



“Future Consumer Enterprise Limited Q1 FY17 Earnings Conference Call”

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

Moderator: Ladies and Gentlemen, Good Day and Welcome to Future Consumer Enterprise Limited Q1 FY17 Earning 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 then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sonali Salgaonkar from YES Securities. Thank you and over to you, ma'am.

Sonali Salgaonkar: Good Afternoon, Everyone. We at YES Securities are pleased to host the Q1 FY17 Conference Call for Future Consumer Enterprise Limited. With us, we have the management team of Future Consumer, represented by Mr. Sanjay Jain – CFO of Future Group and Mr. Manoj Saraf – CFO, Future Consumer Enterprise Limited. I now hand the conference to Mr. Sanjay Jain for his opening remarks. Thank you and over to you, sir.

Sanjay Jain: Thank you, Sonali. Good Afternoon, Everyone.

The start to the current financial year has been positive and on a very strong note. We continue to ride on a strong growth trajectory. For the quarter, overall revenue growth on a like-to-like basis has been 57%. While in the first quarter of last year we reported an operating loss, we have reported an EBITDA of about Rs.36 million in Q1 FY17. The Brand business continues to drive the overall top line growth. Today, as we speak, the Brand business accounts for 91% of the total company top line. The Brands business can be further categorized into two major buckets -- Food & Beverages and Home & Personal Care.

Food & Beverages today account for about 94% of the Brand business. While the overall growth was 57%, this particular segment witnessed 52% growth compared to the same quarter last year. This growth was led by various factors including Tasty Treat brand registering a strong 52% growth, the Branded Staples namely Golden Harvest, Premium Harvest, also registering an overall growth of 57%. Our Branded F&V business witnessed a strong traction under the brands Soo Fresh, Go Banana and Bloom; there has been more than 250% growth compared to last year. Of course, the base was also small. But if we just compare the absolute numbers, there has been more than 250% growth. This growth was also led by the expansion of wholesale distribution channel in Q1 FY17.

Our newly launched brands Sangi's Kitchen, Karmiq, Desi Atta and Veg Affaire, continue to contribute to the growth of this segment. We continue to strengthen the Food & Beverages segment with some interesting launches. We launched the exciting range of fusion drinks under Sunkist brand, including Lemon-Cucumber, Mint-Mojito, Orange-Lemon-Lime. These launches are in line with our thought of launching today and tomorrow's products keeping in mind the customers taste and palate. Tasty Treat extended its offering with the launch of new snacks Crispy Strips and Nimbu Chatka. We also introduced Pure Olive Oil Variant under the brand Karmiq. Desi Atta added various specialty flours such as Fine Besan (gram flour), Coarse Besan and so on. New offerings of existing brands strongly contributed to the 52% growth in the segment.

The Home & Personal Care segment, which contributes up to 6% of the brands business, witnessed 61% growth over the same quarter last year. Some of the constituents were Clean Mate which reported a growth of 31% y-over-y, Care Mate which grew by 22%, and Kara, acquired in July 2015, also contributes to the strong traction that we are experiencing. Sequentially, Kara has grown 18% over Q4 FY16. Extending its “Beauty on the go” positioning, Kara launched a new range of Nail Polish Remover Wipes. These wipes are available in various fruity fragrances such as strawberry, lemon and orange and are enriched with olive oil along with Vitamin E. We believe this extended range should help continue the current growth momentum which is happening in this segment.

The Company also undertook other key brand launches and extensions in Home & Personal Care. In partnership with Mibelle Group of Switzerland, we launched the brand Swiss Tempelle in early August. Currently, we have introduced 3 Body Wash and 3 Body Lotion variants. At present, we are establishing the distribution in 140 Big Bazaar stores, which will be followed by launch in the entire Future Group network and gradually extending to other modern trade outlets as well as general trade. FCEL also launched Hand Sanitizers under Care Mate brand in the current financial year.

FCEL continues to enhance its distribution network with each passing quarter. We are happy to report that the overall distribution footprint had spread across 3,842 stores and our products are available in close to 800 hypermarket & convenience stores of Future Group. Our brands are also present in nearly 50 other modern trade outlets. During the quarter, we added Hypercity to our modern trade network. Our distribution also includes general trade reach of 1,000 stores in Varanasi, Allahabad and Ghazipur. We also increased our Rajasthan Fair Price Shop network by 800 stores to reach to a number of 2,018 stores

FCEL is also building an online presence with its products now available on leading online platforms such as Big Basket, Amazon, Flipkart, Nykaa, among others. We have created a good mix of 3842 stores, in which the stores belonging to Future Group are just about 800. The balance close to 3,000 stores today is via third-party distribution / third-party store and we see this healthy trend to continue going forward as well.

With the strong portfolio of Food and FMCG brands and an extended distribution reach covering both online/offline channels, we aim to continue with the current growth momentum and we believe there are exciting times for us at FCEL and we are happy to be part of this journey.

Now moving on to the financials performance of your Company in the current quarter; The Investor Update and the Financials Results, that we shared with our stakeholders, are based on Ind-AS and the current quarter as well as the corresponding quarter last year includes the impact of Ind-AS. We have reported Q1 within the permitted timelines, by the second quarter we aim to achieve 100% implementation of Ind-AS including the Balance Sheet. But for now,

as permitted, we are reporting the current quarter as well as the same quarter last year on Ind-AS. Some of the key factors which had a bearing include the consolidation of joint ventures is now under the equity method rather than a line-by-line consolidation, there would be fair valuation for financial instruments and business combinations would be accounted at fair valuation. Likewise any government grants, for example as received in the Food Park, would be treated as deferred income and will be apportioned on a systematic basis to the Profit & Loss account. In the Investor Update, we have tried to mention some of these areas which were impacted in Q1 results.

Our total income from operations for the quarter was at Rs.4,671 million which on a like-to-like basis was 57% growth over last year. Like-to-like basis means, last year we had convenience stores also part of our business which has been totally franchised. If we take those numbers also into account then, on a reported basis, there is 35% growth. The growth, as mentioned earlier, is largely led by our Branded Staples and distribution of Branded F&V. During the quarter, the Company reported an EBITDA of about Rs.36 million. As compared to that, there was a loss of Rs.83 million in Q1 last year. Because of the equity that we raised in the last few months, there has been a decline in interest expense by about Rs.33 million over the same period last year. Because of the enhancement in the operating profit and the reduction in interest expense, we have narrowed our losses at the PAT level by Rs.84 million to Rs.207 million. We believe this traction should continue.

While we are achieving top line growth, because of the equity raise we repaid about Rs.1,900 million of debt during the quarter. As a result of the growing traction in the revenue, profitability and also the capitalization of balance sheet, your company received a one-notch rating upgrade in the long-term rating from CARE '-A' to CARE 'A'. In early July, we also finished the fund raise from IFC and approximately Rs.1,340 million was raised. In line with our intent, the total proceeds from Proterra and IFC are being utilized partly to repay debt and balance for meeting the growth requirements of the Company.

With this capitalization, we remain positive that this current traction should continue going ahead as well and we would strive for designing innovative branded products and expanding our distribution network. With the favorable macroeconomic environment, the impact of Seventh Pay Commission and the festive season knocking on the doors, we believe FCEL is well poised for the remaining part of the year.

So friends, in a nutshell this was the operating and financial performance summary of the Company. I now hand it over back to the moderator for facilitating the Q&A.

Moderator:

Thank you. We will now begin the Question-and-Answer Session. We take the first question from the line of Chetan Vadia from JHP Securities. Please go ahead.

Chetan Vadia: What are the current working capital days and what are the ideal days that the company would like to work on?

Sanjay Jain: Currently, we have close to a month of inventory and on the whole the net working capital is close to 50-days, this reflects a buildup towards the festive season ahead. Answering the second part of the question, we should be aiming for close to 40 days of net working capital during the lean phase, but there will be a fluctuation based on peak and lean seasons.

Chetan Vadia: What is the current total debt right now and what level do you see by end of FY'17?

Sanjay Jain: As FCEL reported debt based on Ind-AS in the current quarter, wherein the consolidation of the JVs is under equity method but if we were to report the net debt of the company as per Indian GAAP it is about Rs.3690 mn as on June 30th before the IFC money.

Chetan Vadia: What is the repayment schedule?

Sanjay Jain: Nearly about 35-40% of these lines of Rs. 3690 mn are working capital revolver lines and remaining 60-65% are long-term lines. About 24% due this year, around 40% next year and the remaining thereafter. So it is quite spread and not bunched up, it is spread over more than three years.

Chetan Vadia: For FY17, what are the new product lines that you are currently working on that you may be willing to introduce? In the distribution touch points what new can we expect on the company during the year?

Sanjay Jain: Let me touch upon the second piece first; we would continue to increase penetration in general trade but gradually rather than doing a carpet bombing, we would be careful about the cities that we pick up for the launch. We are listing our brands across key players in modern trade and the focus now would be on how do we increase our presence, how do we increase our shelf space and get entry into key online platforms. Now the focus would be on how do we enhance presence across these channels? The Company has visibility of increasing its distribution network in Rajasthan to cover more Fair Price Shops. As we said earlier, we have visibility to 5,000 shops and currently we are at about 2,000 and we believe this should keep gaining high traction. These are the three things I would say in response to the second piece.

On the first piece, some of the launches which are in the pipeline include flavored milk under the Nilgiris brand, Specialty Atta, Sangi's Kitchen Mayo Dips. The Oats factory in Sri Lanka recently got commissioned and we have used the last few months to stabilize the product and you would soon see the product launch under the brand "Kosh". We believe Oats has a probability of being in the center of plate for every Indian - that is the visibility we have. You should see extended range of Swiss Tempelle brand as well. The Company is geared up well to enhance the product range under the existing brands plus one or two additions.

Moderator: Thank you. We take the next question from the line of Tushar Sarda from Athena Investment. Please go ahead.

Tushar Sarda: I was going through the presentation. Is it possible to give sales of various segments or product that you have because you have given the growth rates, but the absolute numbers are not there?

Sanjay Jain: For the benefit of all, I can try and give you a broad breakup across. The top line for Q1 this year was Rs.4671 mn and top brands constituted about Rs.4,000 mn. Our Staples brands - Golden Harvest, Premium Harvest, Ektaa - contributed about Rs.2,250 mn, Nilgiris contributed to about Rs.500 mn. F&V brands - Soo Fresh, Go Bananas, Bloom - contributed Rs.600 mn. Clean Mate & Care Mate were about Rs.200 mn, Tasty Treat contributed about Rs.200 mn or so.

Moderator: Thank you. We take the next question from the line of Lalit Kumar from MCA Management. Please go ahead.

Lalit Kumar: Two questions: One is of the sales percentage, how much is the online presence sales contributed? Second is on the Future Retail's Hypermarket, how much is the growth rate and what are the future expansions in this?

Sanjay Jain: For the first question, you will have to give us a couple of more quarters to really come back with some tangible numbers. We have been focusing on getting our products listed across various channels; we have crossed that, so the base is there. Allow us a few more months for reporting online numbers. However, currently we are on the right path.

Secondly, I can only speak about what growth our company has seen. Of course the anchor customer, Future Group's 800 stores contributed a good bit to it. So unless and until their stores experienced growth, it would not have translated into growth for us as well. If I have to comment on how my anchor customer has grown, given our healthy growth trend, makes me feel positive that they also would have grown handsomely in the first quarter.

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

Sonali Salgaonkar: Sir, my first question is regarding the Food Park, we have our in-house manufacturing over there. So any update on that as in the last quarter you had spoken about that the occupancies on the increasing rate. So if you have any update that would be very helpful sir?

Sanjay Jain: We continue to expand our client base with companies like MR Fruits, Fairy Foods and Tropicool, for example, a snacks manufacturer signed up two acres and also signed up a good part of grading and sorting facility. In the Wafer Biscuit factory, we have initiated trials; the factory construction has been completed. So, compared to last quarter, these are some increasing tractions that have happened and we are on track right now.

Sonali Salgaonkar: Sir, my second question is with reference to the launch of Nilgiris in the other regions especially the North where we had piloted over the past couple of quarters. Sir, any sort of update as in how has it been received over there, etc.?

Sanjay Jain: The product is very good; the brand has strong connotations, so reception was very good. We have also been through a learning phase in terms of trying to test how we can make the best use of Nilgiris brand in terms of extending the product range. We would like to extend the product range first, getting more traction in the Southern market where the brand is more prominent. As the cold chain logistics develops, as the sector grows, as we get visibility of full truck loads, as economics of scale starts falling in place, we would start taking the entire range to Northern India. So reception has been good, but we would rather be focused more on Southern states at present.

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

Chetan Vadia: What will be the impact of GST on the company in terms of overall?

Sanjay Jain: Firstly, overall, if I were to answer in a word it will be very positive. FCEL pays service taxes & various input taxes which are currently expensed off. There is visibility to set it off. We are in the process of working out the numbers. I can only say the impact is going to be positive and should get visible in the numbers of the Company in terms of both P&L and cash flows.

Chetan Vadia: Second question, I can see the company is on the turnaround phase in terms of loss to profit now and I expect it to continue, but just a while back you touched upon the revenues of different segments, so what are the EBITDA margins that you are currently enjoying in those segments and what will be the blended level that we can expect from the company by end of this year?

Sanjay Jain: As segments what is relevant right now - are Gross Margins. EBITDA margins in the current phase of the Company are more relevant at an overall Company level. Over a longer horizon, we believe your Company has a good possibility of traveling a journey from about mid-teens to about mid-20s in terms of Gross Margins and we are on that path. The cost of doing business should hover around 16-18%. So, as a result there is potential in the future to take the EBITDA margin gradually to about 8% or so. Coming back to this year, you should see us somewhere in that journey; we should have made movement by the end of this year towards the goal. So we are on track.

Chetan Vadia: The way I see the distribution touch point for the Future Consumer is that you are trying to expand the reach over the various geographies, I see that the local kirana stores also the kind of important touch points where the people do most of their regular purchases, so when do I see the Future Group products has been available at the most of the states in the local stores?

- Sanjay Jain:** Chetan, some factors which have a bearing on answering your question is while there is this huge potential which you have highlighted to try and go to kirana stores, but we got to be sensitive to the Balance Sheet as well. We would like to grow in a phased manner keeping in mind the Balance Sheet. Because to be at kirana stores you got to be visible as a brand and you got to be available. Now, both entail spending money. We are focusing on getting into more modern trade outlets, getting into online platforms, wherein our balance sheet should not expand as much. I think you should allow us to follow that path fully, rather than trying to hasten growth and spending across the kirana stores. It is a good destination to be, but let it be a gradual journey. That is why we are picking a few select cities rather than doing pan India carpet bombing.
- Chetan Vadia:** What will be the advertising and marketing spend for the year if you can touch upon the segment wise?
- Sanjay Jain:** For now, the overall marketing spend that we anticipate for the entire year would be in a broad range of Rs.500 mn plus.
- Moderator:** Thank you. There are no further questions from the participants. I now hand the conference over to Sonali Salgaonkar for closing comments.
- Sonali Salgaonkar:** On behalf of YES Securities, I would like to thank the management of Future Consumer for taking out the precious time and for being on the call. Likewise, I thank all the participants for attending the call.
- Moderator:** Thank you. On behalf of YES Securities, this concludes the conference. Thank you for joining us and you may now disconnect your lines.