



Prataap Snacks Limited

Q4 & FY2024 Earnings Call Transcript

May 23, 2024

Himanshu Nayar: Thank you, and good afternoon everyone. Welcome to Prataap Snacks FY24 and 4th Quarter Call.

From the management today, we have Mr. Amit Kumat - Managing Director and CEO and Mr. Sumit Sharma - CFO of the company. We will start with the opening remarks from the management post which we will take up Q&A. So, I would like to hand it over to the management now. Over to you, Mr. Kumat.

Amit Kumat: Thank you, Himanshu. Good afternoon to all the participants and thanks for joining our Q4 and FY24 Earnings Conference Call. I trust all of you have reviewed our earnings documents, which was shared earlier.

We have reported a resilient performance in Q4 FY24 despite the challenging macroeconomic conditions and persistent inflation which has impacted consumer behavior. We reported sales of Rs. 387 crores in Q4 FY24. Urban areas continued to outspend rural areas during the quarter. However, there are initial signs of revival in rural spending on a sequential basis.

Two key highlights of our topline performance are maintaining the leadership position in the Extruded Snacks category as well as continuing to drive robust growth in the Namkeen category, which remains a



primary focus area for us. These accomplishments have been driven by initiatives such as range selling and expanding retail reach.

I am most pleased to share the stellar EBITDA performance. In Q4 FY24 EBITDA was Rs. 35.5 crore, a robust 87% increase compared to Q4 FY23. We have delivered an EBITDA margin of 9.1% in Q4 FY24, the highest in the last 26 quarters. We have been very focused on our margin performance and undertook many steps to structurally improve the margin. Additionally, a decline in some input prices coupled with process optimizations contributed to improving profitability. The improvement in EBITDA has also filtered down into PAT. In Q4 FY24, PAT reached Rs. 12.4 crores, marking a 30% year-over-year increase compared to the adjusted PAT of Rs. 9.5 crores in Q4 FY23. Please note the one-offs in the PAT last year which are explained in note 1 of slide 32 of our investor presentation.

If we look at the full year performance, revenues were Rs. 1,610 crores in FY24 compared to Rs. 1,642 crore last year impacted by the softer demand environment. However, there was much progress on improving our profitability as the company reported its highest ever annual EBITDA of Rs. 141 crores in FY24 which is higher by 126% on a year-to-year basis.

Throughout FY23-24, the EBITDA margin was consistently above 8% in each quarter and we have reported a margin of 8.7% for the full year, indicating the structural and sustainable improvement in margin. This margin enhancement is due to compression of the distribution structure over the last two years as well as lot of effort from process improvement, cost optimizations and yield enhancement. There has been some support from lower prices of certain input.

Profit after tax has grown to 52x from Rs. 1 crore to Rs. 53.1 crores in FY24 on a like for like basis despite higher depreciation. In light of this



performance, the Board of Directors has recommended a dividend of 40% per share with the face value of Rs. 5 amounting to Rs. 2 per share.

We are taking several steps to accelerate growth. This includes the implementation of Sales Force Automation, which is already rolled out across a substantial proportion of our market. We now have access to richer and real-time data, which will lead to improved productivity of the sales team, identification of gaps and also help to improve the overall strategy and decision-making ability. This will be extended across all locations this year.

We are augmenting our sales channels by entering into modern trade and quick commerce channel, which will complement our comprehensive presence in the traditional distribution channel. We are already onboarded into some of the leading supermarkets and hypermarket chains and are in advanced stage of discussion with several quick commerce platforms.

In terms of our product portfolio, we will look to continue to perform well in Extruded Snacks with a focus on Pellet snacks. Another strategic initiative remains increasing the share of Namkeen in our revenue mix. The initial progress on increasing Namkeen will receive further momentum from our initiatives of range selling, Salesforce automation and entry into modern trade and quick commerce. Further, we are undertaking efforts towards more comprehensive coverage across select markets and we will look into addressing pockets of under penetration. We believe this will help us to further enhance our reach.

We are also working on introducing some premium offerings under the 'Better for You' range of products. This will help us to drive our objective of larger pack sales and will also benefit from our entry into modern trade and quick commerce. As part of the ongoing upgradation and enhancement of product range, we plan to launch new flavors such as



'Sizzling Hot', which is a spicy flavor across product categories of extruded snacks and potato chips. There are some new offerings lined up for launching the Extruded Snacks and Namkeen categories too.

We have recently commissioned new facilities in Jammu and Rajkot. The Jammu facility will help us to expand our reach in the regions across J&K and Punjab. In Rajkot 2, we will be manufacturing 'Falahari mixture' and Peanuts which will help to expand our product range.

Looking ahead to FY25, we are optimistic given the initial signs of improved rural demand, the projections of a normal monsoon will provide further momentum to this trend. We are confident that our initiatives across Sales Force automation, range selling, entry into modern trade and quick commerce as well as augmentation to our traditional product portfolio will help us to drive accelerated growth in topline.

On that note, I conclude my remarks, and we can open the floor for questions.

Moderator: Thank you. We will now begin the question-and-answer session. The first question comes from the line of Dipen Shankar with TrustLine. Please go ahead.

Dipen Shankar: So, firstly from my side, what are the challenges we face in reporting strong double-digit growth in revenues and how do we see industry growth per se in the past year?

Amit Kumat: So, if you see overall the rural market and the urban market with the lower strata income has been a big problem for all the companies. We don't have the exact number of our competitors, but definitely there has been pain for most of the companies in the rural segment and the lower strata income. But seeing the current scenario and the months which



have passed on, things are improving a lot. We think that this year probably we can deliver double digit growth.

Dipen Shankar: And sir, can you please throw some light on each category like Extruded and then Potato, Sweet and Namkeen segments? How do we see growth over there?

Amit Kumat: So, Extruded segment, we are the leader in the Extruded segment in the country and we feel that most of the growth in the near future should come from Extruded snacks, mainly Pellets and Namkeen category. Namkeen in Yellow Diamond has done very well for the last year also. With almost zero growth also, the Namkeen category grew almost 16% for the year.

Dipen Shankar: The contribution was 16%, right, sir, or growth?

Amit Kumat: The growth in Namkeen, the contribution was also 16%.

Sumit Sharma: Contribution is also 16%, but growth for Yellow Diamond and Namkeen. So, Namkeen has Yellow Diamond and Avadh - two kinds of portfolio. Avadh is primarily a regional Namkeen targeted to Gujarat market and YD Namkeen is more national variant. We are driving the range selling so the outlets where we are available, but the Namkeen range is not available. We are pushing Namkeen into existing outlets which is helping us to drive Namkeen growth.

Dipen Shankar: So, if you are seeing such strong growth in Namkeen, so any other segment which is facing negative growth as such?

Amit Kumat: I think all other sectors were basically they were okay, they were muted growth because volume wise, we were at zero growth last year. So, not much significant difference but Namkeen has done better than all other products. In the coming year, we are looking for more growth from Extruded Snacks and Namkeen.



Dipen Shankar: And how about this Sweet snacks portfolio, sir, we had higher growth ambitions on the Sweet snacks portfolio earlier. So, are we still hoping Sweet snacks portfolio to increase substantially in the coming years?

Amit Kumat: Sweet portfolio has seen muted growth. We don't see any much significant growth in the Sweet snacks segment right now. We are trying different formats for the Sweet snacks segment but have no success yet.

Dipen Shankar: And how about this off take on larger packs we were discussing last year, sir. So, is that segment's contribution improving in the overall sense?

Amit Kumat: Yes, that sales contribution is also improving and with getting entry into modern trade that contribution will substantially improve in the times to come. We have got listed ourselves on the DMart and Reliance and there we are selling a Rs. 50 pack compared to the Rs. 5 pack what we sell maximum. With entry into modern trade and with both quick commerce, I think the large MRP packs contribution will definitely increase.

Dipen Shankar: So, what is its contribution currently and what was it last year, sir?

Amit Kumat: It is different for different segments. I think potato chips, it is close to 25%-30% for more than Rs. 5 pack. For Extruded Snacks and other packages, it is mainly Rs. 5 only. So, overall contribution would be probably close to 12%-13% and I think that can go up to 25%-30% in 2 years' time.

Moderator: Thank you. Next question comes from the line of Prakash Kapadia from Spark PMS. Please go ahead.

Prakash Kapadia: Couple of questions from my end. Typically, what has been our rural and urban mix to total sales if you can share that in FY24? And secondly, Pepsi is trying to change the base oil from Palm oil to a blend of sunflower oil and Palm oil. So, what impact does it have on the industry and a player like us and what do you think will be the consumer's reaction?



Amit Kumat: From the mix side, it is almost 50%-50% for the rural and urban market, not much different, but in urban market also, since we are in the Rs. 5 segment category, we are majorly catering to lower strata income people. So, I think there was a pain there also last year which we have seen an improvement from this current year. On the oil side, basically we currently use Palm Olein and Cotton Seed oil and we believe they are the one of the best oil for frying medium across the world. But since there are consumer behavior when Pepsi launches and Frito Lay launches and they advertise a lot, I think we will have few varieties in Sunflower oil in times to come. But I don't see any health benefit coming out of it.

Prakash Kapadia: So, the positioning need not be a healthy product is what you are saying?

Amit Kumat: Yes, I don't think so, yes. So, there is a lot of debate going on across the world on the quality of oil. I believe most of the oils are not that good for health.

Prakash Kapadia: And if you could help us understand the PLI scheme, there was some delay last year. What were the challenges as of now, where are we in terms of the PLI scheme and if you could help us understand the road ahead on that. And in your remarks you mentioned about the J&K plant. So, given that it has started, what is the annual benefit? What kind of CAPEX we have done? When do some of these benefits come to the P&L, if you could give some insights that will be helpful?

Sumit Sharma: So, PLI, there was an obligation to invest almost Rs. 105 crores for CAPEX and the deadline was to complete that investment by end of March 24. So, we have completed our investment before the deadline, and we commissioned 2 new plants and there was some brownfield CAPEX. So, with regard to that investment, we have commissioned 2 new facilities. One is Jammu and the second is the new unit in Rajkot. We need to achieve some sales threshold to get the PLI benefit, so we are aspiring for



that. We are targeting to achieve that number. The benefit is available till FY27. So, another three years, the benefit will be available.

As far as Jammu is concerned, the Jammu plant was commissioned by the end of March, and it is operational. The overall capacity for Jammu facility is roughly about Rs. 160 odd crore at a full capacity utilization. The idea to use Jammu facility to develop the nearby markets like J&K, Punjab and Himachal, because those markets historically were not that strong for us because of logistic issues, we were not able to supply earlier. So, the Jammu facility will help us to maintain a consistent supply to these markets. The products we are planning in Jammu are Extruded Snacks, Pellet, Puff and Rings and Chulbule will be manufactured at Jammu location and rest of the items will be supplied from other locations. So, we will also have a hub in Jammu to maintain the full range of all the products.

In addition to PLI benefit, there are another benefit linked to Jammu investment. Jammu total investment was about Rs. 22-Rs. 23 odd crore. So, as per the Jammu incentive scheme, whatever is the eligible investment, we will be able to get 300% of that investment. So, as per our calculation, the eligible investment is about Rs. 18 to Rs. 19 crores, so three times that means about Rs. 56-Rs. 57 crores kind of benefit will be available over the period of 10 years and this is basically the GST linked incentive. So, whatever GST charge in the invoice we will be getting equivalent to that benefit subject to the maximum cap of the amount which I mentioned.

Prakash Kapadia:

And you mentioned there is a sales threshold for the PLI scheme, so how does that work? Is there an absolute number or a certain growth number which you have to achieve year-on-year till FY27?

Sumit Sharma:

So, there is a CAGR which has to be maintained over the base year. So, the base year was FY20, and we need to maintain at least 10% CAGR from



FY20. So, that is how the threshold sales is calculated. All the products are eligible under PLI in our case except potato chips. Potato chips is not eligible under the PLI scheme for the incentive benefit.

Prakash Kapadia: So, if I understand this correctly, going forward from FY25, some of these benefits will start accruing to us?

Sumit Sharma: Yes, that is what we are targeting.

Moderator: Thank you. Next question comes from the line of Arman with Blue Sky Capital. Please go ahead.

Arman: Before we told that we will be targeting around Rs. 500 crores of topline, however, in Q2 earnings call, you clarified that it may take two more quarters. So, already we are on Q3 and Q4 already have been over. So, what is the timeline over there? When can we see your topline of Rs. 500 crore? That is my first question. And the second question, which you have already answered, but just wanted to clarify once again that like PepsiCo, one of the previous participants has asked about the Palm oil and sunflower blend oil. So, our stand is clear that will not, that doesn't hold any other health benefits. So, what we are using it the best what can be possible, is that so sir?

Amit Kumar: So, I don't think we can say it is the best. All the oils have different kind of attributes and people see it with different lengths. For frying medium stability wise, we believe Palm oil is the best oil available in the world today. And all the major players in the country use only Palm oil. Though during winter we have to use cotton seed oil because of the low freezing point for Palm oil. If they start using sunflower and they market it, I think it might give a different tangent to the market. So, we are doing few trials at our laboratory to see what can be done. Current sunflower oil available in the country is not good for frying, so you need a different kind of sunflower oil to be used in frying.



On the first question of revenue, we haven't hit that mark basically what we said last time, but with the current 10% growth momentum, what we see for this year, hopefully this year we should see this number in probably Q2 or Q3.

Prakash Kapadia: And these margin levels are sustainable, sir, at this level since we are already increasing our share of the Namkeen segment, which are comparatively better for us, so what kind of margin we can assume going forward?

Sumit Sharma: I think the margins are sustainable on a full year basis. However, there will be some ups and downs in commodity pricing. So, on a quarterly, you may see some fluctuation, but for the full year, we are confident that these margins are sustainable because over the period we have done a lot of structural changes in terms of compressing the distribution network, in terms of other process reengineering, including the change in recipe, resizing the packet, resizing the corrugated boxes, etc., so those are permanent in nature. So, those are still with us. So, for long term for a full year basis, yes, we are confident, but there may be some variation on quarter-on-quarter basis subject to change in raw material pricing.

Moderator: Thank you. Next question comes from the line of Viraj Mahadevia with MoneyGrow India. Please go ahead.

Viraj Mahadevia: How are you so confident about the sales hitting Rs. 500 crores per quarter? What are the specific initiatives you have taken to drive sales across categories for the organic business? And incrementally what will come from the Jammu and Kashmir plant?

Amit Kumat: So, on the first question, basically if you grew by 10%, the sales is almost close to Rs. 1,860 crores. If you can grow better than that, probably then Q3 we might be able to hit that number of Rs. 500 crore if you see historically because Q2 and Q3 are normally better than Q1. The initiative what we have taken is basically getting deeper into distribution and with



the Jammu facility, we are targeting to cover whole of Punjab, Srinagar and Jammu market which we are currently very weak in those markets because it was very difficult to supply from Indore and other location. So, with more focus on Jammu plant and two different products from Gujarat and getting deeper distribution, we might be able to hit that number.

- Viraj Mahadevia:** What can Jammu plant generate in terms of sales at peak utilization?
- Amit Kumat:** Jammu can probably deliver sales of Rs. 10 crores a month, but there would be some sales which basically we are currently getting from Hisar and Karnal plant which is the third-party operation. So, some of that production might shift to Jammu, but we can easily get sales of Rs. 10 crores per month from the Jammu plant.
- Moderator:** Thank you. Next question comes from the line of Bhavik Shah with MK Ventures. Please go ahead.
- Bhavik Shah:** Sir, my question is what kind of new business initiatives are we looking for the next one or two years? Can you just elaborate on some of the initiatives?
- Amit Kumat:** Yes, so first, basically as I said in my opening remarks also. So, two major things what we have done in last 1.5 months is basically get enrolled ourselves into the modern trade and e-commerce. We have already started supplying in Reliance and DMart and we got enrolled with quick commerce, all the major 3-4 big agencies that supply should probably start within a month's time from now.

So, these two initiatives plus we are also targeting to get into the export market. We recently got few orders from the Middle East from the Oman market and now we are getting into, there is a conference in Dubai in September, we are covering that conference also and we are hopefully, with these three initiatives we should get definitely decent number probably in a year's time. Plus, these are the new initiatives that we are



taking plus basically we are also targeting to get deeper distribution with more range selling in the similar markets like, if you see our Extruded Snacks is available on most of the outlets where we covered, but if you see the Namkeen, it is still available only in 25% of the outlets. So, if we can make Namkeen available in all the outlets, it can definitely increase sales considerably. If suppose theoretically, we are available to 2 million outlets as per Nielsen number. Out of that 84% outlets they have Extruded Snacks, only 35% chips available with them and 25% of Namkeen available with them. Using technology and getting into SFA and DMS, if we can increase this number, sales can increase considerably.

Bhavik Shah: Sir, what kind of opportunity does export have, like we can see an export market?

Amit Kumat: I think probably in a year or two, it can go anywhere between Rs. 50 and Rs. 100 crores. We have just started this. Probably we have to learn a lot in the export market. We just started this, but I think the potential is to do that.

Moderator: Thank you. Next question comes from the line of Alisha with Envision. Please go ahead.

Alisha: Sir, a couple of quarters back, we were talking about cooling of RM prices, local players have become more aggressive and demand being weak, it was impacting our growth. So, any comment on what is the competitive intensity like and is there particular segment, say potato chips, which is witnessing maybe more competition than say Namkeen, any comment or color on that?

Amit Kumat: I think the competition, there has been a lot of competition in the market, no doubt about that, but personally, in our few markets we have seen more competition in the chips segment, a lot of plants basically come out in UP basically, they are trying to sell very cheap, but since the commodity prices have already gone down from last one year, now they are



increasing a little bit. I think the competition intensity won't increase from here. So, if you see AC Nielsen number, the local competition has taken almost 3% market share in last 1.5 year and I think that would be the peak according to me.

Alisha: Sir, I just wanted to know that you said that local competition say come at 3% market share in 1.5 year, isn't there scope for them maybe to expand a little bit and continue to hit us at the lower price point or maybe where distributions speak for the rest of the market and they can eat away a little bit more into everybody's market share?

Amit Kumat: I think it is difficult. If you see past history also whenever the raw material prices come down, all the smaller players will pop up everywhere across the country, but they have that certain level and I think they have already reached that level. Probably, they can go up by 0.5% or more. But I don't see any significant change from here in the local competition. That is my take on it.

Alisha: And how is the competition in Namkeen? Because I believe last time also we were saying that Namkeen the competition is aggressive.

Amit Kumat: The competition is definitely aggressive in Namkeen, but with our presence available in the market, I think there is a lot of scope. In spite of zero volume growth last year, we grew YD Namkeen by 16% and currently we are only available in 25% of the outlets where Yellow Diamond is available. Out of the 20 lakh outlets, we have so far been able to deliver Namkeen to 5 lakh outlets only. I think there is enough scope for us to get Namkeen at a bigger range.

Alisha: And any aspiration or target that where do we expect now that we have completed the rejig of our distribution network or model, this 20 lakh outlets that were present and where do we expect this to go and what outlet reach can Namkeen reach say by the end of the year?



Amir Kumat: I think we can definitely increase the outreach by 50% for Namkeen by end of the year and overall outlets basically, we are already on 2 million outlets or 2.2 million outlets and with it is much better for us to get deeper into this outlet. The aim is to basically get deeper into that outlet, rather than increasing the number of outlets with help of SFA and DMS.

Alisha: And with the Jammu and Kashmir plant, we are saying that it will help us cater to the demand of Jammu Kashmir, Punjab and maybe a little bit more of the North. Will that not also lead to some amount of expansion and distribution reach, or this is covered in the 2.2 million?

Amit Kumat: I think they are almost covered in 2.2 million. There would be a slight increase, but the complete focus is more to get basically more sales from all of the current outlets.

Moderator: Thank you. Next question comes from the line of Naitik with Anvil Alpha. Please go ahead.

Naitik: Sir, my question is, you mentioned about entering the Oman market, can you talk a little bit about which are the other countries that we are looking at apart from Oman?

Amit Kumat: Yes. So, the Middle East, basically the crowd, there is a lot of Indian diasporas in the Middle East. So, one of the buyers came from Oman, which they visited a plant, and they gave order for a few containers. So, we are talking to a few more companies in Middle East who can take distribution of our products. The only problem in export is basically you need a lot of time in labeling and all those things. But I think we can open all our Middle East countries probably in next 6 months' time. Main Focus is in our own brand of Yellow Diamond.

Naitik: So, my second question is regarding deeper penetration in Jammu Kashmir and Punjab from our Jammu facility. So, I just wanted to ask, what would our current sales number in this region and you mentioned



it could go up to Rs. 160 crore at peak, but what was the current contribution?

Amit Kumat:

I think the monthly sales of J&K, Punjab and Himachal market put together is close to Rs. 3.5 crores currently. and probably it can double from here. The 10 includes basically that Hisar and Karnal plant, which will have manufacturing few things from Hisar and Karnal plant. So, some product will be shifted from Jammu to there instead of getting the 3P operation because we already have the facility, but in the current scenario probably, it will take some time, but we can double the sales in these three states. This is monthly sales what we were talking about.

Naitika:

My last question is, you mentioned that Namkeen is currently present already in 5 lakh outlets out of say 20 lakh outlets, so my question is, I got this on previous calls also, so why is it taking us longer to make it to say 8 or 10 lakhs, what exactly is taking time?

Amit Kumat:

There are two things basically. For Namkeen, if you go into different regions that taste changes quite a bit. If you go to South India and East India, probably the flavor changes as seasoning changes. So, we are developing the seasoning from the local market. Secondly, we are producing Namkeen only in Indore right now. The distribution from Indore to Guwahati and Kerala is not that easy, so probably it is taking more time. The first step is to get the product right for the different market and then probably get from Indore first and then start some production in Eastern India which is giving very good attraction right now. Because all other products are manufactured at many different locations, like Chips is manufactured at 4-5 locations, Pellets is available from 10 locations. The proximity of production to market plays a very important role. These are the two reasons we have not been available to Namkeen across the country.



- Moderator:** Thank you. Next question comes from the line of Kunal Patel with Equilligence Capital Advisors. Please go ahead.
- Kunal Patel:** So, my first question is regarding the PLI scheme. What is our base for FY25 PLI benefit?
- Sumit Sharma:** FY25 you are asking or FY20 the original base on which the CAGR will be calculated?
- Kunal Patel:** So, to avail benefits for the Financial Year '25, what is our revenue base on which you have to grow and to get the benefits?
- Sumit Sharma:** The revenue base for FY25 is about Rs. 1,575 crores excluding potato chips.
- Kunal Patel:** And we need to grow by 10% on that right?
- Sumit Sharma:** No, this is the base, this is the threshold. This number is to be achieved.
- Kunal Patel:** So, if I exclude potato chips revenue from our base, which is Rs. 1,610 crores, so our revenue is close to around Rs. 1,240 odd crores, so you are saying from Rs. 1,240 we have to achieve Rs. 1,575 to avail the benefit, is that right, the calculation is right or not?
- Sumit Sharma:** Yes, that is right.
- Kunal Patel:** So, essentially, Rs. 1,600 odd crores revenue, assuming there is no growth on potato should reach Rs. 1,900 odd crores in FY25?
- Sumit Sharma:** Yes. Mathematically that is correct.
- Kunal Patel:** So, where do you see this growth coming from, Rs. 300 odd crores, incremental?



Amit Kumat: As explained earlier, basically, the major growth that we are expecting from Extruded snacks, Pellets and Namkeen. These are the two categories we will think we can grow maximum for us.

Kunal Patel: But most of the categories are not growing more than 10%-15% odd, then how we are going to achieve 25% growth?

Amit Kumat: So, I think the exact number is not 25%. The growth in this sector probably would be close to 20%. We don't have the exact number right now. It should be close to 20%. And as I think with all the initiatives that we are taking, we are trying definitely to hit that number.

Sumit Sharma: So, we are certainly gunning for this, and we are aiming for this and we are working in the direction and we will accrue incentive only at the end of the year once we are able to hit that number. So, we are not accruing on a quarterly basis like what we did earlier.

Kunal Patel: I am just trying to understand your previous statement where you were assuming Rs. 500 crores of topline in Q3 and Q4, so if Q3 and Q4 base is Rs. 500 crores, then you have to grow significantly higher in Q1 and Q2 for this year to achieve Rs. 1,900 crores of revenue, is this growth achievable?

Amit Kumat: So, I think as I said earlier, basically we are very confident of the double-digit growth. If we can grow by 18% to 20%, we are definitely gunning for it. We can't comment right now. We are definitely gunning for it.

Kunal Patel: Sir, coming to my second question, which is on margin, so how much more operational benefits is available from all the initiatives we have taken over last few years assuming stable oil prices? So, we are at 9.1% for this quarter, so what should be our exit margin for FY25?

Sumit Sharma: I will not comment specifically on FY25, I will more give you some color on what it will look like in next two years, three years' time on a

sustainable basis. So, there are a few areas where still we see some potential that includes distribution channel cost. Initially, the channel cost was higher when there was a Superstockist and when we shifted from 3 Tier to 2 Tier distribution model, we increased the margin for our existing distributor because we didn't want to have any hiccups during the transition. So, that potential is available and over the period, the channel margin for the distributor will be reduced, so that will give some realization benefit and that will also help improving the EBITDA margin. So, that one lever is available especially on the distribution channel side.

Another lever is available in the operational cost. There are some line items where we are driving some efficiency program and cost cutting program. We are also taking external help to drive this program and those include essentially the labor cost, logistics cost, logistic is a big cost, which is about 7%-7.5% of the overall revenue, stores and consumables spares consumption, so these are few line items, especially in the operation side where we are driving cost cutting and efficiency drives. So, this will help us to get another 2% to 3% savings over the next two years' time.

Kunal Patel: And finally, sir, we are talking about exports, so does export also gets included in this PLI or not?

Sumit Sharma: Yes, that is included.

Kunal Patel: And what is our current capacity utilization?

Sumit Sharma: Utilization level is about 55% after having the additional capacity in Jammu and Rajkot Unit 2. There is enough headroom available to drive the growth. So, I don't think the capacity would be a constraint and going forward, we won't have any significant capex for the next two years. So, I think the investment phase is over which is already in place.

Moderator: Thank you. Next question comes from the line of Tushar Bohra with MK Ventures. Please go ahead.



Tushar Bohra: Sir, couple of points quickly. We highlighted the initiatives that we want to do on modern trade and some of the new commerce delivery sites. Can you just explain a little bit more qualitatively what kind of initiatives that we are taking there and what kind of revenue potential it has, even if it will take maybe a few quarters to achieve it, but what kind of potential this channel has? Secondly, what kind of growth momentum we can hit if we are able to take the, let us say, double the penetration of outlets for Namkeen and also with the efforts on modern trade side, what kind of numbers can come from there also?

Amit Kumat: First on the modern trade, if you talk about basically if you see in the country 60%-70% volumes come from only two guys, DMart and Reliance. We were basically not working with them. Probably we stopped working them last year with the prices increased and there was problems at our end. We have just opened these two outlets, DMart has started in Indore and Reliance has started in a few locations. I think the potential could be close to Rs. 50 crores a year in these two outlets. The e-commerce, all the Swiggy, Instamart, Blinkit and Zepto, we are already in the process of registration. I am not very sure about the numbers we can achieve from those places, but probably it could be Rs. 50 lakhs a month.

Tushar Bohra: So, you are saying 50 lakhs a month to start with is the immediate potential?

Amit Kumat: Yes, to start from Blinkit. The potential could be much bigger still to be explored, but I think the potential with these two guys basically we have already seen earlier is much bigger in modern trade, in Reliance and DMart.

Tushar Bohra: And if you are able to double the penetration for Namkeen or let us say 50%, also if you are able to increase like you highlighted for this year, how much does that impact the sales on a full year basis?



Amit Kumat: If we increase 50% outlet in Namkeen, it should give additional sales of 4% to 5%.

Tushar Bohra: On the overall basis?

Amit Kumat: For the whole company on overall basis.

Tushar Bohra: And you said that for us to increase penetration in Namkeens, we have to get the product placement right in terms of seasoning and the taste etc., as well as we are able to ramp up manufacturing. Do you have any timelines on both these initiatives and whether it is going to happen all at one shot or in a staggered way? What is the strategy that we are adopting, sir?

Amit Kumat: So, product basically, we have already developed the products. Probably in the next 2-3 months we will launch the products across East India and South India because normally in North and West India taste is very similar. Once the sales momentum gets up in eastern India, I think the second facility of Namkeen probably we might have to put next year in Calcutta for the eastern market, it is very difficult to supply continuously from here, seeing the distance from here to Guwahati. So, getting the right product at the right time is not easy.

Tushar Bohra: Are we not looking at any Namkeen manufacturing in the Southern states, sir?

Amit Kumat: Not yet, because the Southern market is very small for us in Namkeen category right now. The East has grown quite a bit last year. So, probably we start with East India, we are already talking to one or two, 3P facilities in eastern India. Let us ramp up the eastern India and then probably you can look for the southern India market for Namkeen.



Tushar Bohra: One last if I may, in the presentation we have mentioned certain products being pruned out as well as some new product innovations that you are working on, if you could maybe share more details, sir around this?

Amit Kumat: So, in the Extruded Snack segment, we have added few products, something like crazy product basically in the tomato flavor side, we have added few different flavors in potato chips and chulbule. If you see the trend worldwide across basically the Korean chilies in vogue across the world, so there are three new flavors in the potato chips that is 'Chili Cheese' - cheese flavor with some chili, Korean and Naga chili flavor. Similar thing we did with chulbule and two flavors. So, these are the product range what we have added to the chili range in across the category. Secondly, we are working on some few healthy products or 'Better For You' products in which we are doing 'Makhana'. The product has already been developed. So, this product like 'Makhana', 'Protein Puff' and 'Peanut Puff', which can go into modern trade also, e-commerce also, and export also. So, these are the two ranges we are currently working on.

For the regular market, the lower strata income and the BCD market we have developed this chili flavor and few flavors for modern trade, e-commerce, and export market mainly in makhana, protein puff and peanut flavored puff. Product has already been developed, is still working on packaging. Probably it might take another two months to put this product into the market.

Moderator: Thank you. Next question comes from the line of Harsh Shah with Bandhan AMC. Please go ahead.

Harsh Shah: Sir, if I am not wrong, the PLI base for FY26 is FY22, right?

Sumit Sharma: Yes, absolutely right. So, for FY26, the base would be FY22, our FY22 sales of eligible product was similar to FY20 because of COVID, there was no



growth unfortunately. So, for FY26, the base will remain same what is for FY25.

Harsh Shah: So, how much will be in FY26 to be eligible for PLI, just like you gave Rs. 1,575 crores net of Potato Chips?

Sumit Sharma: Almost similar number, Rs. 2-Rs. 3 crores here and there, but otherwise, largely it is a similar number like FY25 close to Rs. 1,575 crores.

Moderator: Thank you. Next question comes from the line of Arman with Blue Sky Capital. Please go ahead.

Arman: Sir, just a bit of clarification because once before when I asked about the margin the management told about like 8.7% what we have maintained for the full year will be maintained for the current year, however, when another participant asked the same question you told they can't commit on that, but however for 2-3 years you are saying 200 to 300 basis points improvement. So, I just wanted to clarify what is our take on margin. Is this level of 8.7% maintainable?

Also when we said that our higher products like maybe for large package for which we have currently 12% share which will increase in eventually in two years to around 25%, doesn't that add more to our margins and can we assume that 8.7% is the base case that continuously on overall basis for the full financial year, it should either maintain or it should improve from year one onwards?

Sumit Sharma: So, Arman, I will reiterate that margin, what we have got FY24, these are sustainable on a long-term basis and we don't see any issue. However, on a quarterly basis there may be some variation depending upon the commodity pricing, but for a full year basis, we are confident that these numbers are sustainable. I think there was another question which was related to a fixed percentage of EBITDA margin which I said I cannot comment on that fixed percentage that was double digit, but yes, we are

aspiring for that, but these levels of margins are sustainable on a full year basis. For quarterly, there could be some variation, again depending upon the raw material pricing. As I also mentioned in my earlier answer there are a few levers available for margin expansion both in distribution side as well as in operation side on which we are working, and those levers will help us to expand our margin further from here. So, that gives confidence to get double digit EBITDA margin on a sustainable basis.

Moderator: Thank you. Next question comes from the line of Himanshu. Please go ahead.

Himanshu: I just also had just one key question, if you could talk about the marketing and promotion spends for the year and what is the outlook on this, because I believe to boost growth and in light of competition, we might have to increase our marketing and promotion spends and any impact in case you would see on margins on that front, sir?

Amit Kumat: Last year, where marketing spend was close to 1.25%, this year we are targeting anywhere between 1.5% and 2% and I don't think that will have any impact on the margin because that can be definitely taken up by the extra fees that we generate through advertisement. So, no significant gap should come because of increased advertisement cost.

Himanshu: And any changes in the promotion that you are seeing, maybe by the unorganized or local players which you need to match, has there been any significant change in the channel margins or promotions that you need to give out?

Amit Kumat: There has been no change in the channel margin. We have definitely reduced the channel margin as we discussed earlier, but the retailer margin depends from area to area and market to market. We might have to give a few schemes depending on the competition, but they are not significant enough which can change anything.

- Himanshu:** And sir, finally just one point on the overall, you said that you are running at about 55%, so there is no CAPEX, I believe, and cash flow generation remains strong for us. So, in terms of capital allocation going forward, have we sort of, what is our plan like, would we be thinking of returning more cash to the shareholders or maybe are we looking at some inorganic opportunities as well?
- Sumit Sharma:** We have a formal policy for this, and we will use this capital in the best possible way to maximize the shareholders wealth. No concrete plan yet, but we are evaluating the best possible utilization of the surplus cash.
- Moderator:** Thank you. Next question comes from the line of Ankit Minocha with MRLR Capital. Please go ahead.
- Ankit Minocha:** I wanted to check on the pricing environment that you have seen with the competition and for the coming one or two quarters, are you also looking at any sort of price increases from your end?
- Amit Kumat:** We are not looking at any price increases right now because there is a lot of competition in the market, if you can sustain the same pricing that would be better for us. But with the few products that we are launching in the premium segment and probably this or next quarter, we might get a better realization.
- Ankit Minocha:** Sorry, I was a little late, so I might have missed this. Have you shared any sales and EBITDA margin guidance for the next year?
- Amit Kumat:** We are targeting double digit growth. And EBITDA Sumit has already explained that.
- Sumit Sharma:** Yes. we are just targeting to maintain or slightly enhance the margin for full year and going forward, as I mentioned in my earlier remarks, that there are two levers available, especially on the distribution and



operation side, which will help us to further expand our EBITDA margin from here.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. We have reached the end of question and answer session. I would now like to hand the conference over to the management for closing comments.

Amit Kumat: Thank you everyone for joining us on this call today. Very interesting set of questions. We look forward to interacting with you again. Thank you.

Moderator: Thank you. On behalf of Systematix Institutional Equities, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

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