tax rate has increased.

I would urge you not to split hairs trying to get into the margin profile of, let's say, the ice cream or the shoe business. The shoe business, like I mentioned earlier as well, is something we will probably, in the next couple of quarters, come back and start looking at those numbers individually because, I don't know. I mean, I understand that as analysts, you might want more clarity about what's happening with the shoe business especially since it's a very labour-intensive business and has very, very high asset terms, will have a completely different ROE profile as compared to our regular business. But give us some time to think about that.

**Kashyap Zaveri:** Sure. But just some clarification in terms of numbers. Mayank, if you can later help us that would be great.

**Management:** We will connect separately. Just to give you a small answer that Baddi and beverages is in standalone. So all that -- all the reasons, what we've given to the consolidated numbers apply to these numbers also because there is a seasonality in stand-alone and there is a Baddi which as underperformed which is in the standalone. For the greater -- the discussion we will connect on a call separately, yes.

**Kashyap Zaveri:** Sounds good. Thank you so much.

**Moderator:** Thank you. Our next question is from the line of Faisal from H. G. Hawa. Please go ahead. Hello Faisal sir. Please go ahead. The line from Faisal sir has been disconnected. As there are no further questions from the participants, I now hand the conference over to Mr. Vimal Solanki for closing comments.

**Vimal Solanki:** Thank you. The issue while we faced some integration challenges and operational delays, our commitment to strategic investments and the strength of our diversified portfolio have enabled us to achieve significant milestones this quarter. Private label business at HFL is important and remains a focus. It also helps our business development and R&D busy and charged. Unfortunately in the overall space it will remain insignificant.

While both footwear and OTC Pharma are highlight categories at HFL, they are also the most complex businesses amongst all categories. So once the integration is ramping up is in place, I



am certain they will get on to our press release headlines soon. I take this opportunity to thank everyone for joining on this call. I hope we have been able to address all your queries. For any further information, kindly get in touch with us or SGA, our Investor Relations Advisers. I am here is sending you a dose of patriotism from our family to yours, this 15th of August. Jai Hind.

**Moderator:**

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

