



# “Future Consumer Enterprise Limited Q3 FY16 Earnings Conference Call”

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**MANAGEMENT:** **MR. KISHORE BIYANI – CEO, FUTURE GROUP**  
**MR. SANJAY JAIN – CFO, FUTURE GROUP**  
**MR. DEVNDRA CHAWLA – GROUP PRESIDENT, FOOD BRANDS**  
**MR. MANOJ SARAF – CFO, FUTURE CONSUMER ENTERPRISE LTD.**

**MODERATOR:** **MS. SONALI SALGAONKAR – YES SECURITIES**

**Moderator:** Ladies and gentlemen good day and welcome to the Future Consumer Enterprise Limited Q3 FY16 Earnings Conference Call hosted by Yes Securities. As a reminder all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’and‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sonali Salgaonkar of Yes Securities. Thank you and over to you Ma’am.

**Sonali Salgaonkar:** Thank you Margeret. Good afternoon everyone we at Yes Securities are pleased to host the Q3 FY 16 conference call for Future Consumer Enterprise Ltd. With us we have the management team of Future Consumer represented by Mr. Kishore Biyani –CEO Future Group; Mr. Sanjay Jain – CFO, Future Group; Mr. Devendra Chawla – Group President, Food Brands and Mr. Manoj Saraf – CFO, Future Consumer Enterprise Ltd. I now hand over the conference to Kishoreji for his opening remarks, thank you and over to you Sir.

**Kishore Biyani:** Good evening and thanks for participating in this call. In this quarter we have seen some interesting happenings in Future Consumer Enterprise, we are getting into shape to become a premier FMCG consumer goods company in the country. We have recorded a top line growth of 40% over last year, we have shown increase of margins, we have done a fund raiser program by getting an equity investor into the company and also the promoters are participating in it. We have moved our convenience stores into a franchise operation which is less capital intensive so we have laid the foundation for probably getting into the next round of business growth and development. We launched our brand called “Sangi’s Kitchen”, Tasty Treat was advertised which showed lot of promise in terms of sales. We introduced our dairy Nilgiris brand in Delhi in the northern region this quarter, our oats factory in Sri Lanka started trial productions. In the Food Park, we have shown lot of progress in terms of getting in lot of people to put in their factories; we leased more than 15 to 20 acres of space to various food manufacturers. Our rice mill, flour mill is showing progress. So all the steps which we have taken seems to be coming alive whether in is our dairy business, bakery business, our ready to eat FMCG business. Also we have worked in reorganizing our entire organization and there are a lot of new senior people who have joined our organization one being Mr. Saurabh Lal who comes from Unilever and Avery Dennison experience joins as CEO Manufacturing and Supply Chain. We have Jacob Peter from KPMG, who has joined us as Chief People Officer. We have also got in a person who is joining us as the marketing head. So the organization is coming together, the product lines are coming together and we are seeing significant growth and we believe that this growth will continue. The business which is making losses and requires some of our capital has now been franchised out. So we have laid the foundation for this being a pure -pure FMCG and distribution company and as we go forward we will see more and more brands being introduced. We have also entered into agreement with the Rajasthan government in building up a rural distribution business through PDS stores and that business is also taken off and by June we would be handling 5000 stores and distributing them

240 SPU's across every store. I think around 700 to 800 stores have been made operational as we speak and we have already opened distribution centers for servicing these store. That is from my side and I would ask Sanjay Jain to now talk about the financial part of this quarter.

**Sanjay Jain:**

Thank you Kishoreji. Good evening everyone. First and foremost, the company has already surpassed the previous year 2014-15 reported top line of Rs. 13 billion in nine months this year. In terms of Q3, company has witnessed 40% growth over the same quarter last year and if we see it sequentially Q3 over Q2 there is a healthy 16% growth. This growth is also matched by a healthy improvement in gross margin wherein during Q3 the gross margins are at 15.5% which is the 240 bps improvement in the corresponding quarter last year. As a result of the healthy growth and expansion in the gross margin, I am very happy to report to you that the company on the whole, after factoring in all businesses, posted a healthy Rs. 46 million EBITDA during the quarter. So from Q1 to Q3 we have travelled a distance of an operating loss in Q1, breakeven operating profit in Q2 and now Rs. 46 million operating profit in Q3. This Rs. 46 million EBITDA in Q3 is coming in from the two main businesses wherein the brands business actually contributed Rs. 123 million of operating profit and there has been a loss in the convenience store business of about Rs. 77 million. With the business alignment that Kishoreji just mentioned wherein the convenience stores are going to migrate to a franchisee model, the loss in the convenience store segments will also significantly come down.

On the nine-month basis, growth is 38% over the same period last year and the margins are at 15.9% a 300 bps improvement over the corresponding period last year. The growth in brands business is far higher than the convenience store, in the nine months the growth in the brand business is at 46%; as a result in the nine months the brands constitute ~76% of the total top line of the company. What we have mentioned here is that while we achieved close to 40% growth in the nine-months period the net debt of the company has come down in nine months by about Rs. 440 million, that is primarily coming in from the fact that our operating cycle, the net working capital cycle, was close to 40 days as on 31<sup>st</sup> March 2015 and based on the nine-month performance there is actually close to 10 days reduction in the operating cycle. So the growth has actually been funded through largely through squeezing in net working capital as a result there has been a resultant reduction in the net debt.

The progress on fund raiser for the company has also been on track as you all know we announced close to US\$ 55 million of fund raiser which included US\$ 10 million from the promoters and US\$ 45 million from the investor Black River. The promoters have paid the initial 25% of warrant application money. On the Black River front, the Investment Agreement has already been executed on 25<sup>th</sup> of January. Subsequently we are waiting for the regulatory approvals in the normal course of business and as soon as that is received we would proceed with the issuance of the requisite equity to Black River as well. So that is the update on the financial performance of the company and Sonali we hand over back to you to take any questions that could be there.

**Moderator:** Thank you very much. We will now begin with the question and answer session. The first question is from the line of Sonali Salgaonkar from Yes Securities. Please go ahead.

**Sonali Salgaonkar:** My first question is could you give us a broader medium term kind of picture where you are looking at your brand section to be? What kind of revenues or what is any target that we're looking over the next 3 to 5 years?

**Kishore Biyani:** We are not giving any forward-looking statement in this session, but we can tell you that investing in the production units, the manufacturing units and brands which are in our portfolio; every brand should be having significant sales. We have a distribution channel which is available in terms of small stores, large stores, we have opened distribution, we have appointed distributors to start a test marketing in Banaras, we are starting distribution in cash and carry stores in India, the a wholesale distribution model is evolving as we speak. I will not like to give guidance on the next 3 to 5 years but I think this company has been set up to build brands and to be as large as any other FMCG food company in the country and we see a lot of similarities between us and ITC, we have got into dairy they are getting into dairy, we are into beverages and juices and they are into juices, there are multiple things. I can only say one can expect significant amount of contribution by every brand which we are building in every category we are getting in.

**Sonali Salgaonkar:** My second question is could you give any update on the Food Park in terms of what occupancy have we reached, what kind of occupancy we are expecting say over the near term?

**Kishore Biyani:** The Food Park, to be honest, has been very much in demand but we are trying to work with people with whom we have synergy and brands which they can build along with us. Our rice mill and flour mill are in various stages of development, they should be operational by June-July this year. Our flour mill has already started, our dips, ketchup and sauces plant has already started, our frozen lines have already started, our pulping lines have already started, we have wafer biscuit factory which should also become operational by June-July and we have now leased out another 15-20 acres of land to around four parties so there are going to be more than another five units coming up there, our flatted factory is fully occupied now there are more than five factories which are coming up there, in all I think by the end of this year we will see 40 manufacturing plants operating from that Food Park.

**Moderator:** Thank you. The next question is from the line of Arpit Ranka from Kovil Investments. Please go ahead.

**Arpit Ranka:** I have a question regarding restructuring of the retail, can you help us understand what exactly does it entail and what are the considerations that you would expect to receive from Future Retail when it is through?

**Kishore Biyani:** We saw merit in not being an operator of retail business rather being a distributor and a master franchisor rather than be an operator ourselves. We thought since we are building up an FMCG and consumer goods perspective in the organization let retail not be at our end. We believe whatever the small stores will sell 60 to 70% business will come out of our own brands. Like Nilgiris is a franchise operation I think KB's Fair price also will become a franchise operation, so in that sense the company will get royalty on the brand usages, company is getting into supply agreement to supply goods to them and the category which we supply we have exclusivity on that. Also the retail business has a gestation period until you do not scale up to significant level. I believe there are losses which we used to incur of nearly Rs.25 to 35 million a month will basically reduce and it will become profitable business for us.

**Arpit Ranka:** Assume going ahead any new franchisee stores that you put up the cost will be taken care of by Future Retail but what about the cost that has already been incurred on the existing stores do we stand to get some payments against that how is the deal working out, because we understand and appreciate the motive behind it and it makes a lot of sense but just to understand the transition in terms of how it would end up working out that would also be quite helpful?

**Kishore Biyani:** I will ask Sanjay to answer the deal on the agreement side.

**Sanjay Jain:** The consideration that flows to FCEL is an aggregation of three things, one is a percentage of revenue that would accrue in all the stores from the sales, second is a long term supply agreement which would lead to margin creation for FCEL, thirdly whatever working capital has been deployed currently in all the convenience stores that are moving to franchisee arrangement that is getting paid by FRL to FCEL as a consideration.

**Arpit Ranka:** What would be the consideration, the working capital that is stuck in these businesses which you stand to reveal?

**Sanjay Jain:** It is close to Rs.300 to Rs.400 million of working capital which is deployed in the business and I think as Kishoreji also mentioned the fourth point which accrues to FCEL is for the fact that on monthly run rate basis Rs.25 to 35 million is operating loss which goes away straight so on an annualized basis the Future Retail is also absorbing 300 million of loss which FCEL is incurring.

**Arpit Ranka:** A few months before we had arrangement with Patanjali what does it mean for FCEL?

**Kishore Biyani:** We are basically distributing the brand in modern trade and we are dealing directly with the company and without any intermediation we are selling their produce across all our chain of stores. Secondly we are in agreement to look at how can we create factories and produce Patanjali in the various manufacturing units which we have set up or going to set up, so it is a two-way kind of arrangement which we have developed with them.

**Arpit Ranka:** This is regarding the positive side of what Patanjali can mean for us but purely from the perspective that ours is also FMCG pure player, FMCG is what you have in mind and what your vision is for the company and Patanjali as a standalone FMCG company has also been doing fairly good.

**Kishore Biyani:** Patanjali is only into herbal and Ayurveda which were not into.

**Arpit Ranka:** Okay, that way you do not see this is a room for competition at least at this point in time some synergies you can work with?

**Kishore Biyani:** I do not see that.

**Moderator:** Thank you. The next question is from the line of Karan Desai from L&T Mutual Fund. Please go ahead.

**Karan Desai:** I was just looking at the categories we are into, there is a set of basic categories like staples, snacks item, bakery and there is a category of emerging products like frozen and dips and sauces so what are we going to focus more on because you have also evolved into as a FMCG company and the kind of growth rates are we do not give split of brand but we try to understand what would be the focus going forward?

**Kishore Biyani:** We are looking at value added products wherever we are getting into business, if you look at our frozen lines we have launched our brand Veg Affaire and Tasty Treat frozen snacks. We did a huge campaign along with Coca-Cola to promote our frozen samosas. We are currently doing a big promotion with Britannia and along with their biscuits we are promoting our Fresh and Pure tea, this is currently a campaign which is on, may be you will see a full page ad tomorrow in newspapers. Unilever also we are doing a promotion with one of their brands so we're trying to build our brands along with categories which are already established, again we are going into value-added products we have launched cheeses, slice cheese, we have launched cube cheese, we have launched cheese spreads our range on dairy probably the most extensive range available in the entire market. So we have done lot of value addition there if you look at our bakery range we are moving away from the daily breads to more value added products. Our whole idea as a Group is to move into value added products as much as possible. If you look at our Desi Atta, we have launched 28 varieties of flours and they are all selling at Rs. 80 per kilo, normal flour is sold at Rs. 20 a kilo. The whole idea is of getting into more value addition we are not getting into normal biscuits, we are getting into wafer biscuits which are sold at more than Rs. 200 a kilo. I think the average realization per kilo for us will be far greater and superior than other brands, we will never get into a glucose biscuits or Marie biscuit or Bourbon biscuit just to give you that perspective.

**Karan Desai:** The Rajasthan PDS you talked that we'll be doing around 240 SKUs is that market ready for such kind of premium products?

**Kishore Biyani:** Actually it is not premium market there, it's more of a distribution business we had a rural distribution arm called Aadhaar which we had acquired. We created the skill set of distributing in a rural area at a low cost. There will be lot of items over there which will get volumes in that items I think we will look at building a brand out there.

**Karan Desai:** How is the acquisition of Kara shaping up?

**Kishore Biyani:** Kara has done very well for us to be honest, we are excited with the progress which we have made in Kara the sales report has been quite good I can ask Devendra Chawla to talk about what we have done with Kara and what have done with other brands also.

**Devendra Chawla:** I will start with Kara, in India there is a whole space available of beauty on the go so we are capitalizing that because if you see in India there is only a wet wipe which are used to refresh the face or remove grime or sweat but if you see women are very conscious and the whole idea of dressing table outside the bathroom is actually a very captive and when you are travelling out of home because of the heat, dust weather temperature and make-up also comes off in some hours. We are capitalizing on a very big insight that beauty needs to be mobile. So we have started working on this, if you see the products are not traditional wipes, we have anti-ageing wipes, we have moisturizing wipes. These are all actually beauty lines given in paper liquid form our numbers have practically doubled in the last six months. We are also using Kara in Miss India sponsorship. Kara is great fit because Miss India is a beauty pageant and nothing better than Kara can go. That is on one side. On frozen, if you see again hygiene is playing a big role, we still have Pani Puri on the road but we always have a little doubt on hygiene, freshness of course we all love but if you see today people do not have time unless you have a car driver to send somebody to buy samosa, it is not convenient, convenience has gone out of eating samosas unless you have lot of help. I think the whole range in Tasty Treat which we have launched with Coca-Cola, and actually numbers grew again three times in the month. It is all about bringing hygiene in value added, safe, Indian food. Frozen again we have done very well, in Veg-Affaire if you see we have peas and corns and mix veg. There is a concept of negative labor, if you see Masterchef on TV, if you see Sanjeev Kapoor or Vikas Khanna or any chef you find he comes on TV and everything is kept cut and it will be on the fire and then he starts cooking, because the cooking is in the last 20%, the first 80% is cutting, chopping, skinning, washing the vegetables which frankly any person can do and that does not really add value, it is the cooking which makes the difference. We are now working on those kind of products, we are trying to do something very unique and we're working with Paneer and peas because peas are seasonally, fresh paneer is a challenge, storing paneer is a challenge, shelf life is a challenge, we can give Matar Paneer shelf life of 3 to 6 months and bring it in the packaged form, have it in your refrigerator for the next 3 to 6 months. So lot of such innovations is happening.

**Karan Desai:** I was just looking at your presentation some of the products in Sangi's Kitchen are very interesting.

- Kishore Biyani:** I think one should try this product, we believe that it is one of the best creations from our side and when we launched this product the consumers have loved it, we are ourselves shocked.
- Moderator:** Thank you. The next question is from the line of Aditya Iyer from Dimensional Securities. Please go ahead.
- Aditya Iyer:** I was wondering you have launched variety of products across categories wherever you have spotted niches so if you could help and let us know what would be your R&D or innovation expenses as on this quarter and how do you see it like trending forward as a percentage of sales or either in an absolute term?
- Kishore Biyani:** We do not have a separate R&D recording in terms of any expenditure, it is a continuous process which keeps on happening, and everything is debited to the P&L.
- Aditya Iyer:** How much would that be roughly because on a steady side the margin should be higher?
- Kishore Biyani:** It is more about the people cost and the trials which we take. We have a separate team of new product development which comprises of various people, various chefs and a whole organization in a kitchen which keeps on developing products. The journey of creating product is nearly 6 to 8 months, while creating Sangi's Kitchen product line we have been on the trial stage for the last 8 to 9 months and there are trials happening for a long period of time then the testing, the shelf life testing, the quality parameters so it takes a lot of time to launch a product, there is lot of preparatory work which happens.
- Aditya Iyer:** I had one more question, basically Black River was spin-off of Cargill as a fund, would there be any technical know-how etc. that would come apart from the money as a part of the recent fund raise?
- Kishore Biyani:** I think we selected Cargill for specific reason that they understand the space that we are in the reasonably well in the global world. Secondly they are very good in sourcing of commodities. We will be looking at building a much broader relationship with a global exposure in terms of sourcing and in terms of doing anything further also.
- Moderator:** Thank you. The next question is from the line of Prashant Kutty from Emkay Global. Please go ahead.
- Prashant Kutty:** Your plans on dairy segment because obviously this space is actually spicing up a lot, we have seen a lot of IPOs also coming in the space, what are your exact plans over here on this part, you spoke about value added services over here as well, five years down the line what do you see this particular part of business?



**Kishore Biyani:** We have now introduced our dairy lines in Mumbai and the western part of India; they are always available in the southern part of India. We have a range which starts from yoghurt to flavored yoghurts to curd, to set curds, now we are launching UHT Milk which is Tetra packed milk which has just been launched. We have gone into paneer we have gone into cheeses, we are in the process of launching flavored milk also, with again a long shelf life, I think in terms of dairy we have a product line which is far-far larger than any other product lines available by any other brand in the country. We have now to make a distribution reach happen across the country that is what we are currently working on. We are not a very big in dairy as such but we are significantly large in terms of our brand and our reach and we want to make it all India and we want to make all our products available across the country; in the northern part of India, we have just launched Nilgiris as a brand.

**Prashant Kutty:** So ideally as of now you obviously have presence in the South?

**Kishore Biyani:** We have introduced it in all the long shelf life products have started moving across the country. Any product which has a shelf life of more than three months is moving outside South and plus, we have taken some capacities of dairy in northern India which will help us in making shorter shelf life product there. We are taking some dairy capacity nearby Mumbai as we speak and we're looking at dairy capacities in the East to make short shelf life products.

**Prashant Kutty:** Secondly this is much broader question we have been seeing some traction on the brands business, what do you think is a very steady state kind of gross margin for this business actually, let us say more longer term period of time?

**Kishore Biyani:** I think again it is a forward-looking statement but we think the margin should gradually increase and we should soon start touching, I do not know the timeframe but very soon, about 20% and going up to 26-27%.

**Prashant Kutty:** I'm asking more of forward-looking perspective as you saying that let us say 26-27% is like a more a steady state margin as far as this business is concerned?

**Kishore Biyani:** It will depend on the product mix and the sales of how much value added product you can create like we're getting into Oats which is again high margin, we're getting into wafer biscuits which are very-very high margin, we are getting into value added dairy which is high margin so we're not getting into all the new launches are much-much higher margin than what the previous launches were. In that sense if the sales keep on increasing the margin profile will keep on changing.

**Moderator:** Thank you. The next question is from the line of Shailesh Kumar from Sunidhi Securities. Please go ahead.

**Shailesh Kumar:** This question is directed to Mr. Biyani, I would like to understand how you have positioned your company in this vast FMCG space?

**Kishore Biyani:** I think as a retailer we think multiproduct and multi-brand at the same time, we are a unique company looking at multi-products and multi-brands and offering it to the consumers because of the distribution which is available to us. I believe earlier the companies which were formed in the world was for a single product but in the last few years if you see the global trend, everybody has become multi-brand and multiproduct. We have started with something like that and everybody is now coming to that position because of acquisition, because of mergers and because of other reasons but all the new companies which are emerging in the FMCG space is looking at multi-products and multi-brands.

**Shailesh Kumar:** But, are you only looking at the premium end of the consumer segment?

**Kishore Biyani:** We believe we cannot compete with the established players on the commodity side of business which are sold on a kilo basis. I cannot make a glucose biscuits and manage the kind of supply chain they have built up, the efficiencies which they have created over the period of time, putting up factories in 20 locations it is very difficult to compete on that space. I would rather do multiple things rather than compete on one or two products with them.

**Shailesh Kumar:** Don't you think it will take heavy advertising expense to position yourself as a premium FMCG brand among the discerning consumers?

**Kishore Biyani:** I somehow believe we have the distinct advantage, we just started advertising one of our brands Tasty Treat and we saw the sales growth of nearly 56% after we started advertising on that brand. Nilgiris as a brand is well known, Kara as a brand is well known and secondly we are getting into new categories with a very unique packaging, if you look at the Sangi's Kitchen we have not spent a single rupee in building the brand but our off take has been better than any brand in that category in the store because it is much better looking. We have got 80% market share on that category once we have launched that product.

**Shailesh Kumar:** You have formed a JV with the Mibelle Group of Switzerland and what is the status of product launches?

**Kishore Biyani:** The product is being made in Switzerland and that will be imported, our first lot is getting produced as we speak and I think the product should be in store by May. It is called Swiss Temple and the first product line will be in the stores, we should get our first shipment in April and by May it should be in all our stores.

**Shailesh Kumar:** For more clarity because of his business reorganization where you have franchised your existing distribution business to the Future Retail have you got any one-time cash from Future Retail?

- Kishore Biyani:** We will get cash of the working capital as Mr Jain mentioned.
- Shailesh Kumar:** As per your own internal estimates in how many years do you believe you will have natural pan India presence distribution team couple of years down the line, three years down the line?
- Kishore Biyani:** Actually if you look at our retail operations we operate in 244 cities which are covering nearly 6000 pin codes out of the 18,000 pin codes in the country. So currently with our current operations also we are able to reach one third of India and every five houses in India we are able to convert which is a modern trade household as we call them. We are able to reach them in this country. Our current distribution is also expanding because I think we are opening 37-38 hypermarkets this year and there are going to be another additions of 200 to 300 small stores which will happen we have got a distribution addition in terms of 5000 stores coming up on Rajasthan with the PDS model, there is Aadhaar which is going to be a model to distribute in Gujarat and Punjab as a region, we have already established our distribution there. Kara has 10,000 stockiest or retailers out of which 5000 are chemists where we are distributing Kara and some of our personal care products. So there are multiple arms of ours, we believe we are able to reach a significant proportion of the population but we are not rural, rural we will be going up to semi-urban areas and we will be touching nearly 7000 to 8000 pin codes of the country.
- Shailesh Kumar:** At the cost of repetition just wanted to confirm if Patanjali has any plan to make any manufacturing facility at our food park?
- Kishore Biyani:** I would not comment on this at the moment.
- Moderator:** Thank you. The next question is from the line of Rishabh Vasa from Almondz Global Securities. Please go ahead.
- Rishabh Vasa:** All my questions are answered thank you.
- Moderator:** Thank you. As there are no further questions I would now like to hand the floor over to Ms. Sonali Salgaonkar for closing comments.
- Sonali Salgaonkar:** Thank you Margreth. On behalf of Yes Securities, I would like to thank the management of Future Consumer for taking out their precious time and for being on the call, likewise I thank all the participants also for attending the call. Thank you so much.
- Moderator:** Thank you. On behalf of Yes Securities that concludes this conference. Thank you for joining us and you may now disconnect your lines.