"White Organic Agro Limited Q3 & 9 months FY18 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the White Organic Agro Limited Q3 & 9 months FY18 Earnings 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 date of this call. These statements are not the guarantees of future performance and involve 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 after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to 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 earnings call of White Organic Agro Limited for the third quarter and 9 months ended 31st December 2017. Today, I am joined by Mr. Vishal Chavda – CEO Farming and myself and Bridge Investor, our Investor Relation Advisers. I hope you all had a chance to look through our investor presentation or looking through it right now.

I will first take the opportunity to introduce our company to you. Starting with the small introduction of the company, we are purely involved in organic farming activity and only listed company. We serve over 250 premium organic products in 12 major categories and 17 sub categories from our retail stores which include grains, pulses, edible oil, fresh vegetables, fruits and ghee and medicinal herbs, capsules, organic health supplements, snacks and many more. Our packaging factory is based out of Rajkot, Gujarat which is close proximity to our farms. The company sells all its products under the brand name called White Organics. Our aim is to provide our customers with unadulterated and pure organic products directly from farm to stores, preventing them from getting contaminated by eradicating the whole chain of suppliers, wholesalers and distributors. With the help of tie ups with farmers, we help achieve a goal of healthy food products.

Our biggest strength has been our unadulterated organic product offerings and the right sourcing which has helped us create more and more confidence in the minds of our 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. Our product offerings are such that we are able to cater to demand and hope to gain immensely from them. We are also focusing on expanding our farm lease land and have identified farms that suite our requirements. Currently, we cultivate about 1,200 acres of leased farms located in and around Rajkot, Gujarat. Farms are regularly inspected by the officials of agencies appointed by APEDA governed body and runs on the guidelines of global organic farming norms. APEDA also keeps a record of overall organic farming business carried out in Indian organic market, that is each transaction, buy and sell.

During the 9 months of financial year 2018, we have acquired a majority stake in Future Farms LLP based in Rajkot, Gujarat with a view to tap rapidly growing organic food demand and to increase our capacity for cultivation. Future Farms delivery has a very strong team of supervisors, agronomists and labors. With over 530 farmers registered under its organic program, it has a total of approx. 2,800 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 Agro Limited spread its horizon and establish strong presence across western region of India in the organic market. A strong backend with least farming activity enables us to cater to the increasing demand for organic products and help us strengthen our reach globally.

I thank the entire team of White Organic Agro for their untiring efforts, hard work, sincerity, and high dedication. I would like to thank our valued shareholders who support and faith in our company has given the determination and ambition to go from strength to strength. So from overall business perspective, that is all my side. I will now hand over to Mr. Vishal Chavda, who will take through to the financials of the company for the third quarter and 9 months ended 31st December 2017. Mr. Vishal Chavda is the Organic Head and he is right now joining us from Germany, Nuremberg where White Organic Agro is participating in the Organic Festival, BIOFACH 2018. Over to you, Mr. Vishal. Thank you.

Vishal Chavda: Thank you, Mr. Darshak and a good day to all the participants. I will share highlights of our consolidated financial performance following which we will be happy to respond to your queries.

For the third quarter to start with, I am happy to share that from third quarter we have successfully started generating revenues from our Dubai based subsidiary. The company achieved revenue of Rs. 48.55 crores with significant year-on-year growth of 420% from Rs. 9.33 crores in the same quarter last year. This mainly on account of greater demand in rising awareness on benefits for using organic food products. The EBITDA stood at Rs. 3.94 crores in Q3 FY18, increase of nearly 2600% as compared to Rs. 0.15 crores in Q3 FY17. The profit achieved after minority interest for Q3 FY18 is at Rs. 3.60 crores as compared to Rs. 0.09 crores in Q3 FY17. This represents a growth of 35% year-on-year. Our EPS in Q3 FY18 stood at Rs. 2.88 registered a growth of nearly 4000% as compared to Rs. 0.07 in Q3 FY17.

Coming to the 9 months ended 31st December 2017, the revenues stood at Rs. 101.93 crores with a year-on-year growth of 753% from Rs. 11.95 crores in 9 months ended FY17. The EBITDA stood at Rs. 7.67 crores in 9-months ended FY18, increased by about 2,100% as compared to Rs. 0.33 crores in 9 months ended FY17. The profit after minority interest for 9 months FY18 is at Rs. 7.11 crores as compared to Rs. 0.20 crores in 9 months ended FY17. This represents a growth of 3378% year-on-year.

Our EPS in 9 months ended FY18 stood at Rs. 5.69, registered a growth of 3456% as compared to Rs. 0.16 in 9 months ended FY17. This is all from our side and now we can open the floor for question and answers.

Moderator: Thank you very much, sir. Ladies and gentlemen, we will now begin with the question and answer session. We take the first question from the line of Vetri Raju from Equity Analyst. Please go ahead.

Vetri Raju: Sometime back I think there was some notification in the exchange that you are planning to raise some funds and so on. I am just wondering with our current business model, there is practically very little CAPEX and the business itself is going to generate lot of free cash. Just wanted to understand what purpose it will be and what are going to be return ratios of the additional capital raise than infused?

Darshak Rupani: I think this is the third consecutive concall that we have been talking to you. We are glad that you have been tracking us since a long time. About the question that you asked, it is just a very preliminary thought of raising some funds for our expansion project, we might be looking for installation of freeze drying powder of Aloe Vera and that is the reason we might need some capital and this is just a very preliminary thought, but we have just notified the exchange that we are thinking on those lines. No concrete plans of raising any equity or any debt at the moment.

Vetri Raju: That is possibly a provisioning enablement. Also, my next question will be on, we were discussing that we will possibly get part of our area under cultivation under the next level of organic certification, possibly by this Diwali or so. So any update on that and any update on whether that will improve our export prospects and so on?

Vishal Chavda: Sir talking about the two crops what we have, one is Aloe Vera and one is Moringa, in initial stage we found the fantastic domestic market for Aloe Vera product. Since last 3 months, we have been tracking the Europe market. Since by November 2018, our huge part of the land will be organically certified and that is when export door will be open. Sir, during our last 3 months of recess of euro, what we understood is we are able to find some fantastic market for Moringa dry leaf powder, I mean that is where we are planning to expand ourselves in the year to come. So in this March that is the day of Holi is the day when land changes hand from the… The old people will leave the land and the new one will acquire. So we have already found out few of the fantastic piece of land on which we want to expand on Moringa.

Vetri Raju: Okay, so just to confirm that by November, part of our land will get organic certifications, isn't it?

Vishal Chavda: That is very true.

Moderator: Thank you. We will take the next question from the line of Aniket Thite, an Individual Investor. Please go ahead.

Aniket Thite: My first question is whether you could share the financials for the Dubai subsidiary during the Q3 and the first 9 months FY18?

Darshak Rupani: I do not mind sharing the financials with Mr. Aniket Thite**.** I won't be giving the exact numbers, but it is roughly about INR 12 crores as a topline, about 7% bottomline**.**

Aniket Thite: Okay, it is for the third quarter?

Darshak Rupani: It is just the third quarter with UAE subsidiary has started its operations.

Aniket Thite: Okay. One more followup question for the Dubai subsidiary is that the 5% VAT that as started from 1st Jan, that is only for items sold within the UAE, right? So would we be affected, do we fell mostly in UAE or is it just a trading route that we take?

Darshak Rupani: Set up in Ajman is ready and the VAT is not applicable on us.

Aniket Thite: Okay. The final question, since the warrants 50 lakhs shares have been converted and the company must have had cash as well. So can we have the current position of the current or the liquid funds that we have or cash equivalents as of 31st December, just to have an idea?

Darshak Rupani: The warrants have been converted to be specific on 19th January 2018.

Aniket Thite: Okay. So it is after the…

Darshak Rupani: So we won't have the effect of those.

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

Devansh Lakhani: I wanted to ask you couple of questions. What is the current, non-current investment in our books as on December? I think I understand as on September is around 29 crores?

Darshak Rupani: Won't be able to give you the exact figures over the concall, but it is….

Devansh Lakhani: Is it more than that or less than that, I mean…

Darshak Rupani: It has reduced a lot. It is less than that.

Devansh Lakhani: I mean, a lot or like a very minute figure less than that.

Darshak Rupani: Quite substantial.

Devansh Lakhani: Okay. And sir what would be the inventory days and the debtors' days currently?

Darshak Rupani: Depends on the product to product.

Devansh Lakhani: On an average?

Darshak Rupani: On an average, 30-45 days.

Devansh Lakhani: That is the inventory or the debtor days?

Darshak Rupani: Debtor days.

Devansh Lakhani: And inventory?

Darshak Rupani: Almost all the agricultural product has, and especially organic agricultural products has its own shelf life. So we have to sell the products within like 5 days or somewhere 15 days.

Devansh Lakhani: Okay. And sir what would be our cash flow from operations as on this quarter end?

Darshak Rupani: Yes, quite cash range, but if you want the numbers we can take it off the call. It is quite cash range as we can see from our balance sheet.

Devansh Lakhani: No, I mean not the cash equivalent as on hand, I was asking the cash flow from operations as on this quarter, so from…?

Darshak Rupani: Already given a net profit about 3.5 crores odd, that all is lying with us. That is the cash flow from the profits.

Devansh Lakhani: Okay. Alright. And sir what do you feel about in this budget I think we have got a very good boost for the organic sectors, the agri organic sectors, so what is your outlook on that particular thing?

Darshak Rupani: I was expecting something like this coming from and I really appreciate that. Mr. Vishal, can you give them more idea about…

Vishal Chavda: Specifically, in this budget, the government has said that the companies who are dealing in farmer related activities directly will get tax holidays for 5 years if their turnover is of more than 100 Cr. In our case, there were 2 verticals. One was the direct cultivation and agricultural activity which was anyhow tax free for us and there was the processing of those cultivated products which was always under the tax slab. But luckily with this new announcement, we see the things turning in our favor and we may enjoy good amount of tax holidays.

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

Kunal Shah: Two-three things. First thing, just wanted to know the status of the liquid cash that is there in the company right now because I understand there has been discussed by the last participant, we had approximately 27-29 crores in the form of non-current assets and to add that, 7 crores that we have generated PAT right, so almost 35 crores is already there with the company. So a little contradicting that we were planning to go ahead or thinking of raising further money. So if you could throw some light on that part sir?

Darshak Rupani: Kunal, as I mentioned in the first question itself, it is very preliminary thought of raising some funds. It is a very prima facie thought because the setup installation if we go for a freeze drying setup, if we go for, again I repeat that, that would cost about Rs. 40 to 45 crores. So we cannot stop expansion of our land for this expansion of the unit. So that is the reason if that we might go for a capital raising, but at the moment it does not look like. About 31 crores that we have as a cash bank balance as we have said that, substantial amount has already come back and in this Holi, we are investing a lot of chunk in this Holi, that is this March and this Diwali again, we will be investing a lot of chunk for buying out more lease lands about 1,000 acres or so. So, we need some amount for that.

Kunal Shah: What would be the investment in these leases lands sir, approximate amount?

Vishal Chavda: We are planning to expand ourselves to another 1,800 acres to reach to the level of 3,000 acres since we already have 1,200 acres with us, additional 1,800 acres will be leased out in this Holi to come. And approximately usually we go with the line that in the first year we end up investing lakh rupees an acre that is as good as 18 crores towards this land, that is one part of the story. The another part is sir, because soon the organic fields will be open, there might be a need for us to set up some of our stuffs in Europe as well. And that is the intention or that is the reason why we may need further funds. That is exactly the reason why we are also evaluating various options available for us.

Kunal Shah: Okay. And our expectation as regarding the promoters' stake in the company, so I believe as per SEBI guidelines since the warrants have already been converted, it can be raised further by 5%, sir. So any thought on that because our promoter holding is only to the tune of 26% approximate. So any thoughts on that, sir?

Darshak Rupani: Yes, certainly. We are going to go, I mean that is off the records again. I mean we might be increasing 5% a year as a creeping acquisition as SEBI permits and in this financial year, the promoter group cannot on 31st March 2018, because the warrants have converted in January, so maybe the next year the promoter group might increase the stake for 5% as a creeping acquisition.

Moderator: Thank you. We will take the next question from the line of Kaustav Bubna, an individual investor. Please go ahead.

Kaustav Bubna: Just a couple of questions. On the financials in the press release, you have mentioned that the annualized EPS would be 11.52 quarterly annualized EPS, when I add the 9 months EPS number of 5.69 and add it to the 2.88, what you clocked in quarter ending December getting a number of 8.57. So what is your realistic estimate here for FY18 and if you may project for FY19 what is the estimate there? That is the first question. And second one I would like to know the B2C and B2B mix which the company experiencing now, maybe particularly for this quarter, what is the mix in revenue?

Darshak Rupani: Owing to your first question, quarterly EPS that we have mentioned in our press release is 11.52, we are just calculating about this quarter. This quarter, the EPS would obviously change because the equity was 12.5 crores on 31st December and 31st March it would be 17.5 crores. When you take 12.5 crores into consideration, we will be surpassing Rs. 12 EPS by sure in March 2018.

Kaustav Bubna: Okay. Thanks and any projections for 19 at this stage?

Darshak Rupani: We are targeting a topline of about 250 plus crores. And a bottomline of about 20 plus crores.

Kaustav Bubna: Alright, thanks. And coming back to the B2B B2C mix, would you like to give some percentage revenue mix?

Darshak Rupani: Would you elaborate on the question, what do you mean by B2C, you are talking about…

Kaustav Bubna: So B2B is what I mean is that you are selling to Patanjali for example that business to business and the other part is B2C which means you are selling to the retail customers directly through your online channels?

Darshak Rupani: Sure. As you see our balance sheet and the all the figures that we have mentioned, retail is hardly 5% of our P&L. As our production is into tonnage, we cannot sell a lot of products in kilos or grams. So retail is hardly 5% to 6% of our P&L. That is going to be there forever. Unless we get into overseas retail.

Kaustav Bubna: Is there any plan for that?

Darshak Rupani: Currently, no. We are planning for B2B model in overseas as well and for penetration in the retail segment in overseas.

Moderator: Thank you. We will take the next question from the line of Kishan Ravia, an individual investor. Please go ahead.

Kishan Ravia: The first question is on proposed expansion in organic farm land. In your presentation, you mentioned we are targeting 12 to 14 months target nearly our 3,000 acres. So I just wanted to confirm, whether this 3,000 acre number land is already included in the Future Farm LLP, or it is different from that?

Vishal Chavda: Sir as on today, Future Farm is holding around 1,030 acres of land, while the White Organic is having 158 acres of land aggregating to around 1,200 acres. The next set of 1,800 acres, we shall structure ourselves mostly in the Future Farm and that is how we will be expanding in the year to come. Usually this acquisition happens in two way, either on the Holi day or on the Diwali day. So in case for any part of the land, if you miss out the deadline of Holi to be acquired because it also depends on the previous lease holder who will vacate the land. So in such scenario, a part maybe acquired in Diwali. So it can two phase aggregate will reach to 3,000 acres in Holi and on Diwali.

Kishan Ravia: Okay. And what will be the preferred way, we directly contracting to farm land owner or strategic partner say like Future Farm LLP route and how it will be funded?

Vishal Chavda: Sir, as of now probably we are among one of the biggest organic farm land in Gujarat. So many of the big land holders already know that there is a company like this very active. So usually, as of now we do have proposals of around 8,000-10,000 acres of land from which we have to choose the most appropriate one for us. So usually the land lord approaches to the company saying that if you can take care of my land, I will be free of it and I can peacefully retire. That is how it works.

Kishan Ravia: Okay. Are we looking for some other targeted geographical land advantage for our product, I mean high margin product which we are focusing going forward? We are basically only concentrating on Gujarat right now.

Vishal Chavda: What we very much understand that our personal presence is utmost required for such an unorganized sector and we will be expanding ourselves only to the territory to which we can have a personal attention. So as of now, Maharashtra, few of the suburbs in Mumbai and Gujarat is in our target, but we do not feel of expanding ourselves beyond this territory in very near futures.

Darshak Rupani: To add on to this, our straight communication is with the farmers. So as Mr. Vishal said, the management's personal presence over the farms is much required and that is the reason we are just targeting Western India at the moment.

Kishan Ravia: And sir my last question is on EBITDA margin going forward. How is different from the normal FMCG company, any target in mind in percentage term. Right now, we are fetching higher single digit margin on EBITDA front. So are we looking forward to any high growth on EBITDA margin as well?

Darshak Rupani: Obviously as our ICS status increases, the premiums would increase and that would obviously increase our EBITDA margins.

Moderator: Thank you. We take the next question from the line of Aniket Thite, individual investor. Please go ahead.

Aniket Thite: Darshak bhai, one quick question again. When we were exploring the fund raising auctions, we were saying of perhaps listing the subsidiary on an SME platform, are we thinking of listing Future Farms LLP or Dubai subsidiary on the SME platform or I know it is a very early stage, but I could not really gathered from that.

Darshak Rupani: Yes, it is quite early stage, but it would not be Future Farms, it would be a retail subsidy. But it might be.

Aniket Thite: It is very early stage, but Future Farms being listed separately is not the idea on the table. Perhaps if it does go through, it will be on retail.

Darshak Rupani: And that is also a very early stage.

Aniket Thite: Absolutely, once it attains some spice.

Darshak Rupani: Yes, obviously.

Moderator: Thank you. We take the next question from the line of Nitin Gandhi from KIFS Trade & Capital. Please go ahead.

Nitin Gandhi: Can you share likely promoter stake in other things post conversion of all the overheads?

Darshak Rupani: Approximately 26-27 % and I do not know the exact number. 26% or 27%, somewhere between that because even promoter has infused.

Nitin Gandhi: Yes. So that is what, for the 50 lakhs I don't have the clarity how much is promoter, how much is non promoter?

Darshak Rupani: Of that 50 lakhs, 25% is from the promoters. So equivalent proposition is the same.

Nitin Gandhi: So 35 lakhs existing becomes 47.5?

Darshak Rupani: Not really 47, to be precise 45 something.

Nitin Gandhi: So 20%, not 25%.

Darshak Rupani: Yes, sorry.

Moderator: Thank you. We take the next question from the line of Ghanshyam Binani, an Individual Investor. Please go ahead.

Ghanshyam Binani: I just like to ask couple of questions. One is who are the closest competitions in India because I understand that quite a few young startups have also come up around Sikkim and other regions wherein they are trying are get into this organic farming and go ahead with this. And the other thing is that, what is the plan for the acreage? Is there any connection or restriction that one farmer can have X quantum of land under his control. What is your response to this?

Vishal Chavda: First of all about the competitive part sir, the term Organic, first of all you need to get your land organically certified. So if I am applying for the certification on 1st of January 2018, that will consider to be my zero day and only by 2021, my debt specific land will be organically certified. So even if somebody who is planning to get their land converted into organic, he has to wait for 3 years, which we are on the verge of completion comparatively. So it is always a first-mover advantage whereby we will be moving around 3 years forward as compared to other competitors. So that is how we could counter it. Even it is not like that, day on which you get yourselves organically certified is the day on which you get an export order. So you need to bid the capability accordingly in which we will always be enjoying first-mover advantage. That is one part of the story. The another part is usually in Gujarat or maybe across India, there is land selling act whereby a single person can hold a maximum of 50 acres of land, but there are families within the families who are known as the Darbars in the small villages of Gujarat. Those Darbar families who are having around 30 members in a family would have had 50 acres in each of the family member. And they as a family deal with companies like us and they enter into agreements, whereby we acquire that entire set of say 1,000 acres from a single landholder. And that is something is of our interest. So this is how it works.

Ghanshyam Binani: Okay. And is there any ratio between the quantum of area which one farmer can cultivate or so, that is what in terms of the operational efficiency?

Vishal Chavda: As a company, there isn't any limitation on which the amount of lease agreement that I can sign.

Ghanshyam Binani: I am not talking about the lease or the legal aspect I am talking about the operational aspect or functionality, one farmer can cultivate or take care of how many acres of land?

Vishal Chavda: Usually in a very minute terms, a single pair of a farmer usually is enough capable to handle 10 to 15 acres of land. As of now, we do have around 70 to 80 people of staff who is looking after this entire set and that is how we run our business as of now.

Ghanshyam Binani: Okay. And just one last point. I have heard that Sikkim has been declared as the total organic state, the first organic state in the country. Would this restriction of the entry barrier of this organic land conversion which takes about generally 3 years' time period, be applicable over there or is it already taken care of?

Vishal Chavda: Sir, Sikkim was already in that the virgin state, earlier sir the rules of this conversion were not that strict by the government whereby if you start cultivating on a virgin land instead of 3 years, the limit was only of one year which they actually avail. Later on many of the people started playing games and started trying to break the rules and that is where this one specific line of virgin land got deleted by the government. After which, they came out with the strict norms whether you being a virgin land or not, you will be certified only after 3 years. So Sikkim enjoyed that advantage, but we or our competitors will not get that advantage later stage, now onwards.

Moderator: Thank you. We take the next question from the line of Ashok Agarwal, an individual investor. Please go ahead.

Ashok Agarwal: My question is about Dubai subsidiary. So what kind of performance we had at Dubai subsidiary in this quarter in terms of sales let us say?

Darshak Rupani: We have given a topline of about 12 crores in Ajman, bottomline about 5%-7% in Ajman right now.

Ashok Agarwal: So I think this performance may further improve as the time for the quarter passes.

Darshak Rupani: Obviously.

Ashok Agarwal: My next question is about our association with Patanjali actually. So there has been no announcement after the first announcement somewhere in September-October that we have to supply them 500 tonnes. So is that position continuing or not continuing?

Vishal Chavda: Usually, our capacity is to fulfill the quantity of 500 tonnes every 40 days. So once we are done with the first order of 500 tonnes, the second order got issued, the third order is we getting issued on this 19, so this is a continuous process. Every month we get a PO and we finish the PO in next 30 to 40 days and this is how the business is going on very smoothly with Patanjali.

Ashok Agarwal: I thought they would have been…

Vishal Chavda: That was the first order in which as a direct supplier, we started working with partner, so it came as an announcement, but now it is a day-to-day affair and it is nothing like there is an announcement.

Ashok Agarwal: My last question is about in last conference call, I think it was mentioned that company may sort of acquire certain farms which are spread in the IC3 category from certain farmer groups. So is there any light on that?

Vishal Chavda: Maybe during Holi season, that is where the acquisition will happen. So we do have some targets, but it will be too early to declare that because those IC3 are such targets in which all the competitors would always be interested to acquire. So maybe after Holi, we will be able to share more lights on it.

Moderator: Thank you. Ladies and gentlemen as there are no further questions from the participants, I would now like to hand the conference over to Mr. Darshak Rupani for closing comments.

Darshak Rupani: Thank you. I hope we have almost answered all the queries from all the participants. It was pleasure talking to all of you. Thanks a lot Mr. Vishal from joining us from Germany and best of luck for your endeavor over there. Thank you.

Vishal Chavda: Thank you so much everybody.

Moderator: Thank you very much, sir. Ladies and gentlemen, on behalf of White Organic Agro Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines.