



## “White Organic Agro Limited's Q1 FY18 Earnings Conference Call”

**August 16, 2017**



**MANAGEMENT: MR. DARSHAK RUPANI - MANAGING DIRECTOR,  
WHITE ORGANIC AGRO LIMITED  
MR. VISHAL CHAVDA - CEO (FARMING), WHITE  
ORGANIC AGRO LIMITED  
MR. KUNAL BHAYANI - CEO (RETAIL), WHITE  
ORGANIC AGRO LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the Q1 FY18 maiden earnings conference call of White Organic Agro Limited. 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, please signal an operator by entering \* then 0 on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Darshak Rupani – Managing Director, White Organic Agro Limited. Thank you and over to you, sir.

**Darshak Rupani:** Thank you. Good afternoon everyone and a warm welcome to all the participants to the maiden earnings call of White Organic Agro Limited for the first quarter ended FY2018. Today, I am joined by Mr. Vishal Chavda who is CEO (Farming), Mr. Kunal Bhayani who is CEO (Retail) and Bridge Investor Relations, our Investor Relation Advisors. I hope that you all had a chance to look through our investor presentation or looking at it right now. This being our first maiden call, I will first take the opportunity to introduce our company to you.

White Organic Agro Limited was formerly known as White Diamond Industries Limited which was incorporated in 1990, which was operating in a diamond business. As you all may be aware that in the recent past, the whole diamond industry was going through a very tough time and it was difficult to operate business in such sluggish market. In the year 2012 to 2014, we decided to look at other business avenues in various industries. Finally, in 2015-2016, we diversified and shut our diamond business completely to venture into organic farming and retail with a sole aim to provide unadulterated and pure organic products to the market, directly from our farm to stores. This process eradicates the whole chain of wholesalers, dealers, distributors, other party involved in the sales of goods, eventually bringing down our costs.

Our farmer's association program gives huge benefit to the organic farmers who are associated with White Organic Agro Limited. Today, we are the only listed entity catering to entire organic product range with over 220 premium organic products in 12 major categories and 17 subcategories from its stores, which include grains, pulses, edible oils, fresh vegetables, fruits, ghee, medicinal herbs and capsules, organic health supplements, snacks and many more. Our products are packed at our packaging factory based out of Rajkot, Gujarat which is in close proximity to our farms. The company sells its products under the brand name called "White Organics". Currently, our sales model is based on E-commerce, owned and franchise retail stores, and in future we will be getting into exports.

On the retail business front, our business model runs on owned and franchise store. In October 2016, we opened our first owned flagship store in Ghatkopar, Central Mumbai which is strategically located very close to Eastern Express Highway and it attracts very good footfall from not only Ghatkopar region but also from Chembur and other parts of Mumbai. After receiving amazing response and appreciation for our products from across India through our fully integrated online portal. In March 2017 other than Maharashtra, for the first time the



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company ventured in different region domestically. We successfully opened 5 new franchise stores in Gujarat under the brand name “White Organics” which are 2 in Surat, 1 in Anand, 1 in Vadodara and 1 in Morbi. Our total number of stores now stands at 6, including our owned store located in proper suburban Mumbai under Company owned model, another 5 stores in Gujarat under franchise model.

We strongly focus on consistent and high-quality product which has been our trademark and biggest strength that has helped us to create more and more confidence in our customers leading to the continuous flow of repeat orders and fresh orders. Going ahead, we are planning to open more retail outlets across Mumbai, Pune, Nasik, Ahmedabad, Surat, Vadodara, Rajkot and different educated, health conscious and densely populated areas across India. We are very hopeful about the future, given the significant opportunity in the organic space. We have been witnessing an uptrend in the customer footfalls at our retail stores. With new additional product added to our product portfolio that has contributed to some outstanding performance. We remain focused on acquiring new retail franchise stores and remain committed towards growing our product base basket within existing segments. Our product selection criteria is such that we choose products that are in great demand and we aim to gain immensely. Along with this, we are also focusing on expanding our farming land on leased basis.

On the farming business front, our products are cultivated on leased farms located in and around Rajkot, Gujarat. We initially started our leased farming on 108 acres of land in Gujarat where we are cultivating various crops. The farms are inspected on a regular basis by the officials from the governed body called APEDA which runs on the guidelines of global organic farming norms. APEDA also keeps a record of overall organic business activity carried out in the Indian organic market including exports. Currently, our farms are IC-1 certified organic farms which in 3 years’ time will be approved as 100% organic farms and will be certified under IC-3 category and then the export would open-up. In April 2017, we leased additional 422 acres of farm land for cultivation, harvesting and farming for organic products. With this, today we have 530 acres of land on which we do organic farming. Apart from our own farming activity, recently in July 2017 we bought a majority stake in future farms LLP Rajkot, Gujarat with a view to tap rapidly growing organic food demand and also to increase our capacity for cultivation.

Future Farms LLP has a very strong team of supervisors, agronomists and labors. Future Farms LLP has over 530 farmers registered under its organic programs. It has a total of 2,800 acres of land which currently cultivates 56 different variety of crops, majority of which is Aloe Vera and Moringa. This acquisition will further spread White Organic Agro’s horizon and establish strong presence across western region of India in the organic market.

On the marketing front, we are creating awareness about the organic product health benefits. We are using various platforms such as digital marketing, sales and promotional activities like exhibitions, fairs, educational materials, SMS, WhatsApp and another social media marketing

and many more. We continue to concentrate on building a strong backend that will not only enable us to cater to the expected demand in this ever-growing organic segment but also help us to penetrate deeper and spread our geographical reach. We are experiencing a very strong traction in the demand for our products. Our commitment towards doing our bit in making a stronger and healthier society remains at the forefront. Our efforts will always be to win over the trust and loyalty of our customers which will ultimately build a great brand, "White Organics".

We actively participate to its mission to create a sustainable environment of bringing health, happiness and true wellness to our customers. I thank the whole team of White Organic Agro for their untiring efforts, hard work, sincerity and dedication. Also, I would like to thank our valued shareholders whose support and faith in our company has given us the determination and ambition to go from strength to strength. Hence from an overall business perspective that is all from my side.

Now, I will hand over to Mr. Vishal Chavda who will take you through the first quarter of FY18 financial performance of the company. Thank you.

**Vishal Chavda:**

Thank you, Darshak bhai and a very good day to all the participants. I will be sharing highlights of our consolidated financial performance, following which we will be happy to respond to all your queries.

Company has registered fantastic revenue of Rs. 18.09 crores with a year-on-year growth which grew by 4049% from our previous 0.44 crores in the same quarter last year. The EBITDA stood at Rs. 1.51 crores in Q1 FY18 which was increased by 1417% as compared to Rs. 0.10 crores in quarter one of financial year 17. The net profit for Q1 FY18 stood at Rs. 1.50 crores as compared to Rs. 0.06 crores in Q1 FY17, growth of 2600% on year-on-year basis. Our EPS in Q1 FY18 stood at Rs. 1.20 registered a growth of 2900% as compared to Rs. 0.04 in Q1 FY17. That is all from my side.

**Darshak Rupani:**

That is all from our side and now we can open the floor for questions and answers.

**Moderator:**

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Vikram Suryavanshi from PhillipCapital. Please go ahead.

**Vikram Suryavanshi:**

Can we get details in terms of Future Farms, how much land they have because you said 2,800-acre land, is it owned by the Future Farm or is it lease basis or how is that?

**Vishal Chavda:**

Sir, in Future Farm exactly there are two verticals in which the Future Farms is working since last 5 years. One vertical is the land, which is being owned by Future Farms. This owned land is the one which is taken on lease and rental basis.

- Vikram Suryavanshi:** And how much is that?
- Vishal Chavda:** That is 600 acres of land with Future Farms which it has taken on lease rental basis, on which Future Farm is directly doing the cultivation activity. It is growing the crop as per its requirement. This is one segment or one vertical of Future Farm. Another vertical is the 530 farmers which are associated with Future Farms and those 530 farmers will act as per the requirement or as per the Future Farm's desires. They are in a way, contract farmers who are doing cultivation of crops as per our requirements. Those 530 farmers are aggregately holding 2,800 acres of land. So, it is 600 acres plus 2, 800 acres.
- Vikram Suryavanshi:** Okay. And any idea how much, is the revenue that they are doing currently or some broad numbers?
- Vishal Chavda:** See it depends on different type of crops. There are few of the cash crops in which the margins may not be that great. There might be certain kind of horticulture or herbal crops in which the margins would be too high. So, if I want to put an average it would be around Rs. 50,000 to Rs. 1,00,000 per acre per year would be the profit. That is what a farmer could earn out of that specific line.
- Vikram Suryavanshi:** Okay and how much stake we have got in this?
- Vishal Chavda:** This entire 530 farmers belong to us only, which is the Future Farms.
- Vikram Suryavanshi:** No, I just wanted to know how much is the majority stake we have got, so it is how much percentage 51%-52% in the Future Farms?
- Darshak Rupani:** 90% in Future Farms is owned by White Organic Agro Limited.
- Vikram Suryavanshi:** And any price you would like to disclose, at what price we have brought it?
- Darshak Rupani:** It is a very commercially sensitive information, so we won't be able to divulge any information at this moment. We will take this offline and we will give you the information.
- Moderator:** Thank you. We have the next question from the line of Jatin K from GS Investments. Please go ahead.
- Jatin K:** I wanted to understand everything that we are selling, are we manufacturing it or some part we are buying from someone and selling it?
- Vishal Chavda:** No sir. In the farming segment, there are three verticals. One is the 600 acres plus the land owned by White Organic, on which we are self-cultivating. In addition to it, 530 farmers and 2,800 acres of land, on which those farmers are cultivating for us. Except those two verticals, my entire

gamut is spread across Gujarat. Now specific kind of rice may not be available or not suitable to the Gujarat atmosphere at all. In that scenario, I might need to go to Madhya Pradesh. This is where the B2B transactions happen. A trader from Assam or Sikkim or Madhya Pradesh would love to buy a groundnut from me and I would love to buy such rice or some variety of wheat from Punjab, this is the way how B2B transaction happens. So, we are open to all the things and few of the things we trade as well.

- Jatin K:** So what will be percentage as in total revenue that will be coming from trading part?
- Darshak Rupani:** If you are talking about trading, currently we won't be able to give you exactly numbers but the farming activity would contribute about 30% and trading and retail together contributes about 70%.
- Jatin K:** And sir I guess margins would be quite different in our own manufacturing versus what we are buying from the other?
- Darshak Rupani:** Certainly, yes. The margin in our own products varies from 25% to 50% and in trading, we enjoy a margin of about 3% to 5%.
- Jatin K:** Okay. So do we plan to reduce this trading part going forward?
- Darshak Rupani:** Obviously, going ahead, once we are into IC-3 category that is organically 100% certified category. We would be very much concentrating on the exports and that is when the trading would come down drastically.
- Jatin K:** Okay. Currently export is zero for us?
- Darshak Rupani:** Yes, because we are not certified to export.
- Jatin K:** And sir on retail side, how much percentage comes from the online e-commerce and how much from our own retail stores?
- Kunal Bhayani:** Hi everyone, percentage wise it is 50% online or the e-Commerce sales and the rest is walk-ins or the retail sales.
- Moderator:** Thank you. We have the next question from the line of Vetri Raju from Equity Analyst Private Limited. Please go ahead.
- Vetri Raju:** Just now there was this answer that, the turnover right now is 5% only is retail, so what do you think the percentage of retail will be in 1 to 3 years down the line?

- Kunal Bhayani:** It would be expanding in the range of 10%-20%. But retail is just for the presence what we are keeping and we are also keeping the retail for brand building.
- Darshak Rupani:** I will just take it ahead. Retail is just for awareness. We are not looking at the revenues from retail because in the organic segment we need to have presence. We need to educate people to diversify from conventional goods to organic goods. So, retail is just for presence. From the profit point of view, we are very much contented with the agricultural segment.
- Vetri Raju:** So taking the cue, the balance 95% is possibly B2B business with a few big purchasers?
- Darshak Rupani:** Now, yes because we have not yet converted IC-3 that is 100% certified organic. In laymen terms, we can say that we are just in the process of conversion and that is the reason B2B is 95% of the activity.
- Vetri Raju:** And I think the CFO just explained that profit per acre will be like Rs. 50,000 to Rs. 1,00,000 or something. So, assuming it is like 3,000 acres and putting a lower value of Rs. 50,000 as a profit, it works out to something like Rs. 15 crores as profit. Now what will be the share of White Organic and what will be the share of the other farmers in Rs. 15 crores?
- Darshak Rupani:** The numbers that are given by Mr. Vishal are very conservative. However, Mr. Vishal could you just explain him a bit on the same question?
- Vishal Chavda:** The 3,000 acres of what we are talking about as of now. We are at 1,200 acres in all which includes the land being cultivated by Future Farms as well as by White Organics. By the end of the next year, we will reach to a level of 2,000 acres in aggregate and the year after we will be at around 3,000 acres. So yes, after two years by the time when we will reach to 3,000 acres of land and a part of our land would have also got converted to IC-3, which fall in the export category. We are confident of reaching a figure of Rs. 15 crores plus other contribution from our farming activities.
- Vetri Raju:** So right now, it is 1,000 acres and end of FY18 it will be like 2,000 acres, did I read it right?
- Vishal Chavda:** Right now, 1,200 acres and considering a profit of around Rs. 50,000 to Rs. 1,00,000 per acre, we are targeting Rs. 10-12 Cr of profit this year.
- Vetri Raju:** That is my question, is this Rs. 10-12 crores for White Organic or is there a share which will go to the farmer out of this Rs. 12 crore?
- Vishal Chavda:** No. The procurement from farmer is all together a trading activity sir.
- Vetri Raju:** Okay. That is the cost for us?

- Vishal Chavda:** Yes. That is a separate activity. Moreover, there are also tax benefits available whereby I am cultivating directly on the land.
- Vetri Raju:** Okay. So essentially you are saying this entire topline because of these 1,200 acres of something and the entire bottom-line of like Rs. 10-12 crores will accrue to White Organic by FY18 end?
- Darshal Rupani:** Yes, exactly.
- Vetri Raju:** Is there any seasonality factor in your crop. Is it going to be like linear across the year or it will be lumpy on 1 or 2 crops through 12 months?
- Vishal Chavda:** Sir, we do have various variety. As of now, we are mainly focusing on Aloe Vera as well as Moringa, that is drumstick and both has got a 5 year of life cycle, that is a perennial crop. So as of now for those two crops, it is a 5 year of cycle. But recently we have done some pilot projects for Ashwagandha, lemon grass and things like that. Ashwagandha has a life cycle of just 5 month. Again, it depends on the kind of land what we find for ourselves. If a land is of such nature whereby we have 12 months of water and enough of irrigation facility, we will plan a perennial crop. But few of the lands which do not have 12 months of water facility, it is only for 6 months during the monsoon period if the water facility, irrigation facility is available, then we will choose to go with the crop like Ashwagandha.
- Vetri Raju:** So the answer from the explanation I hear is that the revenues will be lumpy meaning you cannot expect linear growth month over month. You get suddenly a lumpy revenue growth which may be just after monsoon or something? Is my understanding, right?
- Vishal Chavda:** To support the same thing, I will put it in a different way sir. In Q1, it was the summer season which we faced. Aloe Vera performs at only 10% of its productivity during the summer season. So putting the same thing maybe in second, third and fourth quarter to come, we have far better figures than what we have shown in Q1 because Aloe Vera by nature doesn't perform so great during the summer season. But the pulp extraction and the volume of pulp will be far higher in Q2, Q3 and Q4 because those will be supported by monsoon and winter seasons.
- Vetri Raju:** And taking a cue from the earlier person who asked the question, in the P&L we see that cost of material consumed is practically zero and purchase of stocking trade is almost the entire cost of raw material. So that will change in the future or this is going to be the business model where almost the entire cost is basically stocking trade.
- Vishal Chavda:** Like in Q1, our topline was approximately Rs. 38 lakhs to 39 lakhs, whereby our bottom-line was around Rs. 33 lakh, though Rs. 6 or 7 lakh is the cost which we incurred during Q1. That is the labor cost and basic material cost. So to make you understand in a better way, the crop which will give the highest amount of margin will be the crop that White Organic will directly be cultivating and the cash crop or the crop which doesn't offer such great margins, are the crop

which we expect our farmers to grow for us. So we will try to increase the margins of which is being shown as of now.

**Vetri Raju:** And what is the stickiness of these farmers either directly with us or with Future Farms. What is the contract? Is it by good faith or, how is it?

**Vishal Chavda:** White Organic Agro Limited is the mother company which has got a 90% stake in Future Farms. Future Farms has created ICS group. In organic term, ICS stands for Internal Control System groups which is registered under APEDA. APEDA is again a government agency. So tomorrow if a farmer wants to sell his 10 Kg of groundnut to a European buyer, he needs to pass through one specific certificate from the farmer to the European buyer. Now, this certificate is in the name of Future Farms and not in the name of farmer. So tomorrow if by any reason farmer decides to get away from Future Farms, he will not have that certificate and so he will never be able to earn a premium by selling it to European buyer. By hook or by crook, he has to stay with Future Farms if he wants to deal in organic segment.

**Moderator:** Thank you. We have the next question from the line of Kunal Shah from Allegiance Advisors. Please go ahead.

**Kunal Shah:** Just taking the cue from the last few questions answered, the first thing what we wanted to understand is, if you could give a breakup of the Rs. 18 crores turnover what we have done on a consolidated basis, in the first quarter Rs. 38 lakhs is standalone basis that is basically if I understand correctly from the farming activity that we have done as explained by the CFO on which we have spent some Rs. 6-7 lakhs. So, barring all that the other Rs. 17.5 crores or Rs. 6 crores is all from trading activity?

**Darshal Rupani:** Yes, exactly.

**Kunal Shah:** And further from trading activity, what would be the portion of the retail and from the farming side?

**Darshal Rupani:** The trading portion is not actually a trading. It is basically the crops that are being harvested by our farmer group, those are sold in B2B model and the retail. If we talk about percentage basis, it will be 5%-7% of 17.5 crores.

**Kunal Shah:** So on a consolidated basis, we expect the operating margins to remain somewhere around 8%-8.5% all throughout or how do you see it consolidating.

**Darshal Rupani:** If we talk about the margins, the margins are quite low in IC-1. Vishal bhai, why do not we explain them about IC-1, IC-2 and IC-3 and how are the margins go ahead in the same segment? How the margins will increase in IC-3 once we reach IC-3 in FY19?

- Vishal Chavda:** Sir, I will explain you a small example. If I am selling a Moringa leaf which is conventionally grown, I will be able to sell it at Rs. 100 a kg. If it is organically grown, I will be able to sell it at Rs. 135 a kg. But if I do have an organically certified certificate in which I finished 3 years of my organic certification procedure, I will get Rs. 265 per kg of rate as compared to Rs. 135. So this kind of margin are available because it is an export game in which foreign buyers will be interested to buy out your product. Moreover, about your question of whether the consolidation will happen at later stage with the same margin or not, I would add from the cultivation side how Aloe Vera has performed in first quarter. It is approximately 10%-15% of its productivity because in summer, the pulp generation does not happen within Aloe Vera, but once the monsoon season started and we do have a very good rain in Rajkot and Saurashtra region as of now. We are very happy and we are expecting far better margins that we will be able to achieve out of cultivation activity.
- Kunal Shah:** And where do we stand as of now as far as reaching that IC-3 level. So that we can export, so it is a 3-year process, right. So where do we stand as of now?
- Vishal Chavda:** Sir in this Q2, our second year is starting. Our second year will get finished by Q2 next year and by Diwali 2018. Then in third year, i.e. 3 months of third year once the crop is ready after 3 months of the third year, we will be certified. So after Diwali 2018, our exports processes will get started. We have already launched few of the marketing box for that as well sir.
- Darshal Rupani:** To add on to the same, what happens is the land changes in Holy or Diwali, it is not in March. All the land changes hand from Holy or Diwali, so the year for us is Holy to Holy or Diwali to Diwali. Lands that we have acquired in phase manners will start getting converted. 108 acres will be converted in Diwali FY18 and so on from IC-1, IC-2, IC-3 levels.
- Kunal Shah:** So again, in Diwali 2018, it will not be the whole 1200 acres which would get converted right? It will be only the first tranche of 108 acres that would get converted right?
- Darshal Rupani:** Exactly. But what happens is let us say in this Diwali if we are acquiring x number of acres, that will be converted in FY20.
- Kunal Shah:** The other question as far as the stake that we have bought in Future Farms LLP, so is it an equity transaction or is it a monetary transaction that has happened let us not disclose the numbers, but still equity transaction or monetary transaction.
- Darshal Rupani:** It is the monetary transaction.
- Kunal Shah:** So then we have been able to arrange the cash flows from our internal accruals because we do not see any debt coming up.



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- Darshal Rupani:** Yes, we have. The company is very cash rich and very recently, the promoters and the family & friends have already infused Rs. 15 crores.
- Kunal Shah:** Through unsecured loans?
- Darshal Rupani:** Through preferential allotment of warrants.
- Kunal Shah:** And if you could throw some light on Rs. 27 crores which is lying in noncurrent investments, what are those amounts?
- Darshal Rupani:** As we all know, this company has diversified from diamond to organic in last one year. Rs. 27 crores were already lying with the company. So, there are few noncurrent investments but those are in the process of coming back to the company.
- Kunal Shah:** So further there will be cash flow of Rs. 27 crores that will be coming into the company in near future. So, to understand it correctly even if you want to expand further, there will be no cash requirements because there is a preferential allotment that is being done to the tune of Rs. 15 crores, there is another Rs. 27 crores. So it is like almost Rs. 40 crores that are lying with the company as of now, correct?
- Darshal Rupani:** And hopefully profits as well.
- Kunal Shah:** All fine. And the last question sir as far as the shareholding pattern goes, so right now it is at 27.5% and post preferential allotment, what it would be once it gets converted into equity?
- Darshal Rupani:** 27%, approximately
- Kunal Shah:** So any plans to further increase it and what is the plan of the promoters as far as the shareholding pattern goes?
- Darshal Rupani:** Obviously, we do have plans. Creeping acquisition is always the best method, but at this moment no, in the very recent future, also no.
- Kunal Shah:** So that is going to remain as it is.
- Darshal Rupani:** At the moment, yes, we can say so.
- Kunal Shah:** One last question since you have given the opportunity. In B2B also, if you would like to share some of the details of clients that you are dealing with?

- Darshal Rupani:** It is very sensitive and on the open call, I do not think so giving the names would be appropriate. If you have anything, we can take it offline and our investor relations team would get in touch with you.
- Moderator:** Thank you. We have the next question from the line of Harnesh Doshi from an individual investor. Please go ahead.
- Harnesh Doshi:** I would like to ask what is the status of organic medicine. I guess you have got approval from government to produce Ayurvedic or organic medicine. Any progress on the same?
- Vishal Chavda:** We have got the approvals for churnas, for medicines, for syrups. There are four categories and we have started initiating few machineries required for the same. For example since we do have Moringa production at our own farm, we will love to make tablets and capsules which are of Moringa and it has got good market. So, we have appointed two of the technicians who are good with dealing with those churnas. Those are the scientists what we have appointed on Future Farms and soon we are expecting to start the production on those lines sir.
- Harnesh Doshi:** I have got one more question. You are planning to setup 50 retail stores. So, by when would be that possible?
- Darshal Rupani:** Currently, what happened was we had plan to come up with the stores in Q1, but because of GST implementation, a lot many franchise owners were not really keen or we will just have to wait for the GST implementation to settle down. So, in FY18, we would have 40 stores in place. Right now, we have 6.
- Harnesh Doshi:** Right now, 6 are operational, right?
- Darshal Rupani:** We will have 40 stores in FY18. Actually, advertisement was printed in the newspaper inviting the franchises and we have got around 73 responses and a huge turn up out of those 73 responses are expected.
- Harnesh Doshi:** That is good. And just now you answered to guy who was previous to me in the queue about your shareholding percentage that you acquired warrants and shares but still your promoter holding would be around 27%. So since I feel it is on the lower side, you plan to creep it up?
- Darshal Rupani:** Yes, there is always a plan to creep it up.
- Harnesh Doshi:** And any status on your UAE subsidiary?
- Darshal Rupani:** It is already under process. In Q2, we will get the numbers flowing in from there as well.
- Harnesh Doshi:** In Q2?



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- Darshal Rupani:** Yes.
- Moderator:** Thank you. We have the next question from the line of Pankaj Gupta, an individual investor. Please go ahead.
- Pankaj Gupta:** I just wanted to understand what would be the working capital cycle in this business in the sense that your procurement of inventory. So, if you can explain the payment patent to farmers, generally what is the level of stock, which you will be getting in and the whole process of working capital cycle?
- Darshal Rupani:** Mr. Gupta, it is not a capital oriented business. We do not really require a lot of capital if you are talking about capital requirement and for us, it is not a lumpy business at all. It is a very staggered business. We will be growing in a very staggered manner, in a very slow and steady manner.
- Pankaj Gupta:** So generally, we need to pay the farmers on a cash basis or our selling happens on a cash basis?
- Darshal Rupani:** Yes, it does.
- Vishal Chavda:** So usually the way how buying happens from the farmer is like we commit to a farmer, during the season that we are buying this quantity of green gram from you because the season of green gram would be somewhere around September or October. That is the time when we need to procure the green gram. Since those are the farmers who are associated with us under ICS scheme, we get a credit of around 7 days within which we have to pay them off and we would initiate the buying only when we have a ready buyer with us for green gram who will give us a credit of around 15 days. So those are the 7 days in which we have to manage the fund if so required. And usually the thing happened in such a way that on rotational terms, we are able to satisfy the need. In case if there is any sudden requirement of fund, the promoters are pretty cash rich and they can infuse such loan in a way they can bring the fund if so required.
- Pankaj Gupta:** So what I am trying to understand is that if we procure from the farmer, say in the month of September when the crops come, we sell it immediately, we do not need to stock it and sell throughout the year.
- Vishal Chavda:** I will take you through the process of crop planning. What happens more than 530 farmers which grow 56 different varieties of crops. What we need to do is we do a crop planning meeting every 2 months before our season starts. Say for example if the monsoon starts in the cultivation or plantation starts in first week of June, maybe in April second half we will have a crop planning meeting with the farmers in which we do have a set of buyers. For example, there is a buyer who is ready to buy out 100 tonnes of groundnuts. So how much land do you need to create 100 tonnes of groundnut, that is say for example 800 bighas of land. So, I will allot 800 bighas of farmers at groundnut work. Then, I do have a buyer for green gram. So, I will find out we need

40 bighas of farmers who will grow green gram. So, accordingly I will suggest 40 bighas of farmers to grow green gram. So, buyer party would already be ready by April if I want to initiate or if I want to ask the farmers to grow because at that time only we will decide it. For example, what specific variety the buyer wants for groundnut whether it is J20 or J22 or J14, buyer will specify in April itself that I am ready to buy this many amount of groundnut in which you need to grow J20 variety of groundnut and that entire production I will buy out, provided you create this much of amount. So, this is the way how crop planning happens sir. It is not that when the crop is in hand and then after you start searching for a buyer. It doesn't happen like that because otherwise we will not be able to match the specification of buyer at last point.

**Pankaj Gupta:** And generally, we buy 100% of the produce from the farmers or farmers are free to sell to other third party also?

**Vishal Chavda:** Sir, usually if I am buying from a farmer, the way how I buy is you check out the today's newspaper rates of groundnut. So, if it is Rs. 750 to 800 per 20 kg, then average is Rs. 775 per 20 kg that is mann, we call it mann, so 1 mann cost Rs. 775 kg so I will pay a 5% of premium if that farm is under IC-1, I will pay him 10% of premium if that farm is under IC-2, I will pay him 15% of premium if that farm is under IC-3. If he decides to go somewhere else and not to sell it to me, he will not get that 5%, 10%, or 15% of premium. So, this premium is something which keeps him attracted to stay with me, which is today and as well as in future.

**Darshak Rupani:** To add on to that, the farmers who are very calculative and those farmers who has 10 acres or 15 acres or 20 acres of land. For them, this 5%-10%-15% is an additional incentive and that is the reason he will stick to us. Let us say tomorrow he wants to sell the same product to someone else in the market, he will not get that 15% value because the certification lies with the company and not with the farmers.

**Moderator:** Thank you. We have the next question from the line of Mohammed Rafiuddin, an individual investor. Please go ahead.

**Mohammed Rafiuddin:** Quick question. Has been there any impact of the floods in Gujarat recently in the farming areas that you have been working on?

**Vishal Chavda:** No sir. The entire problem was in the Banaskantha part which is approximately 250 KM far from our part from the land where we are working. We are working in the Saurashtra region whereby this entire problem happened in the North Gujarat part. Rather, the rains have been really good blessings for us, the crops are really in best position and we are expecting really good profit out of this good rain. But flood has no impact as of now sir.

**Mohammed Rafiuddin:** What the tax structure that we fall in, post GST if my understanding goes right, organic farming doesn't qualify for any tax?

- Darshak Rupani:** Zero tax. No income tax, no GST.
- Mohammed Rafiuddin:** One last question. When do you see the acquisition to be completed in the book and yes when do we see the revenue coming in. Which quarter would that be with regards to Future Farms?
- Darshak Rupani:** In this year, itself.
- Mohammed Rafiuddin:** And regarding the Middle East, I need some clarification. You said until we are IC-3, we would not be able to export, can we still go ahead and sell it over there, or how does it work?
- Darshak Rupani:** Middle East are open for IC-1 line and Dubai being gateway to Europe, we are just setting up the company over there to get a fully established by the time we are converted into IC-3. So, what happens is, we are already established, we are selling IC-1 and IC-2 goods to Middle East. The day we reach IC-3, we do not have to find buyers. We already have a database of buyers' ready with us.
- Mohammed Rafiuddin:** And that will be operational by Q2 you are saying, most likely.
- Darshak Rupani:** Absolutely.
- Mohammed Rafiuddin:** Again, one last question. Do you see the EBITDA margin expanding on an incremental basis quarter-on-quarter? Now that you have been very positive about Aloe Vera post the monsoon session?
- Darshak Rupani:** Yes. Obviously, we are. Mr. Vishal, why don't you explain them the difference of Sun dried and freeze-dried orders of Moringa and how the revenues increases in that and how we can attain the maximum revenues by the time we are converting into IC-3 and how would be the revenues jump on a year-on-year basis?
- Mohammed Rafiuddin:** One last thing when you answered the previous question will you be able to give us a revenue guidance probably some for FY18 or 19 on the topline?
- Vishal Chavda:** First I will go through the value addition part of Aloe Vera sir. In the beginning, when we started doing cultivating of Aloe Vera, we were selling off the leaves. A leaf is usually being sold at Rs. 5 a Kg. But at a later stage, we started expressing the pulp out of it. Absolute terms if I talk, if I am selling pulp it will be sold at a price of around Rs. 11 – Rs. 12 a kg as compared to Rs. 5 a kg of leaves. Now we are trying put few of the preservatives and doing a necessary process on that pulp which will cost me additional Rs. 10 of labor and Rs. 10 of packaging which will bring my cost to 12+10+10 that is Rs. 32. The juice which I will make will be sold at a rate of around Rs. 75 a liter in wholesale segment. And in retail segment in my store I am selling the same juice at Rs. 250 a liter sir. The further of this process is, if I make a spray dry powder. A spray dry powder will be sold at a price of around Rs. 6,000 a kg whereby a price of freeze dry powder

range is in the tune of Rs. 40,000 to Rs. 60,000 a kg. So, there are percentages and there are variation but definitely if I go in a value addition kind of stuff, my margins will keep on escalating and that is exactly what we are doing. We are selecting a specific product at an initial stage. We are keep doing value addition in a specific product and that is how we try to increase our margin sir. And once I am able to open my 50 stores as well as if I am able to supply to other organic store on my Aloe Vera product, my margins will shoot up in a fair better way.

**Darshak Rupani:** This is only about the Aloe Vera that he mentioned, so the margins will always keep on increasing as more value addition we do to our products. Effectively this is our third quarter for organic farming. So, let us not be very in a rush to give out any numbers.

**Mohammed Rafiuddin:** I just wanted to understand what would be the inflection point for you guys, will it be FY18-19, I am sure IC-3 will be the icing on the cake but just wanted to know what will be the inflection point and on which year would be that?

**Darshak Rupani:** Would say, starts from Diwali 2018.

**Moderator:** Thank you. We have the next question from the line of Abhishek Shukla, an individual investor. Please go ahead.

**Abhishek Shukla:** I am a new investor, I have silly question. I visited some of the stores and I came to know that they are selling lots of other company's grocery products as well and I did not saw that customers crowd like, as it is not synchronizing with the numbers reflected in the numbers of quarterly and also I would like to know your comments on that?

**Darshak Rupani:** Which store did you really visit, I mean is it Ghatkopar, Morbi, Anand or Surat?

**Abhishek Shukla:** Yes, Ghatkopar.

**Darshak Rupani:** Ghatkopar, Mumbai store?

**Abhishek Shukla:** Yes.

**Kunal Bhayani:** First coming to the walk-in, what you said is this store what we have set up, it is only and only for brand building. We are marketing our brand. The second thing regarding the products of different brands I think that won't be the case, not at all.

**Vishal Chavda:** And even sir, as of now the retail segment or even now or in future we expect that retail segment would be contributing 3%-5% of the overall. That is not the size on which we expand or we target to our margins out of it. Even if you think of a chain like Walmart or something, which they have their margin in the tune of 2%-3%, retail is a segment in which we are not targeting



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much, but definitely that is for the presence to show the brand and the products which we usually cultivate and we sell. So that is all the purpose of retail segment sir, as of now.

**Abhishek Shukla:** So when you allow this franchise and do you allow the people to sell other companies' products as well?

**Darshak Rupani:** No, not at all. It will be only White Organic.

**Moderator:** Thank you. We have the next question from the line of Vetri Raju, an equity analyst. Please go ahead.

**Vetri Raju:** Now that the deal with Future Farms is done in July, so in which quarter you think Future Farms revenues will add in and will that be significant compared to Q1 if it comes in Q2?

**Darshak Rupani:** Yes, from Q2 it will be started.

**Vetri Raju:** So in Q1, is there any tie up with Future Farms which is reflecting already in Q1?

**Darshak Rupani:** No.

**Vetri Raju:** So having looking at your acreage expansion, so it appears that assuming 1,000 goes to 2,000 acres and 2,000 going to 3,000 acres. It appears that there should be something like 60%-70%-80% topline growth at least year-on-year. Assuming if it is true, what is the demand side situation, are the buyers ready to take so much of offtake from you in such a short time?

**Vishal Chavda:** Sir, there is one single buyer with whom we have signed an agreement saying that whatever we produced in next 5 years will be bought by him. So, this is the kind of agreement what we have because if we are going for the perennial crop which has got a 5 year of lifecycle will ensure that, that specific crop and the sale of it is being secured by way of such agreement. Our way of working is, we will start or we will do a plantation of one specific crop only and only if a buyer of it is ready to bind us with an agreement because usually in the agricultural commodity, it happens that you have a product in hand and that is a perishable product and you don't find a buyer on time and you are in soup. This is something which we will never prefer to have sir.

**Darshak Rupani:** Unlike other businesses, we are on a model where we have our buyer ready and that is when we start our crop planning.

**Vishal Chavda:** Sir, our simple understanding is that in any company we will find a production department, an accounts department, a marketing department. The farmer is usually in a bad condition because he never thinks of a marketing department. While in our case, we undergo a production department only if the marketing department is ready with the agreement, so that is how it works.



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- Vetri Raju:** Fine. What will be the debtor days in this kind of a long term huge buyer kind of a contract?
- Darshak Rupani:** Hopefully, it would be a zero-debt company in the future as well.
- Vetri Raju:** No. My question is what will be the receivable days in this kind of contract?
- Darshak Rupani:** That varies from crop to crop. Like in Aloe Vera, we have a 90-day cycle. Moringa is like 7-day cycle, it depends on the crop to crop.
- Vetri Raju:** 7-days is the receivable cycle?
- Darshak Rupani:** Yes, in Moringa.
- Vetri Raju:** What will be the maximum upper end of the receivable cycle?
- Darshak Rupani:** 90 days.
- Moderator:** Thank you. We have the next question from the line of Navin Kumar from Takumani. Please go ahead.
- Navin Kumar:** Sir I am also into the farming business. I am a Chartered Accountant and my father is into the same business. Our company has a USDA Organic Certification, do you have a USDA Organic certification?
- Vishal Chavda:** Sir, as of now we have applied for various certification, like NPOP is for India, NOP is again India export, there is one certificate EU for European Country, USDA for US, JAS for Japan, Halal for Middle East and Austria for the products to be sold in Australia. Those are the 6 to 7 certificates to which we have applied. In IC-1 and IC-2, you get just NPOP and once you are done with IC-3, we will get all the 6 certificates to which we have applied.
- Navin Kumar:** Yes. I understand that you are doing drumstick cultivation and Aloe Vera which requires very less water, like 30 cm to 40 cm. How much income you can generate and how it works? are we taking it from farmers, right? Farmers are cultivating, farm development was done by the farmers or by the Future Farms or how it works? what kind of lease period contract we have and what are the buyback agreements we have, like how it works?
- Darshak Rupani:** I am sorry, it won't be able to get all the sensitive information over the open call.
- Navin Kumar:** No, I am telling that farm development is done by the Future Farms?
- Darshak Rupani:** Both of us, both White Organic and Future Farms.

- Navin Kumar:** Future Farm development and land does not belong to us, our company, it is farmers land and how many years lease agreement we have?
- Vishal Chavda:** Sir, usually the agreements are of 5 years of term. After 5 years, both the parties have a choice of again reiterating the same agreement for another 5 years. This is how it happens and since the agreement are for five years, we have also chosen the crop which has 5-year lifecycle. Both goes hand in hand.
- Moderator:** Thank you. We have the next question from the line of Ashish Sanga, an Individual Investor. Please go ahead.
- Ashish Sanga:** Sir I understand that you have around 220 varieties of different ingredients in the basket, so what is the main crop that you are looking for. I understand that you are a bit about Aloe Vera, Moringa, and Ashwagandha too. So which is the main crop which has high margins and you are looking forward to that?
- Vishal Chavda:** Sir we found that in Aloe Vera and Moringa, have very good margins. So those are the two crops which we ourselves are cultivating. Rest of the things are being procured from the 530 farmers. For example, if a farmer makes mung, from mung it becomes chadi, and then mung mogar, and then they make mung fafda, mung's thotiya, mung's bhakhri. So if a farmer is cultivating one specific variety, we make 5-6-7 products out of it. If a farmer is growing a groundnut, we can have groundnut, we can have groundnut oil, we can have groundnut khod these are the various ways. Out of the 56 products, 220 products are being developed.
- Ashish Sanga:** Okay. I understand sir. Out of 56, 220 are being developed?
- Vishal Chavda:** Exactly.
- Ashish Sanga:** And any weightage in terms of percentage for Aloe Vera and Moringa?
- Vishal Chavda:** Sir in the initial stage, it was like around 80%-90% of Aloe Vera and 10%-15% of Moringa, but in second phase we are increasing the Moringa percentage. So like out of 3,000 acres, both with the mark of 1000 acres of Aloe Vera, 1000 acres of Moringa and rest of 1000 acres is spread across which we are in the process of identifying, maybe Ashwagandha, Lemon grass or Rose are the various options that we have.
- Ashish Sanga:** And sir, right now all the sales that we have, for example Rs. 18 crores sales for this quarter, so they are from all our stores that is new 6 stores that you have, one in Mumbai and 5 in Gujarat?
- Darshak Rupani:** As we mentioned earlier, the retail segment is contributing only 5% of the revenues right now. So approximately Rs. 17 crores would be from the trading activity of 2,800 acres of land that we have.



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- Ashish Sanga:** Okay and last person, he enquired that you have one client who is ready to buy all the products for the next 5 years and you have a contract in place. So does it bound our company by the margins depending only on one buyer?
- Darshak Rupani:** At the moment, we just have a buyer who has secured our sales for 5 years. So as and when we get new buyers, we can always switch.
- Ashish Sanga:** And sir, exports would definitely improve the margins, correct me if I am wrong, sir?
- Darshak Rupani:** Obviously, yes. Everyone likes dollars more than rupees.
- Ashish Sanga:** Right. Sir, is there any risk to the crop from diseases, like we have diseases which hamper the shrimp farming and prawn farming, so are we covered on that front?
- Vishal Chavda:** Sir, as of now the crop what we have selected, are the kind of say for example Aloe Vera belongs to the Cactus Family. And Cactus is a family which doesn't get affected by the pests. See, if I want to stay in Organics, I should never be using the pesticides. That is exactly the intention of mine behind choosing a crop like Aloe Vera and Moringa which do have least amount of pest attacks and which requires the least amount of water because in the Saurashtra region rarely you find a condition like current year whereby you have so much of rain, otherwise there is always a problem of water many of the time. So the choice of crop is being made on the basis of the crop which doesn't have so much of pest attack. And we do have organic solutions to such pest attacks also, if something happens to it.
- Ashish Sanga:** Nice. Sir, I understood right now that we are paying zero tax and no GST also. So the same thing will apply when we start producing and selling the medicinal products also?
- Vishal Chavda:** No sir. Even if I am putting, say as of now I am selling my Aloe Vera pulp in a wholesale and GST is not applicable. But even if I convert it into a juice and I will put it and pack it with a branded name, GST will start applying, but at the same time the margin would be that high that I can definitely afford to pay the GST, medicines and all that stuff definitely GST is applicable sir.
- Moderator:** Thank you. We have the next question from the line of Akshay Barjate from Rubicon Capital. Please go ahead.
- Akshay Barjate:** Sir, I just wanted to understand, what is the seasonality of our business? If I want to try and model revenues, how do I sort of do it? It is like the first half lower typically and the second half better for us, can you just throw some light on that?

- Darshak Rupani:** If you see Q-on-Q numbers, we won't be able to derive exact growth plan. It is always year-on-year basis because this year the monsoon started in July Last year, the monsoon was in June. So quarter-to-quarter basis, it is very difficult to analyze it quarter-to-quarter basis.
- Vishal Chavda:** Sir agriculture as a sector, summer is a season whereby all the crops will be fighting against the temperature. So in Saurashtra region, in summer the temperature crosses 45 degree, that is the stage whereby any of the product will not be able to deliver that amount of productivity. But you consider the same thing in monsoon season, each and every crop because the moisture in the atmosphere itself is supporting each and every crop to such an extent whereby the figures will move pretty fast as compared to summer. This is overall pattern, then again further it depends on crop to crop basis.
- Akshay Barjate:** Okay, understood. And so what is the cultivation cycle for Aloe Vera and Moringa if I may ask?
- Vishal Chavda:** I plant Aloe Vera on a zero day, on 8<sup>th</sup> or 9<sup>th</sup> month I start getting the first harvest. In a year, I get three harvests. This goes on for 5 years. So second, third, fourth, and fifth are the years in which I keep on getting the harvest after every four months. This is the pattern of Aloe Vera. Similarly in Moringa, you plant on a Zero day, from fifth month onwards you will start getting the drumstick and these drumsticks are usually available from 01<sup>st</sup> September till 28<sup>th</sup> of February. This is the time spend whereby the prices are pretty much higher. After 20<sup>th</sup> February, you go for pruning of the plant and again you wait for the next season which starts on 1<sup>st</sup> of September. This is about drumstick.
- Akshay Barjate:** And just one more question if I can squeeze in. The value addition part which you mentioned, do we sort of outsource this to some third party or do we do it completely in-house and do we have the plants and machinery, etc., all ready for it?
- Vishal Chavda:** Only for a selected product we can have our own value addition, because value addition requires lots of infrastructure, labor and all that thing. We cannot have for all 56 products. But in first two years, we started with the value addition in Aloe Vera. In next 1 or 2 years, we will be doing value addition in Moringa. So, it happens on very limited amount of crops not in every crop we can do value addition sir.
- Akshay Barjate:** Do you own these facilities or do we outsource it? The value addition part?
- Vishal Chavda:** The value addition part, it is very much owned by us.
- Moderator:** Thank you. We have the next question from the line of Jatin K from GS Investments. Please go ahead.
- Jatin K:** I am little unsure on that one big buyer, as in they are ready to buy whatever we produce for next 5 years?

- Darshak Rupani:** No. It is just pertaining to one product.
- Jatin K:** So we have many such clients?
- Darshak Rupani:** For different products, different clients.
- Vishal Chavda:** Sir I will tell you by an example. Say there is a company A, B and C. We have signed an exclusive contract with supplying our entire product to company A whereby he is buying out a huge chunk of products from us. The vendors from B and C company is also open for us, but it is only that we have choose to stay with A as of now because the kind of quantum what I am, for example in Aloe Vera I am producing 500 tonnes of pulp a month which is probably among top 5 producers in India. And if you consider the companies like Himalaya, Dabur, Baidyanath, Patanjali are the one who usually look for a such chunk supplier. They will never prefer to what a farmer is doing something on 10 acres, 20 acres. If they get such kind of supplier who is holding say 1000 acres of land, they would always be ready to sign a contract. But we have to stick to any one person as of now. Company A is our choice as of now but the doors with B and C are also open with us. But we cannot say like half of it I will sell to A and half to B and the remaining to C because then none of the company will get that huge chunk and they will not prefer to stay with you.
- Jatin K:** So basically one product will be exclusive to A only and so on.
- Vishal Chavda:** The same thing in other words, if you check the advertisement, the number of advertisement or number of product who were using Aloe Vera say two years back, probably you wouldn't find a single one, but even if today Olay claims of Aloe Vera, the P&G claims about Aloe Vera, Himalaya talks about Aloe Vera, so the market has opened up in such a huge way that finding a buyer is never a problem in a product like Aloe Vera as of now.
- Darshak Rupani:** They are in fact contractually bonded that they have to buy our product. We are not bound.
- Vishal Chavda:** Very true. It is one sided contract.
- Darshak Rupani:** So we can sell it to others, given a choice we have someone who is giving us Rs. 110 instead of 100. So we can have our security of selling Rs. 100 x Kgs to Mr. A and then we can switch over to Mr. C as well.
- Jatin K:** So at the start of the season we discussed with them, how much, as in they tell us how much they want in that particular season?
- Darshak Rupani:** Yes, every season it happens.

- Vishal Chavda:** Usually the company says that we will buy out for say 800 acres of entire production because they also know that acre will produce 30 tonnes of Aloe Vera, out of which so and so number of tonnes of pulp will be produced and they will commit that whatever you produce out of 1000 acres is we are ready to buyout. And this is one-sided contract whereby they are going to buying a product from us but we are not bound to sell only to them. The reason why I am clarifying on this is, by Diwali 2018 when we will be IC-3 certified, maybe the rate what this company A is offering us is not a preferred rate. I will be getting far better rates at that stage whereby I will be utilizing my right of refusal.
- Jatin K:** That is great sir. And sir the price would be decided at the start of the season or it would be market determined price at that time?
- Vishal Chavda:** No. At the time of signing an agreement the price will always be clear. There may be escalation clause on year-to-year basis, but prices remain stagnant because I am not a small marginal farmer. See in summer the prices usually rise for Aloe Vera. In monsoon everybody has got Aloe Vera, so the prices come down. But when you are planning for such 1000 acres of Aloe Vera, you should never be in such kind of problematic situation. Rather you will prefer to have fixed price.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question and we will now close the question queue. I would like to hand the conference back to Mr. Darshak Rupani for closing comments. Please go-ahead sir.
- Darshak Rupani:** I thank everyone for the participation in our maiden conference call. And as I and Mr. Vishal Chavda already mentioned, we are committed to growth and increasing the value addition for our shareholders. Thanks a lot. If there is anything else, any questions, you can always contact our investor relations team, Bridge Investor Relations. Thank you.
- Moderator:** Thank you Mr. Rupani and Mr. Chavda. Ladies and gentlemen, on behalf of White Organic Agro Limited that concludes this conference call. Thank you for joining us and you may now disconnect the lines.