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ISSUE**

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OUTLOOK
Profit

₹ 50

1 October 2010

**BULLS. BEARS.
BILLIONAIRES.**

**COULD
THESE
BE THE
NEXT
RISING
STARS**



**CONCEPT
STOCKS**



SANJIT KUNDU

TASTY BITE



Ravi Nigam
Managing director

CONCEPT IN A NUTSHELL

Tasty Bite is a Pune based manufacturer of ready to eat foods and sells all its output through retail chains in the US, Canada and Australia. Its brand leadership in Indian RTE foods makes it a stock to watch out for

Very appetizing

Smart marketing of thoughtfully prepared products has made Tasty Bite a trusted name in the overseas ready-to-eat foods market

Rajesh Padmashali

If our next concept stock is a name that fails to ring a bell in India, it's because the ready to eat (RTE) foods market here is taking its own time to evolve. For an idea of how slow the process has been, Tasty Bite has been around for 25 years, 13 of which it tottered through before steadying in the last dozen. The guiding hands behind this stability are that of managing director Ravi Nigam and his able support, chairman Ashok Vasudevan. Their professional partnership goes all the way back to their earlier jobs at Pepsi, where their mandate was to look for products that Pepsi could export. At that time, Tasty Bite was sick and referred for rehab to the Board for Industrial and Financial Reconstruction (BIFR).

Back then, the Ghais, who owned among other things the Kwality icecream franchise in western India, were only too happy to pass ownership - when they

sold Kwality - of Tasty Bite to HLL (now HUL). For HLL, at that time, Tasty Bite was non core and therefore the duo convinced the HLL senior team to sell the business to them. "1999 was the year of turnaround," Nigam remembers. "Revenues moved to Rs 5.5 crore with a marginal profit. It was the first time in its 13 years of existence that the company made a profit."

Right from the day it took over, the new management has worked with the

single-minded goal of turning Tasty Bite into the most respected food brand from India in the most discerning markets of the world. In the process, the company has moved from making 5,000 packs per shift to 50,000 packs per shift.

A matter of good taste

There is a lot of science that goes into the making of a ready to eat pack. Nigam says, "We declare that the product is good for 18 months, but the consumer must have the same eating experience through the 18 months of its manufacture as in the first month."

Tasty Bite is studying consumers all the time. The Tasty Bite Research Centre (TBRC) pitches in with vital inputs. A library of products is readied two years ahead of launch schedule. Every year, Tasty Bite potentially touches 200,000 people directly through critically important live demos, each of which hosts 200-300 people. Nigam says, "Even as we speak, the plan launch for 2013 is being cast and development work is on, and all of that is borne out of the consumer research being done." To aid its next stage of growth, the product development lab at TBRC is being expanded.

This attention to detail has paid off well in the North American markets of US and Canada, where Tasty Bite retails through 51 chains and which contribute 70 per cent of sales. Australia and Asia-Pacific bring in 15 per cent and India trails behind with the remaining 15 per cent, which too comes from institutional customers like McDonalds, Yum Foods and Domino's. It's a break-up that suits the management fine.

Tasty Bite was the first company to go retail in the Indian RTE segment in 1999 but it pulled out soon after. Since then, it has followed the policy of concentrating on a few large and growing global markets where it has leadership. For instance, the US constitutes 50 per cent of the world's processed food market. "In the global market, there is an entry barrier based on product innovation," says Nigam. "This doesn't exist in India, which is a price-driven market. It's not something that we can compete on." Nigam expects the domestic market to contribute 20 per cent of sales by FY13 because the institutional customers being catered to are themselves growing.

Hot seller

Meanwhile, FY10 was a blockbuster year for the company as it added on new customers as well as products. Nigam says he's not surprised and attributes it to the background work that started in 2007-08. To the entrees that now make up 75 per cent of sales, Tasty Bite has added several 'meal inspirations' and rice varieties. Nigam expects the sales momentum of FY10 to continue over the next two years despite the rising cost of inputs that showed up in the Q1FY11 results. He's trying to mitigate cost pressures by buying value added products instead of commodities, for instance, tomato paste instead of fresh tomatoes. At the same time, the company is consulting with vendors to take advantage of seasonal price variation and also lock-in better rates through volume guarantees.

But where does the confidence for a sustained 35-40 per cent increase in topline and bottomline come from? Nigam is banking on brand pull and product innovation. "We are clear that our consumer is not eating the product the way we eat it here or the way it is eaten in Thailand, with roti or rice," he says categorically. "They would want the flexibility to put it in a taco

and make it a taco-filler, they would want it to toss it in a salad or consume it as a main meal or convert it into a soup. Tasty Bite has to provide them that experience."

Increased distribution through new chains and growth within old ones is also part of the answer to boost revenues. Even in the US, Tasty Bite has only saturated about 60-70 per cent of the market. The mantra within the company is now: 'new consumers per store, more stores per chain, and more chains in the same market'.

The evolution of the RTE market offers other insights: there's a subtle slant towards vegetarianism in the US and prepared foods end up being cheaper than cooking from scratch making the growth proposition stronger. "The numbers that we are projecting are real for us even if they appear very aggressive from the outside," Nigam says. "Our planned capacity expansion from 25,000 to 50,000 tonnes is based on our understanding of the markets and the confidence in our ability to execute." The expansion cost outlay of \$3-5 million is being funded by debt, capital infusion from Preferred Brands (the holding company) as well as internal accruals.

In terms of what could go wrong, Nigam believes, the risks are more external than internal. "Besides our failure to execute, the risks are exchange rate fluctuations, rising crude prices which affect freight cost and bad monsoons which could push up input costs." That said Tasty Bite's product innovation and manufacturing excellence should lead to business predictability in the times to come. At its current price of Rs 234, the stock discounts its 12-month trailing profits just over 10 times. In the markets, predictability of business has invariably led to more than predictable stock returns, more so in times of uncertainty. □

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Blockbuster

Management is confident of repeating the knockout numbers reported in FY10

₹ cr	FY08	FY09	FY10
Sales	32	42	68
Change (%)	17	31	60
EBITDA	2	8	14
Change (%)	-3	314	72
Net profit	1	1	7
Change (%)	35	21	394
EPS (Rs)	4.56	5.50	27.13
Book value (Rs)	50.05	55.54	83.83
ROE (%)	9.54	10.41	38.97

Source: Bloomberg