



Prataap Snacks Limited

Q4 & FY2022 Results Conference Call

May 23, 2022

Mit Shah:

Thank you. Good evening, everyone, and thank you for joining us on Prataap Snacks Limited Q4 & FY22 earnings conference call. We have with us Mr. Amit Kumat, Managing Director and CEO; and Mr. Sumit Sharma, CFO of the company. We will begin this call with a brief opening remarks from the management following which will open the forum for an interactive Q&A session.

Before we begin this call, I would like to point out that certain statements made in today's call may be forward-looking in nature and a disclaimer to this effect has been included in the earnings presentation shared with you earlier.

I'd like to handover the call to Mr. Amit Kumat for his opening remarks. Thank you and over to you, sir.

Amit Kumat:

Thank you. Good evening to all the participants. And thank you for joining our Q4 & FY '22 earnings conference call. I trust all of you have gone through our presentation which was shared with you earlier.

I'm pleased to report that we have delivered a healthy all round performance during the quarter and full year despite the challenging macro environment. Our revenues during the quarter grew by 17%, significantly outgrowing the industry growth rate. On an annual basis revenues mark the healthy improvement of 19% Y-o-Y. The growth was primarily driven by an uptick in demand and consumption. The addition of new retail outlets to our distribution network and enhanced reach and effectiveness of our existing distribution. I'm also happy to share that we have recorded a strong addition of around 1.5 lakh new retail outlets during the year. As of March 31,



2022, our total retail outlet were around 21.8 lakh against roughly 20.3 lakh as on March 31, 2021. Further, our tele-calling initiatives implemented in key geographies had also supported the growth momentum. These initiatives helped us enhance the efficacy of our distribution network, resulting in better coverage of territories leading to higher volumes. Going forward, we will steadily extend it to additional geography.

On the raw material for this quarter, there was continued increase in prices of palm oil and other commodities across the landscape. The combination of rising costs of palm oil and laminate for packaging have impacted EBITDA margins by almost 700 basis points during the year. While these prices were already rising from the start of the fiscal, the Russia and Ukraine war which broke out in February have further disrupted the global supply chain leading to a sharper and more severe price escalations in commodity prices during the month of March.

However, we were able to partially mitigate some of these cost increases by our ongoing cost optimization initiatives, implementation of our direct distribution model, grammage rationalization along with higher price realizations. Additionally, we have also accelerated implementation of our direct distribution model strategy across all regions and completed it ahead of schedule. This, along with our cost mitigation measures, assisted us in restricting the impact on our margin during the quarter and full year.

Let me now quickly take you through our financial performance during the quarter and financial yearended on 31st March 2022. In Q4 FY22, revenue grew by 17% year-on-year at Rs. 3,614.6 million. EBITDA stood at Rs. 49.4 million when compared to Rs. 139.2 million in Q4 FY21. PAT during the quarter was at Rs. (29.5) million as against Rs. 71.3 million. In the year, revenue grew by 19% year-on-year to Rs. 13,966.2 million. Operating EBITDA stood at Rs. 583.1 million, translating to a margin of 4.2%. PAT excluding the exceptional item due to loss by fire at Kolkata plant stood at Rs. 169.1 million.

On the demand front, with normalization in activities, increase in travel and the reopening of economy, we are pleased to share that the footfall in our touch points have nearly touched pre-COVID levels. As I had alluded earlier, our existing Retail touch points have



completely reopened and we continue to add newer touch points in key geographies. These new touch points have helped us significantly increase offtake. With the new academic year starting from June, we remain confident that the demand of our key products will surpass their previous benchmarks.

In view of the resident performance, the Board of Directors has recommended a dividend of Rs. 0.5 per share on a face value of Rs. 5 per share.

The Government has undertaken several initiatives to boost food manufacturing and local production within the country. In one such step in 2021 the Centre announced the PLI scheme for the food processing sector with an outlay of Rs. 10,900 crore. The scheme is aimed at augmenting domestic manufacturing capacity of the food processing industry and also attracting investments in the sector. The scheme covers four main segments such as ready to cook or ready to eat foods, processed fruits and vegetables, marine products and mozzarella cheese, with incentive linked to local production and sale of products.

In December 2021, around 12 companies secured PLI approval under Ready to Eat/ Ready to Cook category and I am happy to share that Prataap Snacks was one of them. We received approval under the ready to eat segment and currently, all our products are covered under the PLI scheme, except for Potato Chips. The Company will get incentive on the incremental sales of eligible products over base year sales. The base year for calculating the PLI benefit on-incremental sale is FY 19-20 for the first 4 years and FY 21-22 and FY 22-23 for the fifth and sixth years respectively. Also, the benefit available is including the growth in Avadh sales.

On the CAPEX front the investment commitment aggregates to roughly around Rs. 105 crore of which we have already invested Rs. 20 crore. The balance of rupees Rs. 85 crore will be invested between us and our contract manufacturing partners by end of FY23.

To summarize, we have delivered an encouraging performance in the fourth quarter and in FY22 given the backdrop of unprecedented macro challenges. With nearly year-on-year growth in the high teens, we've outpaced the growth of industry. We believe we can grow even faster in the quarters ahead with the onset of normalization as



well as our strategic business initiatives to enhance our distribution network in terms of scale and effectiveness.

However, the outlook for raw material prices remains challenging and we are seeing severe pressure on our margins due to unusual rise in prices of key inputs. The outlook for the immediate term remains constrained by the disruption in global supply chains, spike in several soft commodities and agri products due to Russia-Ukraine war, and the rising prices of palm oil falling the ban on export by Indonesia. As a result we see continued pressure in the immediate term.

There is some improvement expected over the medium term as steps taken by the government to alleviate inflationary pressures are expected to contribute to cooling down in prices of soft commodities. Further, the reduction in excise duties on fuel announced should help alleviate some of the inflationary pressure. Further, Indonesia has lifted the export ban and there are also several steps being taken to develop alternative cooking oils, which are expected to lead to reduced prices of palm oil in the future.

There has been a tremendous amount of effort to address the challenges and the structural changes that we have undertaken in the businesses have definitely elevated the margin profile of the business. This has helped to partially offset the severe impact of rising inputs, and we are working towards driving further gains even in the current scenario of unusually high input prices. We believe these efforts will be more visible over the medium term as the macro environment normalizes.

We remain very confident of delivering high growth in the quarter to come, which supported by our efforts to structurally enhance margin should also enable us to accelerate shareholder value creation going ahead.

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

Moderator:

Thank you very much. Our first question is from the line of Ashutosh from Systematix. Please go ahead.

Ashutosh Joytiraditya:

My question is on direct distribution, so you mentioned that it has been implemented in all the regions ahead of schedule. So can you clarify on that as far as I know it was implemented in Delhi and I think the pilot run was going on in Mumbai. So, if you can highlight like how the plan has actually panned out. So I'm seeing that on direct distribution, the management has highlighted that it has implemented ahead of schedule. So if you can clearly highlight like in which all regions this has been implemented? And on the retail footprint, so the company has already added retail touchpoints what would we be the target for FY 23? And lastly on the palm oils, you highlighted that Indonesia has lifted the ban. So going forward, we expect some kind of moderation in the prices going ahead? So if you can highlight that what kind of margin range you expect going forward, that would be really nice?

Amit Kumat:

Thanks, Ashutosh. Let me take the first question first. Basically, on the direct distribution side, we started with Madhya Pradesh first and then we did in Delhi. But with the spur in the raw material prices, we thought that we had to take some severe actions. So at one go we implemented across the country. There was some pressure from our super stockiest and the channel margin and the sales people. But eventually, we got everything done.

So as of today 99% of our sales are through direct distribution or super distributors. So there is a difference between super distributor and super stockiest. So, like for you to take example of Delhi we used to have one super stockiest and 110 distributors under them. Now we have around 25 delivery points in Delhi. These all are our super distributors, they do the retailing on their own, and they supply to the smaller distributors if required. So our net channel margin which used to be around 14% for Delhi has come down to almost 10% now, and it has been implemented across the country. There are a few exceptions, but everything will get settled in probably next month or two months' time.

On the third question of palmoline prices, palm oil basically hit very hard because of the COVID period when labour was not available in Indonesia and Malaysia. And then the prices across the globe started going up. So if you see our last 5 years average price probably would be around Rs. 70 , which is currently at more than Rs. 150. But with the labour availability going up in Malaysia and Indonesia, and Indonesia is starting the export again. I personally feel



that prices should go down considerably probably even 10% to 20% in next three months' time. On the EBITDA front probably Sumit can take that question.

Sumit Sharma: On the EBITDA side, as you know it's a highly volatile situation as far as the raw material pricing are concerned. And it's really very difficult to predict as of now, how the prices will move in near terms. So short-term there may be some volatility, however, looks like the prices will definitely come down and Indonesia has also lifted the ban on exports. So medium to longer term, we are pretty much confident for expansion in the margin. However, in short term, there will be some pressure, which is being mitigated through various process initiatives.

Moderator: Thank you. Next question is from the line of Ankit Gupta from Bamboo Capital. Please go ahead.

Ankit Gupta: Sir, this year you have ended with the top-line of around Rs. 1,383 crore on a consolidated level. Given that hopefully no further COVID waves and this will be like the two years after COVID that schools will also be starting for the entire year. So how do you think the growth will pan out for the company on a consolidated level for FY 23?

Amit Kumat: I think we are targeting in high-teens, definitely should be much better than what we have been doing for last two, three years. Two, three year were exceptionally bad, probably the growth rate was bad. But this year, definitely it could be much, much better. It could be in the range of 20%.

Ankit Gupta: Secondly, on the grammage front, the industry has been going through a very tough time, even the industry leaders are facing the challenges on the margins front. Has there been any initiatives taken for reduction of grammage, especially in an Rs. 5 and Rs. 10 pack? And how do you see the competitive intensity going forward given such high raw material price increase?

Amit Kumat: If you see the overall impact on the EBITDA margin is probably very, very bad, it should be close to 10% to 12%. So, we have done many changes out of that one change has been the grammages changes, the impact of that is not much, we have reduced by one or two grams in the Rs. 5 pack in most of the categories. But the major impact by



which we could mitigate these higher prices was through the channel margin and through the PTR. We have increased the price to the retailer and reduced the channel margin. And we have also done some optimization at the factory level, which has also given us 1% extra margin. So, there were three main levers, optimization at the plant level, second, increasing the PTR (price to retailers), reducing channel margin and for grammage reduction. So we have done a little bit of grammage reduction across the categories.

- Ankit Gupta:** And when was this grammage reduction done?
- Amit Kumat:** That was done probably in last 30 to 45 days.
- Ankit Gupta:** And sir last six months, how much grammage has been reduced on an average let's say in an Rs. 5 package?
- Amit Kumat:** I think it should be in the range of 5% to 6%.
- Ankit Gupta:** But the palm oil prices have more than doubled in FY 22, so do you think there is further scope for reduction in grammage in coming two months?
- Amit Kumat:** I think with all the changes what we have done, we have almost come to our past pre-COVID levels as far as margins are concerned. Though, it will take some time to implement, because we have reduced the pack size, we have reduced the grammage, it will take some time. But I think going forward, raw material prices can only come down from here it is very difficult for the prices to go further up. At least we're assuming that.
- Ankit Gupta:** Okay. And sir, with all the measures that we have taken on channel front, and at the plant level, when the raw material prices stabilize or come down, what can be the steady state EBITDA margin that you can target over the next two, three years?
- Amit Kumat:** Definitely we are targeting double digit margins. With all the changes we have done, it would be very difficult for us not to get a double digit EBITDA margin if the raw material prices improve a little bit also.
- Ankit Gupta:** And sir, when do you think the gross margin compression that we have seen in the past two, three quarters, given the prices currently and some of the steps from the Indonesian Government as well, as



hopefully some reduction in prices should happen over the next few days or in coming months. When do you think that we can come back to our original earlier gross margin level of around 28%-30% which quarter do you think we expect that to be happening?

Sumit Sharma: Yes, certainly with a bit increase in the margin and better realization definitely there'll be expansion in the gross margin. However, it also depends on the reversal of the raw material pricing. So, any reversal in the raw material pricing definitely will help us to improve our gross margins and we can reach to the previous range of gross margin, which was somewhere between 30% to 32%.

Ankit Gupta: So, can we expect that hopefully the prices have stabilized now, there should be some improvement in gross margins from Q2 or you think the first half itself has been badly impacted, because Q1 we know that there has been significant pressure on the gross margins. Do you think there can be some improvement from Q2 onwards?

Sumit Sharma: Yes, we hope for this.

Ankit Gupta: And sir lastly on Avadh, the growth that we have seen in Avadh post acquisition hasn't been that much. Last year also if we look at it the growth in Avadh has been less than 10%, it has hardly grown in high single digits. So how do you see Avadh growth going forward? And I think we have made some management changes as well in Avadh. So do think how can we grow at higher growth rates in Avadh going forward?

Amit Kumar: If you see Avadh was a super value brand compared to all other value brand in the country. With the higher raw material pricing, the impact in Avadh much, much higher than compared to all other companies. So we were forced to reduce the weight considerably in Avadh compared to our Yellow Diamond products. So there were definitely hit in the market. But going forward we have changed the complete strategy in Avadh as far as sales is concerned. We appointed a full sales staff who have taken a new team onboard and we definitely expect it to grow in the line of Yellow Diamond only. We are looking at high teens growth in Avadh also this year.

Ankit Gupta: Sure. So Avadh will also grow in line with overall company growth of, let's say, high-teens or 20% that we are expecting.

- Amit Kumat:** Definitely.
- Moderator:** Thank you. The next question is from the line of Rishabh Singh, an Individual Investor. Please go ahead.
- Rishabh Singh:** So, you mentioned that you've had to cut channel margins and increase PTR ahead of schedule to manage increase in high input costs. So I just wanted to understand if there has been any negative impact on sales because of this? And if it has been how long would you see it continue?
- Amit Kumat:** There were some impact in few places, where the distributor basically, they decided not to work with us. There was some impact where we could not supply to the distributor directly. But if you see the major sales come from supplying to the retailer and offtake from the retail point. So there was no problem in that point. So most of the places there was no problem. There were some problem at one or two places, and few places the sales have increased because of this. I don't see any problem in direct distribution as far as sales is concerned. There's a temporarily impact of supplying the stock directly to the distributors.
- Moderator:** Thank you. The next question is from the line of Atul Parikh from Centrum Broking. Please go ahead.
- Atul Parikh:** Hi, thanks for the opportunity and congratulations for the progress that we have made so far. My first question is on the contribution from Rs. 5 pack, where do we stand at the end of FY22? And what are the steps we're taking basically to move away from impulse purchases?
- Amit Kumat:** I think our contribution from Rs. 5 is close to 90% today and our target is to take this 10% to 25% in next two to three years' time.
- Atul Parikh:** Okay. And what are the concrete steps we are taking basically to move away from this Rs. 5 pack?
- Amit Kumat:** There are two things we have done. Basically, we have appointed sales staff will directly go on A and B class outlets which primarily sales only Rs. 10 product. And secondary we have forced all the distributors to take minimum Rs. 10 inventory. Some percentage somewhere where it was 5% we have forced them to get to 10% so



that the sales can increase. So these are the two steps we have taken to increase sales beyond Rs. 5 MRP.

Atul Parikh: And any numbers you can highlight like in terms of our penetration in Class A and Class B outlets, where do we stand right now?

Amit Kumat: I don't think we have that exact number. On the urban and rural graph, we have a number of around almost 50% urban and 50% in rural. In A and B Class outlets in urban, it is very difficult to give the number. But I think our presence have much better scope to improve in A and B Class outlets.

Atul Parikh: And secondly, Avadh Snacks, Avadh is very strong in Gujarat, how has it done in terms of increasing the reach in terms of the nearby geographies basically?

Amit Kumat: So, Avadh basically we have started in parts of Maharashtra and parts of Rajasthan and parts of Madhya Pradesh due to higher logistic costs and the bigger pack it becomes very difficult with the increased raw material pricing. So, we have made different packets for outside region of Gujarat and we are relaunching Maharashtra, Rajasthan and Madhya Pradesh again in Avadh. But we hope that at least we can get 30% to 35% sales outside of Gujarat in probably a year or two.

Atul Parikh: Okay. And right now, it would be at?

Amit Kumat: 15%, 17%.

Atul Parikh: And any qualitative feedback you can share about the product in the new geographies which we are trying it like Maharashtra, Rajasthan and Madhya Pradesh?

Amit Kumat: Basically Avadh is primarily in Namkeen and Pellet only. We are also putting Extruded Snacks line in Avadh's Rajkot plant. So I think all the products will be similar, but basically when you go outside the geography of Gujarat and you have to supply in 500-600 kilometer radius, the transportation costs is very high. So we are trying to cut down a little bit grammages and on the pack sizes so that we can supply widely to all these places.

Moderator: Thank you. The next question is from the line of Mayank Vaswani from CDR India. Please go ahead.

Mayank Vaswani: Thank you, Margaret. Sir more of a suggestion than a question. Sir, in Amit-ji's opening remarks, there was a bit of unclear line, so we couldn't hear the comments on the PLI scheme. So I would request if the management could just share some comments on the PLI scheme and related CAPEX over the next year or so? Thank you.

Sumit Sharma: Thanks, Mayank for highlighting this PLI-related stuff. So we got the approval under the PLI scheme from the Ministry of Food Processing. As per the PLI scheme, there is a base year which is FY '19-20. And whatever incremental sales we have over the base year, we'll be getting incentive as per the PLI policy. The PLI scheme is for six years from FY '22 to FY '27. For first four years, the base year will be FY '19-20. For FY '26 the base year would be FY '22. For FY '27 base year would be FY '23. The incentive rate for first four year is 7.5% of the incremental sales, for fifth year it's a 6.75%, seventh year it's 6%.

We are committed to invest almost Rs. 105 crore under the PLI scheme for capacity expansion. We already invested Rs. 20 crore in FY '22 and around Rs. 85 crore, we are going to invest in the current financial year in the combination of exclusive 3P operations and our own investments.

Moderator: Thank you. The next question is from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: My question is on the growth outlook, how do we see demand really playing out on the ground? I mean, given that there are inflationary pressures, which is impacting consumer sentiment, do you think this is impacting a category like ours? I understand it's like a low price category and a slightly more value pack and it does not require large amounts in terms of spending. But do we think that in any way consumer demand is impacted because there are media reports, which suggests that the overall FMCG sector has got impacted. So just want to understand your experience in recent times in terms of consumer demand?

Amit Kumat: Till date we haven't seen any impact of the inflationary pressure on our demand. Our demand basically only comes down when the schools are closed, probably people can't move around. With the



current scenario when the schools are open and there is no shutdown, hopefully, there is no other shutdown in the country. I don't see any problem in demand in our category at least.

Sumit Sharma:

Just to just to add on Amit-ji, in this inflationary scenario, we are getting the advantage of down trading. So since it's a lower price point, the Rs. 5 and Rs. 10. So we are although getting the advantage of downgrading. So we are not seeing any negative impact on the demand side specifically for our kind of product and price points.

Nilesh Shah:

The second question is on our margin. So I understand in the short term, of course, margins can be under the pressure, but we seem to be confident of getting into double digit EBITDA margins when the situation normalizes. Now, if I were to kind of historically, look at our EBITDA margins, they've been in a range of 5% to 9% for several years. And given that our category is competitive, what gives us the confidence that we can break out of this range of single digit EBITDA margin to whatever the low double digit EBITDA margin? I understand we have taken certain productivity measures, efficiency measures, rationalized distribution, all of that. But given that we are in a competitive category, don't you think at some point of time competitive pressures will catch up, which will in a way somewhere cap our EBITDA margins, even over the medium term?

Amit Kumar:

That's a good question. But if you see I have said in my remarks also, basically, we have done four changes to improve our margin. The first and the second changes were reducing the channel margin and increasing the PTR. So these two margins have nothing to do with the competition, because if we remove the super stockiest and if you can save, let's say, 2% to 3% from the channel margin and 1% or 2% from the PTR, that doesn't affect the competitiveness in the market. Any other changes, like reducing the weight probably will have impact on the competition. But these two changes by reducing the channel margin and increasing the price to retailer has no impact on competition. So I believe these were the inefficiencies for last many years, which we have been able to remove now.

Moderator:

Thank you. The next question is from the line of Kunal Patel from Equilligence Capital Advisors. Please go ahead.

Kunal Patel:

So, my first question is regarding our distribution model again. So by when can we streamline our distribution model completely like we

have done in Delhi? Is it possible to replicate it in other states? And do you see overall this will add up to around 200-300 basis points to our margins?

Amit Kumat: I think as I said earlier also, we have implemented this across the country, with exception of few places, this has already been done. There's so much pressure because of the raw material pricing. One fine day we decided two months back, that there is no way going back and we have to implement it across the country and we did it.

Sumit Sharma: That was done in a phased manner. So, initially, we started with North India and Western market and then we have rolled it out to Eastern and Southern market. The expansion of the direct distribution in Eastern and Southern market was done in Q4 FY22, more precisely, somewhere around March month. So the full benefit of that saving will reflect in Q1FY23 onwards.

Kunal Patel: Okay. Sir, my second question is regarding newer geographies. So, how has been the response in some of our newer geographies that we have entered in last couple of quarters? Also, are we seeing any success there and how are we planning to scale up the business in those areas?

Amit Kumat: Yes, as we said probably in our earlier conversation, that we are trying to expand market in Uttar Pradesh, Punjab and South India. So Uttar Pradesh we are seeing very good results, especially in Eastern UP region. Still, we are trying to figure our way out in Western up and did some good work in Punjab. With all the distribution changes what we have done in South India, it will take another one or two months to stabilize. So the three target markets are basically Uttar Pradesh, Punjab and Southern India.

Kunal Patel: Any newer geographies apart from these three states that you are planning to enter?

Amit Kumat: There are few smaller geographies, which we are also doing right now like with Uttarakhand, but the main concentration is on Uttar Pradesh, Punjab and Southern India.

Kunal Patel: And finally sir, any status on the Kolkata plant fire insurance claim anything on that?



- Sumit Sharma:** With respect to Kolkata fire, we are expecting surveyor to submit their report by the end of this month to the insurance company. And then we'll get the communication from insurance company.
- Moderator:** Thank you. The next question is a follow up from the line of Ankit Gupta from Bamboo Capital. Please go ahead.
- Ankit Gupta:** On the tele-calling front we have seen decent success in some of the geographies where we had implemented this. So has it been implemented it across geographies or it is still implementing in some of the areas?
- Amit Kumat:** We have implemented in very few geographies, probably around 10 cities in the country right now, hardly 10% of the sales come through tele-calling, with all the changes in the distribution model and leaving the super stockiest that activity has been put on hold for some time. We will restart it probably after one or two months. But they are currently operating only almost 10 cities in the country.
- Ankit Gupta:** And sir, just wanted to reconfirm that the additional saving that we can get by eliminating super stockiest. I think that will say that we can save at least 2% to 3% on the margin front. Is that the right statement to make?
- Amit Kumat:** Yes, definitely, yes. From channel margin and by increasing our PTR we should be able to save anywhere between 2% to 3%.
- Ankit Gupta:** And sir, on the grammage reduction front how are you seeing some of our larger competitors like Lays and some of the large regional competitors like Balaji, how have they reacted to such unprecedented rise in raw material prices? How much reduction have they done on the grammage front?
- Amit Kumat:** The grammage reduction has been done in line of the competition only, it is very difficult to reduce grammages on your own, but because of the high raw material prices, everyone has reduced the grammages and we have also done that. And it is in line with the competition, not aggressive in reducing the grammages. We are more aggressive in reducing the channel margin than reducing the grammages, that is the last resort for us always.
- Ankit Gupta:** Sure. But the competitors have also reduced grammage.

- Amit Kumat:** Yes.
- Moderator:** Thank you. The next question is from the line of Rohit Balakrishnan from ithought PMS. Please go ahead.
- Rohit Balakrishnan:** This is again the question on your channel margin that you've reduced. So, I had a question on this. So I mean, was this channel margin high in the past, I mean, compared to your competitors? Or if they were not, don't you expect any sort of impact on your sales, because you will be now offering lower channel margins just wanted some clarity on this?
- Amit Kumat:** If you see the competition, most of the players are basically big players, but they're regional players. Like there are few very big players in Gujarat, few in North India, few in the Western India, but they're supplying in their own geographies. So their channel margin was always less, their channel margin was almost between 8% to 9% and we were offering them to 12% to 14%. We have been able to reduce the margin because we have started producing at different locations, at different third party locations across the country. Now we have plant in Northern India, Western India, South India, across the country. So we were inefficient compared to our competitors. With this new changes, we have become little competitive in that segment.
- Rohit Balakrishnan:** Okay, got it. Understood. So in that sense, I mean, the distributors that you were working with, they were getting more margins from you, but now you will be at par with others. Is that the right understanding?
- Amit Kumat:** No, no, we haven't reduced the distributor margin, the distributor margin is same. We have reduced one layer in between. So, if you take example of Mumbai, we have two super stockiest probably were supplying Western and Central line and they were supplying to distributors. Now, most of the Mumbai territory we are directly supplying to the distributors. So there is an extra costs involved as a super stockiest margin and the onward freight, which is the cost for the super stockiest who supply to the distributors. So we are trying to save on that margin, we haven't reduced the distributor margin.



- Rohit Balakrishnan:** So I mean, just again, maybe very basic question sir, but is this the way your peers are structured? Or this is something that you're doing very differently from the peers?
- Amit Kumat:** I think, if you talk about the national player level, probably we have done it very different compared to all others. But if you talk about regional players, they were always directly distributing because they were operating in that 300-400 kilometer area.
- Rohit Balakrishnan:** So, basically what you're saying sir now, because you have a much wider geographical footprint, you can do this, because it will be much more efficient versus having a multi-layered structure. Is that right understanding sir?
- Amit Kumat:** Definitely, yes.
- Rohit Balakrishnan:** The second question was sir, if you can talk a bit about your sweet portfolio, the confectionary part of the portfolio, we had targets of increasing that how is that shaping up if you can just share a bit on that?
- Amit Kumat:** As I shared, the sweet snacks has been doing okay for us not that good as we planned. Unfortunately, the COVID hit that most because we had primarily targeted towards the kids only. So we are revamping that, we have just launched recently, one more product by the name of Swiss Roll, which is doing good for us. I think it will take another one or two quarter for us for the Sweet's category to stabilize and grow.
- Rohit Balakrishnan:** Okay. Sir what is the percentage of sales that sweets contribute at this point of time in FY '22 sir?
- Amit Kumat:** I think between 3.5% to 4%. we want to take it to 7% to 8%. But we are far away from that right now.
- Rohit Balakrishnan:** Assuming obviously there are no disruptions going forward, I mean where do you intend to take it say in the next two three years? Is that a fair assessment or it will take more time?
- Amit Kumat:** 7% to 8% is the target for sweet and snacks.
- Rohit Balakrishnan:** In the next two, three years.

Amit Kumat: Yes.

Moderator: The next question is from the line of Nilesh Shah from Envision Capital. Please go ahead.

Nilesh Shah: I have a follow on question, in terms of our capacity utilization. So just want to understand that currently what's the kind of capacity we have? Where do we think we can basically take the capacity utilization to and what would that mean in terms of revenue potential from our existing facilities? And then of course, we've been doing a fresh investment as well under the PLI scheme. So, how much can that potentially add to our revenues over a period of time?

Sumit Sharma: So the current utilization is roughly around 60% on a blended basis, however, there are multiple manufacturing facilities. So for individual plants it may vary, it ranges from 35%, 40% to say 85%.

Under the PLI scheme, we are committed to invest around Rs. 85 crore during the current financial year and we are planning to put up some plant. One plant we are planning to put up in North India as Uttar Pradesh is a target market for us. So we are planning to have a facility in North India for Namkeen and Extruded products. We have put up a plant in Kolkata, however, it caught fire. Again we are restoring the same facility and investing in the same plant. In near term, we are also planning to have one plant in South India, because currently we have one facility in Bengaluru and we have a 3P operation in Tumkur for potato chips. So we are planning to put up another plant in South India.

I think with this capacity investment, we will be good for next two to three years' time in terms of fresh investment for capacity expansion.

Nilesh Shah: So, just I mean over the next two years, if I were to kind of look at FY '23 and FY '24, what would essentially be the total capital outlay or our CAPEX plan over the next two years? And would we have enough cash currently to do that or we would need to resort to some more borrowings? If you could just basically walk us through the funding plan as well.



Sumit Sharma: Sure. So, as I said in the current financial year, we are targeting CAPEX roughly around Rs. 85 odd crore and with this we will be good for next two to three years capacity requirement. For FY '24 we will need some maintenance CAPEX that includes replacement of some old machineries and some capital investment for vehicles, which is not part of PLI. So, for FY '24 there won't be significant CAPEX, but conservatively we can assume somewhere around Rs. 20 crore to INR 25 odd crore. So, both together Rs. 100 crore to Rs. 110 crore for next two years would be the investment for CAPEX.

Nilesh Shah: This will include both Kolkata and Bangalore.

Sumit Sharma: Yes, everything. Currently we have around Rs. 65 crore free cash. So we don't see any requirement for borrowing for CAPEX, that can be done with the existing cash available and the internal accruals.

Moderator: Thank you, ladies and gentlemen, that was the last question for today. I now hand the conference over to the management for closing comments.

Sumit Sharma: Thank you very much, everyone for taking out time and joining our conference call. Thank you so much.

Moderator: Thank you on behalf of Prataap Snacks that concludes this conference. Thank you for joining us and you may now disconnect your lines.

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