



“ADF Foods Limited
Q3 and 9M FY '23 Earnings Conference Call.”
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MANAGEMENT: **MR. BIMAL THAKKAR – CHAIRMAN AND MANAGING DIRECTOR – ADF FOODS LIMITED**
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MODERATOR: **MR. BHAVIN SONI – ORIENT CAPITAL**

Moderator: Ladies and gentlemen, good day, and welcome to the ADF Foods Limited Q3 and Nine Months FY '23 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 star then zero 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: Thank you. Good afternoon, everyone. I am Bhavin Soni, from Orient Capital. We are Investor Relations advisors to ADF Foods Limited. On behalf of ADF Foods Limited, I extend a very warm welcome to all the participants on this Q3 and nine months ended financial year '23 financial results discussion call.

Today on the call, I'm joined by Mr. Bimal Thakkar, Chairman and Managing Director, Mr. Shardul Doshi, CFO, and Mr. Sumer Thakkar, Senior Manager-Business & Strategy Development.

I hope everyone has had an opportunity to go through the investor presentation and press release that the ADF team has uploaded on the exchanges and the Company's website.

Before we begin the call, I would like to give a short disclaimer. This call may contain some forward-looking statements which are completely based on our beliefs, opinions and expectations as of today. These statements are not a guarantee of 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'm pleased to welcome you all to our Q3 and nine months ended 31st December, 2022 earnings conference call. The year has begun on a very positive note for us, as we have achieved the highest ever quarterly revenue and PAT on a consolidated basis and standalone basis. This shows that the demand for our products remains strong, and our efforts to improve the product portfolio and introduce new innovative products are giving us positive results.

On a standalone basis, we recorded revenue of INR 99.8 crores for Q3 FY '23, an increase of 14.5%. Standalone EBITDA and PAT stood at INR 25.7 crores and INR 19.2 crores, respectively. Despite inflationary pressures on raw materials, we have recorded a robust and resilient quarter.

We are seeing some more softening on freight cost, which has had a positive impact on our margins, and we are monitoring these costs closely. As mentioned in our last quarter, the company had launched ADF Soul brand on e-commerce platforms across India. The initial traction is encouraging and as a result, the company has launched a range of new international gourmet products like dips, Italian sauces, Thai curries, etc.

Apart from ADF Soul, the company has also launched new products under its existing brand, Ashoka and Khansaama in categories of ready-to-eat, ready-to-cook categories. We have introduced new products under the plant-based meat categories under the Ashoka brand, which will enable us to expand our product offerings to meet every evolving demand of our valued consumers.

On the operational side, debottlenecking efforts are being undertaken to improve capacity utilization and mitigate costs in our existing facility at Nadiad. Further, I'm pleased to announce the company has received an approval from the Ministry of Food Processing Industries, Government of India has entitled this to receive grants in aid of INR 10 crores towards its proposed Greenfield project at Surat, Gujarat.

To conclude, we are working to enter new markets and penetrate in existing markets by improving our product portfolio and providing superior quality products to our existing and new customers.

This is all from my side, for the moment. I will now hand over to Shardul for the financial update. Thank you. Shardul, over to you.

Shardul Doshi:

Thank you, Bimal. Good afternoon, everyone. Thank you for joining us today. Let me brief you on the financial highlights for the first quarter.

Our standalone Q3 FY '23 revenue stood at INR 99.8 crores, which is an increase of 14.5% Y-on-Y and 19.9% Q-on-Q. Our consolidated Q3 FY '23 revenue stood at INR 123.2 crores, which is an increase of 5.2% Y-on-Y and 15.4% on Q-on-Q.

As Bimal mentioned, our both standalone and consolidated quarterly revenues are the highest in the history of the company. This is despite muted sales in our ADF Foods USA business.

Our standalone EBITDA stood at INR 25.7 crores, an increase of 79.1% Y-on-Y and 66% Q-on-Q. Standalone EBITDA margin stood at 25.8%, an increase of 930 bps on Y-on-Y and 720 bps on Q-on-Q basis. Consolidated EBITDA stood at INR 27.1 crores, an increase of 37.5% Y-on-Y and 50.2% Q-on-Q. Consolidated EBITDA margin is at 22%, which is an increase of 520 bps on Y-on-Y basis and 510 bps on Q-on-Q basis.

Again, on standalone as well as consolidated quarterly the EBITDA absolute number as well as the EBITDA margin is one of the highest in the history of the company. On a consolidated basis, Q3 FY '23 PAT stood at INR 18.5 crores with margin of 15%, an improvement of 340 bps Y-on-Y and 230 bps sequentially.

This is all from my side. We can now open the floor for question-and-answer session. Thank you.

Moderator:

The first question is from the line of Rishi Maheshwari from AKSA Capital.

Rishi Maheshwari: So my question was largely on understanding the nuances of the revenue growth this quarter. As I understand, Nates and PJ's in the prior quarter last year would have been some portion contributing to the revenue, whereas it wouldn't have been any portion contributing to revenue this quarter.

Can you please distinguish what would be the actual like-to-like growth dissecting away from Nates and PJ's and also explain that when do you think would the supply chain issue be resolved on that front?

Bimal Thakkar: Yes. Shardul, can you get that?

Shardul Doshi: So in terms of revenue numbers, in Q3 of last financial year, we had INR 8.5 crores contributed by Nates and PJ's business. For nine months period, the topline was, in fact, INR 35 crores. So if I look at the like-to-like number, it's an increase of almost 17% on rest of the businesses which we have received.

Rishi Maheshwari: And my other question was on when...

Bimal Thakkar: From the bottom line also, Shardul, what did Nates and PJ's contribute last year? I think that would also be helpful.

Shardul Doshi: Right. So even on the bottom line side, for nine months, it had earned -- we had a profit of INR 3 crores from Nates and PJ's business. While in the current year nine months, we have a loss of almost INR 4 crores from this business. So net-net impact on -- we see profitability with INR 7 crores. So had Nates and PJ's contributed anything in the company in the current year, it would have been -- the profit would have been higher by at least INR 7 crores. This is for the nine-month period.

Rishi Maheshwari: Is it also possible for you to explain that when do you think the supply chain issues will be resolved over there? And how do -- should we look at growth in this division going ahead?

Bimal Thakkar: So we are currently having discussions with three co-packers. We are finding a bit of a challenge to -- that's why it's taken us so long to get this business restarted. But with these current three co-packers who we are discussing with, I'm hopeful that within the next three to six months, we should be able to start something. The thing out there is the factory needs to get approved by the customers, product formulation has to be done. So there are still some challenges on the supply chain, on the raw materials, getting the raw materials from the current vendors. So yes, we are doing our best and trying to see that we at least get this resolved by the -- in this next financial year before September, that's what our endeavor is.

Rishi Maheshwari: Also, the margins in this quarter has been splendid. This is -- this looks like record margins since I have had numbers. Part of it, as you mentioned, was a flow-through of the fuel costs, which were lower in this year -- this last quarter. Can you help us understand, and I'm sure there would be certain other operating leverage also. What would you think the sustainable margins in your business?

Bimal Thakkar: So the freight cost reduction has definitely helped us. And we hope the freight continues to go lower. There are some pressures which we are facing on raw materials, certain commodities are still continuing to go high. But we are trying to balance everything out by better efficiency. And we will try our best to maintain in and around the current margins. We also have plans of running some consumer offers and trade schemes. But I mean, to help increase volumes and also increase our market share. So I hope we are able to maintain more or less the same margins or if at all, it will be a couple of points lower. But definitely in the 20s is where we see ourselves continuing to keep subject to raw material and freight not going out of that.

Rishi Maheshwari: You also mentioned last quarter that distribution business would have had some more clients that will be ramped up in this quarter or maybe next one. Distribution this quarter was fairly stable versus last quarter and last year. Help us understand if in case, what is the outlook on the distribution business?

Bimal Thakkar: So the distribution business is, in fact, this -- from the last two months, we've seen it started to stabilize. There were certain issues, as I mentioned earlier, where in the transition from Unilever to the new owners of the tea business. There were certain issues, which resulted in the business -- in the loss of business in the earlier quarters. But things have now stabilized, and we hope from this fourth quarter onwards, things will only look better.

Rishi Maheshwari: So if I have to sum up the last few questions that I've asked, it seems like 15% to 20% is the organic growth that's coming from prepackaged food that's supplied from India. And distribution business is also growing, as you mentioned from henceforth. The Nates and PJ's will start reporting positive growth from next year onwards, somewhere mid of next calendar year onwards. Therefore, from what I gather, this looks like a 20% to 25% kind of growth on a steady state with margins hovering around 20s is what you mentioned. Is that a fair assumption?

Bimal Thakkar: Yes, I would say so.

Rishi Maheshwari: My last question is generally to understand the focus of the prepackaged foods within the US. I so far I understand that this is largely within the Indian diaspora community and the stores related to it. But then I often see it on Amazon.com or any of such websites, Costco and others, I do not find your products. Is there a concerted effort towards making your product more visible in some of these large marts as well?

Bimal Thakkar: Yes. In fact, in the UK, we are present in quite a lot of the mainstream or the supermarkets. In the US, we have been in and out of Costco in some of their divisions and our effort is to continue increasing our consumer base, which is -- the focus is on the mainstream, because there's a huge runway out there for us and Indian food is getting very popular with non-Indian as well. So yes, the efforts are continuously on for growing this business.

Moderator: The next question is from the line of Keval Seth from K. S. Investments.

Keval Seth: Congratulations on a great set of numbers. My question is that on ADF Soul. Where do you see this brand going forward? And what is the internal ambition on the size of ADF Soul for the coming three to four years?

Bimal Thakkar: So the Indian consumer also, packaged foods is being well accepted by the Indian consumers. And we believe India will be a very strong market going forward for the kind of product range we have. The current plan is to first build the business on e-commerce and then I think not this '23-'24, but '24-'25 start looking at the modern trade. So in the next three years, I would hope for the brand to be at least in the range of INR 70 crores, INR 75 crores is what the internal ambition is.

Keval Seth: I just have one more question. Like, how are we seeing our position in the US, UK and the Europe markets? Like, if you could just provide a road map that you have as we are doing Greenfield projects and Brownfield projects to improve the capacity and increasing the sales?

Bimal Thakkar: Yes. So we are expanding capacities on certain product categories, adding new product categories. And it's a continuous process in all these markets where we are further increasing our width in the stores, adding new stores, trying to get more penetration in the mainstream. So that's a continuous process in all these markets, and these are our key markets.

Moderator: The next question is from the line of Aakash Javeri from Perpetual Investment Advisors.

Aakash Javeri: Congratulations on a great set of numbers. My first question is that with the news around moderating consumer sentiment in the US and UK, how does business look now and for the rest of 2023?

Bimal Thakkar: So we are not seeing any reduction in demand for food products, especially. I mean we are still seeing a strong growth and that's reflected in our Q3 numbers. And even the month of Jan has started off well. So hopefully, we continue to see the strong demand. People still have to eat food. So we're not seeing any reduction in that off-take.

Aakash Javeri: And my last question would be that in the processed foods business, we heard about some channel destocking taking place some quarters back. So is that true? Is that happening or do you see that happening or not so much in our case?

Bimal Thakkar: No. At the moment, things are pretty normalized from the last few quarters. You saw that right in the beginning of COVID times. But since the last many quarters, the pipeline stocking has been what normally it should be. I think, excess which we expect, right?

Moderator: The next question is from the line of Tarak Mehta from Kotak Securities.

Tarak Mehta: Just want to understand the recent tie-up with Unilever and Patanjali, how are they shaping up? And what are the roadmap ahead, please?

Bimal Thakkar: So as I mentioned, there were -- Unilever International has sold their tea businesses to another company. And last year, in that transition, there was a bit of supply chain issue. That has now been resolved. And from last quarter onwards, things are getting better and normalized. So we hope to see good steady growth from Q4 onwards and the next year as well.

Patanjali is also doing well. Right now, it's only -- we've just launched it in the UK. I think in the next two months, we will be having our first shipments go into Holland as well. So we are now expanding the footprint into Europe. So this, both these businesses are looking promising for us.

And we will be adding on some other complementary agency lines as well. So that whole agency business for us will also continue to grow in the next year as well.

Moderator: The next question is from the line of from Foram Bauva from Abakkus Asset Manager.

Foram Bauva: Congratulations on good set of numbers. Sir, my question would be like what could be the freight cost as a percentage of sales in quarter 3? And do we expect this to go down further?

Bimal Thakkar: Shardul, do you want to get that, please?

Shardul Doshi: Yes. So freight cost at its peak had reached almost 20% of our topline, has in Q3 come down to the level of 12%. So that's -- and this is -- I'm talking about the standalone number where the impact is the highest. So even in absolute terms, there is in Q3 of last financial year on a lower topline, the freight cost was INR 18 crores, while it's INR 12 crores in this quarter. So that's quite a bit of a -- yes, gain which we have.

Bimal Thakkar: Please keep in mind also that we had increases in the RM cost. So the freight cost reduction helped, but there was an increase in raw material, packing material costs as well. And despite all of that, that's how we've been able to come with better efficiencies, better product mix, all those things has helped in getting us to the margins we have right now in Q3.

The freight continues to be -- I mean, we hope that it will come down further. There are some areas where it's still -- some regions where it's still steady. Some places, it is coming down every few weeks. So we hope it comes -- continues to go on a softer trend or coming down lower and doesn't start increasing again.

Foram Bauva: Advertisement spend in the current quarter?

Shardul Doshi: There, we are always between the range of 5% to 6%.

Foram Bauva: And we also have launched a few products on the e-commerce segment, so how has been the response of those products?

Bimal Thakkar: It's been pretty encouraging. We are just early three months into that launch. And we've just launched some more products this month. So we hope to -- the response has been very

encouraging. We are now going to open up some more channels for selling on e-commerce as well. So I think by, in the next few months, we should be targeting a sale of about INR 1 crore every month on the e-commerce side.

Moderator: The next question is from the line of Keval Seth from KS Investments.

Keval Seth: I have a follow-up question, sir. So sir, what is our progress on getting listings on the big-box retailers? Like are you targeting specific geographies for big-box retailers? And it will be really helpful if you can -- and again, listing in one provide you a good platform to penetrate more big-box retailers?

Bimal Thakkar: So I presume when you say bigbox, you mean like the large supermarket chains, correct?

Keval Seth: Yes, sir.

Bimal Thakkar: Yes. So as I mentioned, we are already in the leading chains in the UK. So we continue to expand our product range into those chains. And in the US also, our goal is to get more-and-more listings into the supermarkets. So we are continuing to do that, and that's an ongoing process.

Moderator: The next question is from the line of Rishi Maheshwari from AKSA Capital.

Rishi Maheshwari: I just had a follow-up on the capex. You mentioned in the last call that the capex would be roughly about INR 60 crores over the next two years, if I'm not mistaken. Now you've got a grant of about INR 10 crores from the government. So does that -- should we assume that your capex would be roughly about INR 50 crores over the next two years, the cash outflow, sorry?

Bimal Thakkar: Yes, that's correct. So how this works is we will need to spend that money and then claim it back from the Government, right? So yes, it would net off to about INR 50 crores.

Rishi Maheshwari: I have another question. This is in regards with your depth and width policy. You are spread across 55 countries and garnering roughly about close to about INR 400 crores, INR 500 crores sales across -- and I exclude India.

Across 55 countries to be present with the marketing spend, to be able to do that, wouldn't it be a better strategy to be -- to have a depth policy where a market like US, UK and Middle East itself is so large with the large kind of Indian diaspora. And hence, concentrate over there as a couple of questions relate to your strategies on being more inclusive within the large supermarkets and chains where you seem to be absent at this point in time.

I understand that's an ongoing format and a policy that or a strategy that you'd be undertaking. However, it seems like it is taking a really longer time. So instead of choosing to be spread across several other countries, would it make more sense to be vertically integrated within the same country in several other supermarkets?

Bimal Thakkar: Yes. So we are doing that. I mean, our major markets account for nearly 80% of our revenues and which is the three regions, I mean, North America, Europe, GCC. These account for nearly 80% of our revenue. So the concentration and focus is in these markets. And we are going to continue focusing there, adding, expanding our distribution in those markets and expanding our width in those current outlets that we are in. So yes.

Rishi Maheshwari: My question was largely related to, I know that obviously, one would like to be present across all markets as much as possible and concentrate on a few of them. However, the presence across all markets would also require management bandwidth. It will also require a lot of marketing spend. It will require some personnel who would be responsible for all those markets.

Given that 55 countries seems a very large number for the size at which we are. I'm trying to understand how do you balance the kind of expenditure per market versus the sale that you derive from each of those markets?

Bimal Thakkar: So it really is not that much of an effort. The smaller markets are markets where we don't really have any -- make any significant effort. There's no separate marketing spends done for that. The focus is on the main markets. So it's something where our brand is known. We've been doing business for many years.

It doesn't make sense to stop selling in those markets. When you are getting business without really making any effort in some of these smaller markets, it's better to continue rather than pulling out of these markets. Our focus remains on the main markets, and that's where we continue to be.

Moderator: The next question is from the line of Anupam Agarwal from Lucky Investment Managers.

Anupam Agarwal: Sir, just one question on PJ's and Nate's you mentioned we would start looking at regenerating sales from the second half of FY '24. Is the entire INR 35 crore or INR 18 crores half yearly basis is going to come one shot or is it going to take time to ramp that sales up again?

Bimal Thakkar: No, I wish it could come one shot. It will take some time to ramp-up. But there are certain key products of ours with some key customers, we hope to get them started off. So I would say a fair assumption would be that we expect at least 50% or 60% at least to come in the -- once we resume the business.

Anupam Agarwal: And on the ADF Soul, the India business, what commissions are we paying for listing on these e-commerce platforms?

Bimal Thakkar: So it varies from -- Sumer, do you want to get that?

Sumer Thakkar: Yes. So, you all know this Amazon. So Amazon is about 25%

Anupam Agarwal: And are we present across all the major platforms or initially just one or two are we starting off with?

- Sumer Thakkar:** Right now, it's just our website and Amazon, but we are looking in other platforms.
- Anupam Agarwal:** And what level of monthly sales, so Bimal, sir, said that INR 1 crore, we would like to touch INR 1 crore sales in a few months. At what level of monthly sales will we be breaking even on EBITDA level?
- Sumer Thakkar:** So hopefully, at a INR 1 crore a month by, around April.
- Moderator:** The next question is from the line of Faisal Hawa from H.G. Hawa & Company.
- Faisal Hawa:** Yes. Sir, you had mentioned on the previous con-call that there are -- we are in talks with two other majors for some kind of an arrangement of distribution. Where do we stand on that? And second is, what are the kind of margin expansions that we can now make if we have a better scale? And if at all there are more countries that we want to now sell to, which would be a priority for you? Or would you be more sure of getting across the board in USA itself?
- Bimal Thakkar:** So to answer your first question, the discussions with those few companies is still ongoing. We are at final stages of lining out details on the agreement and the territories. So I'm hopeful by the first quarter of next financial year, we should have at least one of these agencies lined up.
- Your second question was we will continue to expand in our core markets, continue to focus in those core markets and expand our penetration there, expand our outlets where we'll focus more on the mainstream side out there. So that is what our plan is going forward.
- Faisal Hawa:** And about the -- my question about the benefits of scale, would you feel that with much larger exports our profit margins could improve by like at least two or three percentage points?
- Bimal Thakkar:** So it all depends on the commodity cost. Right now, we're juggling too many balls. I mean freight has helped us, but commodity costs, packing costs, all of those things have gone up. So we are -- right now, I think, with the way things are, our team has done a great job in getting to these kind of margins. And we will continue to improve product mix, efficiencies, all those things is a continuous and an ongoing process. It's just certain external factors which are not within our control. If those go out of track, then we will see margin pressures.
- Faisal Hawa:** And any of these two arrangements that we are now going to sign, so probably in the next financial year, would be almost equal in magnitude to the Unilever arrangement that we have?
- Bimal Thakkar:** It's very difficult to say. Some of them are new products, which are going to be launched in. So it has a potential of being a large category. But from year 1, it will not be there. So it will take time to build up. I mean, even Patanjali, even though it's a big brand in India, for the UK market, it's got a limited clientele, and we are trying to expand that and increase that business out there as well. So things will take time. But the categories which we are -- or the agencies, which we are talking to have the potential of growing to that size.

Faisal Hawa: And can you give me two or three steps that we have taken in this quarter or probably the quarter before this to really improve our branding and visibility? Because we are now looking at the PLI scheme also helping us in giving us some financing for our marketing initiatives.

Bimal Thakkar: Sure. So we've been more aggressive on our listing fees. So in regions like in UK, where we've spent money on visibility, we've spent money on sampling activity. We do social media and television advertising. So it's a full 360-degree approach that our company adopts. And we continue to do that aggressively. And the PLI scheme is only helping us increase our spends more.

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

Bimal Thakkar: Thank you very much everyone. Have a great day and take care and be safe. Thanks.

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