



“ADF Foods Limited Q4 FY22 Earnings Conference Call”

May 23, 2022



MANAGEMENT: **MR. BIMAL THAKKAR – CHAIRMAN & MANAGING DIRECTOR, ADF FOODS LIMITED**
MR. SHARDUL DOSHI - CHIEF FINANCIAL OFFICER, ADF FOODS LIMITED
MR. DEVANG GANDHI - CHIEF OPERATING OFFICER, ADF FOODS LIMITED
MR. SHIVAAN THAKKAR – ADF FOODS LIMITED
MR. SUMER THAKKAR – ADF FOODS LIMITED

MODERATOR: **MR. BHAVIN SONI - INVESTOR RELATIONS ADVISOR, ORIENT CAPITAL**



*ADF Foods Limited
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Moderator: Ladies and gentlemen, good evening and welcome to the ADF Foods Limited Q4 FY22 Earnings Conference Call. As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing * then 0 on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhavin Soni. Thank you and over to you, sir.

Bhavin Soni: Thanks. Good evening everyone, I, Bhavin Soni, from Orient Capital, we are Investor Relations Advisor to the Company. I hope that all of you and your families are safe and healthy. On behalf of ADF Foods Limited, I extend a very warm welcome to all the participants on Q4 and FY22 financial results discussion call. Today, on the call, I am joined by Mr. Bimal Thakkar - Chairman & Managing Director; Mr. Shardul Doshi - Chief Financial Officer and Mr. Devang Gandhi - Chief Operating Officer. I hope everyone has had an opportunity to go through our investor deck and press release that we uploaded on the exchanges and Company's website.

Before we begin the call, I would like to give a short disclaimer. This call may contain some of the forward-looking statements which are completely based upon our beliefs, opinions, and expectation as of today. These statements are not a guarantee of our future performance and involve unforeseen risks and uncertainties.

With this, I hand over the call to Mr. Thakkar for his opening remarks. Over to you, sir.

Bimal Thakkar: Thank you Bhavin. Good evening everyone. I hope you and your families are safe and well. I welcome you all to our Q4 FY22 Earnings Conference Call. Before I provide an update on our business and performance, I would like to express my gratitude to all our stakeholders for being a part of this growth journey. I am pleased with the performance our team has achieved during the quarter, despite the challenges of the third wave of COVID and the geopolitical tensions which has disrupted supply chain all over the world. We recorded the highest revenues in our Company's history of Rs. 421 crores in FY22, a growth of 14% from FY21. Your board has recommended a dividend of Rs. 4 per share. The growth this year was primarily driven by robust volume offtake, introduction of new products and entry into new geographies to cater to both global audience and Indian Diaspora.

Product development and innovation is the cornerstone of our business. In this line, we have created a new brand named Khansaama, the product range in this brand would comprise of kababs, curries, breads and pastes. Going forward, we will continue to focus on the following key pillars to achieve a sustainable and a profitable growth; one, increasing capacities through Greenfield and Brownfield investments; two, strengthening our distribution network and third, growing our agency distribution business. Our investment in distribution centers and warehouses to engage in direct distribution has helped us gain better control of our supply chain and enables direct reach to retailers thereby pushing our products and retaining distributor margins. In this regard, we have also acquired a land parcel, adjoining to our Nadiad factory to expand our

existing cold storage facility. We are at an inflection point where growth through opportunities like supplying through e-commerce, supplying to QSR, Cloud Kitchens, inorganic acquisitions all are being actively assessed to take the next step in our growth journey. At ADF, we believe in maintaining high quality standards, introducing new and innovative products, while remaining customer centric.

To further support our e-commerce initiatives, ADF recently incorporated a new subsidiary called TelluricFoods to buy, sell and distribute food products through e-commerce and/or other business channels in India. Also, our alliance with Patanjali Ayurveda for exclusive distribution for their products in UK and Western Europe markets will come into effect in this current financial year increasing our reach to growing Indian Diaspora in Europe and UK.

To conclude, I would like to reiterate that we will continue to remain disciplined and maintain prudent financial practices while we aim to execute our growth initiatives.

This is all from my side and I will hand over the call to Shardul for the financial update. Thank you.

Shardul Doshi:

Thank you Bimal. Good evening to all of you. In Q4 FY22, our revenue increased by 5% to Rs. 108 crores compared to the same quarter last year. Also, our gross margin increased by 25% to Rs. 57 crores as compared to the same quarter last year. Over Q4, our EBITDA stood at Rs. 15 crores and PAT at Rs. 11 crores which translates to a PAT margin of 10.4%.

As far as full year FY22 is concerned, our total consolidated revenue stood at Rs. 421 crores, a growth of 14% Y-on-Y. Out of this, our segment Processed & Preserved Food revenue increased by 14% to Rs. 335 crores and Agency Distribution segment increased by 12% to Rs. 86 crores. Gross margin ratio increased from 42% to 50% which stood at Rs. 212 crores, a growth of 37% Y-on-Y. This was achieved due to better product mix and price action. This helped us neutralize impact of freight cost and raw material inflation significantly in the current year. Our EBITDA stood at Rs. 67 crores, PBT stood at 65 crores and PAT stood at Rs. 48.5 crores which is a slight decrease of 3% Y-on-Y and PAT margin stood at 11.5%.

We continue to maintain a robust balance sheet and are a net debt free Company with healthy returns ratios like ROCE of 19%, ROE of 23%. Segmental ROCE is as follows, for Processed & Preserved Foods, 34% and for Agency Distribution 18%.

This is all from my side. We can now open the floor for Q&A session. Thank you.

Moderator:

Thank you very much. We will now begin the question-and-answer session. The first question is from the line of Ravi Naredi from Naredi Investments. Please go ahead.

Ravi Naredi:

Sir, any topline comes from Patanjali in quarter 4?

- Bimal Thakkar:** No, nothing has come in from Patanjali in Q4.
- Ravi Naredi:** And what is the expectation for the financial year 23 from Patanjali?
- Bimal Thakkar:** We estimate, first year to be around anywhere between 1 to 2 million pounds. It is just being launched in the market, it is still not known out there in that region, so we hope to be at about 1 to 2 million and then we will scale it up.
- Ravi Naredi:** Sir, how many incentive we received in PLI scheme in financial year 22?
- Shardul Doshi:** We have eligibility of almost Rs. 8 crores to receive under PLI in FY22.
- Ravi Naredi:** But it will receive in current year, right?
- Shardul Doshi:** Yes.
- Ravi Naredi:** Okay.
- Shardul Doshi:** So, we have booked PLI revenues, it will be around Rs. 7.5 crores in the last year.
- Moderator:** Thank you. The next question is from the line of Sanjay Awatramani from Envision Capital. Please go ahead.
- Sanjay Awatramani:** The EBITDA margins have been reduced by almost 3% in this year FY22, so any specific reason that there is a decrease of 3% in this year?
- Bimal Thakkar:** Main reason for that has been, I am sure you would be aware that there is a huge supply chain disruption all over the world, freight rates have gone up through the roof, input costs have gone up. Despite all of that we have still been able to maintain a healthy EBITDA margin, we put in the price increase, we were able to deliver better product mix. So that is the main reason for this reduction. We continue to face this pressure even in this year, but we are again looking at further price increase happening in this financial year as well and we will again continue to try and cut cost to a better product mix and see that we try and get back to the same kind of levels.
- Shardul Doshi:** Also, Sanjay, I will just add to this, in terms of absolute numbers, we have maintained our profitability, I will give you simple arithmetic, if my cost is 80 and sales is 100, if cost goes up to 90 and I pass it on to the customer, my sales become 110, so 90 divided by 110 actually will become 82% cost. So, the margin looks lower, but in absolute terms I still earn Rs. 20 on the product which I was selling.
- Sanjay Awatramani:** Yes, I get this, that is a higher base, I agree with you. Sir, next is that for FY23, can we expect, I mean the margins to be in the range of again 18% to 20% or stick to this 15% to 18% range?

- Bimal Thakkar:** It is a very volatile situation Sanjay everywhere; commodity prices have gone through the roof. We are obviously going to do our best to get it back to the previous levels, but the situation continues to remain volatile, but we are doing our best like I said we are going to put in a price increase and try and see how best we can cut on costs, so that is all I can say.
- Sanjay Awatramani:** And next is that you said that we have been in tieup with Patanjali, so what is this exactly we are doing with Patanjali, you said that we will be doing for UK and Europe region, so what exactly we will be working on this, this is a revenue share, what is this exactly, can you please elaborate on this?
- Bimal Thakkar:** We will basically be distributing their products within the ethnic Indian stores, so we will be buying products from them. Our UK entity will be buying product from them and then distributing it. So, it is a distribution arrangement.
- Sanjay Awatramani:** Just a pure distribution arrangement, nothing else?
- Bimal Thakkar:** Yes, that is correct.
- Moderator:** Thank you. The next question is from the line of Abhishek Singhal from Naredi Investments. Please go ahead.
- Abhishek Singhal:** Sir, my question is regarding to, any inorganic acquisition in your part, if yes, when executed?
- Bimal Thakkar:** We continue to evaluate opportunities and we are having conversations with couple of people, so I hope we are able to do something in this first quarter and the discussions are going on at the moment. That is all I can say.
- Abhishek Singhal:** Second question is regarding to, in quarter 4, 10.25 lakhs promoter shares were pledged, is there any specific reason or when it will be free from pledge?
- Bimal Thakkar:** As you are aware, there were warrants which were issued and this pledge was basically done for paying off the warrants, so we hope to clear this off in the next 1 to 2 years.
- Shardul Doshi:** Just to add to this, the promoter holding is now up to 36.5% compared to 31.5% two months back.
- Moderator:** Thank you. The next question is from the line of Raj Ojha, Individual Investor. Please go ahead.
- Raj Ojha:** Sir, I would like to ask, are we planning to grow inorganically considering that we have huge cash in bank balance in our balance sheet as of now, so like Rs. 80 crores I believe, so are we open for any kind of acquisition going forward? And second question would be like, what kind of interest are we receiving from this cash and cash balance? Can you please put some light on that, sir?

- Bimal Thakkar:** Yes, as I mentioned earlier, we are actively looking at inorganic opportunities, so when something does happen, we will announce that. I didn't get the second question, if you could please repeat the second question?
- Raj Ojha:** So, we have bank balance also, sir, so just wanted to understand what kind of interest like we are receiving in other income, breakup of that if possible can you provide?
- Shardul Doshi:** We get around, see the money has been invested either in bank fixed deposits or into the mutual fund bid split and we get same 4% to 5% return right now. Then this is all temporary and will be used for acquisition or for our internal growths or CAPEX we are doing within the Company.
- Raj Ojha:** And my second question is just the broader question, how the management look forward with regards to raw material price and logistics growth, lot of articles and information, I just want to understand from the management how going forward this logistics price and raw material price, will it ease or what is the outlook of management on this?
- Bimal Thakkar:** So, the situation remains volatile especially on the commodity prices, it continues to remain volatile. As I mentioned, we are putting in our price increase as well and because we are large buyers and exporters, we still get a preferential rate when we negotiate with shipping companies or even with our vendors, but the situation continues to remain volatile and we hope it gets better.
- Moderator:** Thank you. The next question is from the line of Ninad Sabnis from Sabnis Financial. Please go ahead.
- Ninad Sabnis:** Sir, first of all I would like to compliment the new presentation, really well made and informative and as a first time viewer it really introduced me to the Company quickly and properly, my questions are more macro based, so I have two questions, the first one is around the QSR space which is of course growing at rapid price model globally, but domestically as well and it is a very exciting space to be in, so in the QSR, we have Cloud Kitchen growing by leaps and bounds, so do you have any plans of entering this space and do you see any strategy to approach these avenues and grow further?
- Bimal Thakkar:** Yes, you are absolutely right, this space is growing tremendously and we want to be part of this growth. So, as I mentioned, we are actively pursuing this because we have all the infrastructure to cater to their needs, so we have in fact, we already have our first order with one of the domestic chains, in fact just last week is when we received our first order, so we hope to continue to keep growing in that space. So, we are actively pursuing this vertical.
- Ninad Sabnis:** Second follow-up question, similarly on the broader market trend, we see that veganism is on the rise everywhere and I guess it has been quite a phenomenon in the Western markets and is now creeping into India as well, so do you have any plans to enter plant-based food segment

because I guess it is not much of, it is a space which is not very crowded yet and it may give an early over advantage?

Bimal Thakkar: You are absolutely right again and our US subsidiary has already been doing these plant-based products, we have a product called meatless meatballs which we do in the US and in India also we are in discussions with various people for expanding our product range into the plant based, so yes we will be doing that, but again, we are currently looking at only the export market, the international market, not for India as yet, but we will be looking at sourcing from India.

Moderator: Thank you. The next question is from the line of Behzad, Individual Investor. Please go ahead.

Behzad: I just have a few good questions, the first question is basically, in regards to the R&D, we launched new products, let us say something like Khansaama, so I just wanted to understand is any R&D done before or is it a trial-and-error perspective being on the market expect for that before you decide to scale it up? And just a follow-up question also, you have a very healthy board, I just wanted to understand any plans on leveraging the expertise of the board in terms of new geographies, say something like upcoming growing economy, something like Kenya, something like Uganda where the presence is a little bit less, so any expectations over there?

Bimal Thakkar: As far as R&D goes, we have a full fledged team for R&D, so it is not really a trial and error,. Saying we have chefs who are there, we have a focused group where we try out the products, so there is a lot of work which happens before the product is launched. Yes, after it is launched, some fine tuning can happen later, but a lot of home work is done before we launch products and as far as the board, we have got a great board and they are always there to guide us and help us, implement our growth strategies, so they are very involved and help us wherever possible, so we continue to seek their guidance and let them help us with implementing our goals. So, the Africa margin is something again which we are looking at. We do a little bit there, but we have not been able to actually grow. We have to find products which will cater to the markets out there.

Behzad: Just, it is the last question if you don't mind, any idea, I believe Patanjali can be used as a leverage to enter into that market, so can I just get any idea if there is any plans of the Company to do that?

Bimal Thakkar: You are talking about Africa?

Behzad: Yes, I am talking about Africa.

Bimal Thakkar: So, now we haven't explored that and that is something which we can definitely check. If there is an opportunity for us, for sure, then we will have a discussion with the Patanjali team. At the moment, our arrangement with them is basically for UK and Europe.

- Moderator:** Thank you. The next question is from the line of Raj Shah from Global Investments Corporation. Please go ahead.
- Raj Shah:** Sir, could you please tell us about this new subsidiary which has been incorporated, going forward what is the road map and future strategy for it?
- Bimal Thakkar:** This is going to be our e-commerce platform and we will be selling products through that and we will also be looking at other products which we will sell through this platform.
- Raj Shah:** And what would be the other products include?
- Bimal Thakkar:** You know like how we have got a vertical for taking on, for example, distributing the Unilever products or Patanjali product, so we will explore other products, it could be imported products, it could be products from India, which we will sell through this platform once this platform is established. The first thing would be to launch our own products under the Soul brand and then we will keep adding on more products through this platform.
- Raj Shah:** And how are we looking at the margins in this entire segment?
- Bimal Thakkar:** We are right now at the plan stage, but we will be looking at healthy margins on this. Initially, the Company may not make the first one or two years because it will be in investment mode, the Company may not have profits, but after that we will have a good profit coming out of this business as well.
- Raj Shah:** So, if I could just add onto this, what is the total revenue potential we are expecting from this subsidiary?
- Bimal Thakkar:** First year, we are looking at anywhere around Rs. 5 crores to begin with and then in the next 4-5 years, we hope to get it up to at least Rs. 50-Rs. 60 crore platform.
- Raj Shah:** Also, on the front of marketing and promotion, sir I would like to know in the next few years how do we see ADF because there is a lot of competition in this sector and there is a lot of advertising and promotion which happens, so how do we look at our products being marketed in this heavy competition?
- Bimal Thakkar:** Our Company has been firstly, I am not sure if you are aware, but we have been granted under the PLI scheme for marketing where we have got Rs. 62 crores which has been granted to our Company for marketing of our products. Our Company has always been marketing our products in the international markets, we have a full 360-degree approach, we do TV advertising, radio advertising, digital, in-store advertising, in-store displays and also sampling. So, that is something we have always been doing and now with this PLI grant, we will further increase our spent.



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Raj Shah: Thanks a lot, I am a user of your product and I really love the entire segment. Thanks a lot and keep going ahead with the great work.

Moderator: Thank you. As there are no further questions, I would now like to hand the conference over to Mr. Bimal for closing comments.

Bimal Thakkar: Thank you very much and hope to catch up with you all in the next quarterly earnings and be safe and take care.

Bimal Thakkar: Thank you. Ladies and gentlemen, on behalf of ADF Foods Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.