



A Division Of White Organic Agro Ltd.

## “White Organic Agro Limited Q2 & H1 FY18 Earnings Conference Call”

### November 16, 2017



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**MANAGEMENT: MR. DARSHAK RUPANI - MANAGING DIRECTOR, WHITE ORGANIC AGRO LIMITED**

**MR. VISHAL CHAVDA - CEO (FARMING), WHITE ORGANIC AGRO LIMITED**



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**Moderator:** Ladies and gentlemen, good day and welcome to the White Organic Agro Limited Q2 & H1FY'18 Earning Conference Call. This conference call may contain forward-looking statements about the company which are based on the beliefs, opinions, and expectations of the company as on the date of this call. These statements are not the guarantees of future performance and involves risks and uncertainties that are difficult to predict As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions from the presentation conclude. Should you need assistance during the conference call, please signal an operator by pressing '\*' 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, Mr. Rupani

**Darshak Rupani:** Thank you. Good Afternoon, everyone and a warm welcome to all the participants to the Earnings Call of White Organic Agro Limited for the Second Quarter and the Half Year ended 30<sup>th</sup> September 2017. Today, I am joined by Mr. Vishal Chavda – CEO, Farming and Bridge Investor, our Investor Relations Team.

I hope that you all had a chance to look through our “Investor Presentation” or are looking through it at right now.

I will first take the opportunity to introduce our company to you. Firstly, I would like to inform to you all that, this quarter we have successfully completed one year of operations in Organic Farm. It has been an amazing journey so far where we have overcome lots of challenges. White Organic Agro is solely involved into Organic Farming business and is the only listed entity catering to entire organic product range with over 222 premium organic products in 12 major categories and 17 sub-categories from its dose which includes, grains, pulses, edible oil, fresh vegetables, fruits, ghee, medical herbs and capsules, organic health supplements, snacks and many more.

Our packaging unit is based out of Rajkot, Gujarat which is in close proximity to our farms. The company sells its products under the brand name “White Organics.” We intend to provide unadulterated and pure organic food products to the market directly from our farm to the stores which eradicate the whole chain of wholesalers, dealers, distributors and other related parties involved in the sales of goods preventing it from being contaminated. Our unadulterated organic products have been our trademark and the biggest trend helping us to create more and more confidence in customers.

Leading to a continuous flow of repeat orders and new orders, we are very hopeful about the future given the significant opportunity in the organic market domestically as well as globally. Currently, we have six retail stores -- one store in Ghatkopar, Mumbai which is strategically located close to the Eastern Express Highway and attracts a very good footfall, and another five on franchise model in different locations in Gujarat. We are witnessing continuous uptrend and

customers' falls at our retail stores. Our product selection criteria are such that we choose products that are in great demand and we hope to gain immensely. Along with this, we are also focusing on expanding our farming land on a lease basis. Currently, we cultivate on over 1,000 plus acres of land farms located in and around Rajkot, Gujarat. Farms are regularly inspected by the officials of APEDA, governed body and run on the guidelines of global organic farming norms. APEDA also keeps a record of overall organic business activity carried out in India.

Apart from our own farming activity, in the first half of financial year 2018, we acquired a majority stake in Future Farms, LLP based in Rajkot again with a view to tap rapidly growing organic food demand and to increase our capacity for cultivation. Future Farms, LLP has a very strong team of supervisors, agronomists and labors. With over 530 farmers registered under its organic program it has a total of 2800 acres of land which currently cultivates 56 different variety of crops, majority of which is Aloe Vera and Moringa. This collaboration has enabled White Organic Limited spread its horizon and establish strong presence across western region of India in the organic market. Our strong backend with lease farming activity enables us to cater to the increase in demand for organic products and help us strengthen our reach globally.

Lastly, I thank the entire team of White Organic Agro for their untiring efforts, hard works, sincerity and high dedication. Also, I would like to thank our valued shareholders who support and faith in our company has given us the determination and ammunition to go from strength-to-strength.

So from an overall business perspective, that is all from my side. I will now hand over to Mr. Vishal Chavda who will take you through the "Financial Performance of the Company for Second Quarter and Half Year ended 30<sup>th</sup> September 2017."

**Vishal Chavda:**

Thank you, Darshak bhai and a good day to all the participants. I will share "Highlight of our Consolidated Financial Performance" following which we will be happy to respond to your "Queries." For the second quarter, company registered a fantastic revenue of Rs.35.29 crores with YoY growth of 1,515% from Rs.2.19 crores in the same quarter last year. This is mainly on account of the monsoon in Gujarat and wide acceptability and demand for organic products. EBITDA stood at Rs.2.21 crores in Q2 FY'18 increased by 2,391% as compared to Rs.0.09 crores in Q2 FY'17. The profit after minority interest for Q2 FY'18 is at Rs.2.01 crores as compared to Rs.0.06 crores in Q2 FY'17, growth of 3,387% YoY. Our EPS in Q2 FY'18 stood at Rs.1.61, registered a growth of 3,120% as compared to Rs.0.05 crores in Q2 FY'17.

Now coming to the "Half Year performance for 30<sup>th</sup> September 2017:" Here the revenue stood at Rs.53.38 crores with YoY growth of 1,936% from Rs.2.62 crores in the half year same last year. EBITDA stood at Rs.3.72 crores in half year FY'18, increased by 1,877% as compared to Rs.0.19 crores in half year FY'17. The profit after minority interest for half year FY'18 is at Rs.3.51 crores as compared to Rs.0.11 crores in first half of FY'17, which represents a growth

of 3,001% YoY. Our EPS in first half of FY'18 stood at Rs.2.81 registered a growth of 3,022% as compared to Rs.0.09 in first half of FY'17.

This is all from our side and now we can open the floor for "Question-and-Answer."

**Moderator:** Thank you very much, sir. Ladies and gentlemen, we will now begin with the "Question-and-Answer Session." The first question is from the line of Vetri Raju from Equity Analyst Pvt, Ltd. Please go ahead.

**Vetri Raju:** In the first concall you guided that there is a potential profitability of about Rs.10-12 crores by full year FY'18. Due to this performance in first half, is there any revision upwards or downwards? What do you think we should focus on?

**Darshak Rupani:** For the agricultural sector, usually summer is the season in which the production as well as the turnover will be the minimum because of the rain and stuff, at the same time the monsoon which you would have seen during the Q2, the effect of it you will feel in the Q3 probably. So the biggest of Q1 in any of the agricultural unit would always be the least as compared to other three quarters. If you look at Q3 and Q4 is always expected to be far better as compared to Q1. We are very hopeful and we hope that we will achieve the target what we are looking forward to sir.

**Vetri Raju:** In terms of externally maybe the demand is good, the situation is good, what can go wrong internally in the company, just playing a devil's advocate?

**Darshak Rupani:** If suddenly there is too much of rain or if there is some kind of wind start blowing at such a rate to which nobody in a personal capacity can control, that is one natural calamity is one thing to which we do not have answer in the agricultural sector. But to mitigate these problems, the strategy on what we work is, that we will never have a gamut of piece of land of more than 500 acres at one destination, for example, if something goes wrong with Rajkot, maybe Ahmedabad would be a safer place and if something goes wrong with Ahmedabad, Jamnagar would be a better or a safer place. So what we are doing is if we are expanding our portfolio to 3,000 acres, we will make sure that it will be distributed at least among six different destinations, as a result of which if natural calamity occurs in any one of the spots, at least five remaining five will be safe and so the company will not be in a bad shape.

**Vetri Raju:** On the receivables, we see that we have something like Rs.39-40 crores out of the total top line of like Rs.51-52 crores in H1. So what is your view – is it something normal in the agricultural field?

**Darshak Rupani:** Yes, it is quite normal because what happens is we are buying the products from the farmers and selling it at a credit days of somewhere around 45 to 90-days depending on the product-to-product. This should remain constant from now on.

- Vetri Raju:** Coincidentally, the payables also is quite high. I do not know whether you have any comments on that Mr. Rupani?
- Darshak Rupani:** Yes, what happened was this year fortunately the monsoons were ending in the end of September, even we have witnessed some monsoons, and our payables were then and there. In the first week or second week of October, there was a lot of payment going out of that, so that is the reason there were these figures, when you see Q3 numbers, the payables are quite less.
- Vetri Raju:** Can you highlight the acreage plans – is there any different compared to the first concall?
- Vishal Chavda:** No, we still maintain the same figures as we had discussed earlier. Usually the land changes hand either on Diwali day or on Holi day, that too Holi is considered to be the best period because after Holi you can avail the summer as well as the monsoon. So we will acquire a few more piece of land in coming Holi. So we are on with the same plans and we are very positive of achieving the thing.
- Vetri Raju:** Just to refresh, I think the plan is like 2,000 acres by FY'18-end and 3,000 acres by FY'19-end, right?
- Vishal Chavda:** Exactly sir.
- Moderator:** Thank you. The next question is from the line of Devansh Lakhani from NVS Brokerage. Please go ahead.
- Devansh Lakhani:** I have two types of questions; a couple of them on the balance sheet side, a couple of them on a business model side. I will just go first with the balance sheet part. #1 is we have a few non-current investments approximately Rs.12-13 crore as on March '17. I am saying and even September it is there, but as on March '17 probably in Karishma Jewellery and in Bhagwati Developers, Bhagwati Eleganza, what is that related to approximately Rs.13-14 crores or something-odd, meaning is it a non-core asset or what it is exactly, does it have anything to do with our business?
- Darshak Rupani:** I will repeat this answer, we have been repeating this answer since last concall as well, the company has changed its business model in last year September 2016. Earlier to that the company was into Diamonds. There these non-current investments who are there since a long, long time and the interest of which is booked in the company, profit has been booked in the books. Non-current investment have been coming down gradually since past last year, other than we require the funds for our farming activities and stuff, we are calling for the funds from all the investor appetent earlier.
- Devansh Lakhani:** So gradually we are planning to sell all these Rs.14 crores-odd?

- Darshak Rupani:** It was somewhere around Rs.15 crores last year, now it is around Rs.12.5 crores to be precise.
- Devansh Lakhani:** As on September, it has gone up to Rs.28 crores. So is that the investment in future farms?
- Darshak Rupani:** Yes.
- Devansh Lakhani:** The loan of approximately Rs.11.5 crores to a wholly-owned subsidiary. Which subsidiary would that be?
- Darshak Rupani:** It is Retail Private Limited, distribution and trading activity, it is a 100% owned subsidiary of the company.
- Devansh Lakhani:** So we have given it as a loan for our distribution activity basically?
- Darshak Rupani:** It is within the company itself.
- Devansh Lakhani:** I think as on March '17, our cash flow from operations is around say Rs.9-9.5 lakhs. So where do we see it in next say two, three years or something given that we are going to expand really in terms of the retail stores and even we are planning to get into exports?
- Darshak Rupani:** It will be very premature to answer this query, let us just wait for two more quarters, at the end of this year you will get a very clear picture. About the profitability, we have already shown a profitability of Rs.3.5-odd crores.
- Vishal Chavda:** Giving you a small example, as of now one of the orders what we have from Patanjali, per month we will be dispatching Aloe Vera Pulp around Rs.1.25 crores to Patanjali, in which 15% are the approximate profit margin what we will be earning, that will be a tax-free profit for us. Considering per month cash flow of Rs.75 lakhs and for next six months, I think we will have enough of cash to run the ongoing expenditure with us. It is just the one part of the business, the remaining part shall also be on the same lines.
- Devansh Lakhani:** Why would it be sort of tax-free?
- Darshak Rupani:** It is not a taxable liability since it is agricultural income, so it is exempted from tax, whatever we earn is direct profit what we generate out of it.
- Devansh Lakhani:** Now, on the model front, I understand the franchisee model although CAPEX and all that would be the responsibility of the franchisee, so what would be the royalty of the fee that we would be probably receiving on the current five stores that we have on the franchisee?
- Darshak Rupani:** We have a very light asset model; Rs.2.5 lakhs of deposit from the franchise owners and some Rs.6.5 lakhs for the inventory management. So as and when the franchisee grows, we are not

looking at the deposits, we are not looking at it as a capital, just a commitment from the franchisee owners.

**Devansh Lakhani:** What would be the fee sort of to be received from per store?

**Darshak Rupani:** It is profit percentage sharing.

**Devansh Lakhani:** The lease model of farm which you have, I probably did not understand it pretty well, how does it go, we have taken acres of land on lease, right, and we have tied up with farmers so to say that are they going to work for us on those particular farms and what would be the rent that we would pay on per acre of land that we have right now, I think approximately 1100 crores that we have got, so what would be the maths out there?

**Darshak Rupani:** I said there are two verticals for you to understand – one vertical is the land which we take on lease on which we ourselves do the cultivation activity and there is no interfere of any other farmer or the landlord, that is one vertical. Another vertical is ICS of around 530 farmers, in which they do the stuff on their own, whatever they produce at last we buy it out. I am talking about the first vertical, the land which we take on lease, we usually take for 5-10-years of lease period and in that scenario the landlord never enters to the land or we do not enter the land, but we have to enter the land on our own with our supervisors and with our own labors. In this scenario, the per acre rental would be around Rs.12,000-15,000 per year.

**Moderator:** Thank you. The next question is from the line of Ajay Jain from Astute Investment Management. Please go ahead.

**Ajay Jain:** I am yet to understand how you are not paying income tax on your income or the profits because you are buying and you are just trying on the agriculture produce, you are not cultivating it yourself, okay, agreed to that extent, you are cultivating on land which is leased out to you, that is fine, it can be treated as agricultural income, but how can you treat buying and selling of agricultural produce as agricultural income?

**Darshak Rupani:** You have already answered your own query. The trading is obviously taxable and there is income tax on that. The agricultural activity that we do on our own leased lands

**Ajay Jain:** That you are not showing no tax provision has been made on this entire income?

**Darshak Rupani:** Right now, no tax provision has been made on this.

**Ajay Jain:** So you mean to say the all the cultivation that you are doing on lands either owned by you or leased by you?



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- Darshak Rupani:** There is a tax provision on this, but we will be paying the advance tax in December and that is when it will be reflected in Q3 numbers.
- Ajay Jain:** Now, let me take this forward, for the full year what will be the percentage of tax on your total profit, can I ask that question?
- Darshak Rupani:** The future funds income will be totally tax-free, that should be approximately 30% of our total profits and the rest would be taxable, on 60% you can calculate 30%.
- Ajay Jain:** About 18% is tax on your net profits of the year?
- Darshak Rupani:** Approximately.
- Ajay Jain:** Do you have insurance for crop that you do or you are not doing an insurance?
- Vishal Chavda:** We have applied for the insurance stuff, but the government does not understand the cultivation of Aloe Vera or Moringa. What they do is what usually insurance benefit what they provide to a cotton farmer is the equal amount what they will provide to us. In that scenario it may cover around 15-20% of our risk, but still risk of around 80% remains open.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from Allegiance Advisors. Please go ahead.
- Kunal Shah:** I wanted to understand a little on the cash flows. In Q1, we had Rs.17 crores of sale, in Q2 we had Rs.34 crores of sale. As far as receivables goes, both quarters put together reflect Rs.39 crores is receivable, right, just understanding the previous gentleman's answer you said that the receivable cycle is 45-to-90-days, so still the receivable numbers look very high. So if you could explain how the cash cycle moves in your business as far as receivable and payable goes?
- Darshak Rupani:** What happens is, depending from crop-to-crop, let us say we are trading in the Toor Dal, has a cycle of 90-days whereas some other crops are cash-rich crops in a level of 7-days. In this particular financial year the first time it has ever happened that there was a range till the end of September or October first week. That is the reason there was not a much of harvesting happening. So we have been supplying the crops of Toor Dal and stuff like that. Rs.39 crores was receivable. Major chunk of the receivables we have received in the month of October.
- Kunal Shah:** But whatever you have sold that money would have come suppose the sale of 39 crores?
- Darshak Rupani:** We have already purchased a lot of products in the last week of September.



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- Kunal Shah:** So that would form a part of your payables, right. I am just trying to understand first, when you say sales have been of Rs.34-odd crores in the Q2 plus Rs.17 crores in Q1, what is the amount of cash that has actually come in the books of an account of the sales?
- Darshak Rupani:** It is a cycle, it has come in and it has also gone back because there was a lot of money has been put in the trading activity in Dubai in this October as well.
- Kunal Shah:** So that would get reflected in your loans and advances, right?
- Darshak Rupani:** In Q3 it will be reflected in loans and advances.
- Kunal Shah:** Sir, if you say that you have received the money and it has gone back also, because your liability side has still not come down, because it is Rs.32 crores of purchase stock-in trade and plus Rs.16 crores of another stock-in trade purchase in Q1, so that put together is Rs.32 crores plus Rs.16 crores. I am just trying to understand sir, what is your liquid cash position as on 30<sup>th</sup> of September?
- Darshak Rupani:** You are talking about the numbers, right now we have a bank balance of about Rs.4-5 crore. I do not know exact numbers of 30<sup>th</sup> September.
- Kunal Shah:** All fine, sir. The other question is what would be the number of employees strength put together of Future Farms and White Organic standalone put together on the payrolls of the company?
- Vishal Chavda:** There are two segments of it; one are the labors and another segment is of supervisors and admin. Supervisor and admin are usually on the payroll while the labors are on daily basis. On the Farms usually around 70 labors a day works and 15 supervisor and admin staff is there. So all in all usually we work with the strength of 80 plus people at our farm.
- Kunal Shah:** Basically all these expenses would go into employee benefit expense, right, sir?
- Darshak Rupani:** Employee and other expenses, yes.
- Kunal Shah:** Some portion would go into other expenses also?
- Vishal Chavda:** There are a different kind of labors who are on the contract basis, who are on daily basis, so accordingly it has been segregated.
- Darshak Rupani:** Many times what happens Mr. Shah, you do not require agronomist everyday or every month, just require them once in a year. Their fees is like Rs.70,000 per visit or something like that. We cannot book them as employee benefit expense. In other terms, yes, those are our employees, but we need them twice a year or thrice a year.

- Kunal Shah:** Just taking it forward from the question of the previous gentleman, your Future Farms income or profit whatever you make would be completely exempt, right? But still your standalone profit what you derive from trading would be taxable. So to that extent, at least provision has to be made in the particular quarter, right, sir, so there is no provision made in the current quarter for even trading income because your purchases of stock-in trade is Rs.32 crores, so whatever money you generated (+5%) on this purchases, at least on that front, the provision has to be made, right, sir?
- Darshak Rupani:** We are certainly looking into it. The tax provisions we are already paying some advance tax in the month of December so in Q3 provision was not there so we have paid the tax on trading activity and on the distribution front.
- Kunal Shah:** The profit has increased because you have not made the provision.
- Darshak Rupani:** It is good that profit is increasing.
- Moderator:** Thank you. The next question is from the line of Aniket Thite, an individual investor. Please go ahead.
- Aniket Thite:** I was wondering about Future Farms, LLP. When we say that the land concentration for 3,000 acres we want to spread it out. So the land that comes under Future Farms, LLP, where is it located – has it scattered around or is it concentrated around Rajkot area, can you please share some light?
- Vishal Chavda:** It is more or less in the vicinity of 100 Kms in and around Rajkot area on the different direction. As of now, the major chunk is near Sayla district which is on Rajkot-Ahmedabad Highway and another part we are developing near Vakaner that is Vinaygadh Farm, which another chunk we are developing.
- Aniket Thite:** Also, on the Patanjali order of 500 MT that we have disclosed to the stock exchange as well, can we share some light on the order status, how much have we completed by September and how much in Q3?
- Vishal Chavda:** Sir, we finished the entire order by the end of October month and just yesterday I was in Haridwar and we are soon getting a new order, they keep on generating 500 tons order every time and soon we should get another order also.
- Aniket Thite:** How much time do we complete the supply of 500 MT?
- Vishal Chavda:** In a day we can provide 20 MT, so monthly capacity we do have of 600 tons, out of which usually we get order of 500 tons from a party, so as of now it is like around (+80%) of capacity utilization at our end.

- Darshak Rupani:** From a business point, it is a very good business because there is no Saturday or Sunday, every day the money is rolling.
- Aniket Thite:** Patanjali, I believe obviously is happy with the orders and hence a few further orders are also being released once this is done?
- Darshak Rupani:** Yes, soon we should receive the other orders as well.
- Moderator:** Thank you. The next question is from the line of Vetri Raju from Equity Analyst Pvt. Ltd. Please go ahead.
- Vetri Raju:** A couple of things; this business less the trading essentially depends on how much more land we can lease and do agriculture. So beyond FY'19 is there any plan right now at this time?
- Vishal Chavda:** Sir, we have applied to the organic certification with APEDA. Usually the rule is like after three years, your entire land gets converted to organic and you get all the international certificates. Now this window gets open for us in Diwali 2018 for the land on which we are cultivating as well as the 530 farmers who are associated with us. All of us will be fully certified by Diwali 2018. This is the point whereby your entire product is good enough for the exports purpose and you can start seeing on the lines of value addition. So maybe after reaching to the mark of 3,000 acres, our target will be more on the value addition part, for example, if I sell Aloe Vera Leaf, I sell at Rs.5/Kg, if I sell Aloe Vera Pulp, it is around Rs.25/Kg, if I sell Aloe Vera Juice it is Rs.75/Kg, if I do a proper packing and sell it to retail investor, it is Rs.250/Kg. So from Rs.5 to Rs.250 is the value chain in which you prosper yourself. So once we get organically certified, those are the areas in which we will try to prosper.
- Vetri Raju:** So these organic certifications you said it will happen by Diwali '18, which is just one year away?
- Vishal Chavda:** Yes, we are already in second year of conversion, audit has been concluded and once third year audit will happen in August 2018 and first season when we finish, that is in Diwali 2018 is the time when we will be fully organically certified.
- Vetri Raju:** So that will be for 1,000 acres, Mr. Chavda?
- Vishal Chavda:** Yes, 1,030 acres.
- Moderator:** Thank you. The next question is from the line of Shravan S from Birla Sun Life Insurance. Please go ahead.
- Shravan S:** Just to get a clarity on what is the land which we lease on our own, how much is the land with Future Farms, how much is the land that we get from this 530 farmers and how much is that working for us now?



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- Vishal Chavda:** As of now together White Organic and Future Farms together holding 1,030 acres of land and the 530 farmers together hold 2800 acres of land, so aggregately it is 3800-odd acres of land under our control, for which 1,000 acres is the direct cultivation activity and 2,800 acres are through our farmers.
- Shravan S:** All this 3,800 is in and around Gujarat?
- Vishal Chavda:** Yes, sir in and around Rajkot.
- Moderator:** Thank you. The next question is from the line of Ashok Agarwal, an individual investor. Please go ahead.
- Ashok Agarwal:** I joined this conference a little late actually. So I have only two questions; perhaps they have been already answered, I am not sure; one is the consolidated results which we for the half year, does it include Future Farms?
- Vishal Chavda:** Yes, it does.
- Ashok Agarwal:** My another question was about 500 tons of Aloe Vera Pulp which are ordered by Patanjali. So is there any update on its further five years roadmap on Patanjali?
- Vishal Chavda:** Around 1.5-years back, Patanjali issued us a Letter of Intent saying that “Whatever you produce on 1,000 acres of land, we shall buy it out.” Staying with their commitment, after once we finish one first order, repeat order we keep on getting. So we are done with the first order what we got in September-October Month, we finish the order and soon we are getting the order. So it is a repeat business, it keeps on happening because since they have committed us, so they are following to what their commitment is.
- Ashok Agarwal:** So the commitment is now on 5-year basis or monthly-monthly basis. 5-year is the intent basically.
- Vishal Chavda:** Their overall commitment is of 5-years, but usually they usually keep on issuing the purchase order. It depends on the kind of rush of Aloe Vera supplies what they do have as an organization because except me there are a few other suppliers also, so they coordinate among the suppliers and accordingly they keep on issuing the orders.
- Darshak Rupani:** To add on to that, we can term it as a “Schedule Intent.”
- Moderator:** Thank you. The next question is from the line of Pratim Roy from Stewart & Mackertich. Please go ahead.

- Pratim Roy:** Just kind of getting idea about the margin from the business for the future year if you can explain some bit on that that will be helpful?
- Darshak Rupani:** The PAT margin should be anywhere around 7%-to-12%.
- Pratim Roy:** What is the top line growth that you are expecting from the coming year?
- Darshak Rupani:** We are expecting a top line of about Rs.125 crores in FY'18, Rs.200 plus crores in FY'19.
- Pratim Roy:** Sir, you will be mainly focusing on Aloe Vera because Patanjali is also associated with your major client as the equation is going on. So is there any other client acquisition you are planning for
- Vishal Chavda:** Sir, entire 3,000 acres, we are not aiming for Aloe Vera. As a company policy, we have decided that we will restrict a single crop only to the extent of 1,000 acres, so 1,000 acres, we will be expanding ourselves to Aloe Vera and second 1,000 acres we will be expanding ourselves to Moringa, that is Drumstick and in third we were just discussing that what would be finalized. As of now we have concluded to expand ourselves in lemon grass. For those things, we do have different set of buyers. Since Patanjali has committed us that whatever you grow, we are ready to buy. In that scenario, if I involve another buyer, Patanjali may not be comfortable with it because whatever I am growing is entirely being consumed by them and if the line of supply gets breakthrough for them, then they may not be happy with it. So as of now, although I do have many of the choices for Aloe Vera supply, I am preferring to stick with Patanjali as of now. In Moringa i.e. Drumstick so is not the case, we do have three, four different suppliers to whom we are selling our stuff and there is enough of market available for Moringa as well.
- Moderator:** Thank you. The next question is from the line of Devansh Lakhani from NVS Brokerage. Please go ahead.
- Devansh Lakhani:** Sir, you mentioned earlier that, that we would not keep more than 500 acres of land say in and around Rajkot. So right now what you mentioned is that this Rs.3,800 crores of land is more or less in and around Rajkot. So how do you mean?
- Vishal Chavda:** I will again try to explain; 3,800 acres when I say, 2,800 acres belongs to the farmers. So if anything goes wrong, it is not company's risk, it is farmers risk because I am only committed to buy the product what they produce and I am not answerable to the land on which they are growing. So 2,800 acres get deleted over there. About the remaining 1,000 acres, bunch of around 600 acres is near Sayla, another second phase of it we develop at Vinegar. Now the distance between Sayla and Vinaygadh is of around 80 Kms, it is definitely within the 100 Kms radius of Rajkot. But when you consider a distance between Sayla and Vinaygadh it is as good as 70-80 Kms. Now the third tranche what we are planning to develop is in Mangrole is around 140 Kms far from Vinaygadh, but from Rajkot it is 110 Kms. So overall what I mean to say is the natural

calamity if it happens in a set of phase, at least for another 70-80 Kms, maybe a safer zone. This is the way we try to protect. Another thing is that the reason why it is in vicinity of Rajkot is sir, if you want to do agricultural activity, you have to be on the farm. Now we being the individuals and not reach to the various farms and can concentrate if there is too much of geographical distance. For example, we are planning a big acquisition in Kutch which is around 250 Kms far from Rajkot. But since we have developed a team of supervisors, we will be expanding to those part as well. So that will be again be on a safer side as compared to this natural calamity.

**Devansh Lakhani:** In our own cultivation side of the business and the trading vertical of the business, in both these businesses, what are the EBITDA margins because I think overall right now in Q2 what we have clocked is around 4.8-5.1% or some percent-odd, so what would be the differentiation between these two businesses?

**Darshak Rupani:** Let us give him a brief of per acreage profitability.

**Vishal Chavda:** If we consider selling of Aloe Vera Pulp, per acre usually it is Rs. 2.25 lakhs

**Devansh Lakhani:** This is your own cultivation you are talking about?

**Vishal Chavda:** Yes, approximately Rs.80,000 to Rs.1 lakh would be my expense and my bottom line would be around Rs.1 lakh to 1.20 lakh. So it is as good as 55-60% of PAT margins. Overall it is around 55% of the top line.

**Devansh Lakhani:** This is for the own business. Now for the trading business what would be the same sort of metric?

**Darshak Rupani:** Right now we do not have our organic certifications. So the crop that we are procuring from the farmers, we are selling it at a very thin margin of about 2-5%. Once we advance in our organic certifications, premiums will increase from 8-10%.

**Devansh Lakhani:** So we can sell at premium?

**Darshak Rupani:** Yes. Once we are exporting the products, you can multiply it by dollar ratio or something like that.

**Devansh Lakhani:** Even right now on the own if we are generating say 50-60% profit and on this business we are generating 5-6%, so our PAT margins as on this quarter it is around 1.5% or 2% or something like that, so should it not be more?

**Vishal Chavda:** Actually the supply to Patanjali and things we executed the entire orders by end of October. So the Pulp business which was started recently will start showing its bigger in a better way in Q3 to come.

- Devansh Lakhani:** So how much does this Pulp business contribute to the top line as such?
- Vishal Chavda:** Out of our own farms, 80% is the Pulp.
- Moderator:** Thank you. The next question is from the line of Kunal Shah from Allegiance Advisors. Please go ahead.
- Kunal Shah:** If you could just help how do we plan to increase the ICS farmers enroll with us?
- Vishal Chavda:** Sir, actually the offer which we give to the farmers is like you go for the organic cultivation, we will help you in terms of technical support, we will help you in terms of marketing, helping in terms of market is the biggest boom for the farmers as well as we will bear the organic certification cost, we will also make sure that you get the subsidy from the government for doing this organic farming. So for a farmer, everything is incoming, nothing is outgoing for them. So there is no reason why farmer would not love to hear. So the day when we open the door for the farmers against our expectation of getting achieving the target in six months, within 30-days, we got a registration of 530-farmers and that was the time when we close the doors, saying that beyond 530-farmers as of now we will not be able to handle since we are taking the responsibility of selling the products. So it is just about opening of the door, at the same time we are in talks with other such farmers group which are fully certified since long based in Kutch once the deal gets reached, we will come with the details of it in the public domain because we are establishing a new farmer and working on it for the three years, only after that my farmer will be fully converted to organic and only after three years I will be able to export his product. Against this, I do have an option of buying out already established such groups and taking over such groups. If I do that, then the strength overnight will get increased. So very soon, we are in talk with a few of such farmers groups and we are expecting a big chunk of farmers to join our organization.
- Moderator:** Thank you. The next question is from the line of Santosh Biradar, an individual investor. Please go ahead.
- Santosh Biradar:** I want to look into the operational part. Are we supplying the inputs to the farmers?
- Vishal Chavda:** No sir, as of now we guide them with where to buy the stuff from, for example, if they need an organic seed, there is a company Agrocel in touch, so we generate a meeting within the company and the farmers, we do not intend to earn a commission income or any such kind of income out of that business. We keep both the parties in front of each other, they negotiate the price and take it forward. We even teach the farmers how to make their own fertilizers and pesticides rather than buying it from a market. So this is the kind of training. Our intention is that once a farmer is going for organic cultivation, in first, second or third year, the yield may come down. On the other hand, we try to bring down cost to such an extent, whereby his overall margin will not get affected. So what we teach them is if you make your own fertilizers and your own pesticides at

your farm land only, without purchasing it from the market, you can bring down your cost and so your margins will be intact. So we do not provide any kind of inputs as of now.

**Santosh Biradar:** Looking into the kind of space you are in, if we could able to deliver on the right line, sky is the limit, so it may become a service industry the way the prime minister is speaking, why cannot you think of extending services to the farmers also either technologically or implements, something like that, one part? Second part, you are exclusively doing organic. So if you have got a ready-made market why cannot you look into non-organic farming also where the opportunity is huge?

**Vishal Chavda:** I strongly understand that if I want to sell organic stuff, my shop even should not be next to an unorganic thing. If you want to be organic, you can be purely organic, you cannot say that in my farm there are a few unorganic products and there are a few organic products, because unorganic retail customer, rarely, rarely, rarely ask for a lab report, it is only the trust on which he goes. So my only objective should be I should keep the trust intact. So if you find me selling the non-organic product, say for example if I am selling chickpea and selling non-organic or organic chickpea the question may arise that in the packet of organic chickpea, what is the surety that you will not make the unorganic stuff. So I have to say that non-organic stuff ever enters my premise at all. I only believe in organic. That is the reason why we have confined ourselves only to organic part.

**Santosh Biradar:** How this franchisee expansion is going on and what is the footfall?

**Darshak Rupani:** The franchisee expansion, we have a lot many queries from Gujarat and from western region of India, that is Maharashtra, Mumbai, Pune, stuff like that, but we are not really focusing on the retail because if you see our numbers and everything, the retail contributes only hardly 5% of our top line, franchisee model and the retail is just for the visibility for the brand awareness and the day we are organically certified, we do not really need to create our visibility, we have our own franchisee of 30-stores or something like that, so we have a visibility. If someone in Surat wants to see our products, I cannot ask him to fly down to Mumbai. So we have a store in Surat, we have a store in Mumbai, something like that.

**Santosh Biradar:** I am seeing 24-mantra products in each and every hyper market and super market? So are we working on that line?

**Vishal Chavda:** Recently, 9th, 10th, 11<sup>th</sup> of this month there was a exhibition in Delhi in the name of BIOFACH India which we have tendered and which we participated, in February there is another BIOFACH Exhibition happening in Germany, Nurnberg, so which we are also a participant. 24-months although not in BIOFACH, but many other brands like Sanjeevani Organic and MTR and Suminter India, all those brands. So as of now, our role is like we are suppliers to this B2B segment and we are not launching our own packaging or our own brand to that extent. But once



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*White Organic Agro Limited  
November 16, 2017*

we are done with our own entire organic certification process, that to be in Diwali 2018, we will plan to reach such retail customer also.

**Moderator:** Thank you. This was the last question for today. I would now like to hand over the conference to Mr. Rupani for his closing comments. Over to you, sir.

**Darshak Rupani:** Thank you, participants. It was pleasure talking to all of you. Hopefully with all the good wishes of our shareholders and everyone, we will be performing much better in Q3 and Q4.

**Moderator:** Thank you very much, sir. 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 your lines.