"Future Consumer Enterprise Limited Q4 FY'16 Earnings Conference Call"

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Moderator: Good Day, Ladies and Gentlemen, Welcome to the Future Consumer Enterprise Limited Q4 FY'16 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 '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like hand the conference over to Ms. Sonali Salgaonkar of Yes Securities. Thank you and over to you, ma'am.

Sonali Salgaonkar: Thank you. Good afternoon everyone. We at Yes Securities are pleased to host the Q4 FY'16 Conference Call for Future Consumer Enterprise Limited (FCEL). With us, we have the management team of FCEL represented by Mr. Sanjay Jain – Group CFO, Future Group; Mr. Devndra Chawla -- CEO, FMCG Brands and Mr. Manoj Saraf -- CFO, FCEL. I now hand over the conference to Devndra Chawla for his opening remarks. Thank you and over to you, sir.

Devndra Chawla: Thank you so much. Good afternoon, everyone. First of all thank you for joining us this afternoon for FCEL's fourth quarter FY'16 and full year FY'16 conference call. I think this year FY 2015-2016 has been a very important year for us at FCEL. On one hand we continued on our path of achieving disproportionate high growth while on the other hand we ended the year with an EBITDA of Rs.30 million. We also expanded our gross margins by 265 basis points during the year with 16% gross margin at FCEL.

I will just mention key highlights. The brands business reported a growth of 43% for Q4 FY'16 and 45% for the complete year FY'16. We reported gross margins of 16.3% in Q4 FY'16 and overall for the year 16%. It is important to note that gross margins expanded by 183 basis points and 265 basis points for Q4 and FY'16 respectively. Currently the brands business is operating at approximately 3% of EBITDA margin. The brand business also accounted for ~78% of the total top-line. Our leading brand Tasty Treat emerged as the key brand registering ~140% growth in Q4 financial year 2016.

In the Staples category, brands have registered a very strong growth of 27% on the back of high growth in Dry Fruits, Staples and Spices categories. Golden Harvest, Premium Harvest, Nilgiri, Fresh & Pure, our home and personal care brands like Clean Mate and Care Mate reported high growth in the range of 20% to 40% respectively. Kara has done well and the brand has reported 30% sequential growth over last quarter Q3 FY'16. Our other brands, Think Skin, Veg Affaire, and Sunkist continued to grow disproportionately.

Our specialty flour brand, Desi Atta, expanded its presence in Rajasthan and Gujarat. And Nilgiris, our dairy and bakery brand now boasts of one of the widest dairy portfolios in the country. In fact in this quarter, we have also added a range of variants in Butter Milk (Chaas).

What is also happening is that our brands are being seen by other large MNC brands as partners of choice to have a go-to-market strategy for consumer promotions and joint effort to win over consumers. In this quarter we launched a joint campaign with Unilever with their brand Bru Coffee and Tasty Treat. This campaign was very successful in which Tasty Treaty actually grew by 82% during the promotional period. Also in South, we worked with Britannia and did a joint campaign with Fresh & Pure tea leading to Fresh & Pure (tea and coffee) growing by 88%. During the quarter, we also launched an ad for Tasty Treat Wafer Biscuits with flavored water brand called Ocean Water. The category witnessed an overall growth of 40% in FCEL.

Let me also speak on our expansion of our distribution network. This quarter we saw our products and our brands being launched at Star Bazaar which is a Tesco and Tata venture. All their Star Bazaar stores are selling Clean Mate, Care Mate, Tasty Treat, Sangi's Kitchen, Sunkist, Desi Atta, Kara, Think Skin among others. I am happy to report that the sales have picked up quite well.

Our personal care brand Think Skin is also now available at Metro and Spar stores. Also, Think Skin has started leveraging Kara’s general trade network. Over 3,000 stores to 4,000 general trade stores now carry the Think Skin Body Wash. I think there has been expansion both in modern trade and general trade of our brands during this quarter.

In fruit and vegetable categories, Go Bananas brand is now available in Metro, we have also identified markets in Bengaluru for distribution of this brand. In fact, Go Bananas is now available in many metros like Chennai, Hyderabad, Pune and Mumbai.

Currently our brands are in over 800 modern trade stores including Big Bazaar, Easy Day, Nilgiris, Aadhaar, Star Bazaar and the partnership with Rajasthan Public Distribution System (PDS) has now been extended it to another 1,200 stores.

On the Food Park side, we signed a bakery products manufacturer for setting up a facility at the Food Park. We have also finalized a land deal with a leading instant food manufacturer. Currently, we are also working on a strong pipeline of food players for setting up their facilities. We are progressing well for setting up our Rice Mill, Wafer Mill and Packaging Units.

On the management side, we have seasoned professionals joining us; we have Mr. Rahul Kansal joining us as Marketing Head. A veteran in the industry in marketing, he was earlier associated with Bennett Coleman. Also recently, we had Head HR Jacob Peter and Saurabh Lal -- Head of Manufacturing and Supply Chain joining FCEL. Very seasoned professionals who have worked with Bennett Coleman, Unilever, KPMG are now on board.

I would like to now hand it over to Sanjay Jain for his comments.

Sanjay Jain: Thank you, Devndra. Good afternoon, everyone. I would like to give you an update on the financial performance of the Company during the financial year 2015-2016 and during the fourth quarter.

For the entire year, overall the Company has grown 34% over the last year and this growth was largely driven by the growth of brand business which grew by 45%.

On the gross margin front, for the entire year the Company had gross margins of 16% which was almost 2.7% up as compared to last year. The similar trends were also witnessed in quarter four wherein the brands business grew 43%, the margins were at 16.3% as compared to 14.4% in same quarter last year.

In 2014-2015, FCEL on the whole had incurred an operating loss of ₹185 mn. Because of the twin impact of top-line growth on one hand and margins expansion on the other, the Company reported a ₹3 mn EBITDA for the entire year. The same figures for the fourth quarter were ₹119 mn loss in the fourth quarter last year versus ₹38 mn EBITDA this year. And in case, we exclude the losses that we incurred in our investment, Amar Chitra Katha, for the entire year our EBITDA would have been ₹92 mn .

While we grew 34%, I am happy to inform you that we have managed to keep our debt under control, debt only went up by about 5% and stands at about Rs.5,580 mn. Inspite of an incremental revenue of Rs.4,412 mn for the entire year, there was only an increase of Rs.279 mn in the debt and we have largely achieved this through almost five days' reduction in the working capital cycle of the Company. The inventory days went down by six days, the account receivable days went down as well. Our Company also improved on the payable days, so that it can actually get some discounts by paying faster, but net-net five-day reduction in the working capital days helped us keeping the debt levels under control.

And now I am very pleased to inform you that at the beginning of the year we had a fund raise target of about US$75 mn, i.e. close to Rs.5,000 mn, so that we can significantly improve the balance sheet of the Company on one hand and at the same time also have sufficient funds to pump in the growth because as Devndra mentioned earlier we feel very positive that the current growth momentum should continue.

We have actually met the entire target number of US$75 mn, we have earlier announced Proterra's (previously known as Black River) commitment to invest $45 million of equity through a CCD instrument. This investment has already been completed & the proceeds have since been received. There was a $10 mn warrant issued to promoters, 25% of that money has also come in. Just about last week, we also announced International Finance Corporation committing to an investment of US$20 mn in the Company. We have now sought our shareholder's approval and subject to other documentation commensurate with such a transaction we shall complete the fund raise.

So the net impact of this would be that there should be substantial reduction in the debt of the Company. We feel very positive that the balance sheet is now well positioned to fuel the growth of the Company and coupled with this the EBITDA is already positive and we expect the EBITDA to only improve as we move on from here.

One more event that happened during this quarter was that FCEL is now a pure FMCG Company. While a good part of our stores were already operating on a franchisee model, for example all Nilgiris stores are franchised. The remaining KB stores and Aadhaar stores have also been moved to franchise model. The Company can actually channelize its focus on creation of brands and expansion of distribution network. This transaction of moving the store on a franchise basis was completed this quarter.

That was in a nutshell overview of the financial performance of the Company and we hand it back to the moderator.

Moderator: Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Chetan Wadia from JHP Securities. Please go ahead.

Chetan Wadia: Sir, my first question, what was the total advertisement spends for FY'16 and what is the budget for FY'17?

Sanjay Jain: We spent close to about Rs. 150 mn during last year FY 2015-2016 and we believe this number could be around Rs. 300 mn –Rs.500 mn or so for the coming year.

Chetan Wadia: Okay. And sir, in terms of number of stores what is the total foot print as of March and by how much percentage you would like to increase by end of FY'17?

Sanjay Jain: See firstly, FCEL would not invest into any stores at all, so therefore, we would not commit any more capital but the stores which we had have been franchised out totally. The last count was 314, which is KB's is 110, Nilgiris is 149 and Aadhaar 55, so 314 was the total count.

Chetan Wadia: Okay. And sir, what kind of debt levels do you see for yourself by end of FY'17?

Sanjay Jain: Currently the cash position is very comfortable; we have reported on 31st of March 2016 net debt of Rs. 5,580 mn. Subsequently we received close to Rs. 3,000 mn from Proterra, we have already repaid approximate Rs. 1,850 mn of long-term debt. The balance pending proceeds are being temporarily parked in CC limits. To answer the question, we do not anticipate the net debt to be more than under Rs. 2,000-2,500 mn at the end of the year. We believe the impact of the equity raise and the EBITDA should enable us get there.

Chetan Wadia: Okay. And sir, my last question if I may. Sir, what were the CAPEX for FY'16 and what is the target for FY'17 and in which area? And what will be the total funding for that CAPEX?

Sanjay Jain: We incurred close to Rs. 1,150 mn approximately for the entire year FY'15-FY'16 and I would say two-third of this CAPEX went into asset creation in the manufacturing side. For example, we incurred about Rs. 450 mn at Food Park across Rice Mill, Flour Mill, Spice Mill, New Flatted Factory, Dips & Sauces facilities. We incurred about Rs. 270 mn for our Oats factory in Sri Lanka, we also spent ~ Rs. 120 mn for the acquisition of Kara. So largely, to answer the question it went into asset creation which would start showing results during the current year gradually. And for the year FY'16-FY'17 on an organic basis we believe the company may incur about somewhere in Rs. 600 mn to Rs. 800 mn for the entire year.

Chetan Wadia: Okay. And which are the areas for which we will be spending this Rs. 600 mn to Rs. 800 mn?

Sanjay Jain: I think we would continue to focus on creating backend facilities. These facilities are still in gestation or under construction including the Food Park, the mills that I mentioned earlier. Devndra, do you want to add something?

Devndra Chawla: Some investments will also go in creating the manufacturing facility for our Wafers Biscuit facility at the Food Park. That is one of our fastest growing categories,

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

Rajeev Handa: I have been awake all night to attend my first conference with you guys, so I am taking the liberty to ask questions; one, on the business side; one, on the finance side, if that is okay with guys.

Sanjay Jain: Yes.

Rajeev Handa: So Devndra, my first question is to you. You know as per FCEL's stated guidance for FY'17 is around Rs.35,000 mn to Rs. 40,000 mn. You are currently at a run rate of around Rs. 4,500 mn per quarter. So can you please give us a quarter-on-quarter revenue trajectory and secondly what capabilities are you building on the distribution side to achieve it? I also wanted to ask you when is the launch of Swiss Tempelle and Kosh happening? And Sanjay I had a question for you but maybe I will let Devndra answer first on the revenue trajectory part.

Devndra Chawla: So Rajeev to answer the second part of the question, regarding the launch of Kosh and Swiss Tempelle (JV with Mibelle). Work is going on for both brands as per our schedule. As we speak the marketing activity for Kosh is on and we should be launching it in the next two to three months. Similarly, for Swiss Tempelle which is our JV with Mibelle it should be happening anytime between August and September. These were the stated timelines that we are more or less on track. And Sanjay, you want to answer on the first question

Sanjay Jain: Yes, I think on the first part in terms of where do we see the top-line number for FY'17, you know we finished the year with a number of about Rs. 17,000 mn last year and so we clearly see potential of doubling this number in the coming year. We believe maintaining the current growth about 30% is what we can expect for now.

Rajeev Handa: About 30% might not give us the kind of guidance that we have Kishore Ji has stated us Rs.35,000 mn to Rs. 40,000 mn that is why I was asking this question.

Sanjay Jain: I think what I would sincerely urge you to differentiate between the potential aspiration vis-à-vis a formal guidance. I think there is always a potential, we are travelling a path of creating brands in categories where there have been not many active brands. So we feel that the potential is there but for now a 30% is what we are gunning for.

Rajeev Handa: Sure, understood, fair point, thanks. Sanjay my second question was, you have completed the fund raising of US$75 mn congratulations for that. How much of it will be used to pay a debt? I heard you say that by end of financial year 2017, you will be at Rs. 2,000-2,500mn or so. So how much it will be used to pay a debt and when can we see we see PBT positive, you have been EBITDA positive this year but when can we see PBT positive after this fund raising gets into the books.

Sanjay Jain: I think we are still around six to eight quarters away. So when we report FY'18 results, our EBITDA should be sufficient to absorb the depreciation as well as the finance charges, so that is the answer to the last part of what you asked. I think every quarter should see us getting closer to that goal. On the first part, as I said Rs. 5,580 mn is the net debt and what we have tied-up is close to Rs. 5,000 mn so, while when we have tied this money we have committed our self to immediately bring down by Rs. 2,000 mn debt. The balance money of Rs. 3,000 mn will be temporarily parked in CC limits. Secondly, we hope to keep travelling the journey of enhancing the EBITDA this year and the EBITDA should generate sufficient amount to enable us meet the CAPEX.

Rajeev Handa: So six quarters to eight quarters is the worst case scenario so fair enough. Last thing I wanted to ask you, you have done good job in terms of franchising the convenience stores. Similarly how much has Amar Chitra Katha been a drag on your revenues or your profitability and it is a kind of a non-core business as far as brands are concerned. Do you have any plans for divesting that business at all?

Sanjay Jain: Firstly ACK is a very nice business; we believe this business has tremendous potential. May be it is not core to the overall foot print of FCEL so whatever my response is going to be is not because the business does not have potential, the business definitely has the potential. But to answer specifically your question, we do not see this business continuing in FCEL by FY'18. But I think this should happen sooner than later. So it is an important priority for us and we do not wish to keep incurring losses, so every effort is on, I am not saying it is going to happen pretty soon but we are working in that direction.

Moderator: Thank you. We will take the next question from the line of Pritesh Chedda from Lucky Invest Managers. Please go ahead.

Pritesh Chedda: Sir, along with your net debt figure if you could give some idea on what will your gross debt look like, what is your interest expenditure on the gross debt, and how do you see your gross debt panning out that is first question? And second, when you scale up from Rs. 14,000 mn of net revenue upwards how will the expenditure line move for you, can you generate operating leverage or that will be proportionate with revenues?

Sanjay Jain: Let me try and answer the latter question first. Expenditure line below the gross margin is kind of a semi-fix costs, for example logistics, warehousing, shrinkage, these are the cost which would grow as the top-line grows. I think the gross margin should continue to expand, we should see 2% to 3% expansion potential, and we broke even at EBITDA level in about three years we are seeing this company making 8% EBITDA margin so one year down the line we should be on that trajectory. I really cannot put a specific number but we should make a significant progress from 0% to 8% trajectory over the next two years to three years. On the other part, I think I gave you the net debt number. The number can be grossed up by adding the cash in hand at the end of the year. But what is more important is the net debt.

Moderator: Thank you. The next question is from the line of Neha Majumdar from Axis Capital. Please go ahead.

Neha Majumdar: Sir, could you clarify as far as divestment is concerned what kind of divestments are looking at? Would you be shutting more stores or would you sell off the business, I mean can you clarify on that please?

Sanjay Jain: I think there was a specific question to us about Amar Chitra Katha (ACK) as an asset so response was only specific to that that we do not see that business continuing in a portfolio. There is no other divestment plan at all and the Company does not own any stores. So we are only looking at ACK in our portfolio as a monetizable asset, everything else continues.

Neha Majumdar: Okay. And another thing is sir, I want to cross check the net debt figure as of March 31st, so can you please repeat the figure if you do not mind?

Sanjay Jain: Rs. 5,580 mn are the net debt.

Neha Majumdar: Rs. 5,580 mn and this you want to bring it down to Rs. 2,000-2,500 mn by FY'17, right?

Sanjay Jain: Yes, that is what we are aiming at.

Neha Majumdar: Okay. And sir, for this you would be looking at raising funds or how exactly you plan to do, I mean can you elaborate it a bit?

Sanjay Jain: As I said in response to earlier question and also in the opening remarks, the Company has already tied up US$75 mn of equity, plus we are already EBITDA positive which should keep on increasing so the result of these two things make us feel positive about this potential reduction in the net debt.

Moderator: Thank you. The next question is from the line of Amish Kanani from JM Financial. Please go ahead.

Amish Kanani: Sir, I had a question regarding the structural changes that the government is proposing - the probable GST being passed which will impact the way we are managing our Food Parks. If you can just give us some sense of how this will structurally impact our business positively or negatively.

Sanjay Jain: If at all and when GST comes, we see that as a positive step on the whole for our business and while we have a number of DCs across the country but we have never over committed ourselves in deploying capital in creating DCs and warehouses. So net-net we see we should be positively impacted by GSTs roll out and how much it impacts let it unfold with passage of time.

Amish Kanani: Sir, the electronic mandi’s that are being created where the farmers are buying and selling their material, would that lead to inflation. Especially, if the farmers are getting better prices and whether that would have some impact on our procurement for the kind of products that we are dealing in?

Sanjay Jain: Prima facie answer is that any such introduction of systems and processes using electronic medium, we believe, is only good for everybody. We are only touching upon that the price increases but we are not talking about the fact that the wastages are huge in the system. With such systems, this can be brought under control and wastages are having a larger impact on the price. Secondly for an organized company any introduction of electronic medium only makes it far more efficient. So we see this as a step in the right direction.

Amish Kanani: Okay. And sir, last question from my side in general our gross margins are lower vis-à-vis your typical branded food FMCG Company. So one – is it function of scale or it is a function of pricing that we have chosen?

Devndra Chawla: If you see our gross margins are consistently being increased year-on-year. Of course one can compare it is to other brands but they have been in business for decades. Obviously, our journey will take some time but the point is to see that the progress is consistently happening every year. I think with the new projects coming including Mibelle or Kosh where the margins can be very high, I think the margins will keep on going up from here.

Amish Kanani: Okay. So the question was the current lower gross margin is it a function of some scale or some pricing strategy? Are we pricing our products quite value vis-à-vis competition?

Devndra Chawla: Our pricing is at par with the market and in many cases we even sell premium products which have gross margins and pricing above the market. However, currently our portfolio has a higher share coming from Staples category. Going forward, FMCG & value added products will continue to increase with new launches including Kosh, Mibelle, and Kara. Tasty Treat has registered the highest growth much more than the Staples category. In Staples, we grew around 25% to 30%; Tasty Treat grew by more than 100% in the last quarter. So contribution of the higher gross margin FMCG products is increasing in our portfolio. Going forward we expect to see gross margins in line with the expectation.

Moderator: Thank you. We will take the next question from the line of Sunita Sachdev from UBS Securities. Please go ahead.

Sunita Sachdev: Just wanted to ask one question on the ramp up of the brands you all have in your portfolio. There are obviously some brands which are very unique which have a differentiated proposition and they probably make a new market for themselves. But given the more mass market brands what kind of underlying growth are you assuming for your existing brands which compete with already existing brands in the market?

Devndra Chawla: Hi, Sunita. Our brand Tasty Treat actually is in many categories and is competing with other players in the market. In many categories like Ketchup, Wafers, Juices, Mango Drink, there is a large market and some of these markets are growing by more than 15%-20% for many players. But if you see us, Tasty Treat actually has grown by more than100%. So frankly we are seeing growth even in existing brand, we do not see our brands as saturated at all because the category is not saturated. Plus, we are still selling in only few retail stores; the scope for us is huge to get into general trade and other modern trade stores. Frankly we have just started selling our brands at Star Bazaar. For us we are talking of disproportionate growth.

Sunita Sachdev: Right. So my understanding was simply on the back of you know how much of your growth should be from existing brands versus new brands versus new markets if you can break-up between the three?

Devndra Chawla: Existing brands will continue to grow in line with what we have grown right now like 25%-30%. We are not only focusing on new brands but also new categories within existing brands. I think our existing brands should grow disproportionately, I cannot a put a number to it because we are yet to launch it but of course that will be much more than the average growth. Again we will continuously add new markets to our distribution. As we speak we are talking to other chains right now for listing of our products. Think Skin has already gone to general trade using the distribution of KARA to a couple of thousand general trade stores and we can take other brands on such a route as well.

Sanjay Jain: Sunita, let me also add. I think mathematically answering the point, growth of the existing brands should somewhere at least be about two-third of the growth for the next year, I think it is only one-third of the growth that we see coming in from new brands. Existing brands got good traction so they should constitute bulk of the growth.

Moderator: Thank you. We will take the next question from the line of Sonali Salgaonkar from Yes Securities. Please go ahead.

Sonali Salgaonkar: Sir, on the brands front, it would be helpful if you could outline your vision for brands business say over the medium-term like the next three to five years. Any particular category you would like to focus on or any particular EBITDA margin or gross margin number that you would like to attain over the medium-term?

Devndra Chawla: See what I can say is that we have identified categories where we want to take significant position in and we want to be market leaders in geographies and channels that we have outlined for ourselves. One area where we have spoken less is of our vision on the personal care side; I think with launch of Mibelle we will get a big portfolio of HPC.

Sanjay Jain: Yes, Sonali to add to what Devndra said, we are focusing more on the new age categories than actually run of the mill categories. For example, Ketchup, Sauces, and Wafer biscuits, Desi Atta, Golden Harvest, Premium Harvest brands have a differential offering. We are never going to make any effort positioning our brands against the established players. We will focus on differentiated offering which is catering to the new age changing palates. For example, we are offering Oats under brand Kosh. Oats is a fast growing category but we are working on a revolutionary idea that can bring Oats to the center of the plate. Can it be part of every meal? Our focus has been on differentiated offering, differentiated products and new age categories.

Devndra Chawla: Yes, and if I can add Sonali as Sanjay said in India we have very few brands, some of the advantages FCEL can take is that the next 20 years belong to the processed food industry.

Today there is a way we consume and there are many categories which are so niche like Sanjay mentioned. Today you do not get the Chutney's, Paste, Dips and Sauces in India and with more women working I think more and more people are looking for the solutions which were earlier made at home. And when you travel worldwide and with cuisines developing in India - there is so much scope. We do not see brands doing enough work on that. If you take Frozen it is very well known in India that cold chain does not exist, I would not even say broken it does not exist because it needs massive investment. It is like a chicken and egg story. If you go to a super market abroad, if you will find 20 - 30 chillers, in India you will find stores having only one or two chillers because products do not exist as nobody invest in Frozen supply chain and vice versa because the Frozen supply chain does not exist nobody launches brands. In India, we only have Frozen Peas in vegetables and French Fries in snacks. By and large to speak these two would be 80%-90% of the market but that is not what India needs. We have invested in Frozen supply chain big time. Future Group took Brattle Foods in its fold and with that right now, we are launching a big range of Frozen Foods which probably will take the next year to two year but I think that can be a significant contributor. In this coming quarter, we would be launching a larger range of Frozen vegetables. Currently the consumption of Oats in India is in a western form because the brands which are selling it in a western form. Our belief on Indian customers consuming Indian food is slightly different so we believe that if Kosh (oats brand) can be made into the third grain like Atta (flour) which is in the center of the Indian plate. I think that can be a big game changer.

Sonali Salgaonkar: Sure, sir this is helpful. Sir, my last question any update on your tie-up with Patanjali Ayurved?

Sanjay Jain: I think that is tie-up between Future Retail Limited and Patanjali.

Moderator: Thank you. We will take the next question from the line of Chetan Wadia from JHP Securities. Please go ahead.

Chetan Wadia: Sir, my question is on your quest to become big FMCG Company, how about selling through Kirana Stores because most of the consumers are still being addressed through that platform of space and what I feel that you are mostly with the organized retail. So how many stores are you selling through as of now and plan to add in the future?

Sanjay Jain: While I would request Devndra to add, but there are 314 convenience stores which we just mentioned about moving to a franchise arrangement and there are Future Retail stores. Along with the acquired Easy Day 180 Super Market stores, FRL operate over 700 stores. So I think that is number to begin with, I think it a journey to get into Kirana stores which I will request Devndra to add but this is the number to start with.

Devndra Chawla: We started our launches in modern trade but realizing the scope and potential, other chains are inviting us to sell our products. We just mentioned that Star Bazaar Similarly, as we speak there has been a demand of our Body Wash Think Skin from General Trade and Chemist Stores. We have already reached to around 3,000-4,000 stores. I think it is a journey of discovery as well. The incubation is happening at the large stores - understanding the customer, getting the pricing right, getting the proposition right, and then extending it to other chains - whether it would be modern trade or GT. Distribution will play a very large role. Going forward brands will not be limited to Super Markets. As we speak we are strategizing on how to take the brands to a much larger canvas of distribution.

Sanjay Jain: Let me also add quickly, while I mentioned about the 500 stores, we also have a tie-up with the Government of Rajasthan wherein we got 5,000 stores allocated to us. We have already made our products available at more than 1,200 such stores. So I think step by step we are getting there. Devndra can you please add about some new city launches as well.

Devndra Chawla: We launched Tasty Treat brand in Varanasi a couple of months back and we got a very good response and we are slowly expanding. Today we are also launching in Allahabad. Tasty Treat will now be available in three cities Ghazipur, Varanasi, and Allahabad. Some brands are taking the Kara route and going into distribution and in some places we have opened distributors like in UP and then there is expansion in the Supermarket side as well so I think that every quarter all the three sides will only grow.

Chetan Wadia: Okay, I take that. Sir, my second question is on the margins front, so when you sell through all these new stores and all this new chains which are being added to your network, how does the margin play out and how much time does it take for margins to come up or is it right from the day one they generate positive margins?

Sanjay Jain: Differentiate margin into two types – gross margin and EBITDA margin. Any such incremental step always starts generating gross margins. As Devndra said, we incubate our product at modern trade stores and get its positioning right. Hence, we straight away start making money at gross margin front and as the volume starts picking up there would be sufficient gross margin to absorb the operating costs. So it is a journey, gross margin happens from day one.

Moderator: Thank you. Ladies and gentlemen, that was the last question. I would now like to hand the conference call over to Ms. Sonali Salgaonkar for her closing comments.

Sonali Salgaonkar: Thank you. On behalf of Yes Securities, I would like to thank the management of Future Consumer Enterprise Ltd 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.

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